

# Forbes

Indonesia

WWW.FORBESINDONESIA.COM

MARCH 2012  
VOLUME 3 ISSUE 3

Entrepreneurs are pioneering the  
creative economy—and making money  
from their ideas

THE

# CRE ATIVE

ECONOMY

RP 50,000

ISSN 2087-1996



9 772087 199601



## As Good as Gold?

**G**old has been on an overall upward trend over the past decade and seems likely to continue in the near future despite periodic corrections. Gold's rise is being underpinned by continuing concerns over the euro and long-term decline of the dollar, coupled with the steady rise of Asian economies, in particular China. With these trends, increasing attention is being given to the old truism of gold as a hedge against financial turbulence.

The Chinese have historically considered gold as an important foundation of wealth. This interest explains China's aggressive pursuit in buying and mining new deposits. It has openly stated its desire to increase its gold reserves. On top of this is the ongoing buying of gold on the international market by hedge funds, speculators and other investors. In addition, areas of unrest, such as in the Mideast and nearby areas, also contribute to the rise of gold prices (as investors seek the safety of gold). None of these trends look to abate anytime soon, which translates into continuing upward pressure on the price of gold.

Another trend is if the global recession continues to recede, the price of gold as well as other commodities are set to do well. Gold has been on an upward trend since 2001. Each correction appears to follow a similar pattern—the deeper the decline the longer it takes to recover to a new high. For instance, in 2006 after a total fall of 23%, it took a year and four months for gold to surpass its previous high point, while the recovery from the fall of 30% in 2008 took a year and six months before a new record price was set.

The current correction resembles that of 2003 when the price fell 16%, after which it took only seven months to break above to a new high. The question then is when will the next high point be achieved once the current dip is halted? After rising above \$1,750 in early February, gold was trading at around \$1,720 in mid-February. Despite some mainstream media suggesting that the bull run is over, gold's continuing allure seems to be intact with investors.



**Increasing attention is being given to the old truism of gold as a hedge against financial turbulence.**

We believe that gold will surpass the \$1,800 mark this year, probably by September, which has tended to be the strongest month for this commodity, although early February rises might suggest something earlier. The reason for this view relates to the continuing uncertainties of many major currencies, whose countries remain afflicted by debt. Further, despite the good intentions to solve these issues, the possibility for true consensus and

coordinated global policies is limited by the different economic realities that face countries around the world, especially within the eurozone.

As a final thought, the fact remains that the U.S. remains by far the largest economy in the world, and by orders of magnitude larger than the number two, China. The U.S. also holds very considerably more in gold reserves than any other country, a situation that will always be carefully monitored. For the foreseeable future, sheer size of the U.S. will ensure that it will continue to have the ability to have a major influence on world economic affairs and can, by extension, have a major influence over the price of gold. <sup>15</sup>