



Gold trades at new highs for 2009 with more still to come

The Global Commodities and Resources Team at Investec Asset Management believes the gold price may strengthen another 10-15% from current levels, but believe investors stand to gain more through investment in gold equities than the Gold ETFs.

Why did the gold price breach \$1,000/oz?

Gold has broken through its February 2009 high with another \$6 move, spiking to \$1,012/oz on 11 September. The weakening US dollar continues to be a supportive backdrop to the gold price with the EUR/USD trading close to 1.47, as are stronger commodities prices across the board – base metals are up between 3 – 5%.

Triggered by the breach of key price levels and supported by good price momentum and improving moving averages, positions have probably been further accumulated by technical buying from system funds in the Comex gold futures market.

A further catalyst for the \$50/oz move upwards in gold which has occurred over the last week could include re-weighting from investments in other commodities, in particular the shift from energy into precious metals, which have lower costs of physical storage. Platinum has also traded close to new 2009 highs, on 15 September reached \$1,330/oz.

The next key level for gold is the March 2008 high of \$1,033/oz. We believe that gold may well continue to appreciate to new all-time nominal highs.

Gold Exchange Traded Funds have also seen good gains over the past week after a long period of stagnation, adding over 500,000 ounces. They have now risen to above 50 million ounces.

What are the upside/downside risks to the price?

We believe that the combination of unprecedented global fiscal stimulus, quantitative easing, and increased money supply has the potential to result in broad currency devaluation, negative real interest rates and the return of high rates of inflation. We believe this points to a very supportive backdrop for gold to sustain moves above previous highs.

Potential downside risks include selling in the physical market to test whether higher prices draw out further destocking, as we saw in the first half of this year.

Do you have a gold price forecast?

We believe it would not be unreasonable for gold to trade 10–15% higher from current levels, hitting the \$1,100 - \$1,150/oz range.

Investment perspective: what should investors be doing?

From an investment perspective, investors can access the gold market via Gold ETFs; however, we see more upside in gold equities. Gold companies have seen costs stabilise, therefore an increasing gold price should lead to margin expansion for those companies with gold production growth, providing earnings growth and high cash flow yields.

Gaining exposure via investment in a gold equity fund would be a good alternative to outright gold exposure.

ENDS

Notes to Editors

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*As at 30 June 2009.

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Issuer: Investec Asset Management Asia Limited.