

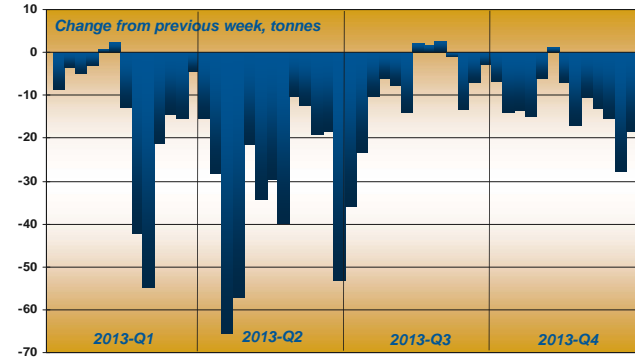
The Gold Price Outlook

Bullish/Bearish Factors

Dr. Martin Murenbeeld
 September 16, 2014
 Presented at the Denver Gold Forum 2014

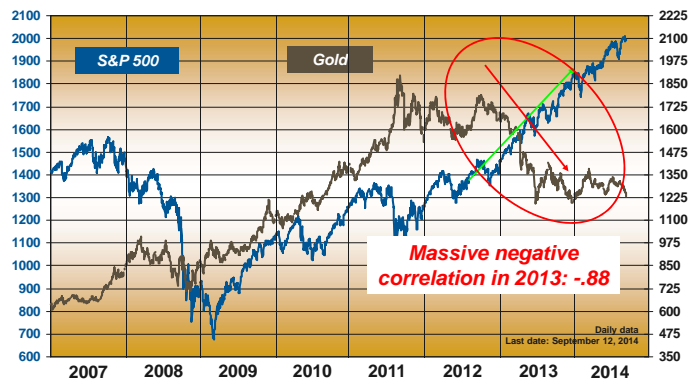


What Went Wrong in 2013? An orgy of ETF sales – 881 tonnes in 2013!



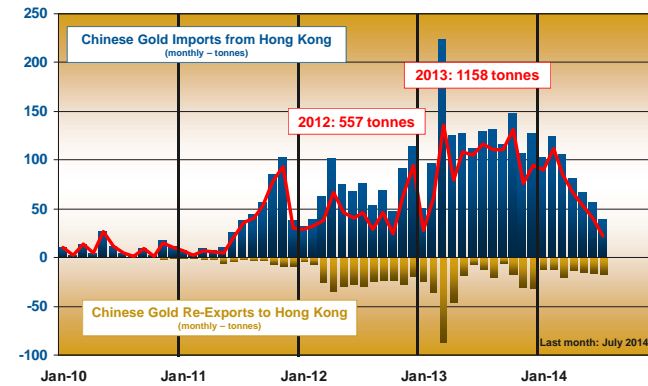
Source: Bloomberg, World Gold Council, DCM Economics

What Went Wrong in 2013? Investors went to equities ...!!



Source: Thomson Reuters Datastream, London Bullion Market Association

What Went Right in 2013? Chinese net imports from HK set record!



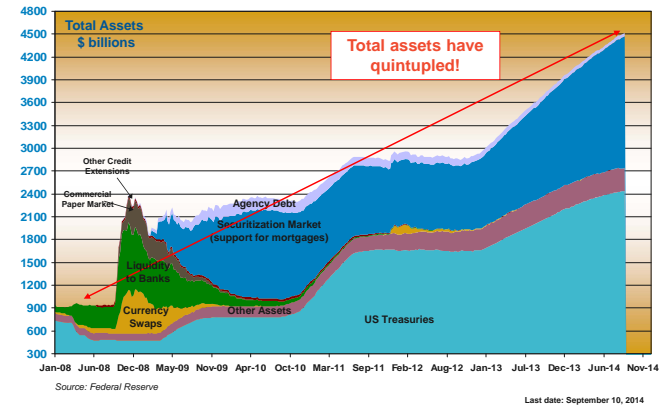
Source: Thomson Reuters Datastream, Hong Kong Census, DCM Economics

Bearish Factors for 2014-15

1. **The Fed must inevitably tighten policy**
 - The Fed is currently “tapering”
 - QE will end late 2014
 - And the Fed will raise rates in 2015
2. **US dollar will remain firm in 2014-15!?**
3. **The world economy is sluggish**
 - Gold typically weakens during recessions
 - Inflation pressures remain subdued
 - There is often a need for “liquidity”
4. **Equity markets will continue to draw investment interest away from gold**
5. **Investors still have gold to sell – and “technicals” bearish**

Bearish: (1) Fed Ends QE

The Fed balance sheet must inevitably decline ...

