

The Denver Gold Group European Gold Forum 2010

Zurich, Switzerland

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April 14, 2010

Last Year's Forecast:
Guardedly bullish ...

Gold Price Scenarios

	<u>2009-avg</u>	<u>2009-end</u>	<u>2010-avg</u>
Scenario A: p.=.10%	\$828	\$740	\$709
Scenario B: p.=.50%	\$913	\$930	\$971
Scenario C: p.=.40%	\$1033	\$1165	\$1252

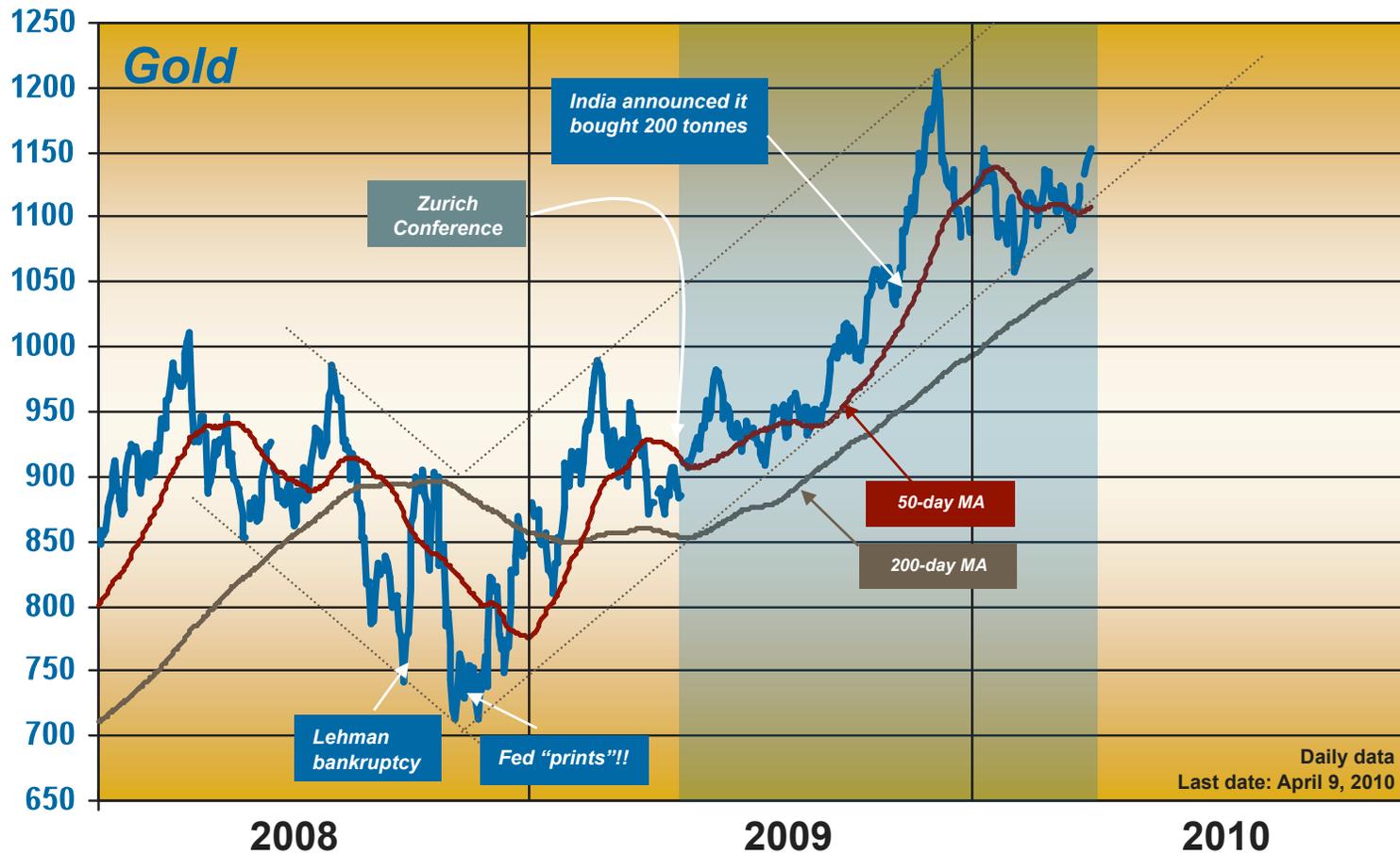
Probability-Weighted: \$952 \$1005 \$1058

Actual → \$972 → \$1104 → ????

**India purchase
of 200 tonnes**

Last Year's Forecast

And this is what happened ...



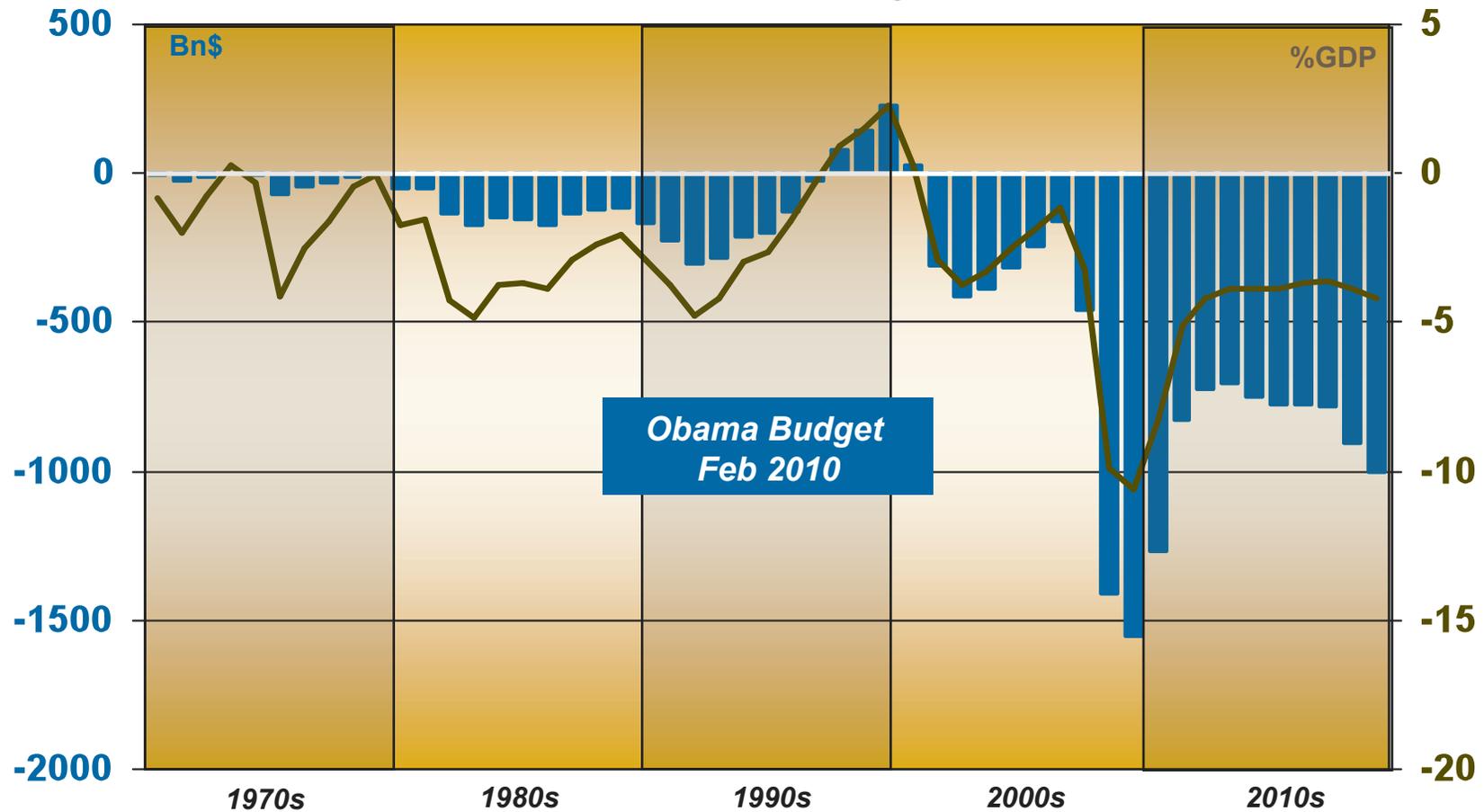
Outlook: Nine Bullish Arguments

1. ***Global fiscal and monetary reflation: PIIGS, US, etc.***
2. ***Global imbalances: the dollar must decline***
3. ***Global FX reserves are “excessive”: diversification***
4. ***Central bank attitudes to gold: now positive***
5. ***Gold is not in a bubble: room to rise***
6. ***Mine supply is flat: “peak” gold?***
7. ***Investment demand: long-run uptrend***
8. ***Commodity price cycle: many years to run***
9. ***Geopolitical environment: positive***



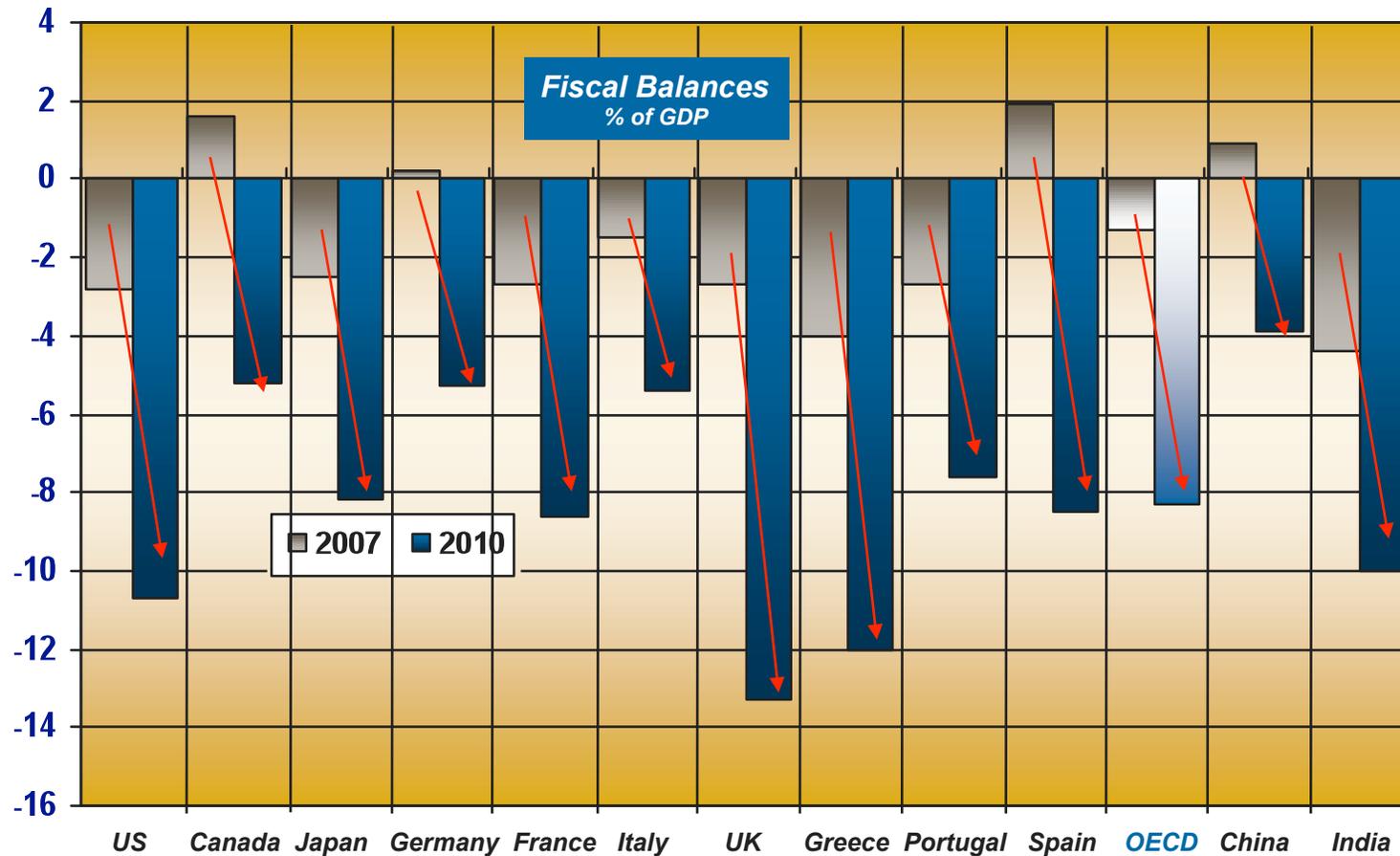
Bullish: (1) Global Reflation

US fiscal deficits as far as eye can see!



Bullish: (1) Global Reflation

But every country will have fiscal difficulties ...



