

INVESTIGATING THE RELATIONSHIP BETWEEN THE GOLD PRICE AND THE VALUE OF THE JSE 150 GOLD MINING INDEX

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The gold price has an effect on the share value of gold mining companies, but it is uncertain what the extent of this effect is. Several studies have been conducted internationally to investigate this relationship, including Baur and McDermott (2010), Shafiee and Topal (2010) and Blose and Shieh (1995). There are limited studies from South Africa to provide evidence of any relationship between the gold price and the market value of gold mining companies.

The results from previous studies show that, in times of financial crisis, gold can be considered a safe haven investment in developed markets. This study contribute to research conducted by Baur and McDermott (2010), but specifically focuses on South African gold mining companies, investigating whether gold is a safe haven in South Africa as a developing country. The period stretching from 2004 to 2013 is investigated, separated into three economic cycles, namely the metals boom (January 2004 to November 2007), the Global Financial Crisis (December 2007 to June 2010), and the period following the Global Financial Crisis (July 2010 to December 2013).

This study makes use of daily values for the share price of gold mining companies (represented by the J150 index), compared to the daily price of gold in USD and ZAR for the respective periods. Statistical analyses were performed in the form of linear regression and ANOVA on data from the entire period, as well as separately for each of the economic periods.

The study found that there is a distinguishable positive relationship between the gold price quoted in USD and ZAR and gold mining company shares in South Africa. In times of economic strain, investments in gold, quoted in USD or ZAR, tend to appreciate in value, as gold is considered to be a safe haven. The value of gold mining company shares was found to follow this trend.

Exchange rate fluctuations between the South African Rand and the US Dollar did not have a significant effect on the relationship between the gold price and shares of gold mining companies.