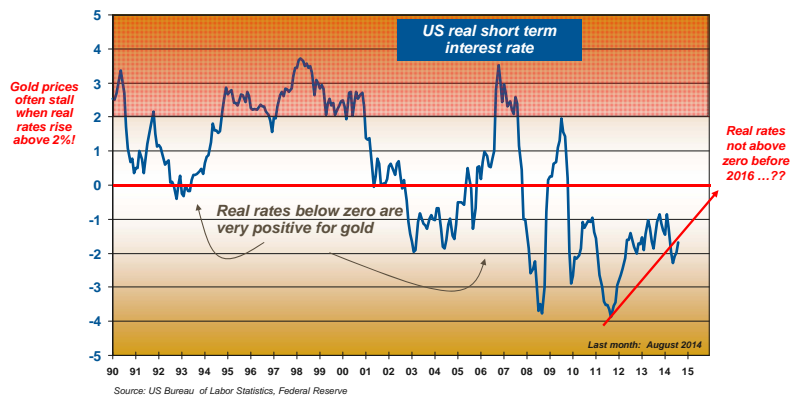


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DUNDEE CAPITAL MARKETS

Bearish: (1) Fed Ends QE

And real rates will have to rise - but before 2016?

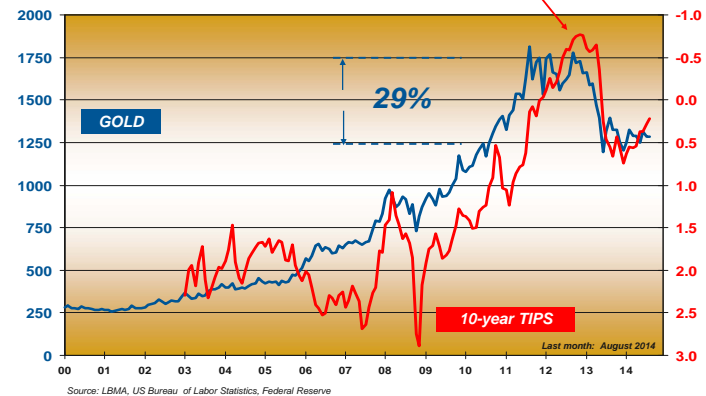


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DUNDEE CAPITAL MARKETS

Bearish: (1) Fed Ends QE

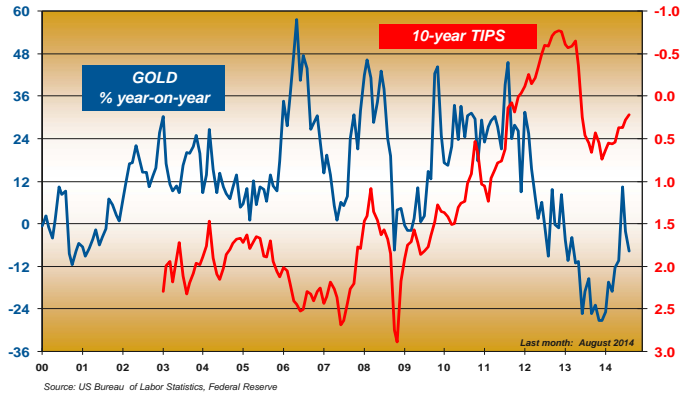
US real rates rose in 2013 – “taper tantrum” ...



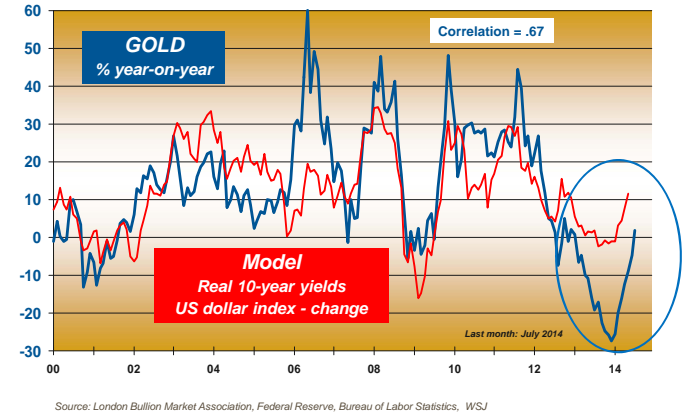
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DUNDEE CAPITAL MARKETS

Bearish: (1) Fed Ends QE
 But gold may have fully discounted rising yields ...!



Bearish: (1) Fed Ends QE
 Model: gold has fully discounted Fed actions!?



Bearish: (1) Fed Ends QE
 What do the Models say specifically?