Source: OECD, IMF

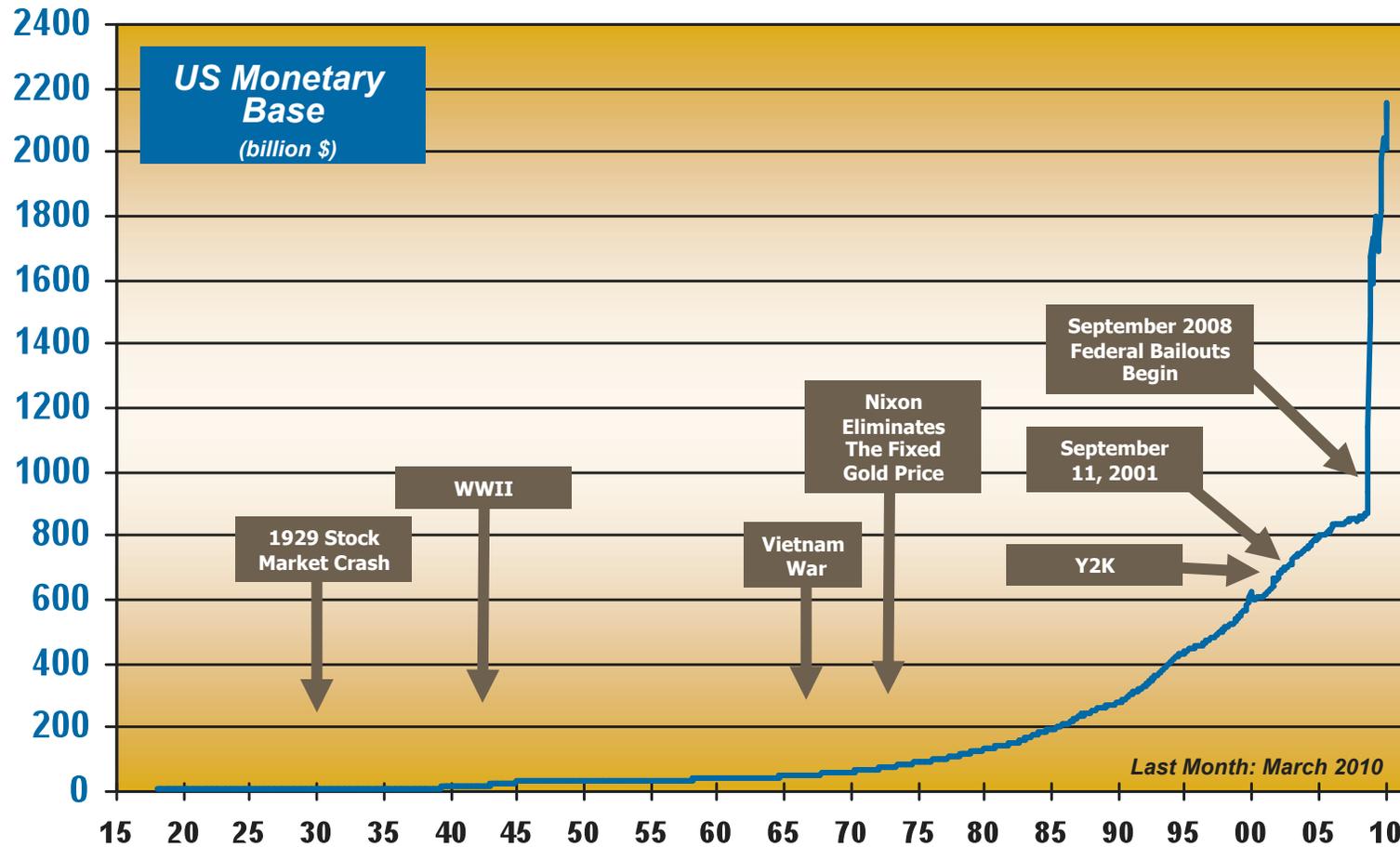
THEY ARE ALL PIIGS!

DUNDEEWEALTH ECONOMICS



Bullish: (1) Global Reflation

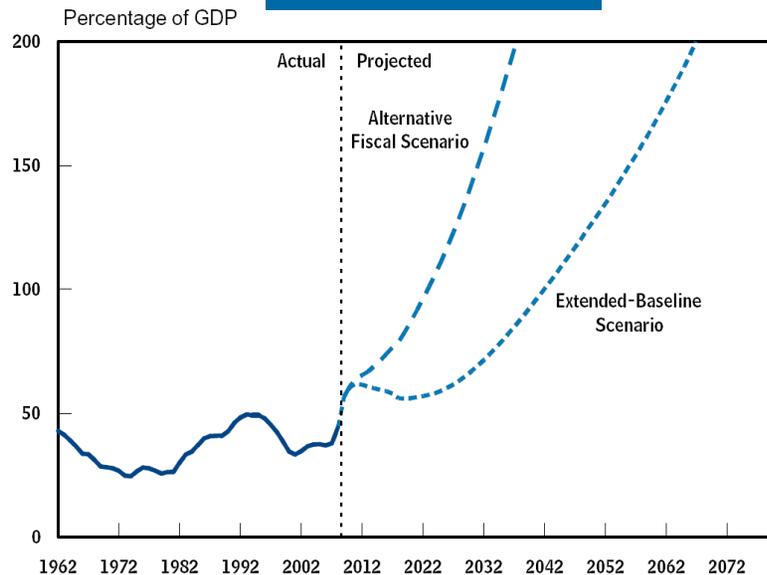
... and monetary policies will remain "easy" ...



Bullish: (1) Global Reflation

... because baby boomers are starting to retire ...

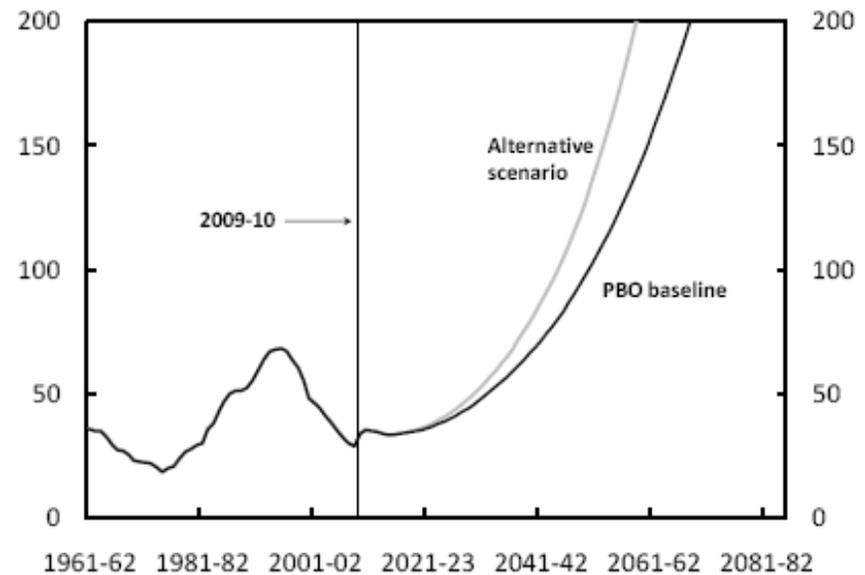
US Scenarios



Source: Congressional Budget Office, November 6th presentation by Director Elmendorf
Slide: Federal Debt Under CBO's Long-Term Budget Scenarios

Canadian Scenarios

Federal Debt Relative to GDP (per cent)



Source: Office of Parliamentary Budget Officer
"Fiscal Sustainability Report", Feb 18, 2010

Policy Options:

- Increase retirement age
- Decrease payment per service
- Increase tax rates for services
- Decrease benefits
- Decrease number of services
- Institute new taxes (VAT?)



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Bullish: (1) Global Reflation

... and governments have few options to cut

Government Choices:

Renege on promises

Cut other services

Raise taxes

Print more money

Bullish: (1) Global Reflation

“Money” drives gold ...

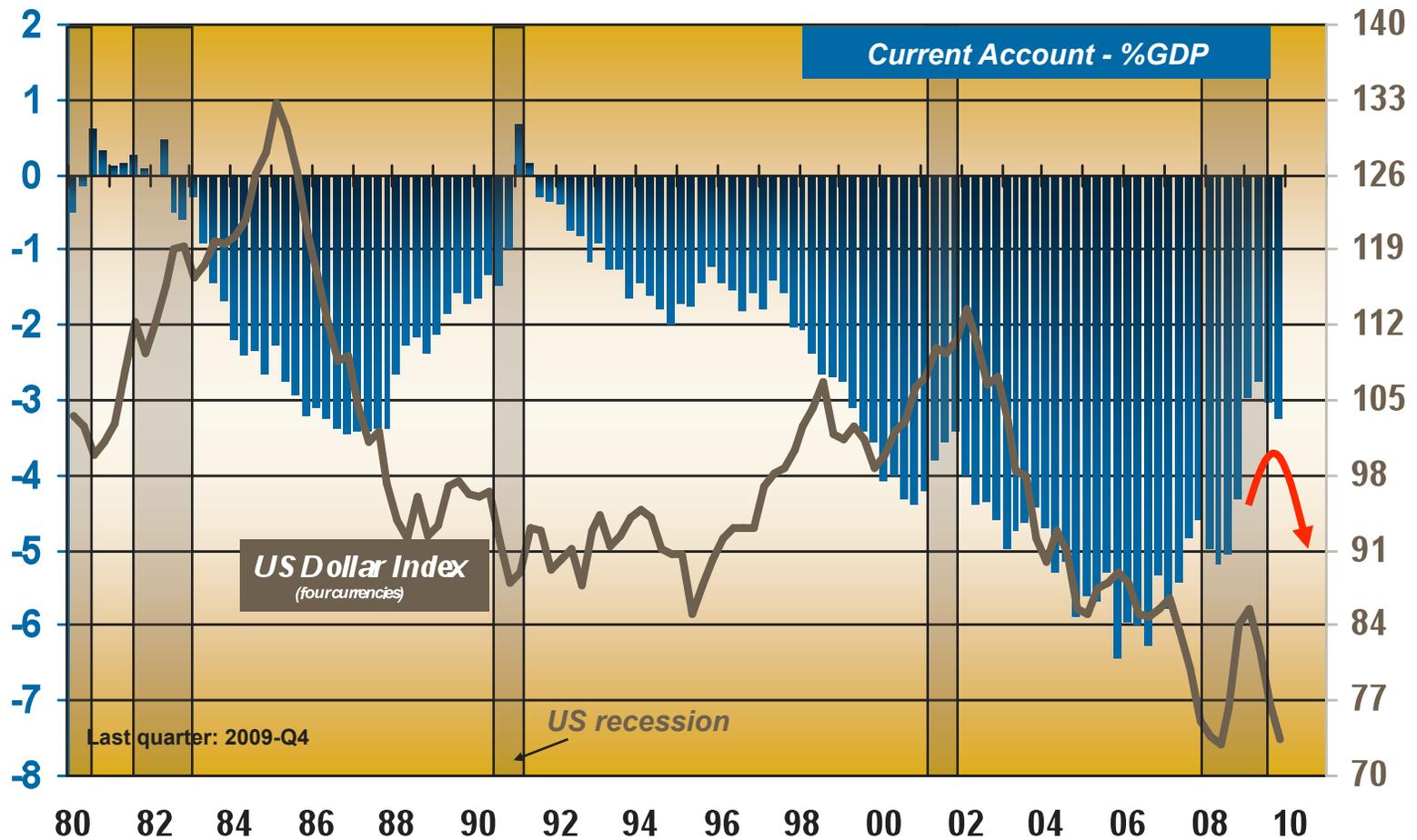


Global Liquidity: FX Reserves + US MBase
Source: IMF, Federal Reserve



Bullish: (2) Global Imbalances

The US current account deficit is rising again



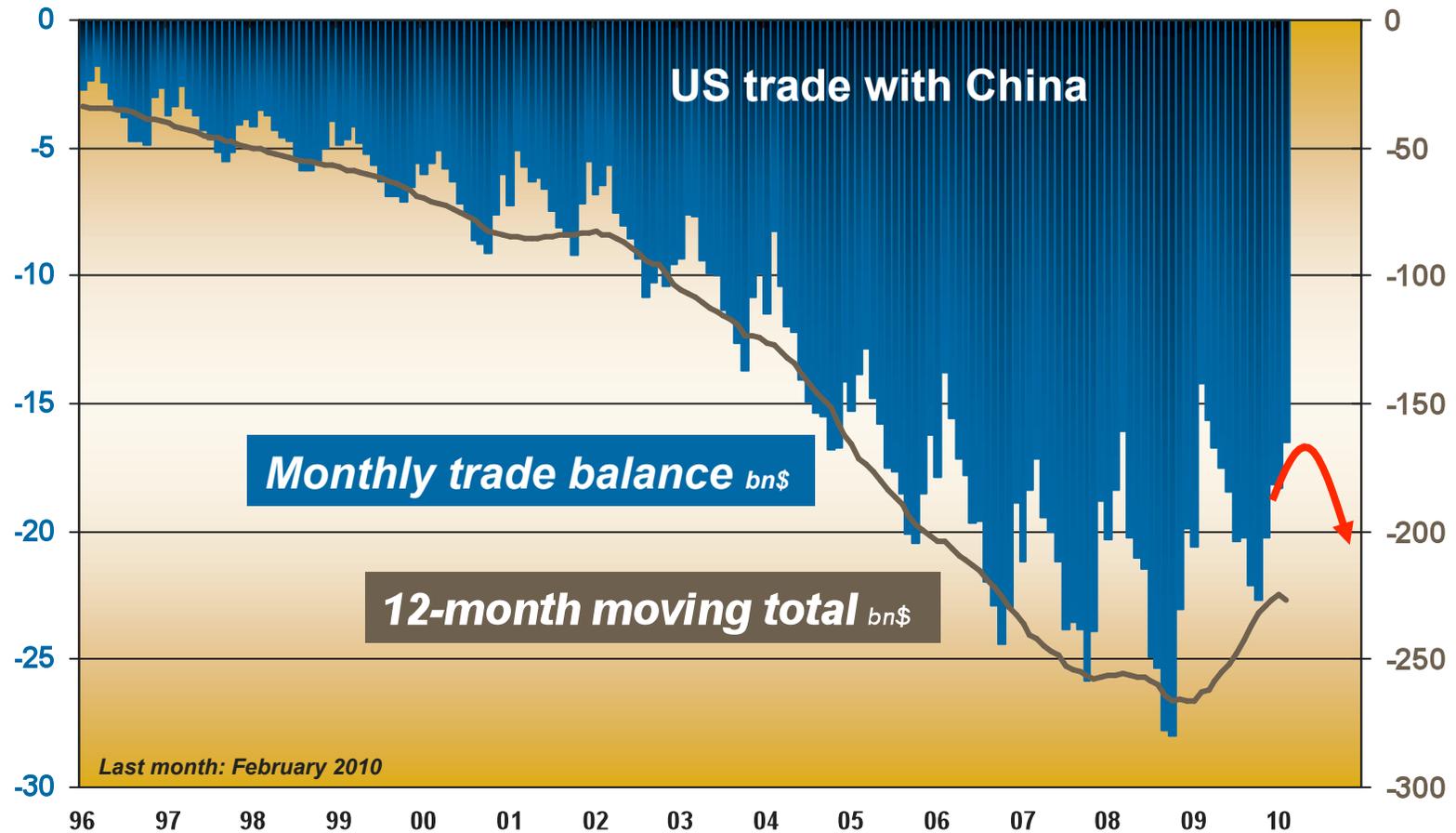
* So will continued recession!



