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Gold - Is $3,000/Oz in 2025 Cheaper than $35/Oz in 1971?

Shanmuganathan Nagasundaram 3/15/2025

Coming to the here and now, very few have "connected the dots" between these two catastrophic events of 1971 and 1913 and the economic collapse that lies straight ahead

The price of gold keeps climbing

Gold prices have nearly **doubled** in the last 18 months from the lows of **$1575/oz** in September 2022. Despite the heady returns in a safe-haven asset, we are still in the early days of a super cycle that will last a decade or longer. As I explain in this article, gold prices are headed for levels most analysts **cannot conceive** of today.

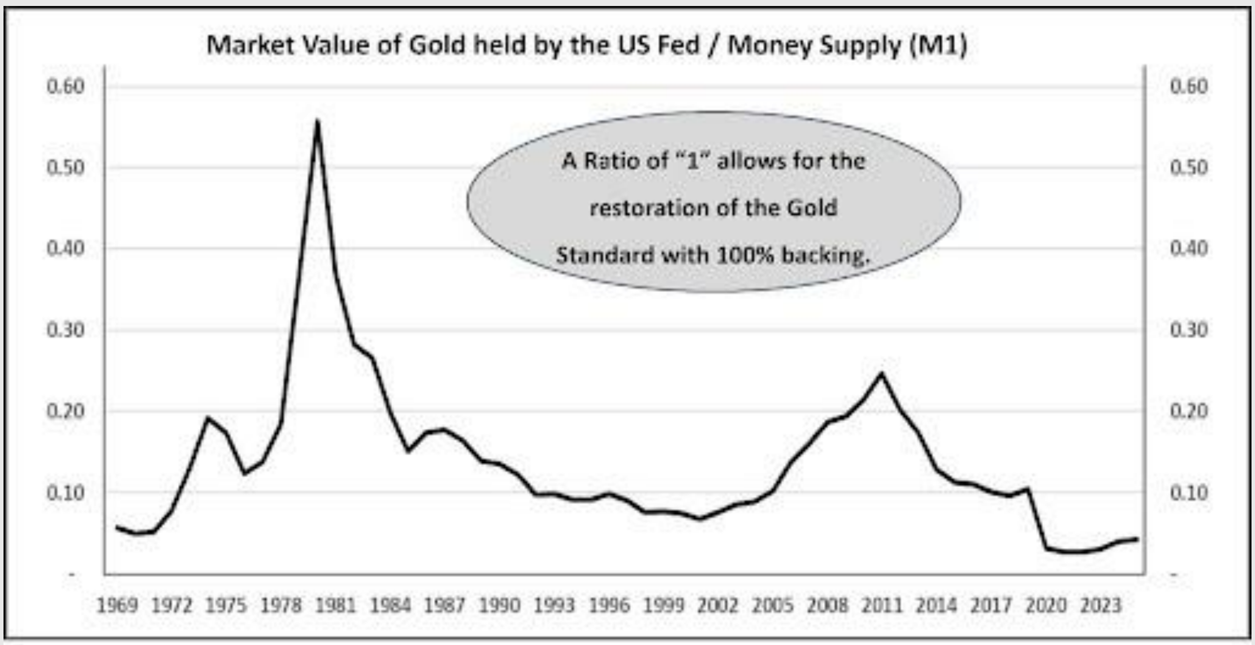
What does "Cheaper than in 1971?" imply? During the decade starting 1971, Gold prices rose nearly 25 times to top at $850/oz by 1980. That is a 25-fold return in 10 years; a similar performance would mean a $75,000/oz price by 2035. What is the probability of that happening in the decade ahead? As I explain in this article, it's a probable event but not a certainty. At least, not yet. What is almost certain is the target of $24,000/oz, as explained in the book "RIP USD: 1971-202X …and the Way Forward". Undeniably, even the much lower target of $24,000/oz would still be a spectacular bull market in Gold.

What caused gold prices to go up 25 times during the 1970s? DeepSeek gave several reasons: the end of the Bretton Woods System, High Inflation and Stagflation, US Dollar Weakness, Geopolitical Uncertainty, Increased Investment Demand, and Central bank policies. All of these are indeed valid proximate reasons, yet DeepSeek misses out on THE fundamental reason, i.e., Price catching up with Value. The proximate reasons are nearly irrelevant in the **big picture**. Without the deep discount between Price and Value as it prevailed back then, none of the proximate reasons would have increased gold prices appreciably.

Gold was money from about **2800 BC** until 1971. In 1980, the market priced gold at a level that would have allowed for the restoration of the Gold Standard, enabling Gold-Dollar convertibility at a **fixed rate**. This property of being the free market choice of money determined the value of gold in dollar terms during the 1970s; it is the same reason that is playing out today.

