

BUSINESS

Gold price surges amid geopolitical uncertainty

Even the most uninformed market watcher is aware of the truism that gold is something an investor buys during uncertain times. The commodity's recent surge in value appears to confirm the cliché.



These are golden days for gold, the precious metal whose very name is a synonym for something special and successful. In 2019, its price surged by almost 20% in dollar terms

Little surprise then to see gold funds dominating the top performing investment funds of 2019 in the UK, a financial services hotspot. Funds which connected investors with gold mining companies did especially well, such as the top performing fund Charteris Gold & Precious Metals and Ruffer Gold, number three in the list.

If 2019 ended well for the metal, then 2020 has started even better. This week, the price of gold hit its highest level in seven years, climbing to almost \$1,600 (€1,432) per troy ounce or \$50,798 per kilogram. Gold market analysts predict that the year will continue in much the same way.

Gold is one of the world's oldest traded commodities. Yet unlike other assets, it doesn't produce a dividend. The price either rises or falls, and your fortunes rise or fall with it. So what's behind the current surge?

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Drop a bomb, lift the gold price

According to Jim Wyckoff, an analyst with Kitco, a precious metals market analysis company, gold built up considerable momentum in the second half of 2019 for a number of reasons.

One major reason was the fall of the US dollar against other foreign currencies. When the dollar depreciates, it helps raw commodity prices because, as they are typically priced in dollars, it makes them more attractive to buy.



The killing of Iranian military leader Qasem Soleimani (pictured) last week sent the gold price soaring

On top of that, the rise in the price of crude oil — arguably the leader of the raw commodity sector — further boosted gold. Prospects of movement on a US-China trade deal also helped, as China is a major gold market.

[As well, gold was supported throughout 2019 by central bank purchases.](#) Combined, Turkey, Russia and China bought almost 120 tons of gold in the third quarter last year alone.

"So combine all that, we had the momentum going," Wyckoff told DW by phone. " And then of course last Friday we had the shock geopolitical event."

[He is referring of course to the US drone strike at Baghdad Airport which killed Qasem Soleimani](#), a key Iranian military leader. The assassination came amid rising US-Iranian tensions and stoked fears of a wider military conflict in the Middle East.

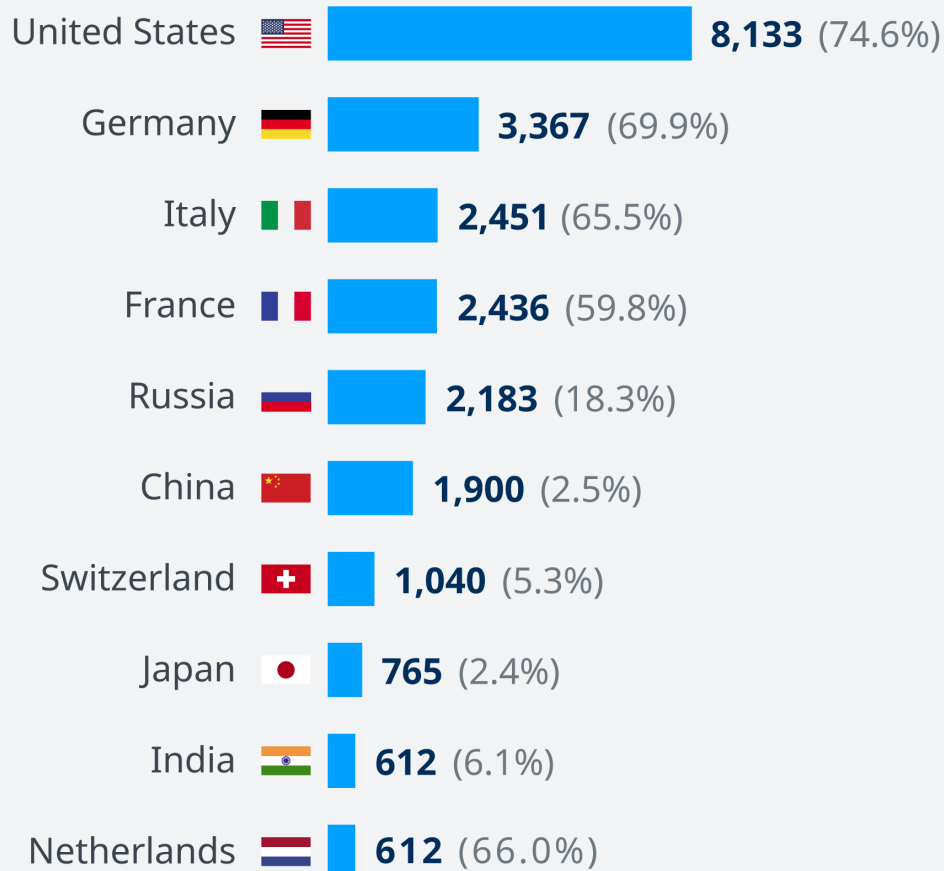
Golden years

But what does that have to do with the price of gold? Quite a lot it seems. Gold is regularly referred to as a so-called safe-haven asset, a place for investors to shelter with their wealth during uncertain times. The attack in Iraq sent markets into an anxious tizzy. [When something like that happens, the price of gold tends to rise.](#)

"Gold has a long track record of being an effective store of value," Alistair Hewitt, Director of Market Intelligence at the World Gold Council, told DW. "Gold historically benefits from flight-to-quality inflows during periods of heightened risk and, by providing positive returns and reducing portfolio losses, gold has been especially effective during times of systemic crisis when investors tend to withdraw from stocks."

Countries with largest gold holdings

Tons and percent of reserves



Source: World Gold Council

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So gold, an attractive holding in normal times, becomes even more so in times of war or impending crisis. "Think about this way," says Wyckoff. "If you own stock, that is nothing but a piece of paper. When times get really rough and if the world structure is coming unglued, would you rather own a piece of paper or would you rather own a hard metal that you can hold in your hand?"

As the world awaits Iran's response to the assassination of its top general, geopolitical unease is likely to further boost the gold price. Many analysts predict that the price will hit a record \$2,000 an ounce within the next two years.

All that glitters

[That's not to say gold has always been or always will be in favor.](#) Twenty years ago, gold plunged in value after governments sold off their reserves. For a while, it looked like its days as a store of value were done.

Then, having risen to its highest ever price in 2011 as the worst effects of the global financial crisis were pushing investors towards it, [the metal began to dip sharply after 2013.](#)

There has also been some disquiet over the last few years that gold production has reached its peak [and is set for a period of marked decline.](#) World Gold Council figures show that the number of gold mine discoveries has fallen over the last 30 years. However, Wyckoff says that once

it becomes clear that the gold price is rising fast, more targeted financing will be pumped into mining.

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"Now that we have seen global prices rise you are probably going to see more mining, mining stocks are going to rise so that is going to add to the value of gold," he said.

Plenty of famous investors, not least the legendary Warren Buffett, are skeptical about gold. The Berkshire Hathaway CEO has regularly derided gold as an investment option. He says simple investments in American stock market businesses make more sense and more money.

For Hewitt at the World Gold Council, there are essentially four things that affect the price of gold: "Economic expansion — as people become wealthier, they buy more gold; financial market uncertainty — gold's safe-haven role; opportunity cost — lower interest rates make gold relatively attractive compared to other assets; and momentum," he told DW in an email.

He believes political anxiety would only have a lasting impact on the gold price if it affected one of these four drivers. For example, if the geopolitical situation escalated to the extent that it affected financial markets.

In a world defined by its intrinsic uncertainty, gold's latest resurgence suggests that the yellow metal will never be too far away from having a profitable glint.

