How the Fiscal Cliff Will Affect Gold Prices Now

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On news of a second term for US President Barack Obama, investors didn't show any excitement as the market fell 2.3% the day after Election 2012.

The fiscal cliff countdown came to the forefront of concerns last week, helping push the Dow Jones Industrial Average down more than 2%.

But for gold prices, this could be a good thing.

Here's how the fiscal cliff will affect gold prices as Washington battles over how to solve the looming threat to the US economy.

The Fiscal Cliff Effect on Gold Prices

David Hemming, a portfolio manager at Hermes Investment Management Ltd. said to Bloomberg News, "The US fiscal cliff has short-term implications for commodities. Considering the concern is with the US and it would be bearish for the dollar, gold should outperform as both a currency and a safe haven. The industrial metals have potential for further downside, but other than copper they are trading into their cost curves."

The ball got rolling last week as fears drove gold futures on the Comex up 3.3% for the week-its largest gain since January. On Wednesday, Comex December gold futures were up $5.30 to $1,730.

What helped push gold higher was a speech from President Obama. He said should lawmakers not reach an agreement on the outstanding fiscal issues by year's end, middle-class tax hikes could result in a recession.

This could also result in additional easing and greater inflation, which benefits gold prices.

Gold Price Forecasts

Tom Winmill of the Midas Fund sees a gold craze with a year-end $1,900 an ounce gold price as it "figures largely in the next quarter."

Looking to past behavior for perspective, Winmill noted to Fox Business that in the "mini" fiscal cliff just over a year ago, along with the debt ceiling, there was a 30% gold price rise and "we should see that again."

He added that in the big picture, the current economy is a positive for hard assets, including gold. Furthermore, Winmill believes that even with a deal by Congress on the fiscal cliff, one year from now he predicts a $2,200 an ounce for gold prices.

And while the fiscal cliff will push gold prices higher in the near-term, there's also those global factors still affecting them.

China's economy continues to make strides in its economic road to recovery based on October data. Philip Klapwijk, global head of metals at consultancy Thomson Reuters GFMS, said last week that the country's gold demand is expected to grow by 1% in 2012 to a record 860 tons.

Gold jewelry investment sales are also expected to rise.

And with this will come higher gold prices.

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