The restoration of the rightful place of gold at the heart of the world's monetary system will cause the price of gold to surge in the years ahead.

Incidentally, when the gold window was closed in 1971, all the paper economists (i.e., the Communists, Keynesians, and the Friedmanites) unanimously predicted that the price of gold would fall well below **$35/oz**. It was forecasted that the price of gold would fall to $10/oz, accounting only for the industrial demand. Only to see gold prices go up **25 times** in the next 10 years.



Fraction of the Money Supply (M1) that is covered by the value of the Gold Reserves held by the US Federal Reserve. A value of "1" would allow for the Gold Standard to be implemented with 100% backing for the Money Supply.

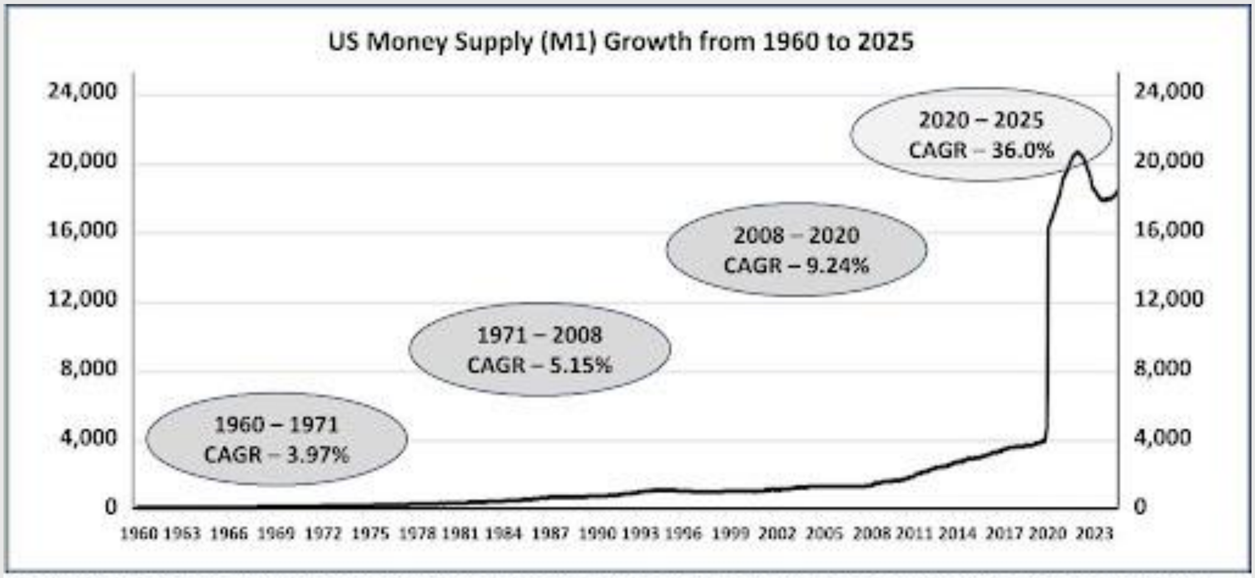
The graph shows that the markets had priced gold at a level where the value of gold held at **Fort Knox** would have backed about 55% of the US money supply (M1). The US Federal Government could have restored the **Gold-Dollar convertibility standard**, with the US Dollar defined as 1/600th of an ounce of gold in 1980/ 1981. Most forms of the Gold Standard have operated with a 40% backing by bullion, and technically, the US could have transitioned to the Gold Exchange Standard that prevailed before 1971. Incidentally, the **Bank of England** had operated on a Gold Standard from 1717 to 1931 using a 40% reserve ratio.

Ronald Reagan, a supporter of limited government and the Gold Standard, missed the last opportunity to close the Pandora's box that Richard Nixon had opened in 1971.

It is not to argue here that a **40% reserve ratio** is the correct adaptation of the Gold Standard. Anything less than 100% backing is "stealth inflation", and as long as governments are in charge of the money supply (either through a Central Bank or with a regulatory system as was the case in the US before 1913), we are going to have the **Fractional Reserve Banking system**. There is no getting away from that. The point to be recognized is that even this 40% backing is vastly superior to our current unbacked paper monetary system.

How high can gold prices go? – What does the above "Gold Stock – M1" graph imply for a return to the Gold Standard today? The ratio as of Q1 2025 is 0.035, and to achieve a 40% backing of the current money supply (M1), gold prices have to be about $35,000/oz. At this point, the key question is, what would the money supply be 10 years later? That would indicate whether the current bull market in gold can rival what happened during the 1970s.

