Gold price resumes its rise to hit new record

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After dipping since October, the price of gold has resumed its rise and hit a new record high of $4,442 per ounce on Monday, up by as much as 2.4 percent during the day. The price of silver also reached a record high of over $69 per ounce after rising by 3.4 percent.

The immediate cause of the spike in the price of both metals appears to have been a tightening US blockade of Venezuelan oil—in legal terms, an act of war—and the prospect that US President Trump is set to launch direct military action aimed at regime change.

The underlying causes go far deeper. So far this year, the price of gold has risen almost 70 percent. Its surge, the largest since the aftermath of the Iranian revolution of 1979 which overthrew the US-backed Shah, is rooted in the growing lack of confidence in the stability of the US dollar and the American financial system amid mounting budget deficits and the growth of US debt, now at $38 trillion.

The gold price has passed key landmarks in conditions of crisis and uncertainty. It went over $1,000 during the financial crisis of 2008 and hit $2,000 at the onset of the COVID-19 pandemic, accompanied by a crisis in the US Treasury market. It reached $3,000 in March this year as it became increasingly clear that Trump was set for a tariff war.

The extent of that war, revealed in the April 2 “reciprocal tariff” hikes, had a major impact on financial markets and accelerated the rise, with gold passing the $4,000 mark in October.

The tariff war, as has now been recognised, spelt the end of the international trading order which had been constructed by the US in the aftermath of World War II to try to prevent the economic mayhem of the 1930s from returning.

Global uncertainty, leading to the search for a safe haven in the form of gold, the ultimate store of value, has been compounded by the rise and rise of US debt, the financialisation of its economy, Trump’s attacks on the independence of the Federal Reserve, along with his promotion of cryptocurrency, as well as the war drive by the US directed against its chief rival China.

The essential meaning of the gold price rise can be seen when it is placed in its historical context.

The post-war monetary system was put in place at the Bretton Woods conference of 1944, when the dollar became the premier global currency. It was backed by gold at the rate of $35 per ounce. But the new order contained a profound contradiction that started to emerge from the early 1960s onwards.

The global economic revival, which the Bretton Woods system helped to facilitate, led to the expansion of the chief economic rivals of the US undermining the supremacy it had enjoyed in the immediate post-war period.

This was expressed in mounting international payment deficits. When the balance of trade turned negative, US President Richard Nixon removed the gold backing from the dollar in August 1971 because the US was unable to honour its commitment to exchange dollars for gold.

The dollar now became a fiat currency—that is, it was no longer backed by real value in the form of gold, but rested on confidence in the strength of the US economy, its state and financial system.

Now this system, which has been in place for the past 50 years, is breaking down under mounting pressures and strains, just as the Bretton Wood system did before it.

The extent to which the dollar, as a measure of value, has been undermined by decades of mounting debt and the financialisation of the American economy—leading to the creation of a mountain of fictitious capital—can be seen if the dollar-gold equation is reversed. Instead of considering gold in terms of dollars, one measures the dollar in terms of what it represents in gold and thereby real value.

In 1971, $35 was equivalent to an ounce of gold. Taking inflation into account, in today's prices that is equivalent to around $280. But it now takes $4,440 to buy an ounce of gold. That means that the US dollar, over the course of the past 54 years has lost at least 92 percent of its purchasing power relative to gold.

When gold passed the $4,000-mark, billionaire hedge fund chief Ray Dalio commented on the underlying driving forces of its rise.

"When you have such a supply of debt … it's natural to go to an alternative storehold of wealth, which is why we are going to harder currencies. Gold is the most fundamental of these," he said.

For all their public declarations about the "resilience" of the global financial system, the actions of central banks speak louder than their words. One of the reasons for the surge in the gold price has been their purchases of gold which have topped 1,000 tonnes annually for each of the past three years.

In the recent period, the gold market has become an arena for financial speculation with the intervention of Exchange Traded Funds (ETFs). The World Gold Council reported at the end of October that the demand for gold in the third quarter of this year was the highest ever in value terms at $146 billion.

It said growth for the quarter was primarily driven by private investment, which increased by 47 percent over the previous year.

"This momentum was driven by a powerful combination of an uncertain and volatile geopolitical environment, US dollar weakness and investor 'FOMO' [fear of missing out] as the price climbed higher," it reported.

The significant entry of speculative capital attracted the attention of the Bank for International Settlements, the umbrella group of the world's central banks.

In its quarterly review, published at the beginning of this month, it warned that the gold and US stock market were being driven into "bubble territory."

The warning was issued in unusually strong terms.

"The past few quarters," it said, "represent the only time in at least the last 50 years in which gold and equities have entered this territory simultaneously. Following its explosive phase, a bubble typically bursts with a sharp and swift correction."

It said the growing role of so-called retail investors, via ETFs, could "threaten market stability down the road, given their propensity to engage in herd-like behaviour, amplifying price gyrations should fire sales occur."

Whether such events come to pass cannot be predicted. But what is certain is that the rising price of gold is an expression of a deepening crisis at the heart of the monetary system of global capitalism.

The capitalist ruling class, the financial oligarchies, have only one response to this situation. They must seek to put value back into their financial assets by deepening their attacks on the working class, the sole source of real value in the capitalist system. The working class for its part can only meet this assault, which will go well beyond anything experienced since the 1930s, through the political struggle for a socialist program.