IMPACT ON GOLD OF 100-POINT RISE***

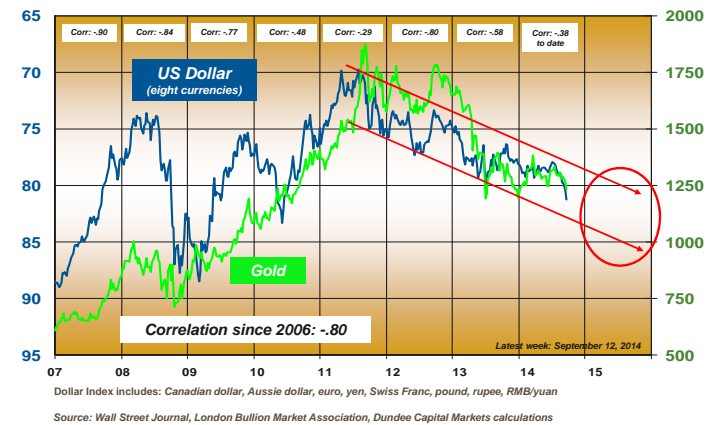
	REAL INTEREST RATE*	US DOLLAR**
MODEL 1969-2014 (R-squared = .362)	-5.656%	-1.219%
MODEL 1989-2014 (R-squared = .475)	-3.839%	-1.235%
MODEL 2000-2014 (R-squared = .454)	-1.691%	-1.513%

*Difference between 10-year Treasury yield and consumer price inflation (y-o-y)
 ** Dollar index includes Cdn\$, Yen, Pound, Euro (pre-1999; DM, Lira, FF)
 ***A 100-point rise in the real rate is 100 basis points
 ***A 100 point rise in the US dollar is a rise in the index from, say, 75.00 to 76.00

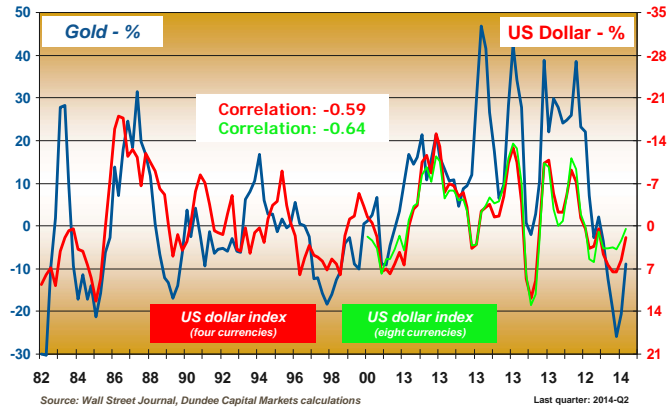
Assuming a severe scenario, including a rise of 250 basis points in real interest rates and a 1000 point rise in the US dollar index, the models suggest that gold may decline anywhere from 18% to 29%!

But gold has already declined by nearly 30% ...???

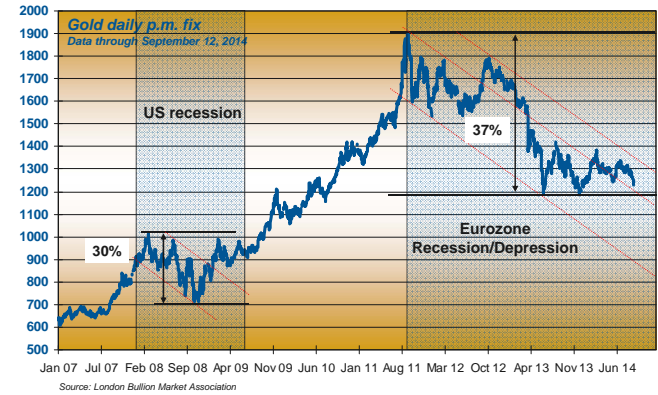
Bearish: (2) Dollar Strengthens
 The dollar rises ... others devalue against dollar



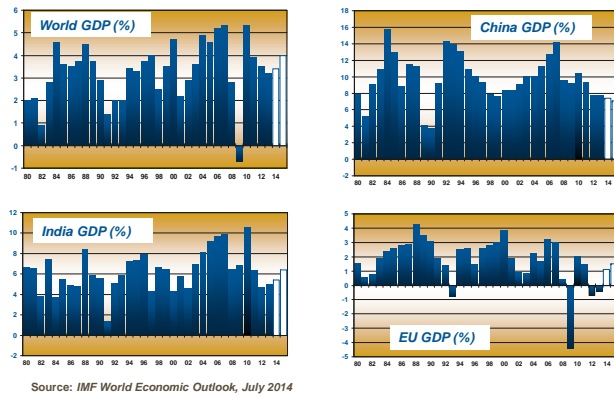
Bearish: (2) Dollar Strengthens
Gold/US dollar correlations always negative



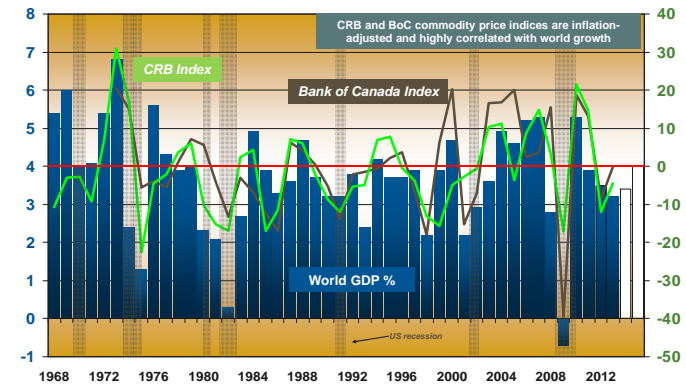
Bearish: (3) Global Economy Sluggish
Recessions always a major headwind for gold ...