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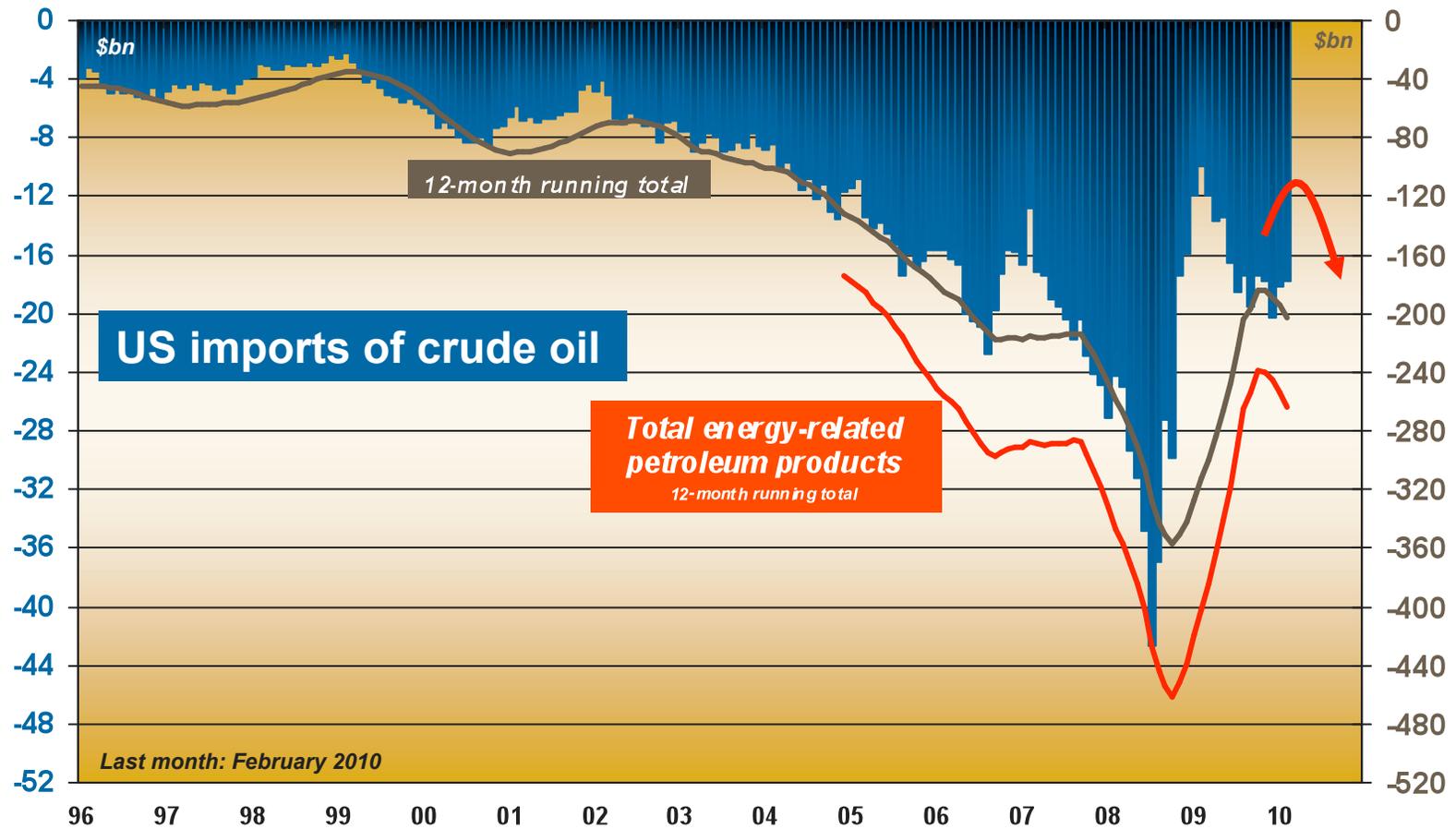
Bullish: (2) Global Imbalances

The US trade deficit with China is unsustainable



Bullish: (2) Global Imbalances

The US energy deficit is unsustainable



Bullish: (2) Global Imbalances

The Obama Administration wants the dollar down

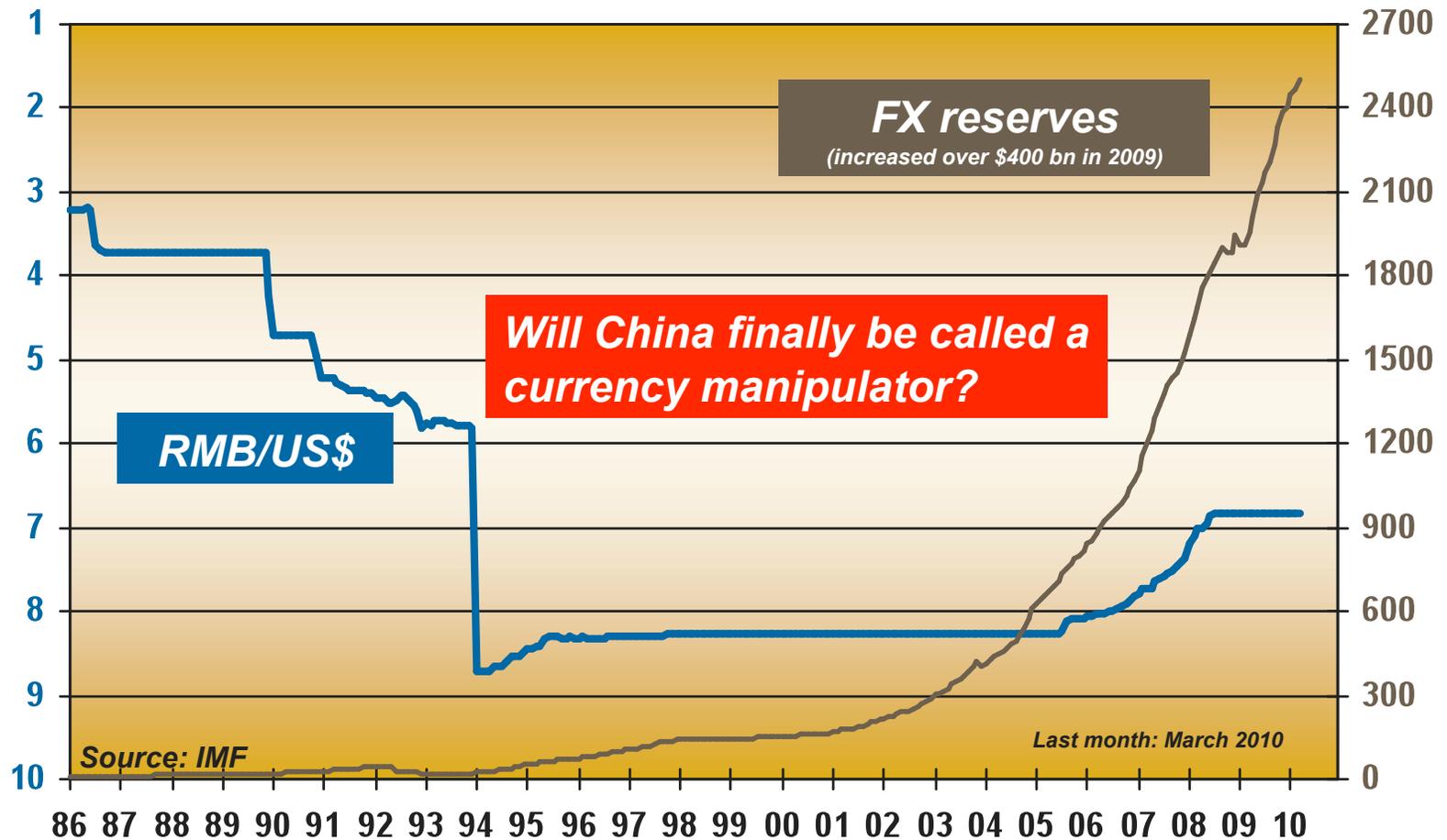
“We can’t go back to the era where the Chinese or the Germans or other countries just are selling everything to us, we’re taking out a bunch of credit card debt or home equity loans, but we’re not selling anything to them”

President Obama on CNN in run-up to the G-20 Meeting in Pittsburgh, Sep 2009



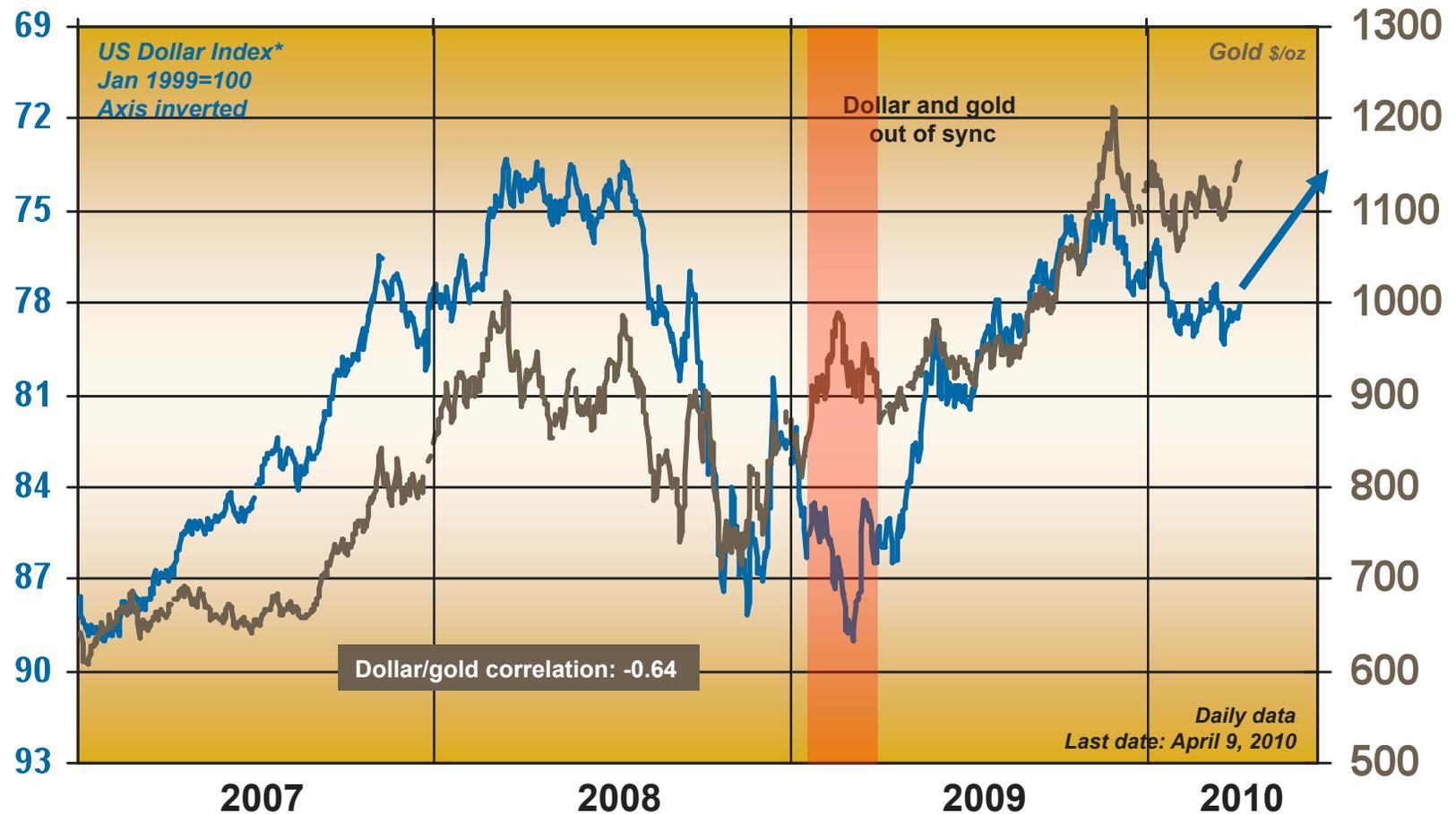
Bullish: (2) Global Imbalances

The renminbi needs to rise ...



Bullish: (2) US Dollar

... and when it does the dollar index will decline

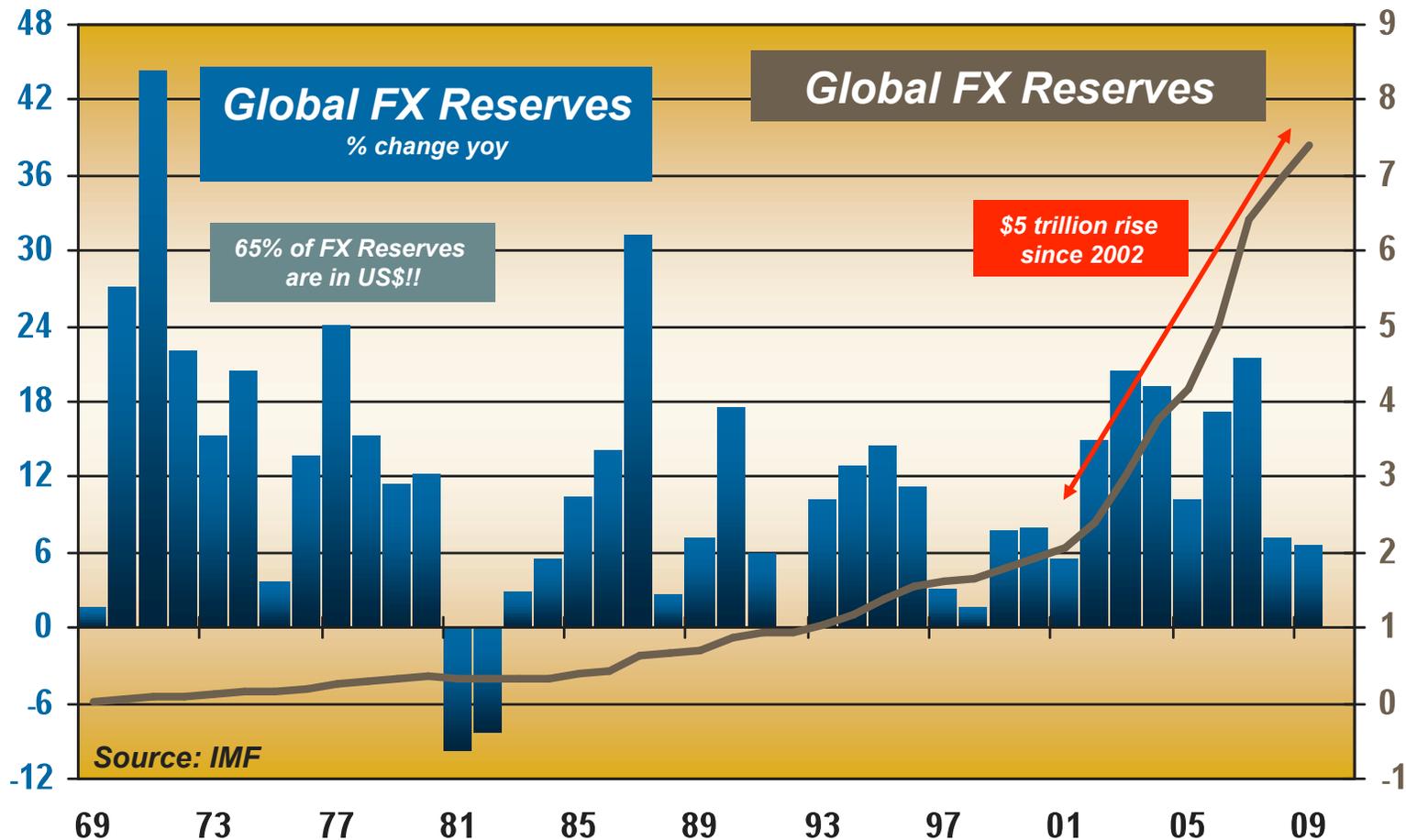


*US\$ index includes: Cdn\$, Euro, Yen, Pound, Yuan, Swiss, Aus\$, Rupee



Bullish: (3) Global Reserves

Foreign exchange reserves have exploded*



* Most are held by emerging country central banks



Bullish: (3) Global Reserves

... which means FX diversification is likely

The choices for a central bank are limited:

