

# Gold: The Bullish Case

Denver Gold Forum

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Denver, CO

September 20, 2010



## 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***



## Overview

Gold down on recession – up on reflation!

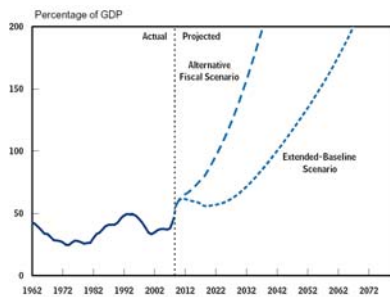


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## Bullish: (1) Global Reflation

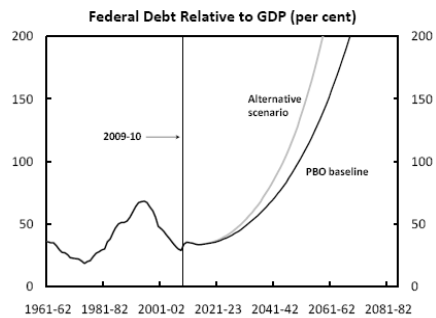
And now baby-boomers are about to retire ...

### US Scenarios



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

### Canadian Scenarios



Source: Office of Parliamentary Budget Officer  
 "Fiscal Sustainability Report", Feb. 13, 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**  
**Debt levels are high almost everywhere**

**Government Choices:**

**Renege on promises**

**Cut other services**

**Raise taxes**

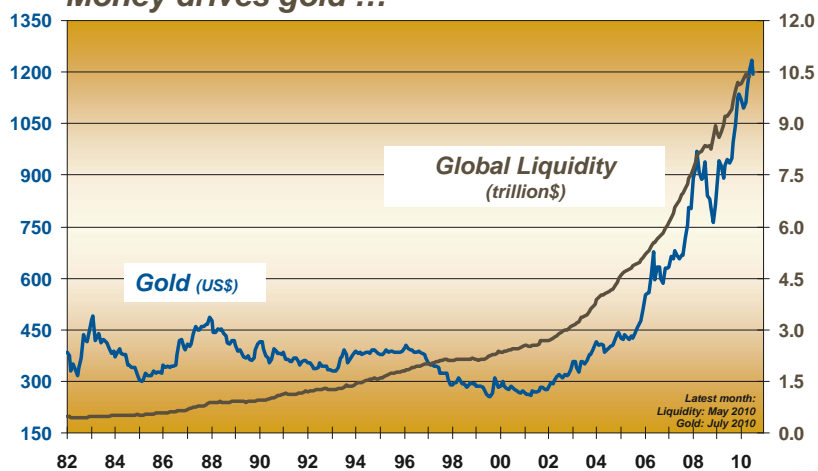
**Print more money?**

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**Bullish: (1) Global Reflation**

**Money drives gold ...**



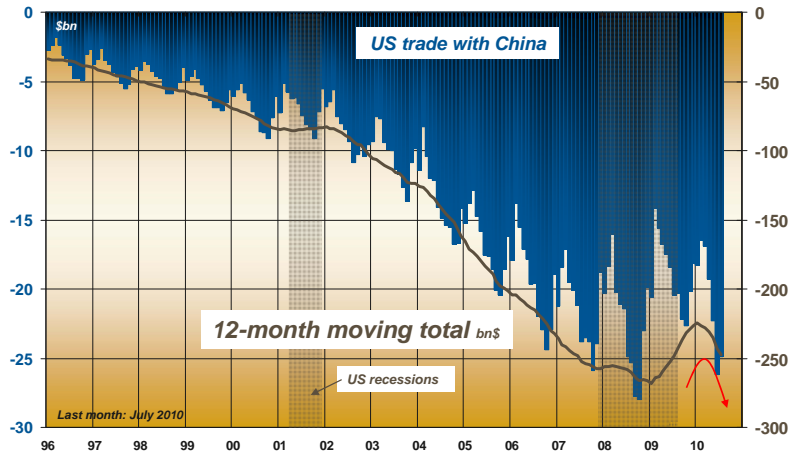
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Global Liquidity: FX Reserves + US MBase  
Source: IMF, Federal Reserve



## Bullish: (2) Global Imbalances

The US trade deficit with China is unsustainable



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## Bullish: (3) Global Reserves

