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ETFs facing crisis if gold value dips

By Joanne Ellul

Investors in gold exchange-traded products could face a liquidity crisis if gold dives in value, says Gemini Asset Management managing director Stuart Alexander.

Alexander warns that although the price of gold is traditionally high in times of market volatility, recent falls in the price have revealed more reason to be cautious about investing.

Gold was trading at $1,639 an ounce on June 6, according to the Comex Gold 1 Futures Chain. This is a 10 per cent drop from a high of $1,828 an ounce on August 23 last year.

The gold ETP market is huge, with £25.1bn of assets in 50 ETPs listed in Europe, as of the end of May. Over half of the outflows in May were accounted for by gold, with £0.5bn out of £0.8bn total outflows from European ETPs.

Alexander says: "The gold price is higher than it should be right now. It will go up until we see a resolution in Europe and then it will drift downwards when we see that resolution.

"The general purchasing of gold is going to be on the decline as other assets become more attractive. When markets have turned around, other assets such as Asian equities will become more attractive."

He warns of the dangers if too many investors look to sell their gold positions at the same time.

He says: "If the bubble was to burst, then it means catastrophe for these ETFs in terms of a liquidity crisis for investors if there is a big run on them.

Jonathan Davis Wealth Management managing director Jonathan Davis says: "I see there is a risk that if there is a massive run in the gold ETF market, then providers may stop redemptions."