

Gold price surges to record high

Nick Beams
6 August 2020

The pumping out of trillions of dollars and other currencies by governments and central banks around the world, led by the US Fed, to bail out corporations and the stock market, has sent the price of gold to a record high of more than \$2000 per ounce.

The gold-buying frenzy has two driving forces: speculation as investors rush in, believing the price will go even higher, and longer-term concerns that the flooding of financial markets with massive amounts of computer-generated money could lead to a crisis of confidence in the US dollar, extending throughout the financial system.

The extent of the gold buying was revealed earlier this week when the *Financial Times* reported that the exchange traded fund (ETF) SPDR Gold Shares, which owns physical gold stocks rather than financial derivatives based on the metal, was buying tonnes of gold every day.

Its holdings, which are kept in the London vaults of the global bank, HSBC, now amount to 1258 tonnes after it bought 15 tonnes on Monday and Tuesday of this week.

Comprising a partnership between the Boston bank, State Street, and the World Gold Council, a trade body, SPDR's gold stocks are now equal to a quarter of the gold held at Fort Knox in the US and are more than the gold reserves of the Bank of Japan, the Bank of England and the Reserve Bank of India.

The immediate aim of SPDR is the return obtained from gold buying. The ETF has reported a 33 percent return this year as the price of gold has soared, lifting its value to more than \$80 billion.

The *Financial Times* cited a note by Wells Fargo analysts which pointed to the reasons for the rising gold price. In early 2020, it said, "gold's rally attached itself to coronavirus fears and excessive global money printing. More recently, gold has hopped on the US dollar train; rallying above \$1900 [it is now at more

than \$2030] as the US dollar has become one of the weakest currencies on the planet."

In so-called "normal times—now something of a distant memory—gold is at a disadvantage compared to investment in government bonds because it does not return interest. But the massive bond buying programs of the Fed and other major central banks have raised the price of bonds and pushed interest rates to record lows (the two have an inverse relationship).

This week the interest rate on 10-year US Treasury bonds, one of the foundations of the global financial system, has been around 0.5 percent—near its all-time low. This means that when inflation is taken into account, these bonds, regarded as a safe haven, are bringing negative returns, prompting a turn to gold.

A fund manager at the global asset management company Schrodgers, Jim Luke, noted that when inflation is taken into account, the US 10-year bond yield has fallen to a record low of minus 1.02 percent this month and could drop even further.

"People who look at gold tend to get characterised as 'gold bugs' and some do have that kind of blind-faith mentality," he told the *Financial Times*. "But what's drawing investors to gold is not faith in gold itself, it's much more lack of faith in other things—central banks, governments and, in particular, a lack of faith in the availability of real returns elsewhere. Gold is the inverse of that."

The sharp twists and turns in financial markets are being driven by the massive inflow of money, created at the press of a computer button, by governments and central banks as they seek to bail out corporations and sustain the stock markets.

According to the Bank of America, governments have announced \$20 trillion worth of stimulus measures as they seek to counter the effects of the coronavirus, an amount equivalent to 20 percent of global gross domestic product. The bank has said that the price of

gold could rise still further and reach \$3000 an ounce.

This has led to the creation of what could be described as the development of a split personality syndrome in increasingly crazy financial markets.

On the one hand, stock market speculators reckon that the intervention by the US Fed in mid-March, when it became the backstop for all areas of the US financial system—from the market in US Treasuries to corporate bonds—means that whatever the developments in the real economy the Fed will be on hand to support Wall Street.

That belief has been behind the rise and rise of stock markets from their plunge in mid-March which has added hundreds of billions of dollars to the fortunes of the financial oligarchs as workers face the worse economic conditions since the Great Depression of the 1930s.

Yesterday, amid the further worsening of the pandemic, the Dow rose by 373 points, or 1.4 percent, the S&P 500 increased by 0.6 percent, taking it to within 2 percent of its record high recorded in February, and the tech-heavy NASDAQ index recorded its 31st record high for 2020.

On the other hand, there is a growing fear, reflected in the rising price of gold, that the continued pumping out of trillions of dollars of computer-created money by central banks is undermining the entire financial system.

Since August 1971, when US President Nixon withdrew the gold backing from the US dollar, every currency in the world, from the US dollar down, has been a fiat currency, meaning it has no backing in a physical asset.

Confidence in the monetary system over the past 50 years has been maintained by the belief that the power of the state, governments and central banks is able to maintain stability. But this confidence is now being rapidly eroded by the unprecedented expansion of the money supply.

This is expressed in the fear that, if continued, this must lead at some point to inflation—an inflation caused not by rising prices in the real economy but from the collapse in the value of fiat currencies, starting with the US dollar which has been falling sharply over the past months.

Other factors are also at work, in particular the growing political dysfunction in the US amid concerns

that the November presidential elections may not even be held or that if they are they will result in a major crisis if Trump is defeated but refuses to accept the result.

Rising geo-political tensions, above all the conflict with China, are also fuelling a crisis of confidence.

And, while it is not often reported on in the financial press, there is also a real fear that devastation produced by the pandemic and the subordination of the health of society to the relentless drive by all governments to maintain corporate profits, no matter what the cost, is going to produce an upsurge of class struggle that will shake the very foundations of the capitalist economic order.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact