

Gold to hold its stead - \$2000 in the next 3 years

The technical support for gold is at \$980 but the pullback won't get close to this medium support level

My conversations with investors in the span of the past year have behaved like market cycles, ranging from great despair to optimism and disbelief. Although the global equity markets look stabilised, through coordinated fiscal stimulus package and better than expected earnings and economic data, the weak private sector and high unemployment in the US, and with stocks no longer cheap, investors are moving towards diversification of their dollar assets towards safer haven like gold. Gold and gold denominated products are likely to remain focal points for both traders and investors until uncertainties and underlying problems are resolved.

Asia, investing in physical gold is a long tradition instilled even today, but in other parts of the world people were and still are quite skeptical. We are bullish on gold because we see the effects of weakening of the dollar and other paper currencies on gold prices, as well as the inflation hedge gold provides. Since 1971, when the US dollar was de-pegged from the gold standard, the dollar has fallen over 80% of its value. Today, there is not one currency in the world that is backed by any asset. It makes me wonder what will the value of paper currencies be in the next ten years if governments continue to print flat money.

Although the stimulus package made headlines at US\$2 trillion, it has been widely reported total US debt including social security, government pensions and Medicare in the first quarter of 2009 was

US\$51 trillion and by May, USA Today reported it grew to US\$63 trillion. Whichever figure it is, it is clear the US is overleveraged or if we try to put it in commercial terms, 'insolvent', and this figure will continue to grow unless some active measures are taken.

To gain some perspective in such a ballooning credit environment, we refer to the old measuring system of currency that was valid for over 3000 years - gold. The total value of gold that has ever been mined globally is valued at about US\$5 trillion, the US holds the biggest reserves with 28% share, around 8,100 tons, which they have been able to utilise by issuing debt at 10 times what they are worth. This system works fine until asset prices crash which we experienced last year. My perspective is this credit expansion will somehow have to correct itself before we can move forward. Currently, worldwide assets including bonds, stocks and derivatives are valued at around US\$500 trillion, that is approximately 100 times the value of gold. This means, in the worst case scenario, we will have 100:1 correction of today's paper asset classes, turning into hyper-inflation.

Given the situation, where the dollar has gone on a downward spiral, it is impossible not to think the value of currencies will continue to erode. Countries like Hong Kong where the currency is pegged to the dollar has seen inflation in goods, which also explains the strong demand in asset-based investments like gold and property. We expect gold

Major foreign holders of treasury securities (As of Sept 2009)

Country	Value (billions of US\$)
China, Mainland	798.9
Japan	751.5
United Kingdom	249.3
Oil Exporters*	185.3
Carib Bnkg Ctrs**	171.7
Brazil	144.9
Hong Kong	132.2

*Oil exporters include Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya, and Nigeria.

**Caribbean Banking Centers include Bahamas, Bermuda, Cayman Islands, Netherlands Antilles and Panama. Beginning with new series for June 2006, also includes British Virgin Islands.

Source <http://www.treas.gov/tic/mfh.txt>

prices to remain in an uptrend and although prices may be due for a brief correction at this level, they are unlikely to fall much below US\$1,000. The technical support for gold is at \$980 but the pullback won't get close to this medium support level. Our medium to long term view still holds that gold will reach US\$2000 in the next three years. For those who are looking to diversify among currencies, commodity based currencies like the Brazilian Real, Australian dollars, and Canadian dollars are worth considering.

Other than the emotional comfort of having physical gold, the real case for investing in gold and gold denominated products is the low correlation it has compared to other asset classes and the diversification of risk it provides from a portfolio context. Even among the commodities sector, gold has held up while other commodities have not.

It is clear investing in physical gold preserves wealth but it does not pay interest. So what are the other ways investors can get exposure to gold?

- Gold ETF – an inexpensive and relatively convenient alternative to owning physical gold or buying gold futures. However, investors need to be aware of the market and counterparty risks associated with gold ETFs and the fees you have to pay which causes discrepancies in the actual value of the spot gold price and ETF value.

- Gold stocks – a popular option for those who already own equities. The key distinction however is investors own the shares of the companies but not the metal itself so they will be exposed to operational and corporate risks but the potential capital and dividend rewards can seem attractive.

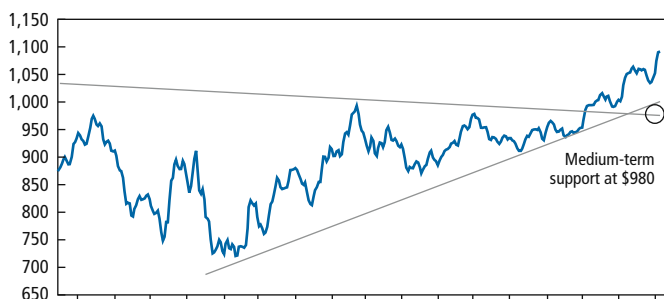
- Gold denominated funds possibly provides the highest probability in wealth creation other than wealth protection in holding physical gold or gold certificates. It is a relatively new idea to link the price of your investments in a fund with the benefit of rising gold prices, thereby allowing investors exposure to gold and a separate asset class in the one investment.

It is worth looking into other precious metals like silver, platinum and palladium that has outperformed gold to diversification, although liquidity and acceptance for gold will remain as it has been for the past 6000 years.

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- 看好黃金的走勢，因為美國政府不停「印銀紙」，預期將令美元持續弱勢，投資黃金則可用作對沖通脹的風險。中長線而言，金價有機會在未來3年上升2,000美元。
- 金價在長線的上升趨勢中預期會出現調整，但不會大幅低於1,000美元，中期的技術支持位在980美元。
- 美國持有約8,100噸黃金儲備，而美國政府則用以支持其發行相等於10倍此價值的債券，這機制在去年資產價格暴瀉前仍運作良好，可是現時情況已不一樣。預期這信貸狀況將會作出調整，最壞情況是全球所有紙上的資產包括債券、股票及衍生工具將會大幅調整，繼而產生惡性通貨膨脹。
- 黃金與其他資產類別相關性低，投資黃金可分散組合風險。而除了買入實金，可以選擇的包括黃金交易所買賣基金、金礦股及以黃金為單位的基金等。

Gold price is expected to remain in an uptrend



Source: Tele Trader