Forecasting M1 growth



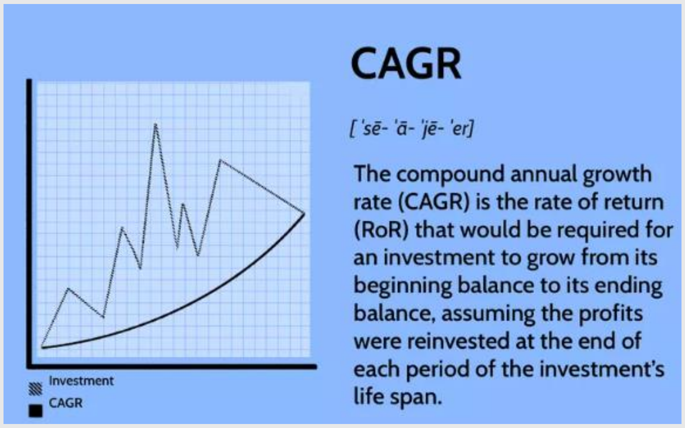
Growth in US Money Supply (M1) from 1960 to date. There has been a hockey-stick pattern of growth from January 2020.

Two factors account for the substantive increase of M1 since 2008.

- **Increase in National Debt**: The accumulated National Debt from 1789 to the end of 2007 was a little over $9 trillion. In the subsequent 16 years, starting in January 2008, we have increased it by $27 trillion, and the National Debt today stands at $36 trillion.
- **Increase in Federal Reserve Ownership of the National Debt**: The US Fed owned less than 5% of the National Debt until 2007. However, since the 2008 GFC, the US Fed has monetized an increasingly more significant portion of the federal deficits, and this percentage increased to 10% by 2010 and 20% by 2022.

- The trend of the US Federal Reserve owning an increasing percentage of the National Debt will likely continue. This is for geopolitical reasons, as the US Government has practically weaponized the US Dollar since the Ukraine conflict.
- Most countries have their price inflation / recessionary issues to deal with. So, the tendency to either pay down the National debt (e.g., Japan) or stimulate the economy (e.g., Germany) by selling the US Dollars held would only increasingly leave the US Fed as the only buyer for the US National Debt.

To project this forward, even if we assume that the M1 is set to grow at a CAGR of 10%, it will grow from the current $18.5 trillion to $48 trillion over the next 10 years. With a 40% reserve backing, gold prices would have to be well above $85,000.



Plenty of other arguments – annual trillion-dollar trade deficits, 2-3 trillion-dollar Federal budget deficits, unfunded liabilities of $200 trillion, etc. can be made to show the quick-sand foundations of the US GDP and its dependence on the Reserve Currency status to maintain the illusion of economic stability. So, the case for M1 growth being higher than the assumed 10% is very solid.

Of course, we should not miss out on the BUBBLES – the US economy is floating on a sea of asset bubbles in stocks, bonds, and real estate today. All three will collapse in the months/years ahead. The US Fed will respond with tens of trillions of dollars in stimulus (aka monetary inflation), similar to what they did after the 2008 GFC. What will that do to the US Money Supply? What will that do to gold prices?
At this juncture, defining a ceiling for gold prices is impossible as no floor can be set for the US Dollar. The US Dollar could well go to zero (i.e. hyperinflation), and the probability of such an event, though not particularly high at this point, is on the uptrend. If the Fed responds with stimulus to the bursting of asset bubbles in the months ahead, then the US Dollar could well meet the same fate as the German Papiermark did between 1920 and 1923.

What can go wrong with the above forecasts?

From a directional **standpoint**, I can envisage almost nothing. However, several factors could lower the $85,000/oz gold price forecast, and we need to explore the possibilities of these events.

- **Musk delivering on DOGE**: I should admit that Musk has been far more successful at cutting Federal expenses than I had expected. Notwithstanding, these are still baby steps, and the impact so far is not even a rounding-off error affecting only the third digit after the decimal on the National Debt. What happens when Musk starts raising substantive issues requiring legislative support remains to be seen. Reaching a political consensus on fiscal consolidation will be tough, especially with mounting unemployment and recessionary fears becoming a reality or at least pronounced in the months ahead.

