Here's What Could Drive Gold to a Record in Next Two Years: Top Forecaster

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12. Oktober 2016, 00:00 MESZ
Updated on 12. Oktober 2016, 16:42 MESZ

- Incrementum says price could increase to all-time high by 2018
- Inflation 'may surprise to the upside', making case for gold

Rising inflation and sagging confidence in the ability of central banks to revive global growth will drive up gold, according to Incrementum AG, which says bullion could climb to a record in the next two years.

Consumer prices are set to rise as oil rebounds, while low or negative interest rates and bond buying by central banks have failed to boost economies, said Ronald Stoeferle, managing partner at the Liechtenstein-based company, which oversees 100 million Swiss francs ($101 million). Incrementum was the top precious metals forecaster last quarter, Bloomberg-compiled data show.

"Inflation may surprise to the upside and this will be the moment when you want to have some gold in your portfolio," Stoeferle, 35, said in an interview. "Not the absolute level of inflation, but the momentum and the direction of inflation is the most important driver. In this uncharted territory, with big monetary experiments going on, it just makes sense" to hold bullion, he said.

Gold had a momentous surge in the first half as the Federal Reserve stood pat on borrowing costs, negative interest rates spread in Europe and Japan and political risk climbed after the U.K. vote to leave the European Union. But the rally is unraveling with the metal posting its biggest weekly loss in almost a year on rising odds of a U.S. rate hike, increasing bond yields and deepening worries that some central banks have reached the limits of their effectiveness.

Price Worries

In a sign of rising inflation concerns, the difference between yields on 10-year U.S. notes and similar-maturity Treasury Inflation Protected Securities, a gauge of price expectations, expanded to as much as 1.69 percentage points on Tuesday, the widest since May. The Federal

Reserve targets 2 percent inflation.

Gold prices could recover to $1,365 an ounce this year and even increase to above $2,000 in 2018, surpassing the all-time high of $1,921.17 in 2011, according to Stoeferle on Oct. 6. Bullion for immediate delivery traded at $1,253.94 at 3:41 p.m. in London on Wednesday.

Not everyone is as positive. The slump in gold could be the start of a bigger sell-off, according to Deutsche Bank AG Chief Global Strategist Binky Chadha this month, who believes that bullion is 20 to 25 percent overvalued. The probability of three rate hikes through the end of 2017 means there's little room for rallies, according to Luc Luyet, a currencies strategist at Pictet Wealth Management, in August.

Singer, Einhorn

Stoeferle's comments echo Elliott Management Corp.'s Paul Singer who in September said there's a risk inflation could surprise everyone and that gold was underrepresented in portfolios. David Einhorn and Stan Druckenmiller have also given reasons for owning gold. Even as prices fell last week, investors raised holdings in exchange-traded funds to the highest in three years.

Stoeferle manages 32 million Swiss francs in the Austrian Economics Golden Opportunities Fund, which he started in 2014 with partner Mark Valek. The fund uses its own inflation indicator, which has given a strongly rising signal since the beginning of March. This has prompted them to invest in mining stocks, energy equities, commodities and commodity currencies, Stoeferle said.

Gold's 3.3 percent drop on Tuesday last week was enough to turn some traders bearish, signaling that overall sentiment was far from positive, said Stoeferle, who publishes an annual report called "In Gold We Trust". "From a sentiment perspective, it's probably the most-hated bull market these days. This is only the beginning of this party."