



Gold could test new highs into final quarter

Daniel Sacks, Investec Co-Portfolio Manager , comments on gold's latest peak and the supporting factors behind a continued price rise

As we had forecast, the gold price smashed through its previous record high of \$1032/oz to trade at \$1043/oz. We believe it should continue to perform well against most assets into the final quarter of 2009. Moreover, the price of gold is still just over half of its prior peak in 'real' terms, even after the rally of the past eight years. We continue to see much more upside than downside risk to bullion for the following reasons:

- **The economic case for owning gold remains strong**

Notwithstanding the growing chorus of bullish sentiment, debate remains strong as to how "real" this perceived recovery is. With the fear of a significant financial crisis seemingly waning, debate is now turning again to how the recovery will play out. In almost all but a global soft-landing scenario, gold is likely to rally further. With a global recovery unlikely to be smooth, the two main risks to most asset values are inflation and US dollar weakness— both of which are decisively gold positive.

- **Seasonal factors will act as a booster**

Gold is also set to receive a boost in reaction to seasonal demand factors, particularly Indian demand, over the next 3 months.

- **Safe haven buying will continue to reinforce the gold price**

Further reinforcing our positive outlook for gold is continued safe-haven buying as an alternative currency, with gold the only currency whose production is going down, not up. There is also little chance of a supply response to high gold prices. Mine production is on a declining trend.

In conclusion, consider the various ratios and real peak pricing below in order to see just how much higher gold could rise:

- The nominal peak price in 1980 at \$850/oz adjusted to account for inflation equates to an equivalent price today of \$1,884/oz. ¹
- The long term average of the gold:oil ratio is 17. Base this ratio with oil at \$70/barrel, and gold should trade at around \$1,190. ²
- The Dow Jones:gold ratio in the early 1930s and in the 1980s – both periods where financial markets faced turmoil – sank to below 5. Currently, it is at around 9.7. With the Dow at 9,800 a ratio of 5 would suggest a gold price of \$1,960. If the Dow double dips to 7,500, this would suggest a gold price of \$1,500. ³

¹ Source: I-Net (inflation = US CPI)

² Source: I-Net Gold/Oil 1970 to date (monthly data)

³ Source: I-Net

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Notes to Editors

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*As at 31 August 2009.

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