# Ballooning US Debt is the Elephant in the Room that will Support Gold Prices further

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Gold surged 18% between March 1 and April 12, rising around $400 and hitting new all-time highs of $2448 on escalating Middle East tensions, the Chinese gold rush, record purchases by central banks, concerns over sticky inflation, soaring U.S. government debt, and continued fiat debasement.

Major institutions changed their estimates for the price of gold upward after the rise. Goldman anticipates that gold will reach $2700 by year's end, while UBS has raised its year-end estimate to $2500/oz. Citigroup is now predicting a $3000 gold price over the course of six to eighteen months on this timeline. But then gold corrected almost 6% to trade below $2300 in the last week of April. This was a healthy correction in a long-term bull market. The factors which supported the price rally in March and April will continue for the rest of 2024 too.

One should pay close attention to the most important factor of alarmingly high U.S. debt levels, which is above $34.5 trillion by April 2024 and rising $1 Trillion every 100 days. Concern about the rapidly rising U.S. government debt is also one of the main reasons for elevated gold prices. The U.S. debt has crossed the $34 trillion mark in 2024, with interest payments projected to reach $870 billion in 2024, underscoring the urgency of fiscal management. In the US, debt is growing faster than the economy and the Debt-to-GDP ratio is above 125.

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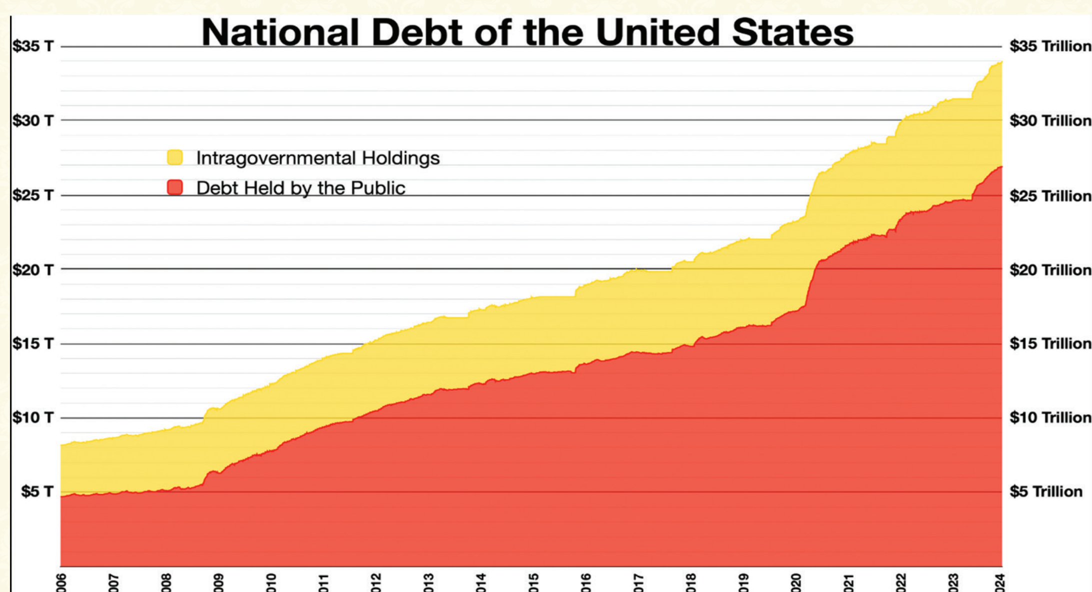
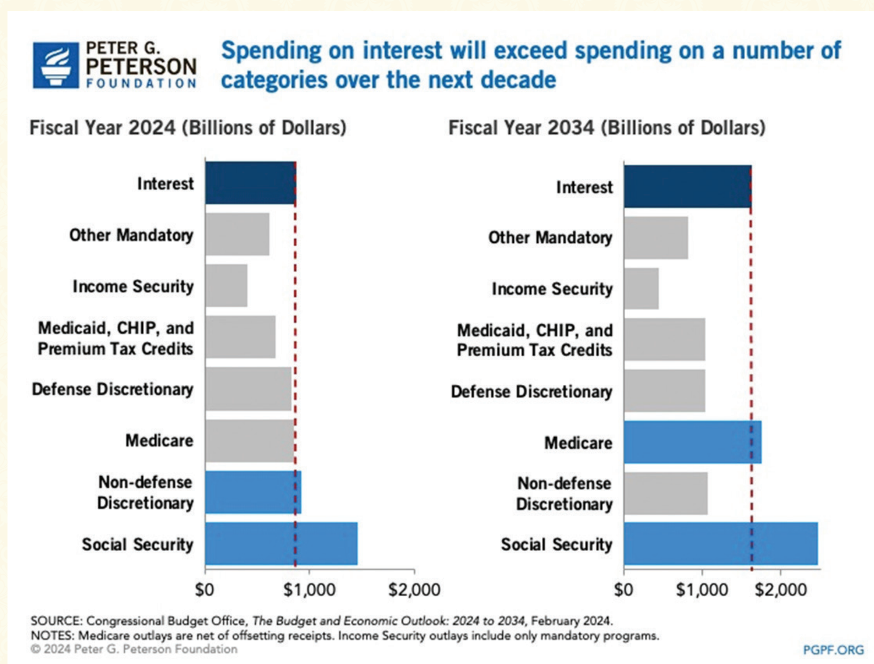