Global reserves are "excessive"

### Foreign Exchange Reserves (countries over \$100 bn)

	bn\$		bn\$
China	2454.3	Brazil	250.1
Japan	996.1	India	249.6
Russia	437.5	Switzerland	208.6
Saudi Arabia	419.7	Thailand	145.9
Taiwan	370.1	Algeria	143.4
Korea	269.8	Mexico	104.1
Hong Kong	256.7		
		TOTAL	6306.0

Addendum: Fuel Exporters \$1340.9bn

Source: IMF - data through July 2010

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## **Bullish: (3) Global Reserves**

*Meanwhile FX diversification out of \$'s is likely*

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*The choices for a central bank are limited:*

1. **Other currencies**
  - *These currencies must have deep international capital markets - some do not: renminbi, ruble: some do: yen, pound, euro (but is euro now suspect?)*
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, other "hard" assets, mining investments**
  - *But gold market is "narrow" and China likes commodity-producing assets*

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## **Bullish: (4) Central Bank Attitudes**

*Central bank attitudes towards gold have changed*

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1. *CBGA signatories are selling less gold (not selling at all)*
2. *China raised its gold reserves from 600 to 1054 tonnes*
3. *India bought 200 tonnes of IMF gold*
4. *Saudi Arabia added 180 tonnes of gold*
5. *Russia and India have suggested a new SDR basket should include gold*

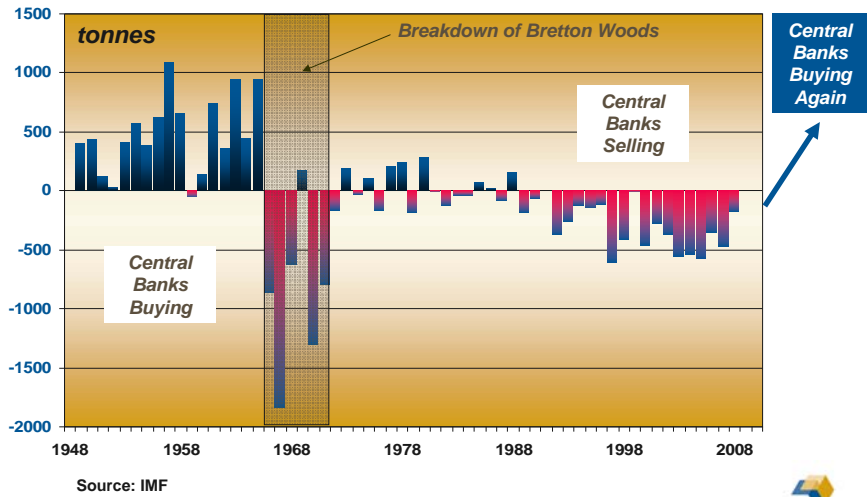
**THERE IS A STRUCTURAL CHANGE OCCURING IN THE CENTRAL BANK MARKET!**

**CENTRAL BANKS STARTED SELLING IN 1980 – BANK OF CANADA; NOW MAJOR CENTRAL BANKS (AND LITTLE ONES) ARE BUYING GOLD AGAIN**

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### Bullish: (4) Central Bank Attitudes Changes in central bank gold reserves

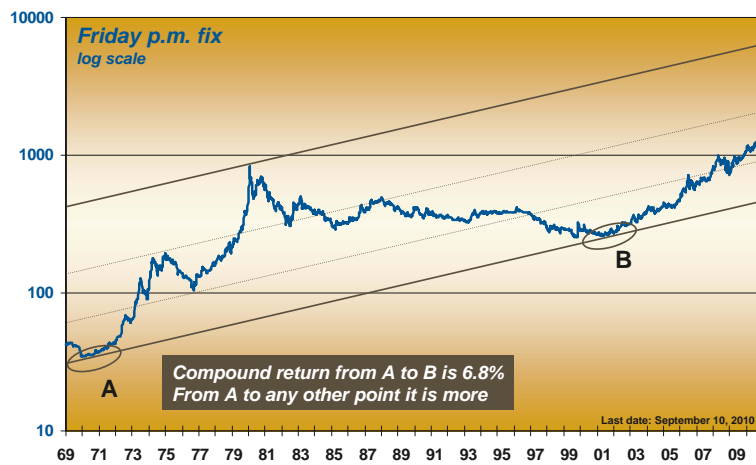


Source: IMF

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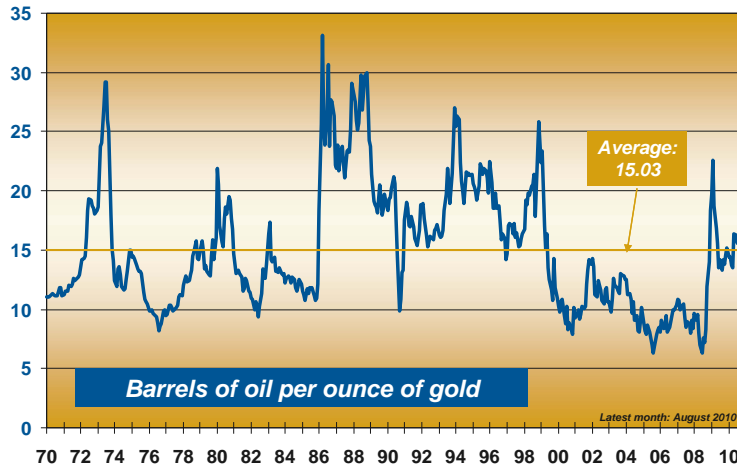
### Bullish: (5) Gold Not in a Bubble ... but that may be a function of perspective



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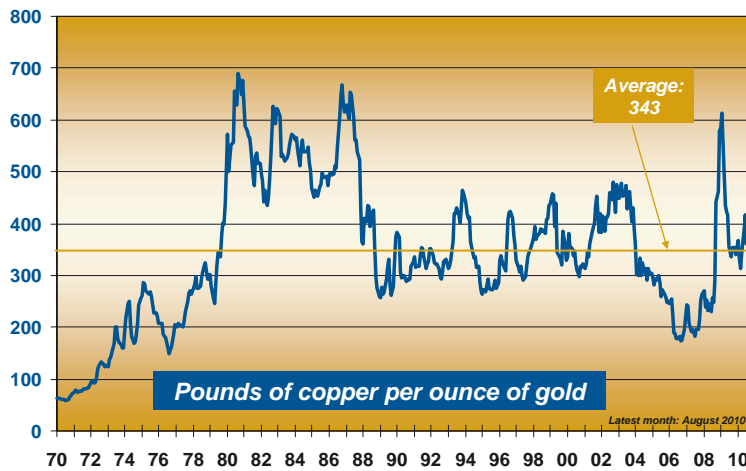
**Bullish: (5) Gold Not in a Bubble**  
*But it is not in terms of oil prices*



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

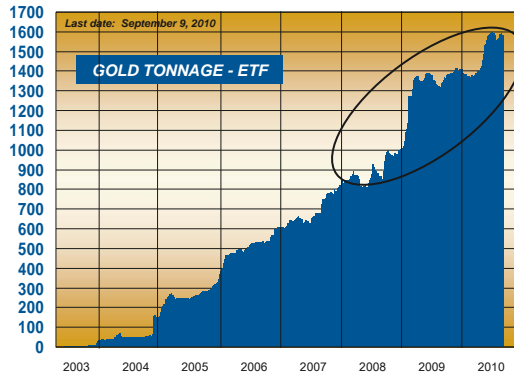


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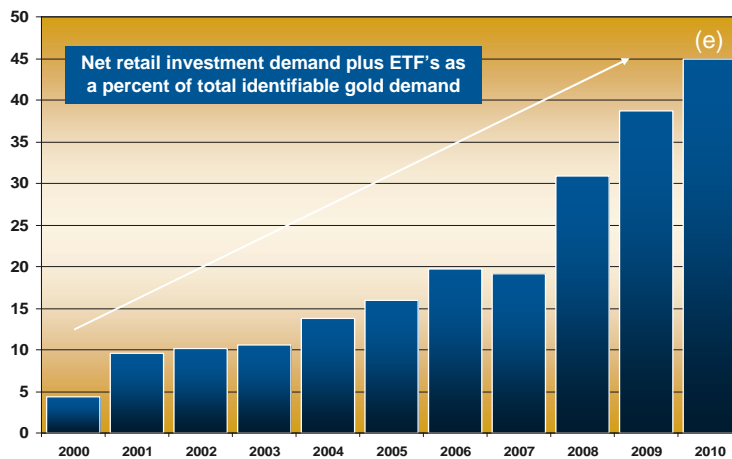
**Bullish: (7) Investment Demand**  
*The gold ETF rising strongly since introduction*

- **ETF demand has been very strong – no selling during the period of maximum financial stress!**



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



Source: World Gold Council "Gold Demand Trends"  
 Based on data tabulated by GFMS  
 2010 estimate by DundeeWealth Economics

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## **Bullish: (7) Investment Demand**

**Can we make a case for investment demand?**

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***“If you can make a compelling intellectual case for investment demand indefinitely into the future then you can make the case for gold going higher ...***

***... If not then gold will falter ...”***

**Paul Walker, CEO GFMS  
Denver Gold Presentation  
September 14, 2009**



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## **Bullish: (7) Investment Demand**

**My case for investment demand:**

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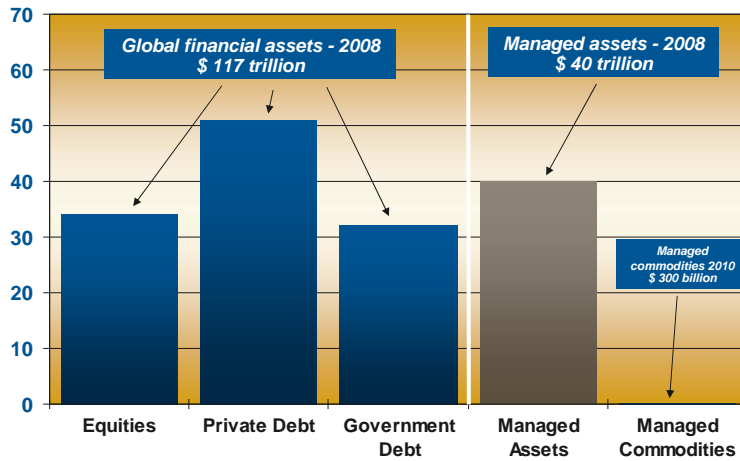
1. **Central banks are rediscovering that gold is not another central bank's liability (i.e., China holds US Federal Reserve liabilities!)**
2. **The private sector is beginning to worry about the nature of fiat currencies and the likelihood of currency debasement**
3. **The private sector is also discovering 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**
6. **Major deregulation of Asian gold markets encourages people with an affinity for gold to invest in gold (and jewelry in many parts of the world is seen to be investment as well as adornment demand)**



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## Bullish: (7) Investment Demand

Investment demand in gold/commodities will grow



Source: McKinsey & Company, IMF, Barclay's

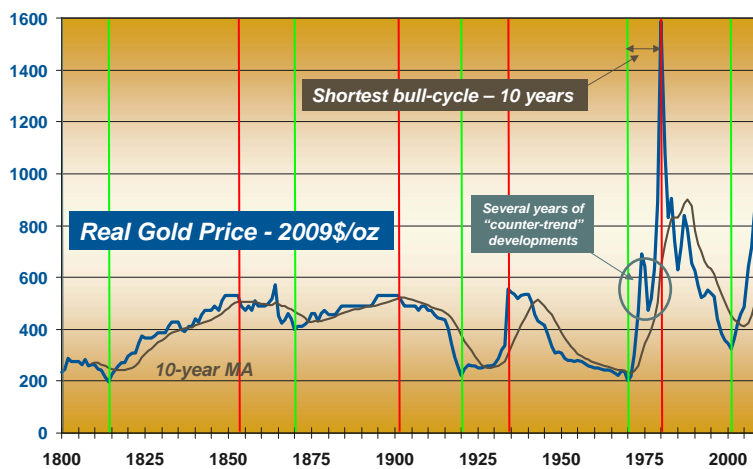
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## Bullish: (8) Commodity Cycles

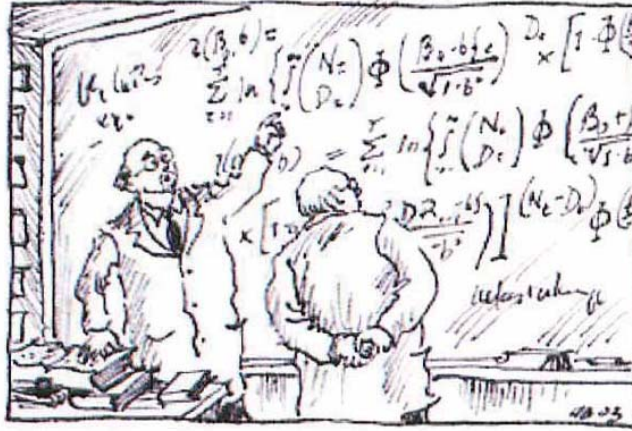
The shortest gold cycle lasted 10 years



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*“Agreed, then—buy gold.”*

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***Thank you for your attention!***

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## The June 2010 Forecast\*

We are bullish – Scenario A is given low probability

# Gold Price Scenarios

(March-end forecasts)

	2010-avg	2010-end	2011-avg
<b>Scenario A:</b> p.=.10%	\$1142	\$1075	\$1007
<b>Scenario B:</b> p.=.50%	\$1203	\$1285	\$1341
<b>Scenario C:</b> p.=.40%	\$1251	\$1410	\$1499
<b>Weighted:</b>	\$1211	\$1310	\$1365

\* Forecasts are updated quarterly

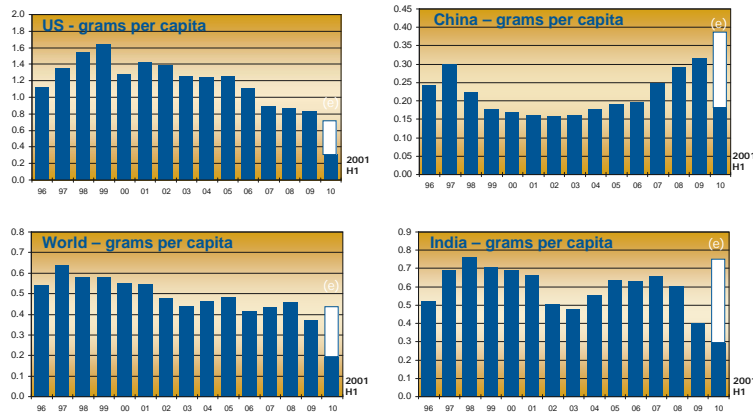


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## Appendix: Consumer Demand

Consumer demand will grow

Consumer Demand = Jewelry plus Net Retail Investment Demand



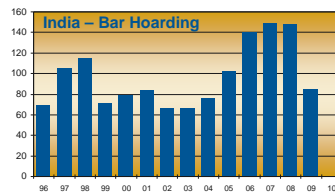
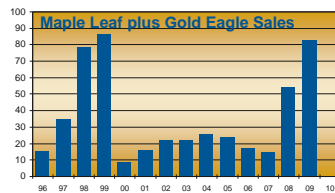
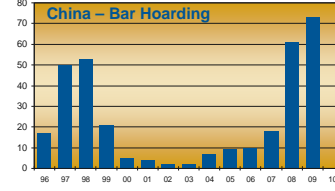
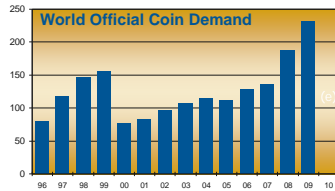
Source: World Gold Council, GFMS  
Estimates by DundeeWealth Economics



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## Appendix: Components of Investment Coin and Bar Hoarding

Both coin and bar demand are in a rising trend



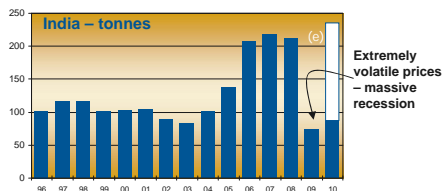
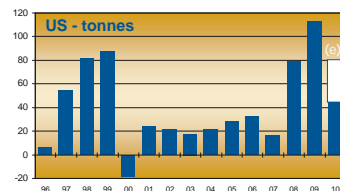
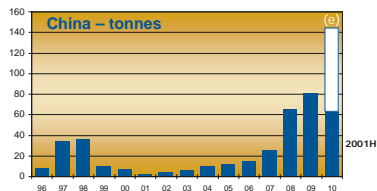
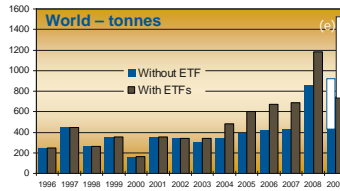
Source: GFMS

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## Bullish: (7) Consumer Demand Retail investment demand in Asia will grow

Net Retail Investment Demand (excluding ETF's)



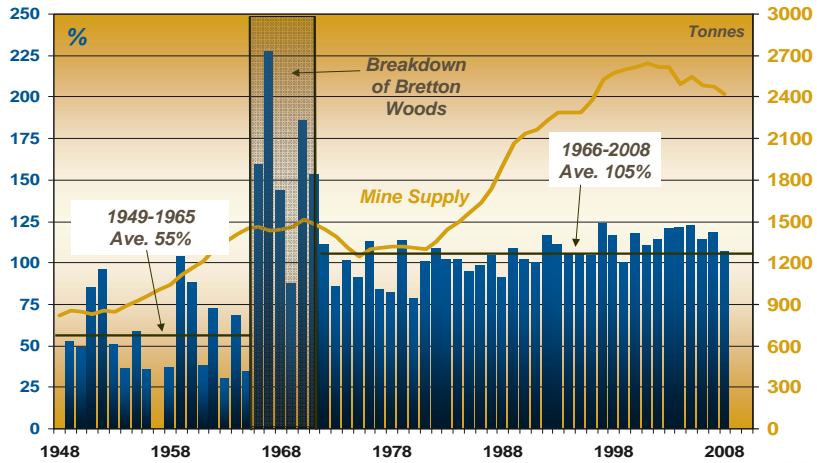
Source: World Gold Council, GFMS  
Estimates by DundeeWealth Economics

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## Bullish: (7) Investment Demand

% of mine production taken up by jewelry, etc.



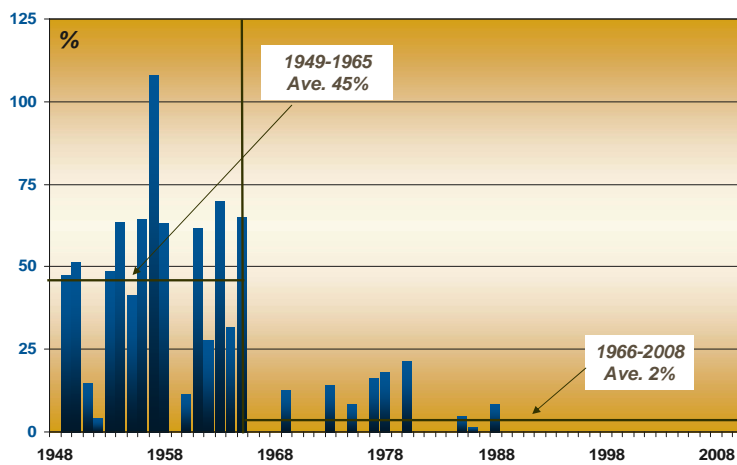
Source: IMF, US Bureau of Mining, GFMS

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## Bullish: (7) Investment Demand

% of mine production taken up by central banks

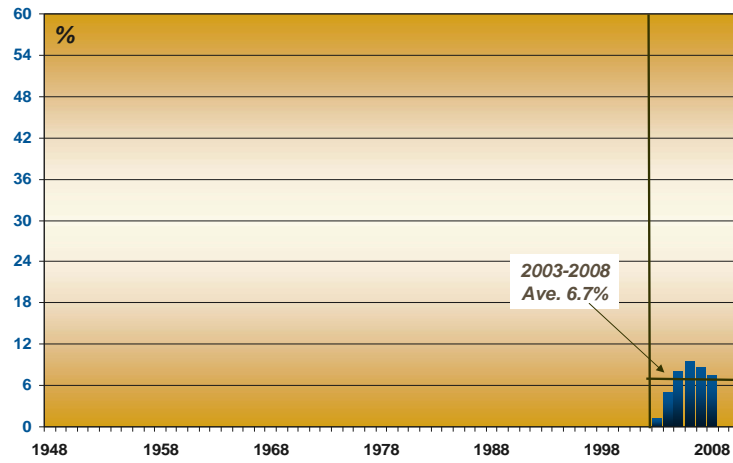


Source: IMF, US Bureau of Mining, GFMS

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## **Bullish: (7) Investment Demand** *% of production taken up ETF's*



Source: ETF's, GFMS

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