1. Other currencies

- *These currencies must have deep international capital markets - some do: yen, euro, pound (**but euro now suspect**); some don't: renminbi, ruble*

2. SDR's issued by the IMF

- *The SDR is a basket currency that includes only the dollar, yen, pound, and euro - it has limited use outside of central bank markets*

3. Gold and other "hard" assets

- *But gold market is "narrow" and China likes commodity-producing assets*



Bullish: (4) Central Bank Attitudes

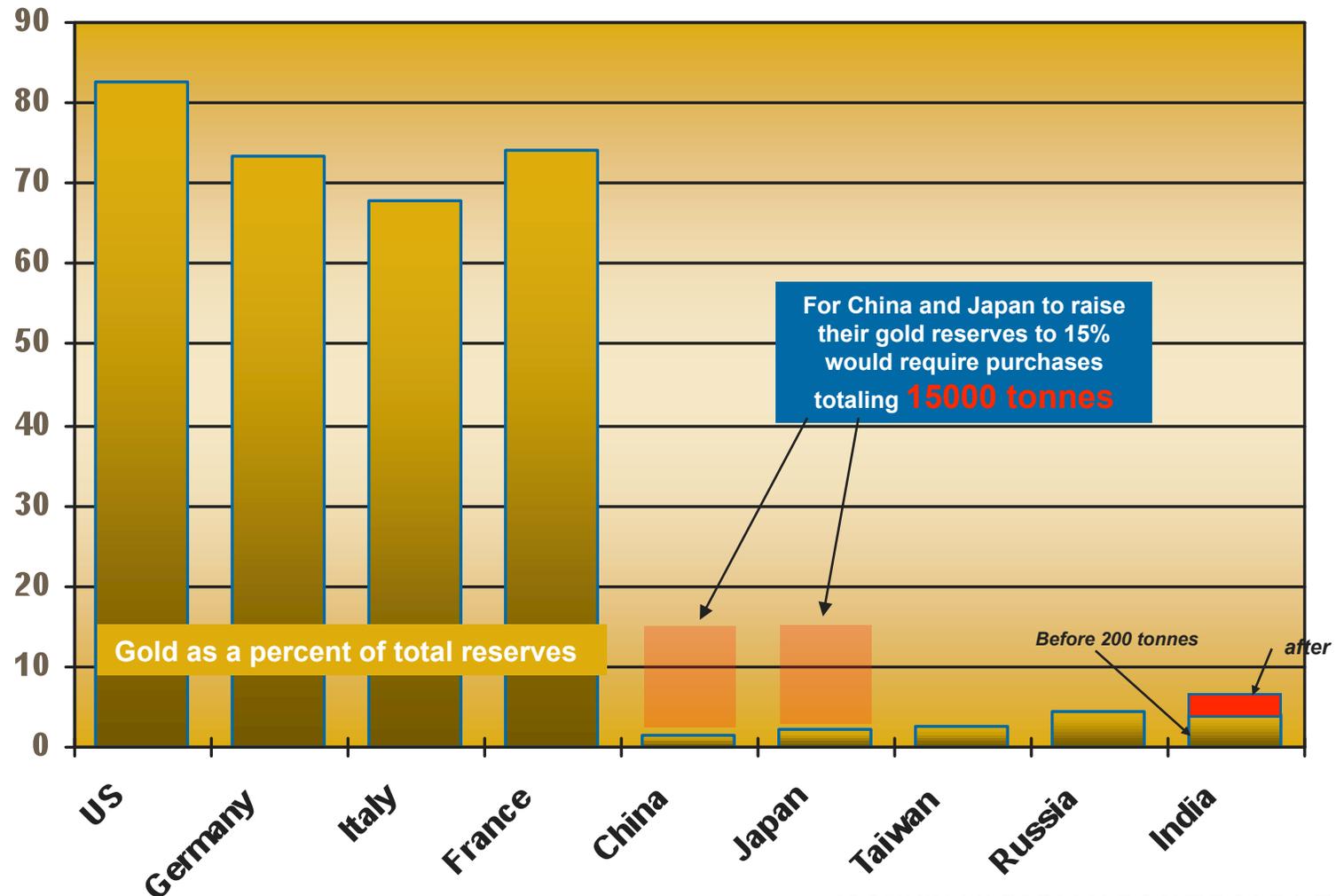
Central bank attitudes towards gold have changed

- 1. CBGA signatories are selling less gold***
- 2. China raised its gold reserves from 600 to 1054 tonnes***
- 3. India bought 200 tonnes of IMF gold***
- 4. Russia and India have suggested a new SDR basket should include gold***



Bullish: (4) Central Bank Attitudes

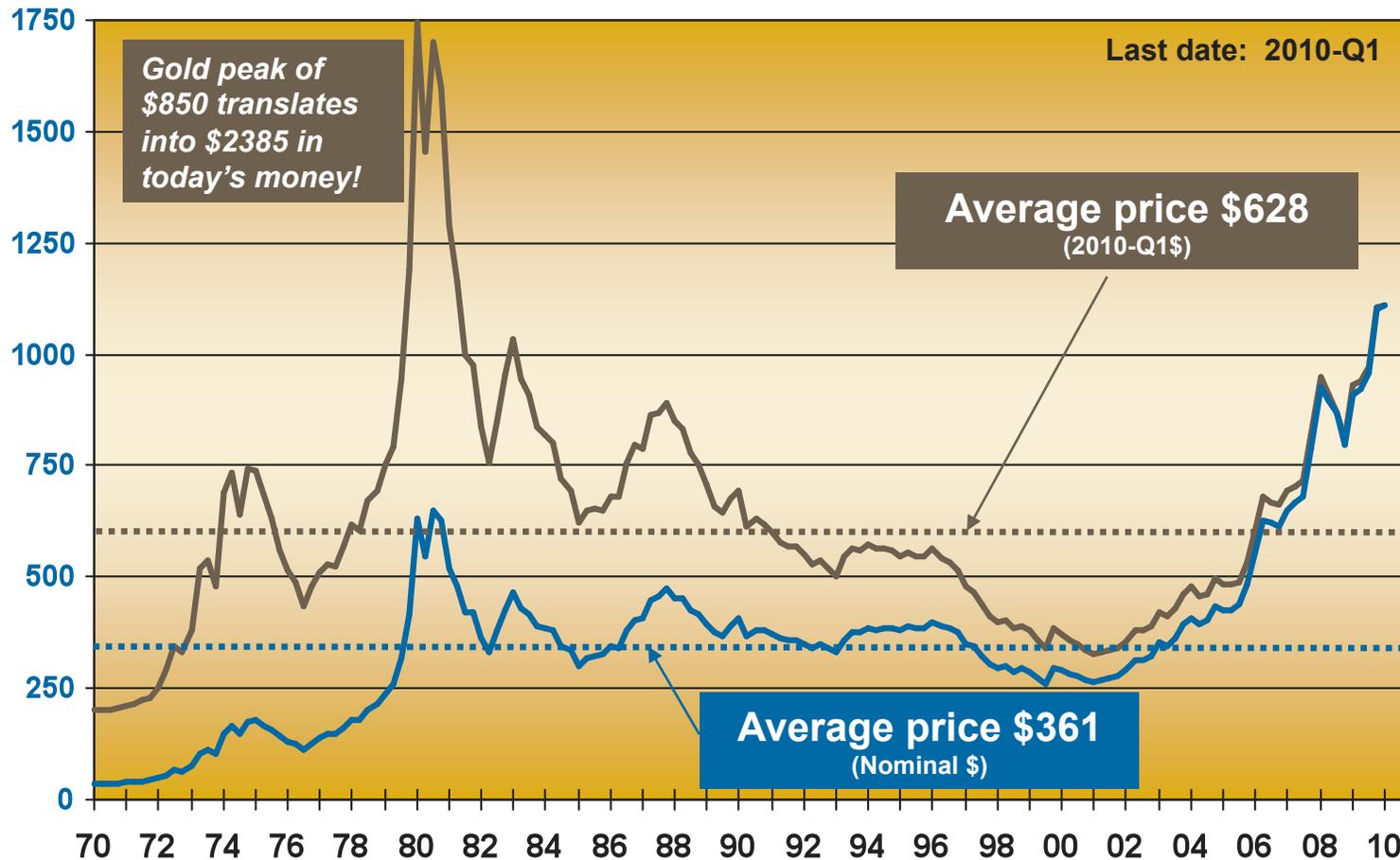
Gold reserves in emerging economies are low ...