    - The immediate threat to the DOGE plan would come from the bursting of the Housing Bubble 2.0 – and the long overdue burst is very likely to unfold in the next few months. At this point, Trump has not shown that he understands the economic fundamentals to do the correct thing, i.e., allowing the correction to run its course and not indulge in QEs that only temporarily postpone the pain while creating a bigger bubble to handle years down the line. On the contrary, Trump has been arguing in favor of lower interest rates and a significant increase in limits on the National Debt.
    - The biggest threat to **DOGE** delivering on its promises is Trump himself. The only Congressman who understands the nature of the crisis and the correct way forward is Republican Thomas Massie. What does Trump do when Massie refuses to support the short-term funding bill? Trump has indicated that he will oust Massie, saying, "**…(MASSIE) SHOULD BE PRIMARIED, and I will lead the charge against him.**" If Trump is serious about balancing the budgets (Trump has claimed that he will balance the budget in a year or sooner), why would he want to oust the one Congressman who has consistently voted in favour of balanced budgets? This indicates that Trump believes he can get away with a Reagan-style government, i.e., all talk in favour of limited government and balanced budgets, and yet, very little actual action on the ground. Trump is worse than Reagan because at least the latter gave a free hand to the US Fed under Volcker to raise rates, which is the correct solution to cleanse the system of the malinvestments. Very unlikely to be the case with the Fed under the Trump Presidency.
- **US Fed Buying Gold to Shore Up its Reserves**: The above graph is based on the US Fed's current reported holdings of about 8,000 tons. If they buy another 8,000 tons of Gold in the market, it could halve the target of $85,000/oz, with other things remaining the same.
    - The recent movement of physical gold from the UK to the US could well be the US Fed doing the above. By some estimates, about 2000 tons have moved west across the Atlantic in the last couple of months, and Fort Knox is probably the ultimate destination for the bullion.
    - In a 2012 paper titled "Do Western Central Banks Have any Gold Left?" Eric Sprott and David Baker observed that Fort Knox is probably empty, and all the US Fed might hold is paper gold, i.e., future option contracts to purchase gold. So, contrary to the US Fed doubling its holdings, it could be a case of owning nothing.
- **The US Government Implementing the Gold Exchange Standard**: The world will move to some form of a Gold Standard, with or without the participation of the US. Trump's threat of 100% tariffs on such currencies is sheer bluster, and both Xi Jinping and Putin understand this better than Trump himself does.
    - At such a point when an alternate Gold-backed currency (most probably BRICS, but another possibility is a gold-backed Yuan) is launched, the US would have no choice but to move to the Gold Exchange Standard for the US Dollar that prevailed before 1971. They would probably do so with a gold backing of 25 to 40% of the Money

Supply. So, instead of the 100% reserve backing that the Market would demand, the Federal Reserve may start the move back to the Gold Exchange Standard with a lower cut-off.

Considering all the factors explained above, I think $24,000/oz would be a floor for gold prices for the **decade ahead**. Defining a ceiling for gold prices at this stage is impossible, given the asset bubbles that the **US economy** is dependent on. Between these two extremes, the most probable outcome would be a **six-digit price** (in US dollars per ounce) for the decade ahead. This is not a number dissociated from real-world economic implications: what this insinuates is an inflationary holocaust for the US Economy.

For the other currencies, hopefully the untethering with the US Dollar starts at the earliest. For example, the Yuan could achieve parity with the Dollar from the current exchange rate of **7.25**. So, the price inflationary impact will be much less in these countries where the currency appreciates significantly vis-à-vis the US Dollar. Ultimately, all currencies will have no choice but to detach from the link they maintain with the US Dollar.

Current market forecasts for gold prices

Investment banks and analysts have a duty to perform and will continue to set a slightly higher price target for gold than the spot price. **Goldman Sachs** now has a target of $3100/oz. The mantra seems to keep it high enough not to excite investors, but it still appears correct. Soon, they will update their gold price forecasts monthly, if not weekly.

Much like DeepSeek said about the 1970s bull market, any number of reasons will be given – Trump tariffs, trade wars, **LBMA & COMEX** delivery crisis, Geopolitical tensions, China buying, etc.- would be put forth to justify the higher price forecast. Not once would the fundamental reason – Price adjusting to Value in the transition to the oncoming Gold (Exchange) Standard – be made.

The end game for the US empire

The end of the US Dollar **dominance** also signals the end of US hegemony on the world stage. When the annals of the US Empire's history, starting from the year 1789, are written a decade or two down the line, the year that **unmistakably** was the most destructive to its competitive and libertarian ethos would have to be 1971 (closing of the Gold Window). The second worst year would be 1913 (the formation of the US Federal Reserve and, to a much lesser extent, the introduction of the Income Tax).

Coming to the here and now, very few have "connected the dots" between these two catastrophic events of 1971 and 1913 and the economic collapse that lies straight ahead. Of course, amongst the few who understand, almost none are in Government or even in positions of influence worldwide, barring Milei.