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Gold Prices Soar on Fed News, Other Factors

The spot price for gold was around $1,725 by 2 p.m. Eastern time after jumping more than $60 since the day before, up almost 30 percent from a year ago and more than 7.5 percent over the last 30 days. It smashed through $1,700 on Wednesday for the first in six weeks.

"At the moment everything points to even higher prices, given the strong risk appetite, the better mood among market players, the strong equity markets and the weak dollar," Commerzbank analyst Daniel Briesemann told Reuters.

Analysts said the single most important factor behind gold's strong rally was the Federal Reserve. On Wednesday, the privately owned central bank promised to keep short-term interest rates at rock bottom until late 2014, extending the date from its previous pledge to keep rates down until mid-2013.

Also bullish for gold — and bearish for the U.S. dollar, of course — was Fed boss Ben "helicopter" Bernanke's veiled threat to unleash more so-called "Quantitative Easing," known in simpler terms as creating new "money" out of thin air and pumping it into the economy by purchasing bonds. The dollar immediately took a hit against other major currencies.

"The framework makes very clear that we need to be thinking about ways to provide further stimulus if we don't get improvement in the pace of recovery and a normalization of inflation," Bernanke said during a quarterly news conference after the Fed's report was released. Analysts and central bank critics, already concerned about massive monetary "easing" in recent years, lambasted the idea that more money would solve the economic problems plaguing America.

"If the Federal Reserve thought the economy was improving, it wouldn't need this artificial prop to keep sustaining it," said Euro Pacific Capital head Peter Schiff, noting that wild money printing was helping to drive the nation and its economy off a cliff. "The President and the Federal Reserve are now conspiring to create a much bigger crisis."

The Fed claimed it would be targeting a 2-percent rate of annual inflation for 2012. However, few analysts take the government's "Consumer Price Index" (CPI) measure of inflation seriously — especially as Core CPI, one of the most frequently cited figures, omits price increases in key sectors like food and energy.

According to Schiff, the government's claim based on CPI that inflation for 2011 was 3 percent is completely bogus. It was actually much higher, he said, noting that officials were using phony measures like the CPI to mask the true rate of inflation. And it is likely to be even higher in 2012 before eventually morphing into a full-blown currency and debt crisis in the coming years.

"The reason they have to keep [interest rates] so low is to artificially support a phony economy," Schiff explained. "This economy is a disaster waiting to happen — the only thing standing between us and economic Armageddon is zero-percent interest rates."

But it can't go on forever, and the longer rates are kept so low, the worse the looming crisis will be. For now, Schiff, whose business trades gold and silver, said investors should protect their assets by purchasing precious metals "before the price goes any higher."

An analysis by Bloomberg published on Wednesday showed that gold — which has increased every year for more than a decade — provided the best return on investment over the last five years when adjusted for volatility. And heavy-hitting financial firms cited in the report including Goldman Sachs and Morgan Stanley are forecasting that gold prices will keep rising to around $2,000 in 2012 or 2013.

"People are still very under-invested in gold, and so there is a huge scope of that increasing," explained UniCredit analyst Jochen Hitzfeld, the most accurate precious-metals forecaster tracked by Bloomberg over the past two years. Other experts noted that gold is widely and accurately perceived as a safe-haven in times of economic turmoil.

While gold prices have been extraordinarily volatile — spot prices hit $1,923 in September before crashing to $1,523 by the end of 2011 — the longer-term rally has so far been relatively consistent over the past decade. Just 10 years ago, gold was worth less than $300 per ounce.

Silver, which has also seen drastic price fluctuations, was less than $5 per ounce 10 years ago. In 2011, it surged to an all-time high of around $50 before dropping back down to about $33.35 today. The U.S. dollar, meanwhile, has not been doing so well — even when measured against other depreciating paper currencies.

Even billionaire investor George Soros, whose well-publicized sale of some 99 percent of his gold holdings during the first quarter of 2011 spooked precious-metals investors, has jumped back into the market. According to Securities and Exchange Commission (SEC) filings cited by Bloomberg, the hedge-fund manager had increased his stake in SPDR Gold Trust, an exchange-traded fund tracking gold prices, to almost 50,000 shares as of September 30.

Central banks around the world were also buying up multi-ton quantities of gold bullion, according to data cited in news reports. And the trend shows no signs of slowing down.

In other bullish news for the precious metal, unconfirmed reports indicate India has started purchasing oil from Iran using gold rather than U.S. dollars. China could follow, too, according to news reports.

"It shows the exodus from the dollar is gaining speed," noted precious-metals and currency trader Simit Patel on the investment analysis site Seeking Alpha. "With the major economies of the world facing $7.6 trillion in bond payments due this year, I think the tipping point for a shift out of dollars and into a new monetary system backed by gold is not as far off as it may seem."

With the steep drop in prices during the last few months of 2011, some analysts and traders were reluctant to get back in the precious-metals market before the appearance of a solid bottom had solidified. But the big banks and respected analysts are forecasting that as long as the fundamentals — out-of-control money printing, sovereign-debt crises, wild government spending, and more — remain the same, gold and silver prices could see massive gains in 2012.

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