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Bank of England

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Gold set for a long run at these new levels, as Fed commits to loose money and safe haven buying continues

The gold price ticked up a few notches towards the end of the week, following a statement from the US Federal Reserve Open Money Committee on Thursday that interest rates will stay low and that the supply of money in the economy will stay "loose" - a euphemism for the provision of easy credit to businesses via quantitative easing, or money printing.

None of this really surprised the market, but it did highlight once again the fundamentals for gold and provide continued rational for the huge jump in price we've seen since the spring.

Back in January the gold price was trading at less than US$1,600 an ounce, and two years ago it was at US$1,200. The current price is hovering at about US$1,950, and although it has dropped back from the plus-US$2,000 high it hit in August, there is every reason to suppose that these new, higher levels are likely to be with us for some time.

Investors tend to turn to gold when the value of the currency or currencies in which it is denominated falls. Generally, the gold price is quoted in US dollars, but it's noticeable that around the world gold has been hitting new highs in all sorts of currencies, including the British pound, the Australian dollar, and the Swiss franc.

Share Information

Code:	BOE
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Sector:	**Financial Services**
Website:	**www.bankofengland.co.uk**

Company Synopsis:
The Bank of England is the UK's central bank. Our mission is to deliver monetary and financial stability for the British people. The Bank was established in 1694 to act as banker to the Government. We are still owned by the Government, but we set monetary policy independently.

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That means that investors around the world are becoming increasingly chary of what are termed "fiat" currencies, or paper money, reckoning understandably that because there's going to be so much more of it about that it will be worth less.

Proponents of the new money printing culture have given it an intellectual-sounding name - Modern Monetary Theory - and argue, as all proponents of new-fangled fads and bubbles do, that this time it will be different and that we're entering a new paradigm.

What it really means, though is that inflation is being stored up in the system, and that at some point it will come back and bite. The Fed itself has already acknowledged this to some degree, having stated that although it doesn't believe inflation is likely to come into the financial system any time soon, nonetheless when it does, the policy will be to tolerate a higher level of prices.

The great white hope for the Fed is that the US economy will be stimulated by keeping interest rates at as close to zero as possible, so that borrowing will be cheap, and economic activity will be stimulated.

In a disturbing echo from across the pond, it was also revealed this week that while the Bank of England has no plans to introduce negative interest rates at this point, it is at any rate starting to plan how it might be accomplished.

For consumers, that will have to pay the banks to hold their money, although the negative interest rates in such cases will probably masquerade as flat fees and account charges, as banks attempt, with smoke and mirrors, to convince consumers to keep their money in their accounts.

But whether the commercial banks like it or not, that's not what the central bankers want. The central bankers want every single possible dollar or pound deployed in the economy in an attempt to stimulate growth.

They are so desperate for it that not only are they willing to encourage lending for virtually no return, they are also creating huge swathes of new money too.

Modern Monetary Theory argues that if you hold various other variables in fine balance, all this ought to make little difference to the real value of money, hence the apparent insouciance as regards inflation.

But given that it's always the unexpected events that throw you off course, not the variables you've already modelled, whether the MMT balancing act can really hold good remains an open question at best. Certainly the world's buyers of gold have their doubts - even if they believe in modern monetary theory they are at the very least hedging their bets.

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