This week's Market Insight highlights one asset sector used in the Investment Strategies: Gold

Excerpts taken from Cliff Wachtel, Chief Market Analyst for [anyoption.com].

Gold is neither a risk nor safe haven asset. Rather it is a currency hedge that rises or falls with concern about the continued purchasing power of fiat currencies, specifically the most widely held ones, the USD and EUR.

Continued Central Bank Loose Money Policies:

The central banks of most major economies, the Fed, ECB, BoJ, PBOC, and BoE among them, remain in easing mode. While it's unclear whether the Fed will initiate QE 3 any time soon, the ECB has been aggressively easing via both rates and its recent LOTR program. More significantly, if the EU wants to keep a Greek default (and its risks of a domino-effect wave of other sovereign and bank insolvencies) for the coming years, it will have no choice but to print money to bail out Greece and/or its large bank creditors if they're forced to take material losses on their Greek bond holdings.

In addition, as numerous nations try boosting export growth by cheapening their currency, this simultaneous devaluation of fiat currencies can only boost gold.

In sum, a combination of continued central bank easing with avoidance of a severe, deflationary global recession, would mean rising risk of inflation and eroding purchasing power for the USD and EUR.

Ongoing Central Purchases

For the twenty years prior to the Great Financial Crisis (and the loose money policies that followed from the Fed, ECB, Bank of Japan, and others developed world central banks), central banks were net sellers of bullion. Since then, however, central banks and sovereign wealth funds of emerging market nations have become heavy gold buyers, especially on price dips, as they realize the need to diversify their forex reserves out of both the USD and EUR and into more reliable stores of wealth. Growing US budget deficits and debt/GDP ratios in both the US and EZ have shaken confidence in the EUR and USD.

China, Russia, India, Mexico and other emerging export nations are buying in bulk when prices dip.

Venezuela has begun to repatriate its physical gold from banks in Europe, the U.S., and Canada. Its motives are unclear, though they may include protecting itself from retaliatory measures from these nations should the renegade state continue nationalizing foreign owned assets in Venezuela.

Meanwhile, the central banks of developed economies, which hold larger proportions of their reserves in gold, have stopped selling as these reserves continue to appreciate.

Valuation: Inflation adjusted price not even near Historic Highs

Gold's 1980 high of $850/oz, when adjusted for inflation, is about $2400. So even if conditions today were no worse than those of 1980, it still has over 25% higher than 2011 "historical" highs around $1900/oz.

However it's not hard to argue that conditions over the coming years are likely to be more favorable for gold than they were in 1980. Unlike back then, today most of the central banks of the largest economies continue to print money and inject liquidity into the markets in a desperate attempt to combat the damage to growth from the debt deleveraging currently taking place in both public and private sectors.

These policy moves are likely to continue and if they do, will undermine confidence in fiat currency and push investors into gold in all but the most dire, deflationary scenarios.

In addition, as every country seems intent on boosting growth by cheapening their currency to encourage exports, this simultaneous devaluation of fiat currencies can only boost gold.

Conclusion:

Short term, the price of gold could remain subdued but longer term the bull case remains.

The only real qualification to that forecast is if we hit a sustained global economic crisis that brings long term flat to negative inflation (aka deflation). That could indeed both boost demand for cash and kill off the chief fundamental reason for holding gold, the need to hedge against loss of purchasing power of fiat money. However, it's difficult to imagine a really steep drop in gold.

- As the past years have shown, gold can rise in times of low inflation as loose monetary policies keep the fear of inflation alive.
- As long as the largest economies maintain low interest rates and loose monetary policies that threaten to reduce the long term purchasing power of the major currencies, central banks should continue to be gold buyers (and they are big buyers) on dips, making a steep drop in gold unlikely.