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Gold at new six year high as Fed members tease markets and Middle East tensions remain high

The gold price punched through a new six year high in mid-morning trade on Friday, topping out at US\$1,437 per ounce by noon.

Wider markets took note, but weren't overly interested as gold had only gone through previous six year highs a few weeks earlier.

The trajectory is clear enough, and while the market professionals took it all in their stride it was interesting to see the new gold price highs headlining close to the top of the Guardian website alongside not-unrelated headlines about the US downing of an Iranian drone in the Persian Gulf and the latest convulsions in US domestic politics about race.

True, gold has primarily been on the move because of recent statements from members of the Federal Open Markets Committee, which is due to make a decision about US interest rates shortly.

Fed Vice Chairman Richard Clarida and New York Fed boss John Williams both stressed the need for "decisive" action should the US economy show any signs of significant slowdown. That was interpreted by markets as signifying a slightly greater likelihood of a half point rate cut as opposed to the less aggressive quarter point cut that most are now expecting, although a spokesperson for the New York Fed subsequently tried to play down Mr Williams's comments.

Still, since the market has been anticipating a rate reduction for some time, comments about how decisive such cuts should be would seem to indicate it's now a matter of when and not if.

That's all to the good for gold, although it remains to be seen if there will be a significant bout of profit-taking when and if the rate cut does come. One might anticipate that if the cut comes in at only a quarter point then those that are overly long gold might sell off in significant numbers.

But still, there remains that wider context to consider.

A Reuters report on Thursday detailed how the US is having trouble building a coalition of the willing to put together a more formal system of military escort for vessels in the Persian Gulf. The world has by and large looked on with scepticism and wonder at the ways in which President Trump has broken with precedent in US foreign policy, principally because so far it's only involved economic pressure and rhetoric.

That the US bosses the global financial system is nothing new, even if it is unpleasant to be reminded of the fact so crudely. What is new is the ratcheting up of pressure from Iran, done, in the assessment of a now former British ambassador to Washington, purely to "spite" President Obama.

That may be oversimplifying it a bit, but it's certainly true to say that where in the past the US sought to use its overarching power to balance the various competing interests in the Middle East, it's now acting as a much more polarising force. Thus, we have the superficially surprising spectacle of an Israel-Saudi axis backed by the US, facing off against Iran and its proxies in Lebanon and Yemen, while off to one side Turkey is quietly sidling up to Russia.

It's a geopolitical shift that has no real support in Europe, but which Europe is also pretty much powerless to contest.

In such a context, with the President apparently wilfully stirring up the cauldron of racial conflict that is almost

continually brewing at home, the world doesn't look like a particularly safe place to be.

The Fed's calculations centre more on the economic damage tariffs are likely to do to the global economy, but in a way it's all part and parcel of the same dynamic: US global hegemony is gradually slipping away.

That can only precipitate longer periods of uncertainty, or to put it another way, the perfect environment in which to buy and hold gold.

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