Hambro: Gold should be trading above $2,500

By Kyle Caldwell

BlackRock's Evy Hambro, manager of the £2.8bn Gold & General fund, said gold should be trading about 30% above its current record high, taking inflation into account.

Following widespread loss of confidence among investors fretting about the state of the eurozone and the health of the US economy, gold tested new highs last week, soaring above $1,800.

The price of the precious metal has rocketed 24% since the start of the year alone, and over longer time periods has outstripped most other investments.

Despite the most recent jumps, a range of commentators have tipped the precious metal to climb further, with J.P. Morgan backing it to hit $2,500 by year end.

Hambro said: "Gold today is trading below its inflation-adjusted price. If you go back to 1980 and look at gold's previous peak [of $875], on an inflation-adjusted basis, it should be over $2,500."

Gold specialists played down the risk of a bubble forming in the commodity, arguing its status as a safe haven will not be threatened by the further price increases they expect.

Hambro said: "The technical measures of risk are measured in volatility, so obviously as the price goes higher, which it has done significantly, this increases the volatility and the risk by definition rises.

"If gold carries on rising then of course it will pull back at some point and could easily fall 10% or 20%, but it will not remove the fact it is a store of wealth and a safe haven."

Francis Hudson, global thematic strategist at Standard Life Investments, agreed the rising gold price has increased the risk of owning the commodity, but said it is still a safe haven.

"As the gold price rises it does become more risky to own due to the danger of a bigger fall, but it will only lose its safe haven status if there is a massive discovery of gold, as this would make it less valuable to own," said Hudson.

The managing director of investment at the World Gold Council, Marcus Grubb, said it is not short-term speculative activity that has been driving up the metal, so there is no immediate risk of a sharp pullback in the price.

Hambro: store of value

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"The scale of futures and other derivatives activity relative to the deep physical market for gold, while a little elevated in recent weeks, certainly does not constitute excessive market participation," he said.

Ian Williams, manager of the WAY Charteris Gold fund, also argued the recent highs seen in gold are sustainable, with investors overlooking the impact of Asian buyers.

Williams said Asian central banks have been underweight gold, but this is set to change as they look to offload US treasury bonds after S&P downgraded the country's rating.

"All the Asian central banks are queuing up to buy gold as they no longer view US treasuries as a safe haven after the downgrade," said Williams.

"The Asian banks will let the US treasury bonds gradually redeem over the next five years and roll the money into gold, removing their underweight positions.

There are signs of this trend taking place, with South Korea's central bank buying up 25 tonnes of the yellow metal during June and July.

Meanwhile Investec's Bradley George, co-manager of the Investec Global Gold fund, is looking to profit from boosting exposure to gold equities, whose share prices are disconnected from soaring price of gold.

"Global de-risking has caused gold equities to underperform even though the underlying commodities have increased in value," said George.

However, he anticipates 20% upside for the North American majors, and expects intermediate and emerging gold producers to rise by 34%.