

Gold price tops \$1,700 as investors seek refuge

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NEW YORK -- The price of gold streaked past \$1,700 an ounce for the first time Monday. Investors, beset by worries about the U.S. debt downgrade, Europe's financial crisis and slowing global growth, sought safety in the metal as stocks tumbled around the world.

Gold's allure stems in part from fears that the world's major economies are dangerously indebted. Its value, unlike that of a currency, doesn't hinge on whether countries can make their bond payments.

Standard & Poor's on Friday cut the long-term credit rating for the U.S. by one notch to AA+ from AAA, deepening investor fears about a weakening U.S. economy. The move may have been expected, but economists say its impact is still unclear, and the downgrade could hurt the economy. For example: Rates on mortgages could rise, further damaging the U.S. housing market.

"The U.S. and global economy are in a feeble "rehab" recovery and a trifecta of shocks has hit the economy -- surging oil prices, the Japan disruption and the debt crises in Europe and the U.S.," wrote Ethan Harris, a Bank of America Merrill Lynch economist. The downgrade could potentially be "the `straw that breaks the camel's back,'" he said.

Seeking to avert panic spreading across financial markets, the finance ministers and central bankers of the Group of 20 industrial and developing world countries issued a joint statement Monday saying they were committed to taking all necessary measures to support financial stability and growth.

Meanwhile, a debt crisis in Europe threatens to destabilize financial markets. Investors are worried that Spain or Italy, two of the world's major economies, could get priced out of the bond markets and default on their debts.

That's one reason why gold has appealed to investors in the aftermath of the Great Recession. While the euro currency has been pressured because of concern that European countries could default, the value of gold isn't tied to any country's balance sheet.

And the metal has soared as the appeal of the dollar -- the world's biggest reserve currency and traditionally a safe bet for investors -- has ebbed. The dollar has lost some of its allure because of concerns about the country's ability to pare its debt, the flagging U.S. economic recovery and measures the Federal Reserve has taken to support the economy.

Gold's price has nearly doubled in price since the start of 2009, and its climb accelerated this summer.

The metal has become another currency, said George Gero, vice president at RBC Global Futures. The euro and dollar are weighed down by debt concerns. There was concern about the yen and Swiss franc, which investors also regard as safe havens, after moves by the central banks of Switzerland and Japan last week to curb the gains in their currencies.

"Investors have been concentrating on acquiring an asset that preserves purchasing power," Gero said. Last week's panicked stock selling also heightened gold's appeal.

Gold shot up \$51.80, or 3 percent, to \$1,703.60 in Monday morning trading after peaking earlier at a record high of \$1,718.20 per ounce.

Still, adjusted for inflation, an ounce of gold remains below its 1980 peak of \$850, which translates into about \$2,400 in today's dollars.