USA TODAY

Gold soars to more than $1,500 an ounce

Updated 2d 21h ago |

By Matt Krantz, USA TODAY

Worries about skyrocketing inflation are sparking record-breaking price increases for gold, pushing the precious metal to a closing price north of $1,500 an ounce for the first time.

By Sebastian Derungs, AFP/Getty ImagesGold bars at the plant of gold refiner and producer Argor-Heraeus in Mendrisio, Switzerland.Enlarge

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Gold bars at the plant of gold refiner and producer Argor-Heraeus in Mendrisio, Switzerland.

The combination of mounting budget deficits in the U.S., rising debt levels in Europe, a weakening U.S. dollar and the risk of global inflation create a dream environment for gold, which tends to rise in price when faith in paper currencies flags.

"Given the debt situation in Europe and inflation expectations, it's all supportive for gold," says Imaru Casanova, a metals and mining stock analyst at McNicoll Lewis & Vlak. "You could see even higher (gold prices). It's exciting."

The price of gold has been on a steady rise and flirted with $1,500 all week after Standard & Poor's downgraded its outlook for U.S. debt. The price of an ounce of gold is up 31% from a year ago to close at $1,503.20 an ounce Thursday. Other precious metals have done even better.

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Silver has risen 155% over the past 12 months to $46.06 an ounce.

Factors fueling the rise include:

•**Disagreement in Congress on how to deal with U.S. budget deficits.** The lack of real progress in narrowing the budget gap shakes faith in the U.S. dollar, says Tom

Winmill of Midas Funds. Investors afraid the purchasing power of the dollar may continue to fall are locking in value with precious metals, he says. S&P said the budget uncertainty was a driving force behind its warning about the USA's AAA credit rating this week. Meanwhile, the nation's level of debt is nearing the debt ceiling of $14.3 trillion.

•**Concern over debt problems in Europe.** Yields on two-year Greek bonds surged to more than 22% this week after a German adviser said Greece would likely need to restructure its financial obligations.

•**Worries about inflation.** While the inflation rates reported by central banks appear modest, consumers are feeling much more rapid price increases in energy and food, says Jeffrey Nichols, economic adviser to Rosland Capital.

Despite the rapid rise in gold, it's been trailing stocks lately. The SPDR Gold Trust exchange traded fund is up 5.6% this year, yet that still lags behind the 6.3% gain in the S&P 500 index.

The fact gold isn't on a parabolic rise recently is a good sign it isn't yet a mania, Nichols says. Yet, gold stands to rise further until the Federal Reserve makes other investments, such as Treasuries, more attractive by increasing short-term interest rates, Midas' Winmill says.

Higher interest rates would be a killer for gold, agrees Casanova, though she says it's unlikely the Fed would tighten anytime soon.

Meanwhile, consumers are feeling the pain as jewelers pass along higher costs. Zale, a large operator of jewelry stores, increased prices for select gold merchandise in December, says director of investor relations Roxane Barry, and is now testing boosting diamond prices.