The primary cause for concern is the unregulated buildup of the United States government's debt, as interest payments continue to consume a bigger portion of the government's budget, often surpassing that allocated to national defence.

In 2019, the annual debt interest payment was $300 billion. And we have reached a stage where a substantial amount of the budget is been allocated to interest payments. In the upcoming year, interest payments will account for about $1 trillion of the U.S. government's spending, surpassing even the amount spent on national defence. If this keeps up, the federal government may spend more on interest over the course of the next ten years than on discretionary non-defence spending, which includes money for general government, transportation, veterans, education, health, international affairs, natural resources and the environment, general science and technology, and international affairs.




The FED now has four alternatives to lower this alarming debt: raising taxes, cutting spending, lowering interest rates, or going into default. Because the first two choices are a little more challenging to implement, the US depends on low-interest rates to fund its government. The United States would also become practically bankrupt as a nation if interest rates were to increase substantially higher than they already are. At that point, the Fed would come under political pressure from the federal government to peg the yield curve across the curve. When US 30-year bonds were fixed at 2% in the 1930s and 1940s, this was previously done. The Federal Reserve will persist in creating an infinite quantity of money to purchase an infinite quantity of bonds at a specific yield point.

In addition, the Fed is given new authority and responsibilities virtually every year. The Federal Reserve, in my opinion, is already a way too strong an organization that is not accountable to anybody. It contributes to the issue. With its unprecedented potential to influence both national and international economies, the Federal Reserve has emerged as the world's most powerful institution. After downgrading U.S. debt twice already this year—by Fitch in August and Moody's in November—a third rating would cause more investors to switch from the dollar to other currencies or gold as a crisis hedge.

So to conclude the next big trigger for Gold that would take prices to $3000 in the next 2-3 years would be the US Debt crisis. The United States will be unable to pay its debts if it defaults, disrupting the world's financial markets and leading to catastrophe. Investors will probably keep turning to gold in the case of a debt crisis to protect their capital from the consequences. Gold is a good investment at any price since it's best seen as a long-term asset.

Investors should not skip a chance to buy gold on dips around $2200-$2250 (~Rs 68000-69000) in the month of May, which would be a base price for the next 2-3 years. It is forecasted that gold prices will be trading 10% higher to around $2500 (~Rs 75500) from the current levels by the end of 2024. So those who missed the earlier rally can jump on the train this month for good long-term returns.