

# Gold price reaches record high

Nick Beams  
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The price of gold hit a new record high this week, rising from \$2,300 per ounce in June to \$2,531 on Tuesday, in another sign of the growing instability in the global financial and monetary system.

Among the immediate reasons put forward for the latest rise is the prospect of an interest rate cut by the US Federal Reserve at its next meeting in September followed by further cuts before the end of the year, tending to push down the value of the dollar and making gold a more attractive asset.

Such explanations, however, do not explain the fundamental trend which began in 2022, and which has accelerated this year, resulting in a rise on the gold price by one fifth so far, with predictions that it could go to \$3,000.

While attributing the latest surge to US and European buyers positioning themselves for interest rate cuts, the *Financial Times* (FT) noted: “Gold has been on a blistering run since the end of 2022, underpinned by emerging market central banks seeking to diversify their reserves away from the dollar, as well as huge demand from Chinese investors.”

The People’s Bank of China, the country’s central bank, is also a major buyer with its gold reserves increasing every month. Last year it bought more gold than any other central bank in the world. At the same time, it has been reducing its holdings of the dollar, which have dipped to below \$800 billion, down from around \$1.1 trillion in 2021.

In the first half the year, purchases by central banks hit a record 483 tonnes and have been a key factor in lifting the price of gold by a third since 2022.

Major buyers include the Czech National Bank and the National Bank of Poland as well as the Qatar Central Bank and the Central Bank of Turkey which increased its gold holdings by 30 tons in the first quarter, bringing them to 570 tons.

The beginning of the surge is clearly connected to the

rising geo-political and geo-economy and financial tensions following the onset of the US-NATO provoked war in Ukraine.

One of the first actions of the US and its allies was to impose a freeze on the \$300 billion worth of dollar assets of the Russian central bank, largely held in the European banking system, together with other financial sanctions.

The freezing of the Russian assets and the prospect they will never be returned—the US wants them to be used to finance the war—sent a shock wave around the world as countries realised they could be subject to the same action if they crossed the US path.

As the *New York Times* reported back in May: “Many central banks, including China started acquiring gold after the US Treasury Department took the rare step of freezing Russia’s dollar holdings under sanctions imposed on Moscow.”

Guan Tao, global chief economist at the logistics firm BOC International, told the *Times*, the sanctions had shaken the “foundation of trust for the current international monetary system” which forced central banks to diversify their holdings.

Commenting on the latest rise to the *Guardian*, a senior analyst at the trading platform XS, voiced widely held views. The rise in the gold price, he said, reflected a “rise in uncertainty and investors’ flight to safe havens” and that with economic, geopolitical, and monetary factors driving this surge” gold was solidifying its position.

There are also indications that wealthy investors, often in so-called family companies, have been increasing their gold holdings because of fears about the stability of the dollar as the international reserve currency, due to the ever-increasing rise in US debt.

The World Gold Council (WGC) reported in July that private purchases of gold had surged to 329 tonnes in the three months to June. This was almost five times

higher than in the previous quarter and lifted the demand for gold in the June quarter to the highest for that period since records began to be collected in 2000.

The chief market strategist at the WGC, John Reade, told the FT that anecdotal evidence suggested that wealthy family offices were among the main buyers because of concerns over the fiscal position of the US government.

“I couldn’t explain why gold was so high,” he said. “I was looking for the missing buyer, who might be people buying because of renewed or accelerating fears over US debt.”

Those fears are not misplaced. The independent Congressional Budget Office (CBO) has said that US government debt is on an “unprecedented” trajectory. The Treasury has warned that the present rate of increase is “unsustainable” as has the chairman of the Federal Reserve, Jerome Powell.

The warnings about US debt levels are written in facts and figures. The present debt level is more than \$35 trillion and it has been calculated that it increases by \$1 trillion every 100 days.

Increased spending on US wars is a major factor. Another is the increased interest bill on existing debt. Over the past decade US debt interest payments have more than doubled and the CBO has reported that debt servicing costs, now heading to \$1 trillion, surpassed military spending this year as well as outlays on Medicaid. On average the US is spending more than \$2 billion a day on interest payments.

A situation has now arisen where the US must borrow money just to pay the interest bill on the money it has already borrowed.

This raises the existential question of the role of the dollar as the global currency, a status which has conferred enormous privileges on US imperialism, allowing it to finance its military and domestic spending through the accumulation of debt to an extent not possible for any other country.

But there are objective limits to this process. Since August 1971, when Nixon withdrew the gold backing from the US dollar, it has operated internationally as a fiat currency, that is, one which is not backed by a store of real value in the form of gold, but which is dependent on the continued financial power of the US state.

That power rests, in the final analysis, on the

economy. The US economy, however, is shot through with debt and severely eroded by financial parasitism, in which profit is increasingly accumulated, not through the expansion of industrial capacity as it was in days gone by, but by complex and riskier deals on financial markets.

The rise in the price of gold is an indication that the period when the contradictions of US capitalism and the global economy were able to be covered over by the expansion of debt is rapidly coming to an end. This means that enormous economic and financial convulsions are coming in which the working class will be directly confronted with the task of establishing socialism, a higher economic and political order.



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