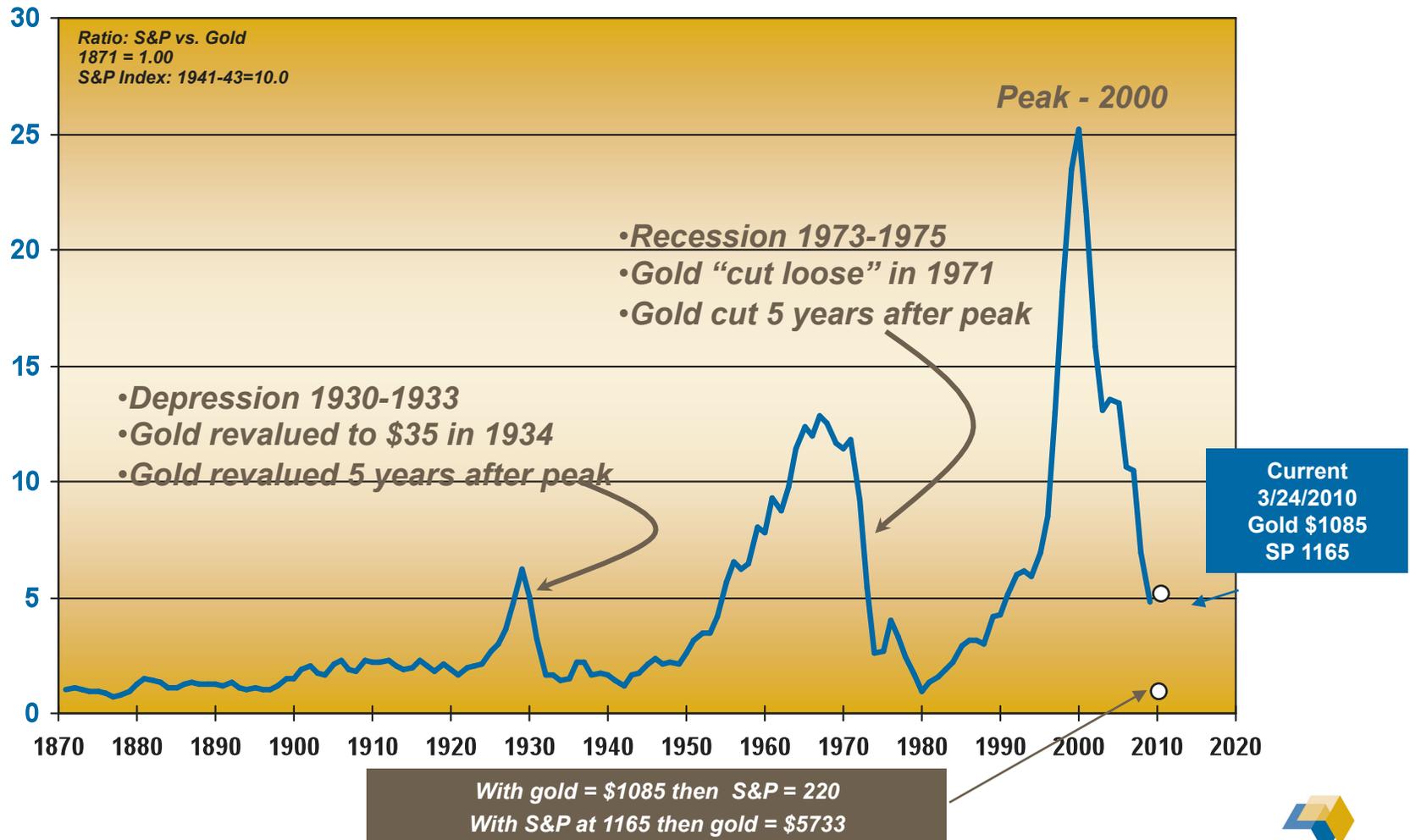
Source: IMF



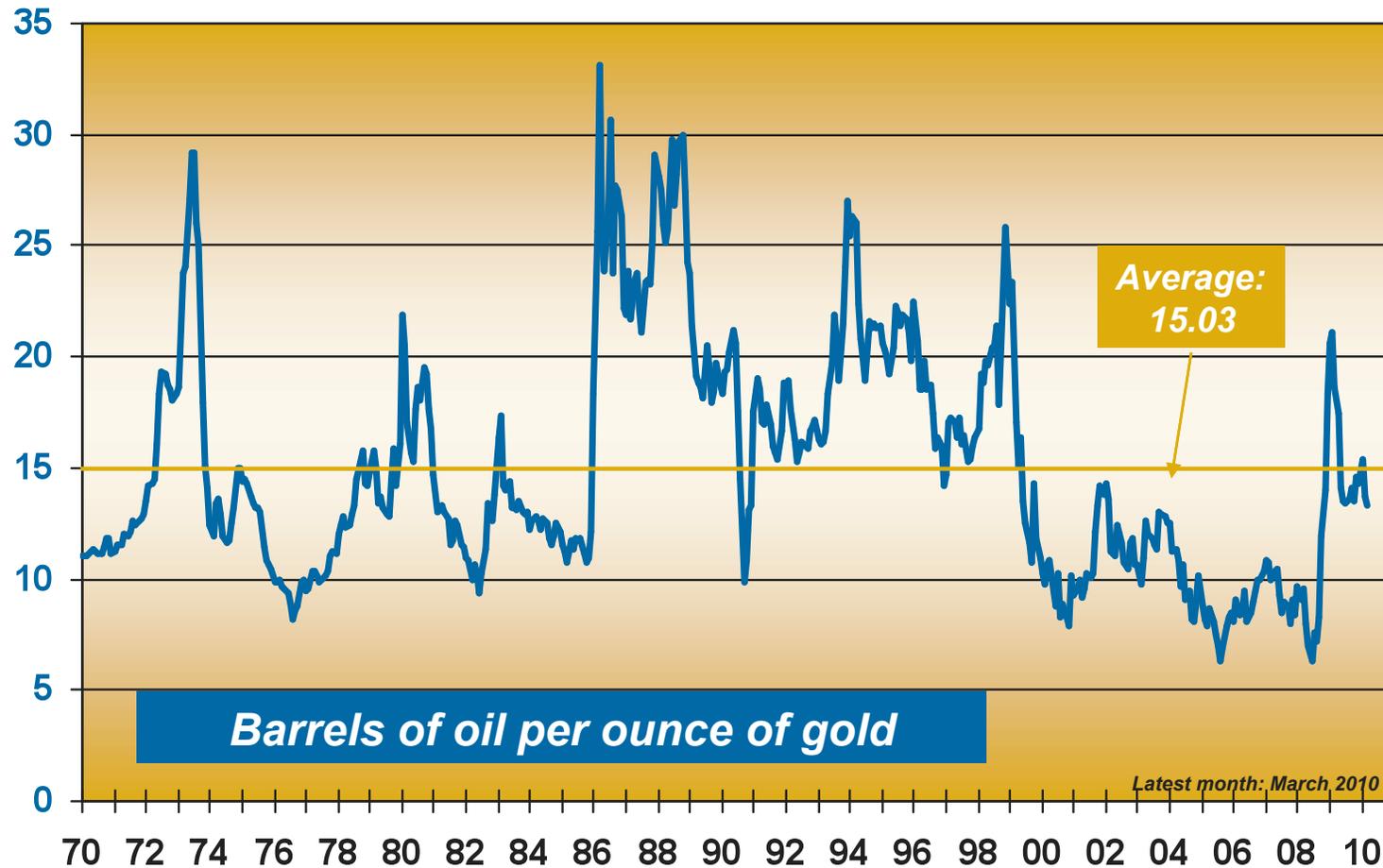
Bullish: (5) Gold Not in a Bubble ***... in constant Dollars***



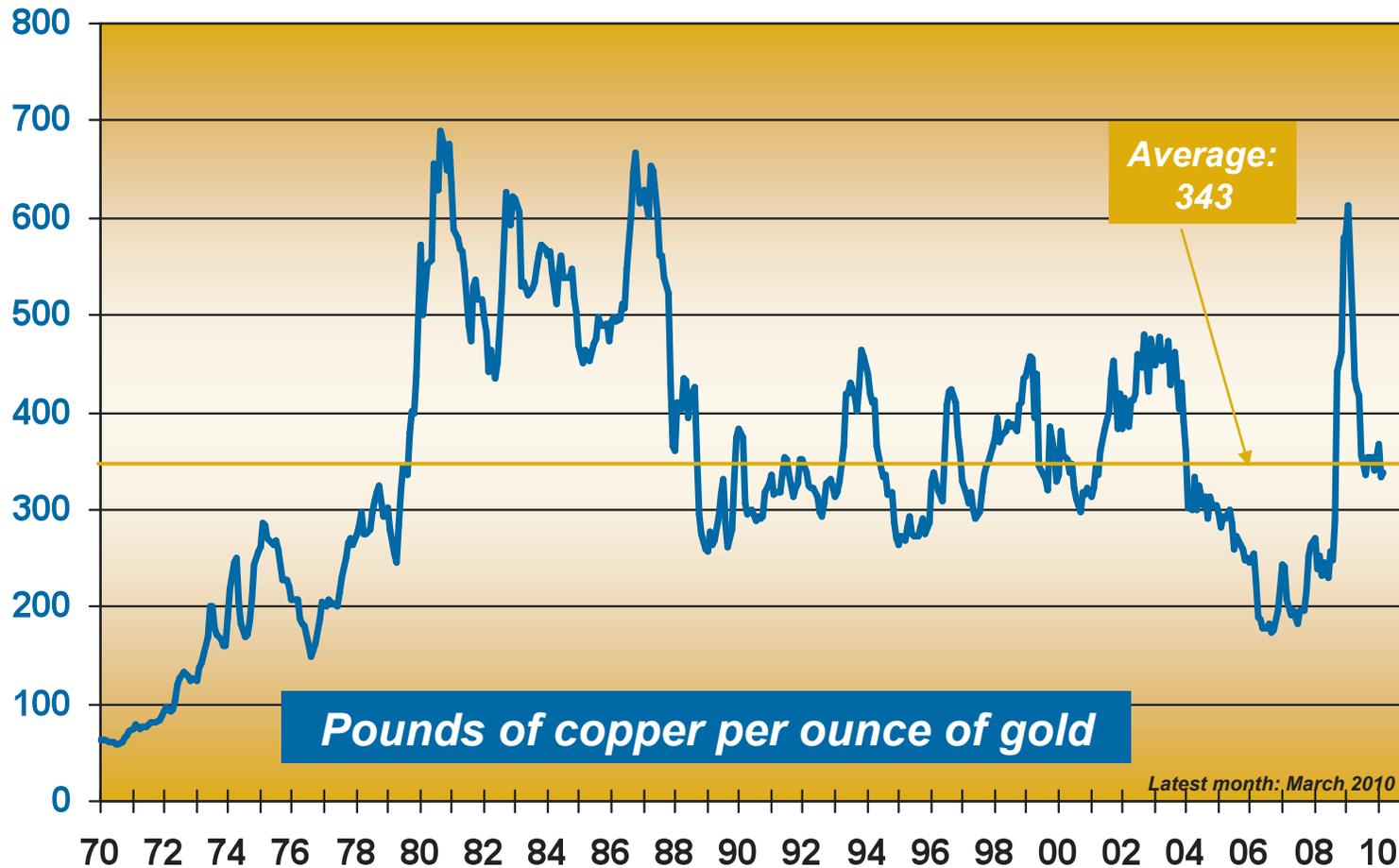
Bullish: (5) Gold Not in a Bubble ... In terms of financial assets



