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• GOLD OUTLOOK •

By **William Gray**

# Gold Rallies on Inflation Fears

**During September** the price of gold rallied to $1,868 per ounce following the release of figures on US inflation by the Bureau of Labor Statistics which indicated that, as of September, CPI inflation had rocketed to 6.2%, above the 5.8% which economists had been predicting.

The two main factors driving core inflation to a 30-year high were the ongoing global supply chain challenges and wage growth as employers seek to recruit and retain workers as the economy opens up again.

The Federal Reserve had previously viewed this inflation spike as transitory, but given the CPI numbers, this looked to me like a policy mistake. That said, the Fed have recently changed their rhetoric, and, in an about turn, they have announced that they intend to act. Powell seems to favour more aggressive tapering, and accepted that inflation could be more problematic, a far more hawkish stance than before. The central bank is now considering wrapping up tapering a few months earlier than June 2022, a swifter withdrawal of the massive stimuli than previously indicated despite the potential risk to the US economy posed by the new variant just emerging at the time of writing. In closing Powell remarked that fighting inflation has become the US central bank's top priority.

→ Today many institutional investors are becoming concerned about unchecked, and soon perhaps out of control, inflation and have begun to buy into gold. For the first time since 2000 the Singapore Central Bank also bought gold adding close to 20% to its reserves.

Gold initially sold off on the back of the above announcement. In coming weeks should the metal fail to hold at $1,750 then it's likely that short-term volatility would follow, this in turn would create an opportunity for investors to buy in to the short term weakness.

Looking forward, any further sign that inflation is still on the rise should push gold to rally, and move back above $1,800 level. If it breaks above that figure then it should continue higher, but it's worth noting the resistance previously encountered at $1,880. Should gold push above $1,900 level, then it could get very interesting. Today many institutional investors are becoming concerned about unchecked, and soon perhaps out of control, inflation and have begun to buy into gold. For the first time since 2000 the Singapore Central Bank also bought gold adding close to 20% to its reserves.

Looking forward, the multiple supply chain difficulties will continue to have a massive impact upon fuel, energy, and food prices. And despite the best efforts of several governments, these vexing problems seem certain to remain unresolved for some time which will in turn, likely push prices of food and goods still higher and possibly well in to next year.

If I am correct, then the above would ensure that inflation continues to rear its ugly head and consequently lead to a run to safety assets such as gold. The other potential big driver for gold would be if the Fed makes another miscalculation and hikes interest rates too quickly, sending the US economy into a recession. In such an environment gold would outperform equities.


WILLIAM GRAY IS AN EXPERT IN PRECIOUS METALS WITH OVER TWO DECADES OF ACTIVE MANAGEMENT EXPERIENCE IN THIS FIELD. HIS STERLING-BASED ARC BULLION ACCOUNT, AN ACTIVELY TRADED PHYSICAL BULLION INVESTMENT, HAS RETURNED OVER 113.35% SINCE ITS LAUNCH IN DECEMBER 2014.