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When gold breaks above \$1,000, then what?

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By Frank Tang and Steve James - Analysis

NEW YORK (Reuters) - Should the price of gold burst through the \$1,000-per-ounce barrier, which it nearly did on Wednesday, experts predict it could reach higher records and even double this year.

"We could see gold spike this year and hit \$1,500," said Jay Taylor, who produces an investor newsletter, Gold & Technology Stocks.

"Gold has a shot at \$1,200 or even \$1,500 this year and ultimately will go a lot higher," said Peter Schiff, chief executive of Euro Pacific Capital in Darien, Connecticut.

Peter Spina, who runs goldseek.com, a gold investor web site, said of the surge: "It's mostly institutional investors now, but we are seeing more enthusiasm and \$1,500-\$2,000 gold in the next 12 months is definitely possible."

On Wednesday, gold rose to a record high \$995.20 an ounce in the April futures contract. Inflation fears due to sharply higher crude oil prices and a government report showing a rise in labor costs fueled the advance before profit taking cut into values. The contract settled at \$988.50, a gain of \$22.20 on the day.

It was less than two years ago, in April 2006, that gold bullion nudged above \$600 for the first time in a quarter century. It had hit \$850 in 1980, which if adjusted for inflation would be approximately \$2,000 now.

"Gold is an investment alternative to hedge against the financial stress," said Joseph Foster, portfolio manager of Van Eck International Investors Gold Fund in New York, which has \$770 million in assets under management.

"And the credit markets are now creating a tremendous amount of stress across the entire economy. That's the big driver for gold right now," he added. "Obviously, it's a big number. So, it will gain a lot more attention and bring more visibility to gold.

"When we went through the all-time high at \$850, the market just ran right through it to up to over \$900 an ounce. I think fundamentals drive the market more than price targets," Foster added.

Thomas Winmill, portfolio manager of the \$290-million Midas Fund MIDSX.O in New York, said, "If gold crosses \$1,000 and does not significantly jump in price, I would say that the rally has legs because we haven't gotten to the point where people are investing just because gold is going up.

"It (\$1,000 gold) might bring in some investment demand, and if it brings in a substantial amount of investment demand, we would advise investors to adopt a more cautious view."

David Rinehimer, director at Citi Futures Perspective in New York said, "There is a widespread investor demand ... attracted to gold. A lot will depend on how far the dollar falls, and if there is any change in sentiment toward the equities markets.

"If the dollar remains on the defensive, and equities continue to struggle, I would assume that there'll still be a flow of funds into (gold)," said Rinehimer.

Goldseek.com's Spina noted that \$1,000 was a psychological barrier more than anything else.

"But \$1,000 gold is pretty significant and I'm sure we'll see more interest," he said, noting that a combination of a weak dollar and high oil prices have combined to push up gold.

"The Fed (U.S. Federal Reserve) is in a Catch-22 position. With the Euro at \$1.50, we are seeing more people questioning where to go. The Euro is too expensive and the dollar is not attractive, so gold is looking like the place to go for investors," said Spina.

Euro Pacific's Schiff said gold could quintuple in price, but it only reflects the value of currencies. "It means nothing, it merely expresses what the dollar is worth.

"It is a measure of the value of currencies and will go up as long as central banks continue to devalue currencies."

(Editing by Christian Wiessner)

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