Bullish: (5) Gold Not in a Bubble ***Not in terms of oil prices***

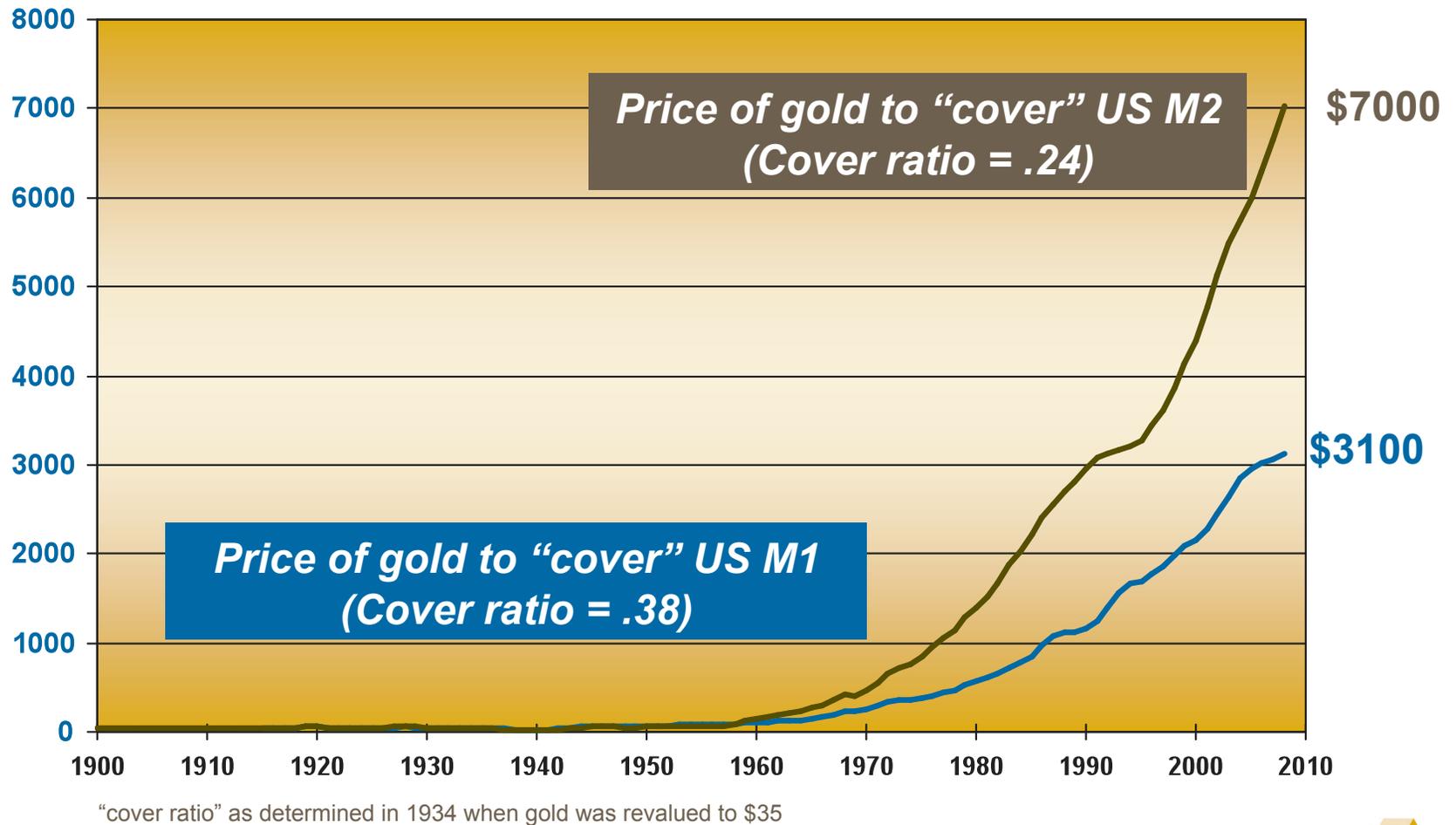


Bullish: (5) Gold Not in a Bubble ***Not in terms of copper prices***



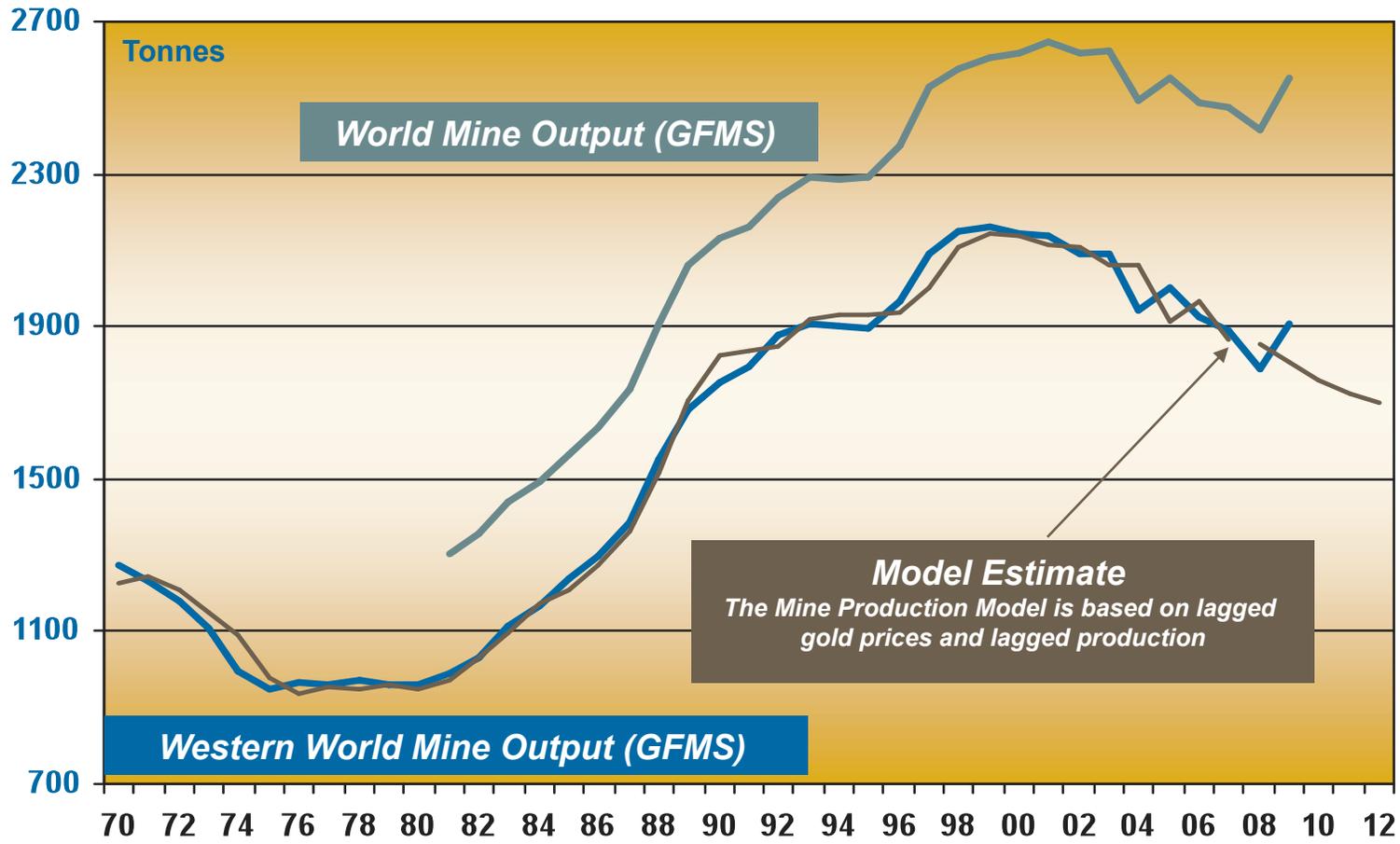
Bullish: (5) Gold Not in a Bubble

Not if US gold had to “cover” US money supply



Bullish: (6) Gold Supply

Model suggests WW mine output decline



Source: GFMS, Murenbeeld



Bullish: (7) Investment Demand

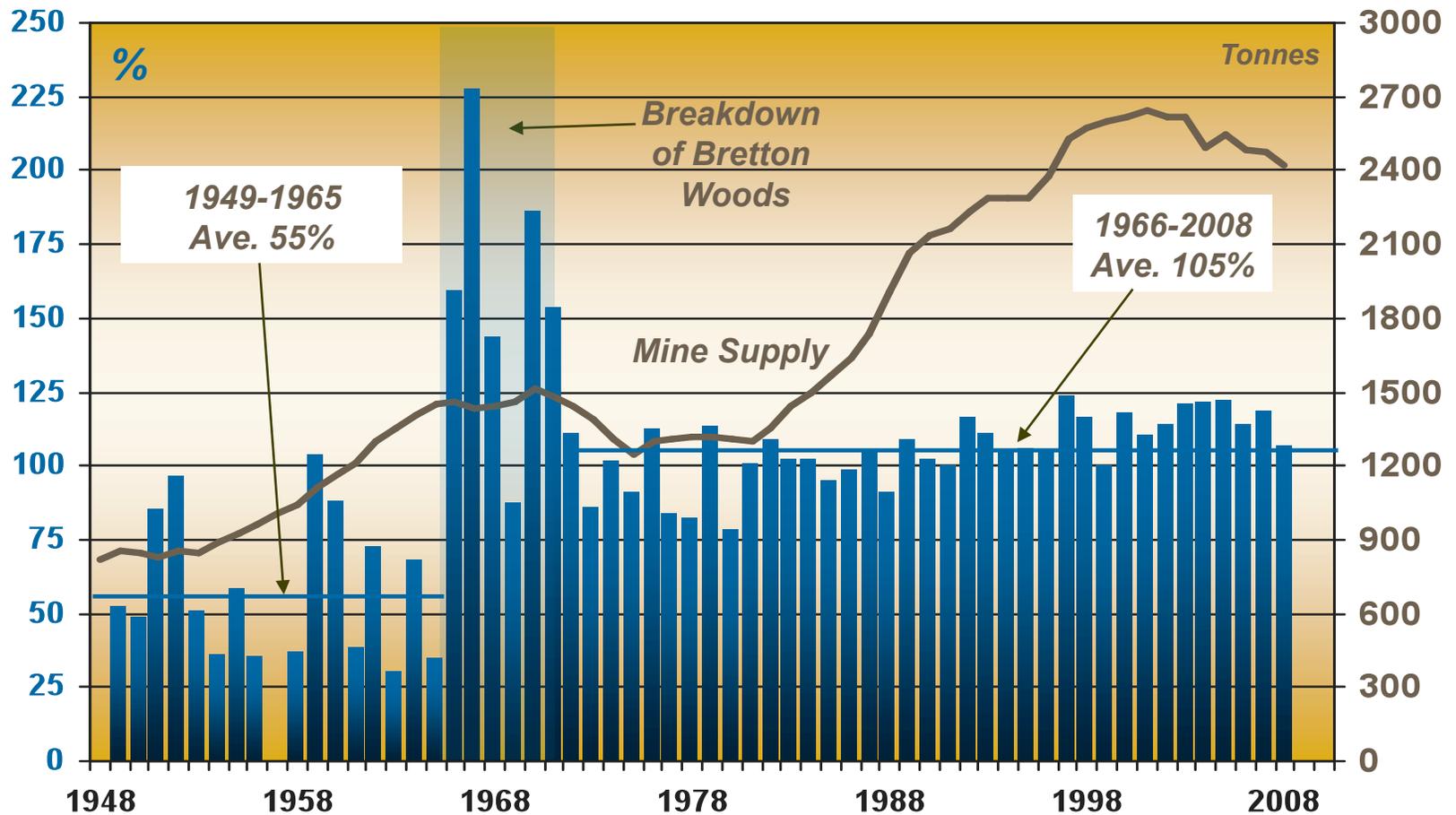
Can we make a case for investment demand?

- 1. Central banks are rediscovering that gold is not another central bank's liability (i.e., China holds US Federal Reserve liabilities!)***
- 2. The private sector is beginning to worry about the nature of fiat currencies and the likelihood of currency debasement***
- 3. The private sector is also discovering that gold has attractive portfolio characteristics (gold improves the "efficient frontier")***
- 4. Commodities in general, and gold specifically, are morphing into an "investment asset class" (like real estate did once it became securitized)***
- 5. Jewelry demand wasn't always the dominant demand in the gold market; private and central bank demand was historically more dominant***



Bullish: (7) Investment Demand

Pre-1965, jewelry took up 55% of mine production



Source: IMF, US Bureau of Mining, GFMS

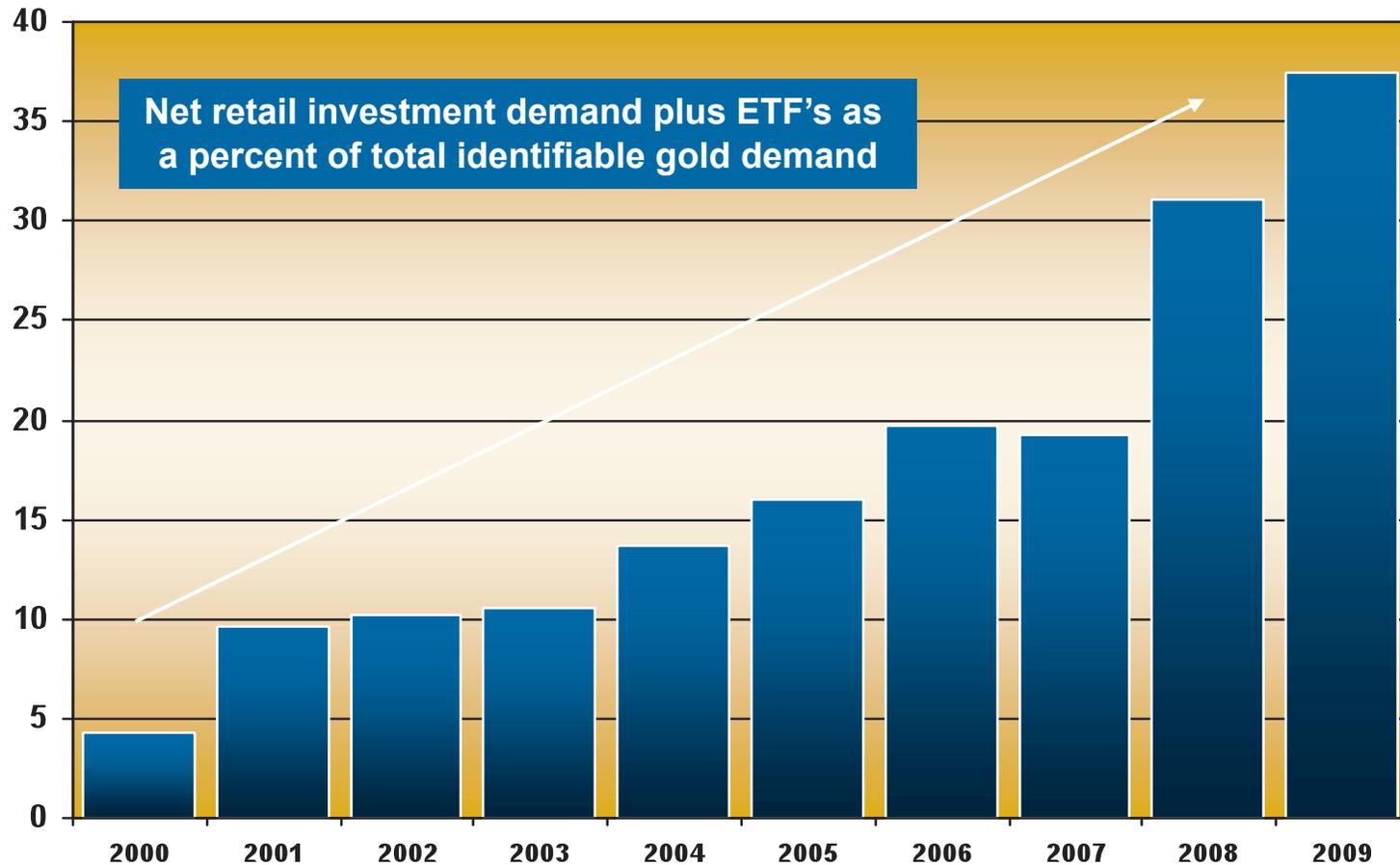
Bullish: (7) Investment Demand

The gold ETF rising strongly since introduction

- ***ETF demand was very strong during the financial crisis – notably so in 2009-Q1!***



Bullish: (7) Investment Demand ***Retail investment plus ETF demand rising***



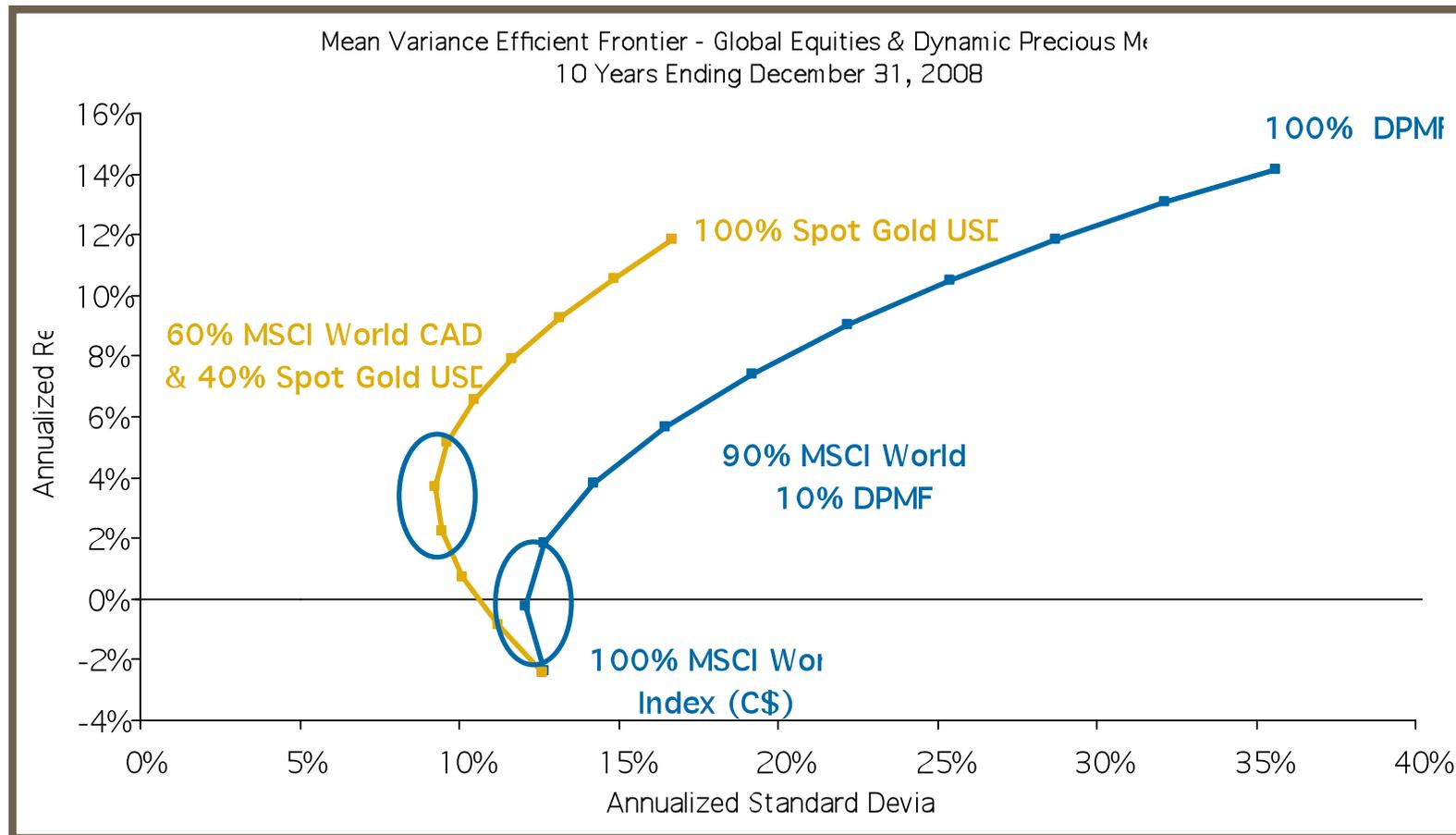
Source: World Gold Council "Gold Demand Trends"
Based on data tabulated by GFMS



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Bullish: (7) Investment Demand

The efficient frontier improves with gold



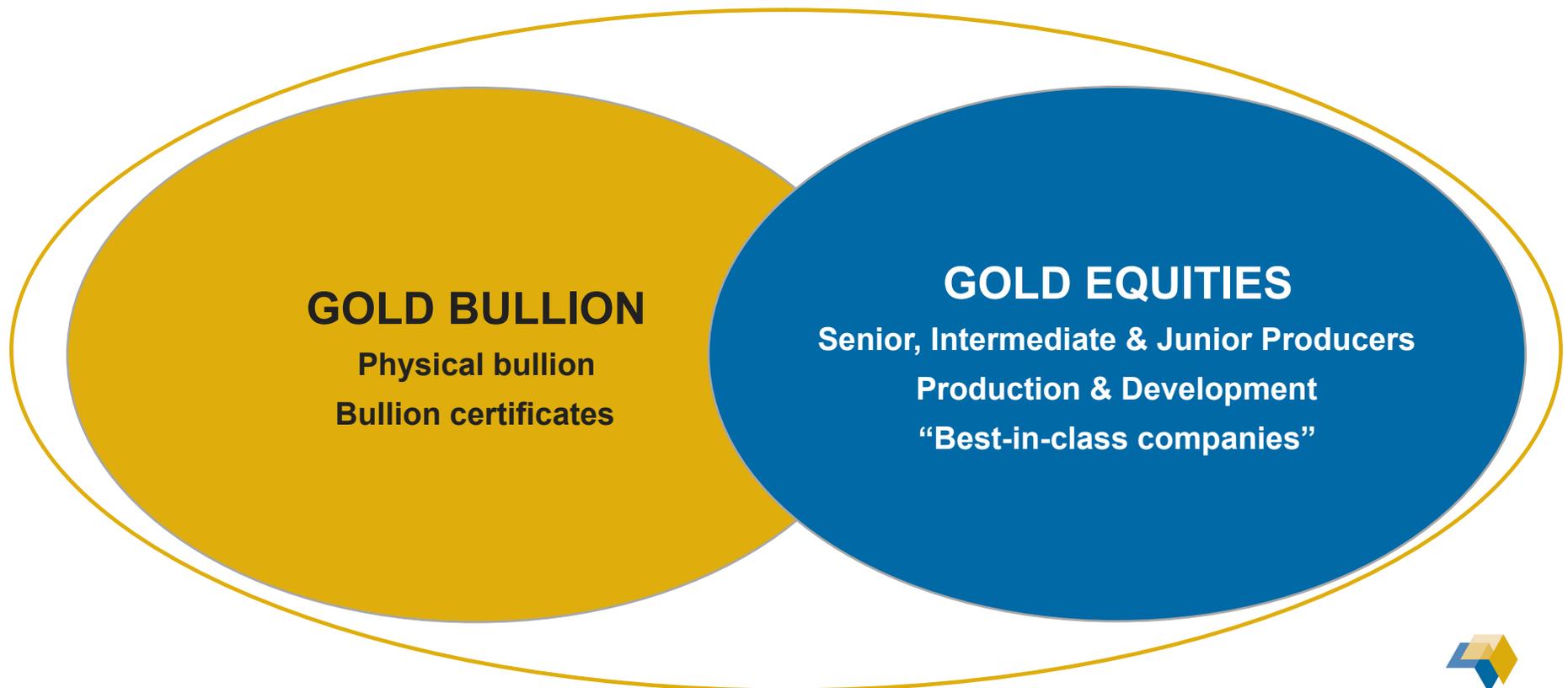
Source: PerTrac, Bloomberg, Goldman & Company



