



Why 2017 Is Set to Be Gold's Best Year in a Generation

Description

The price of gold has risen by over 3% in 2017. This already equates to three quarters of its total return from 2016, which shows just how strong its performance has been in the first handful of trading sessions in 2017. Looking ahead, the recent growth rate in the price of gold may not continue unabated. However, this year could be viewed as the best year in a generation for the precious metal thanks to the risks which the global economy faces.

A store of wealth

Historically, gold has been viewed as a relatively safe asset. In various historical crises, investors and individuals have flocked to gold in order to preserve the value of their wealth at times of high inflation in particular. Although its value declined in the first part of the credit crunch, it quickly recovered as the combination of low interest rates and quantitative easing across the developed world began to take hold. While inflation has not yet been the end result of these policies due to the world's deflationary trajectory in the last decade, that could be about to change.

A new era

The new US President could be described as a 'radical' in terms of the policies which he is apparently set to introduce. Although no specific details have yet been put forward, it seems likely that Donald Trump will seek to increase spending and reduce taxation. This is likely to have a positive impact on the US economy and could increase the rate of GDP growth, while also improving the employment prospects for millions of Americans.

However, the cost of these policies could be higher inflation. Although the Federal Reserve has stated that it plans to increase interest rates three times in 2017, this may be insufficient to hold back inflation. The first reason for this is the time lags which are present with interest rate changes. They normally take 6-9 months to have an impact. The second reason is that three rate rises simply may not be enough to hold back inflation if it spikes during the course of the year.

A golden opportunity

The uncertainty of a new and somewhat unpredictable US President is not the only risk facing global economic growth. The EU is enduring its biggest ever challenge, with the UK deciding to leave the political union and France likely to become increasingly lukewarm about the Euro after its election. China is also offering slower growth than it was a few years ago. When these risks are combined, demand for risk off assets such as gold could increase dramatically.

Clearly, gold had a poor end to 2016 and fell by over 10% in the last two months of the year. However, it looks set to not only reverse this fall, but to also make high gains during the course of the year. The risks facing the world economy are significant and inflation looks set to rise, both of which create the conditions for gold to have its best year in a generation.

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