The UK Market and Gold

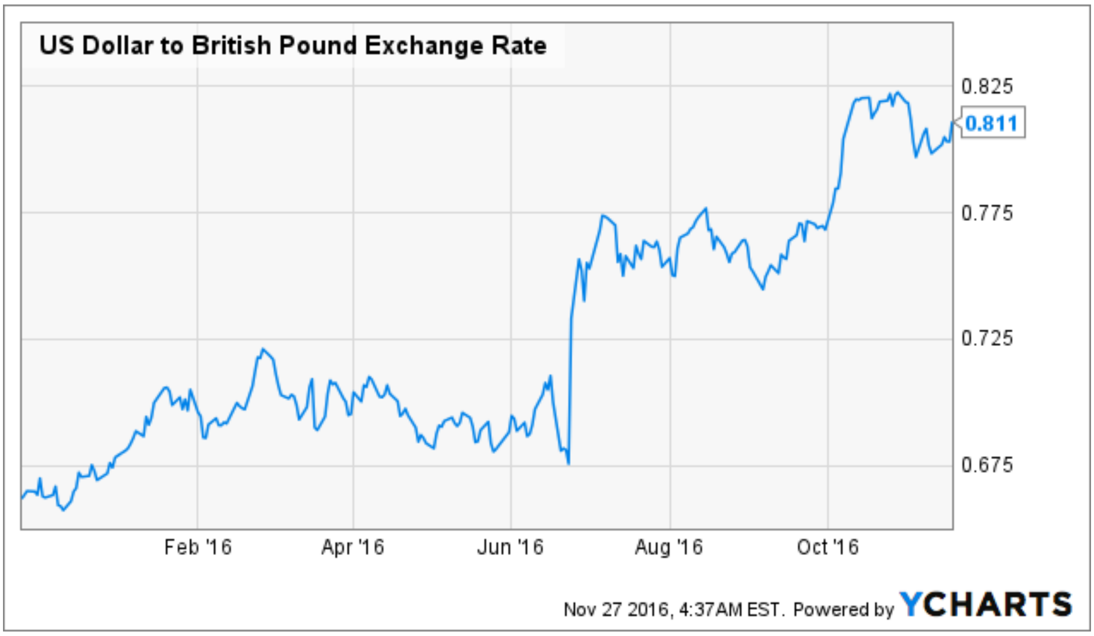
Sunday, November 27, 2016

The mainstream media hasn't been the most reliable forecaster in 2016, so perhaps it's no surprise that Brexit's gloomy predictions haven't come to fruition so far. However, nothing is guaranteed, and if Britain's political quagmire continues the future is anyone's guess.

The U.K Economy is Strong After Brexit.

The British economy grew 0.5 percent in the third quarter of 2016. The jobless rate hit a decade low of 4.8 percent, and spending increased across the board. Household spending is up 0.7 percent, and investment is up 0.9 percent.

The historically low value of the Pound seems to have bolstered British trade; this is thanks to Brexit and a remarkably strong U.S Dollar.



However, the picture is not entirely rosy. According to the British Office for National Statistics (ONS), factory gate inflation is up 0.8 percent for 2016. Raw material prices are up 4.6 percent while wages are only up 2.3 percent. This data is a premonition of inflation.

What does Inflation Mean for Investors?

Inflation is either a blessing or a curse depending on political bias. In the Eurozone, the ECB is desperately trying to create inflation via its bond-buying stimulus programs in an attempt to boost spending and growth on the continent. However, many of the same economists supporting the ECB portray inflation as a nightmare for Britain.

Regardless of what effect inflation will have on the British economy, it certainly seems to be inevitable. And this means more weakness in the U.K Pound.

The British Pound is still feeble, and while a cheap currency will help exports, imports will be more expensive leading to inflation. According to Justin King, former CEO of Sainsbury, half of British goods are produced overseas, and the prices of these products could rise by up to 10 percent by this time next year.

If these predictions are correct, a pound today is worth more than a pound tomorrow. As always, investors should look to physical gold as a way protect purchasing power in an inflationary situation.