Bullish: (7) Investment Demand

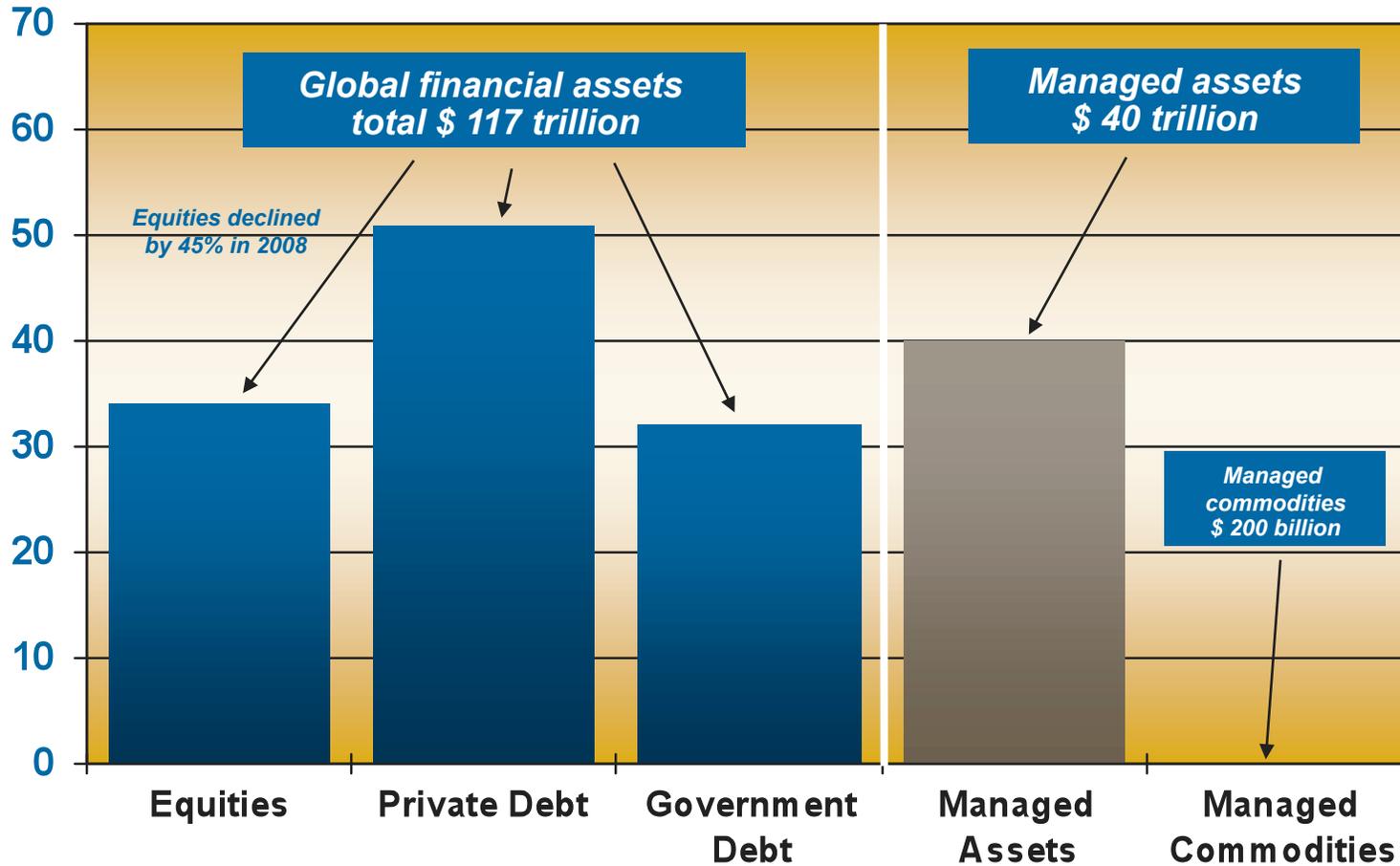
Gold investment products more sophisticated

The DundeeWealth Strategic Gold Asset Allocation Strategies



Bullish: (7) Investment Demand

Investment demand in gold/commodities will grow



Source: McKinsey & Company, IMF, Barclay's
Estimates are for 2008



Bullish: (7) Investment Demand

Deregulation and improved gold distribution also helps

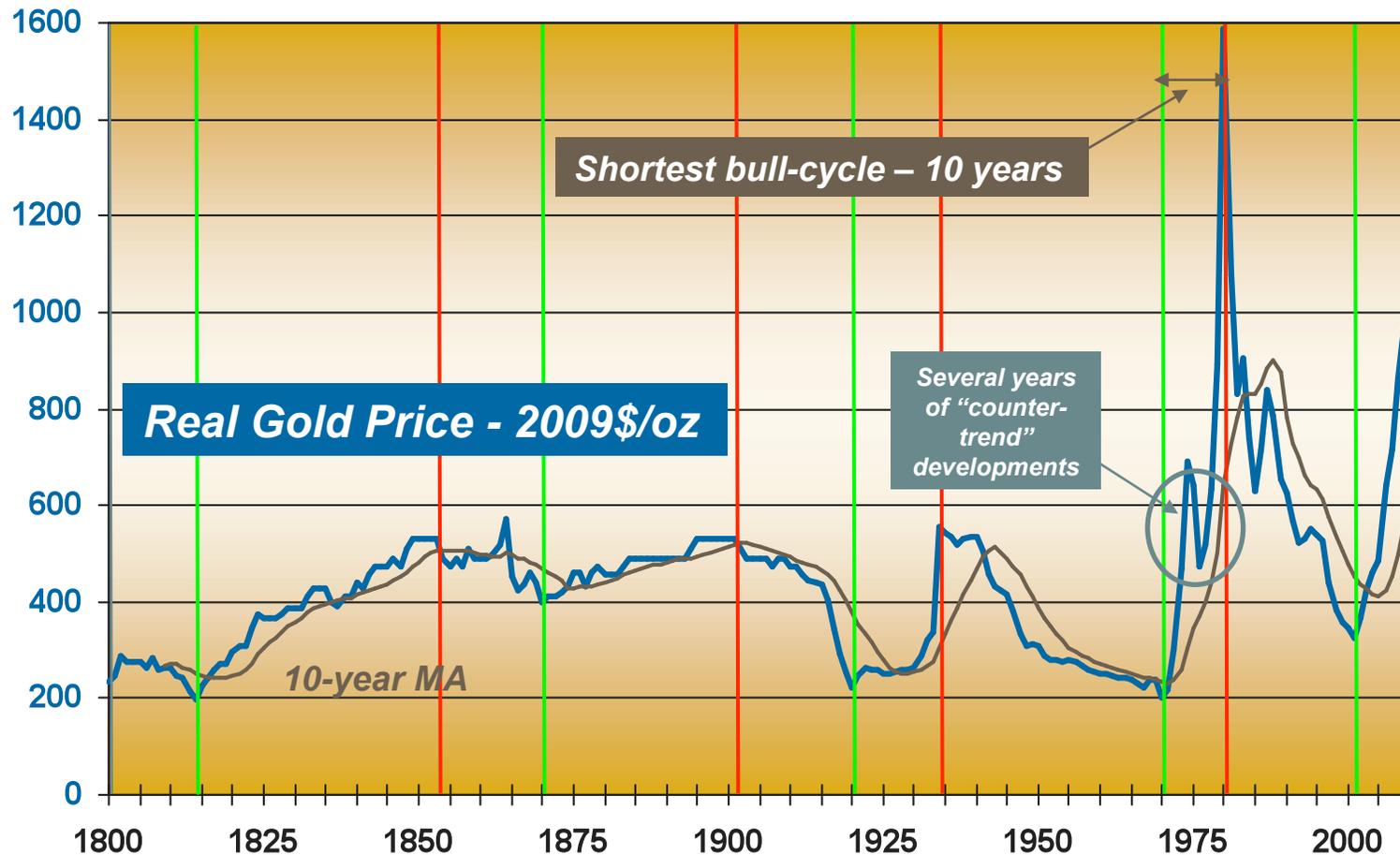
- ***Gold market deregulation in Asian countries continues***
- ***New futures markets are springing up and the number and types of participants allowed on the existing markets is growing***
- ***There are new ETF's being introduced in Asian and European markets***

This is a dramatic reversal from that of 10-15 years ago



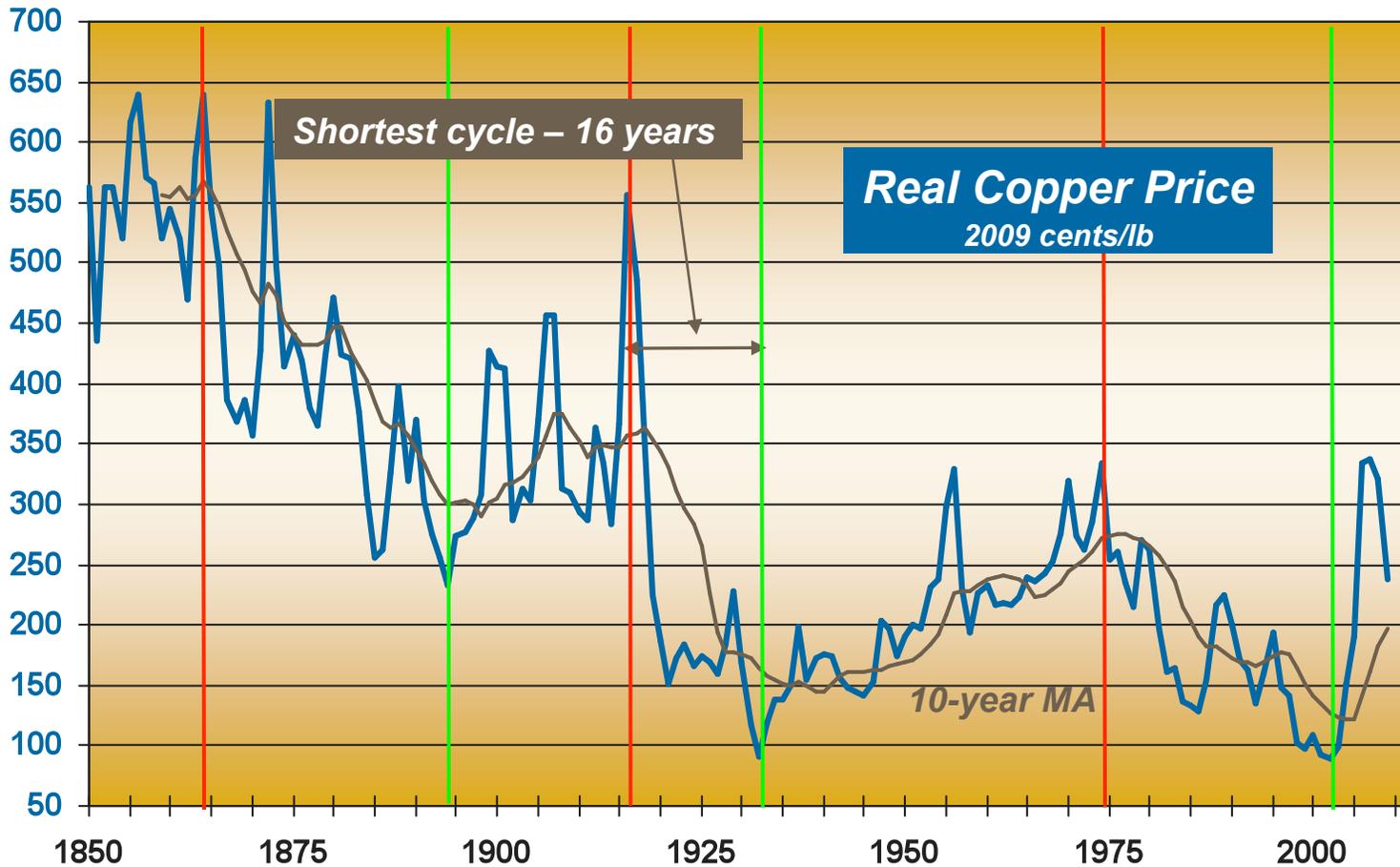
Bullish: (8) Commodity Cycle

The shortest gold cycle lasted 10 years



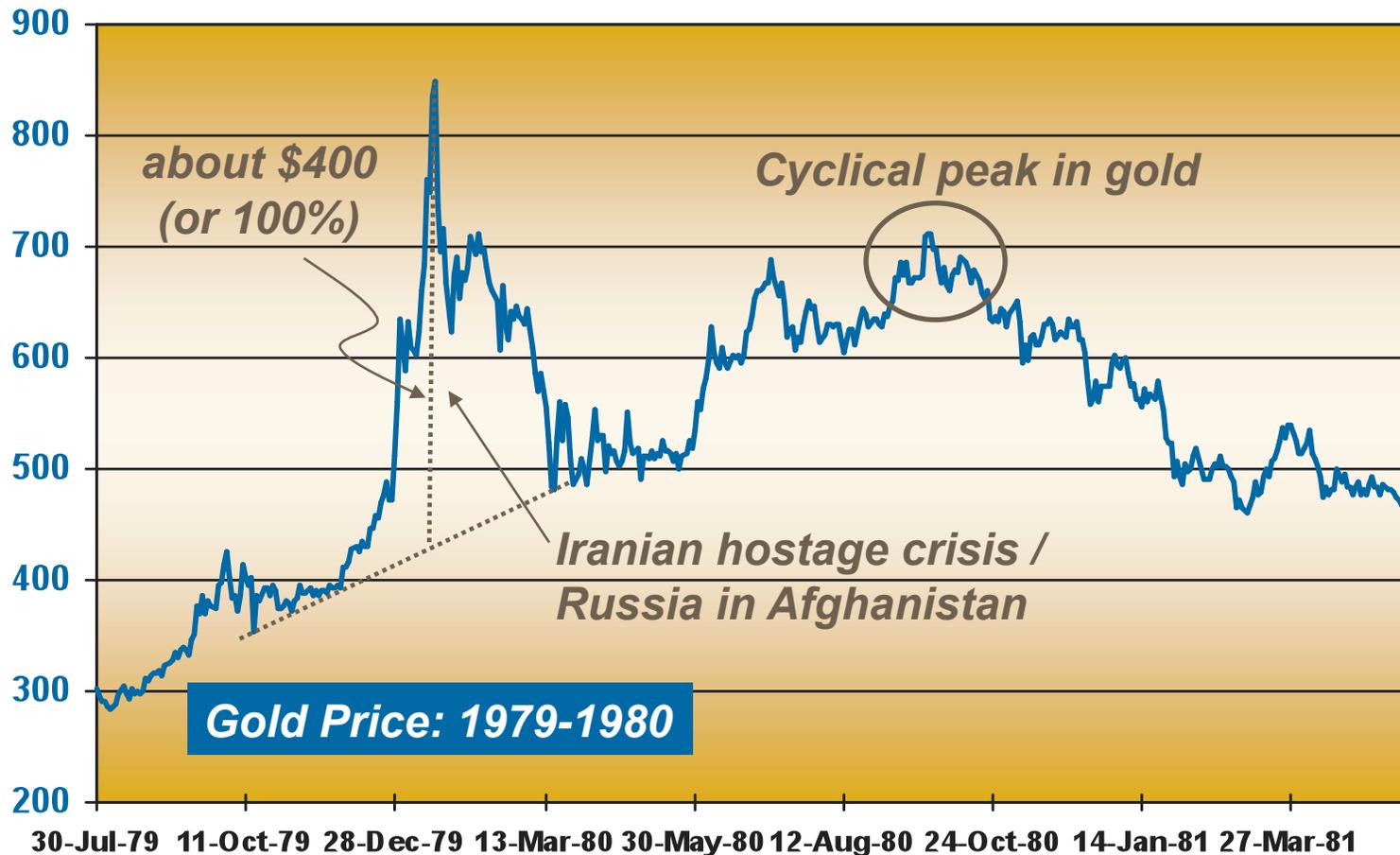
Bullish: (8) Commodity Cycle

The shortest copper cycle lasted 16 years



Bullish: (9) Geopolitical

The biggest geopolitical crisis to date ...



Outlook: Five Bearish Arguments ... or Six?

- 1. Policy “exit strategies”:* in US, Asia, Europe
- 2. Strong dollar/weak euro:* gold corr. with euro
- 3. Absence of inflation:* deflation worries linger
- 4. Liquidity of last resort:* for Greece, Italy, ...?
- 5. Dehedging finished:* hedging to recommence?

- 6. A “pop” in the Chinese bubble??*



Bearish: (1) Exit Strategies ***fiscal policies must be tightened***

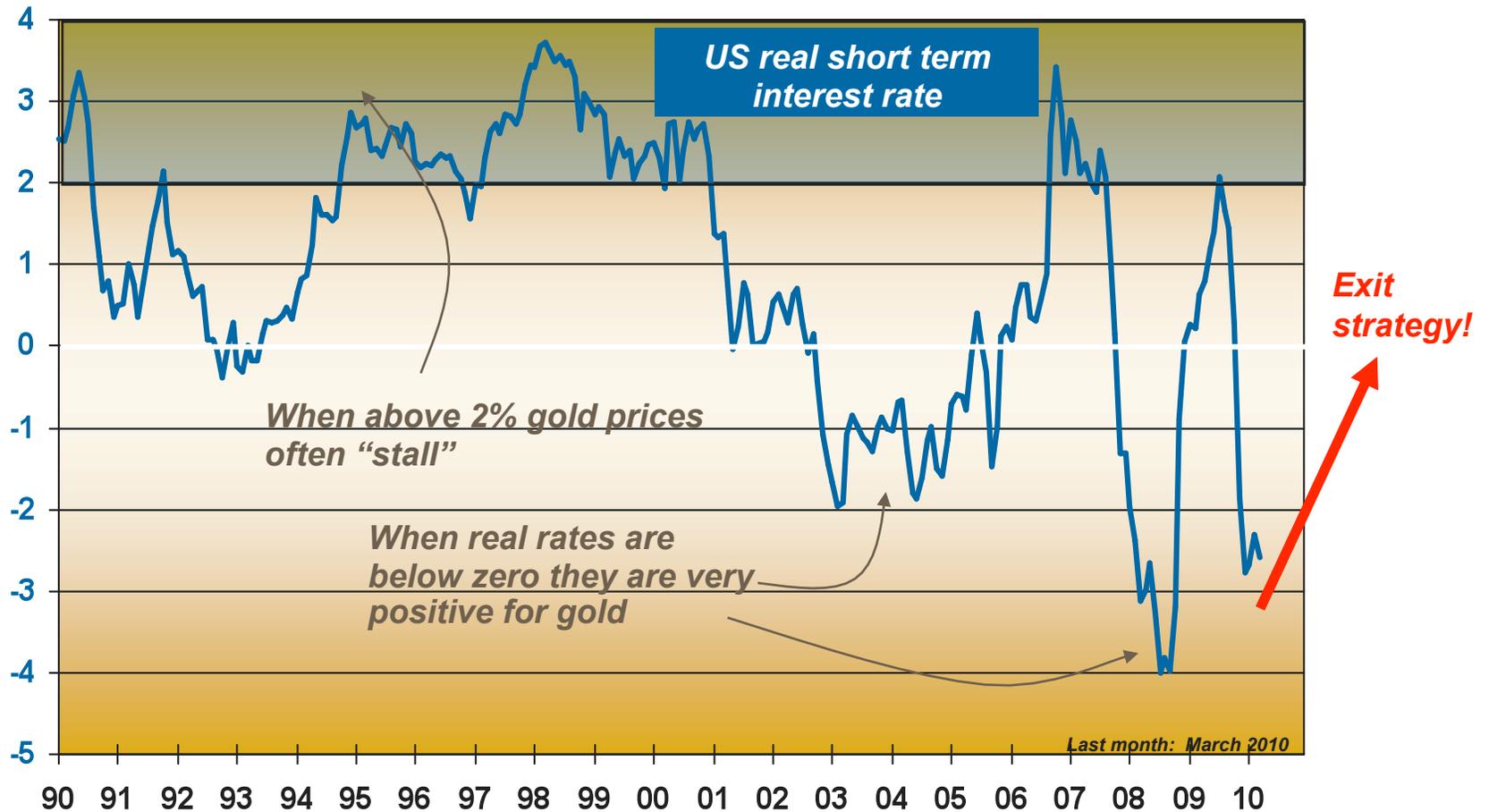
Assuming central banks do not “print money”, then

- 1. Tighter fiscal policies will be a drag on economic growth***
- 2. Inflation pressures will remain subdued, and the threat of deflation will linger***
- 3. Confidence in monetary policy (and fiscal policy) will improve***
- 4. Which all will weigh heavily on the gold price***



Bearish: (1) Exit Strategies

Real rates will rise with “exit strategies”



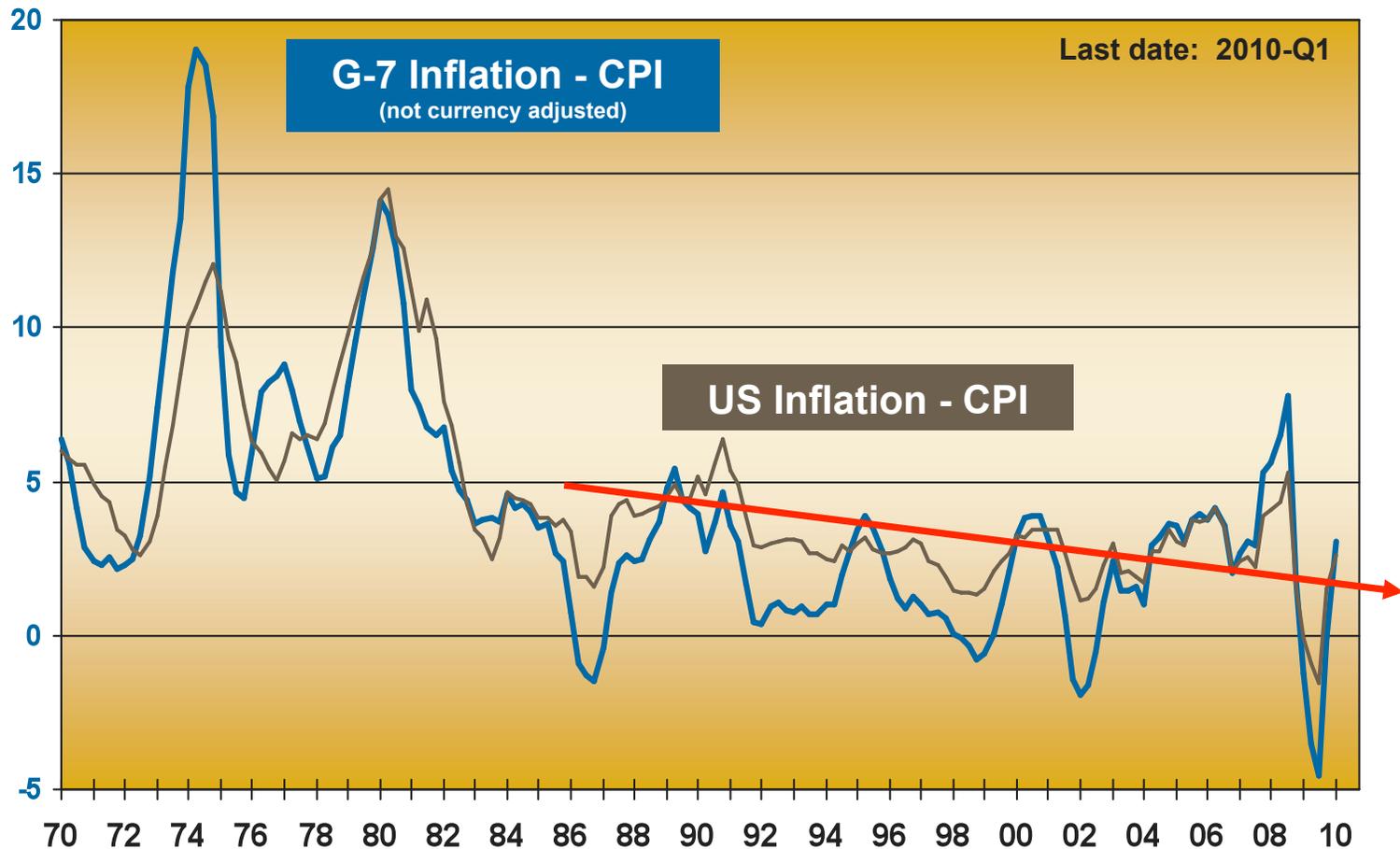
Bearish: (2) Strong \$ - Weak Euro

The market persist in trading gold against euro



Bearish: (3) Absence of Inflation

There is little evidence of inflation pressure



Bearish: (4) Liquidity of Last Resort

The PIIGS need cash!

- ***The PIIGS hold over 3000 tonnes of gold***
- ***We have been concerned about Italy for years***
- ***But Greece, Portugal, and Spain might be the first to sell – were it to come to that***

Gold Reserves	
	tonnes
Greece	112
Ireland	6
Iceland	2
Italy	2452
Portugal	383
Spain	281
Total	3236

Bearish: (5) Dehedging Finished

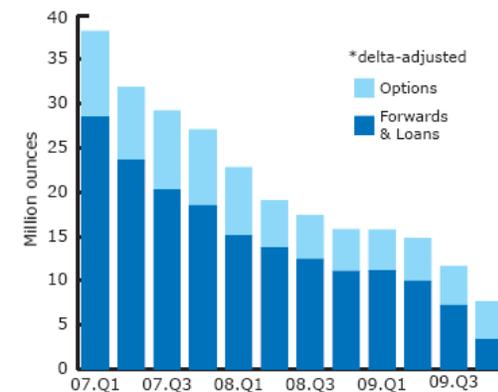
Miners unlikely to start hedging again ... but ...

- ***Estimates of miners' remaining hedge position vary - at 2009 year-end:***

- ***GFMS: 7.58 m. oz.***
- ***Fortis Bank –VM Group: 7.9 m. oz.***

In other words, there were only some 235-245 tonnes left to “dehedge” at 2009-end

Evolution of the Global Hedge Book Volume



Source: GFMS



Bearish: (6) “Pop” in China’s Bubble??

What happens when the bubble bursts:

- 1. China’s growth rate will decline***
- 2. Money will leave China***
- 3. Demand for commodities will tumble***
- 4. Equity markets around the world will sell off – some very sharply***
- 5. “Safety” will be in vogue again – US Treasuries will rally***
- 6. Chinese gold demand will suffer***

Will policy respond?

- 1. The PBoC will likely “print money” ...***
- 2. ... as it, too, learns about non-performing loans***
- 3. Other central banks will want to insulate their economies***
- 4. Indeed, no one really wants to see China plunge into a sharp, albeit brief, recession***



Our Latest (March-end) Forecast

We are bullish – tempered by some concerns

Gold Price Scenarios

	<u>2010-avg</u>	<u>2010-end</u>	<u>2011-avg</u>
Scenario A: p.=.10%	\$1015	\$915	\$858
Scenario B: p.=.40%	\$1140	\$1170	\$1230
Scenario C: p.=.50%	\$1221	\$1326	\$1425
<hr/> Weighted:	\$1170	\$1226	\$1293



Our Latest (March-end) Forecast

And this is what the forecast looks like



Thank you for your attention!