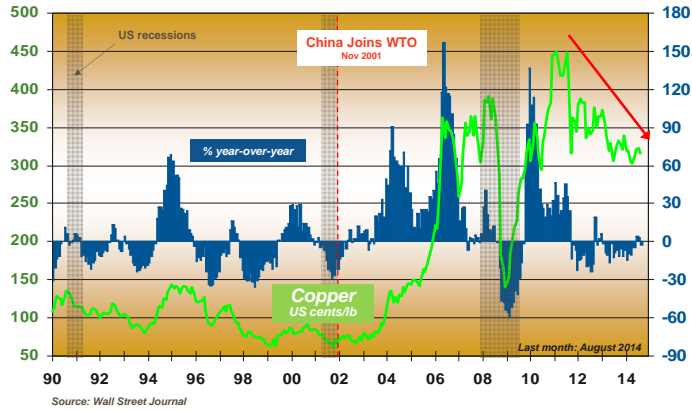
Bearish: (3) Global Economy Sluggish
IMF forecast: 3.4%-2014 and 4.0%-2015



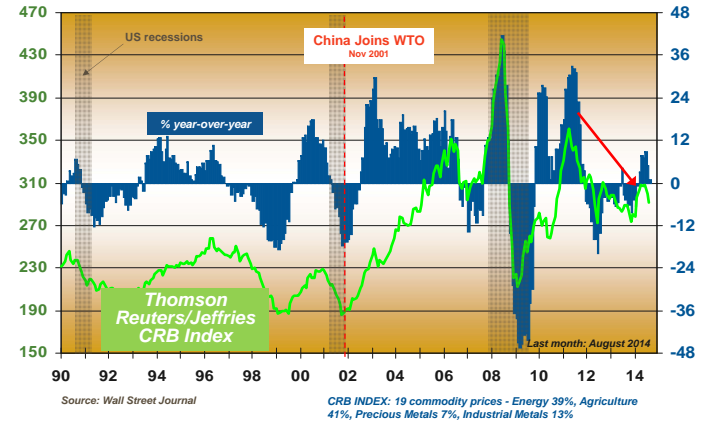
Bearish: (3) Global Economy Sluggish
Commodities decline when world growth < 4%



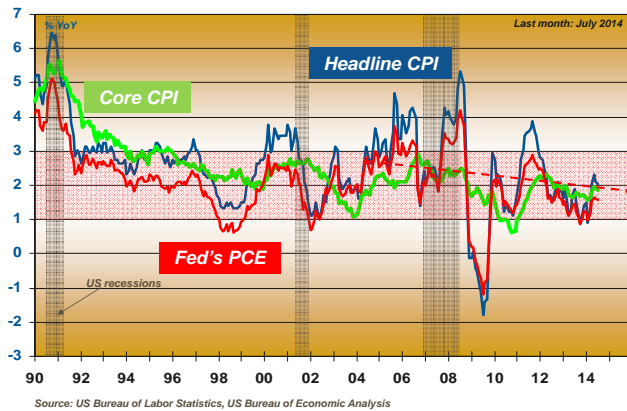
Bearish: (3) Global Economy Sluggish
Copper prices weakened in recent quarters ...



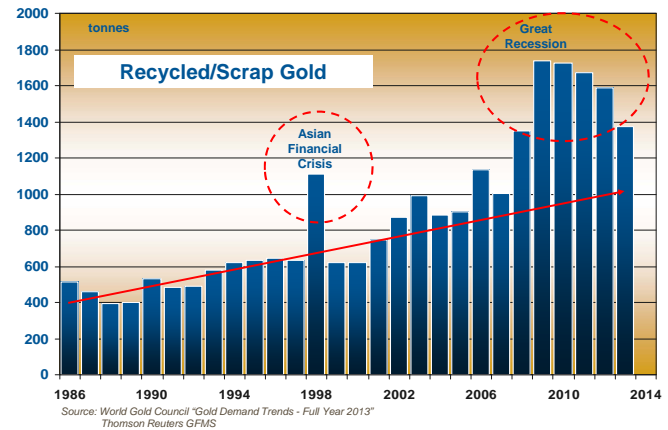
Bearish: (3) Global Economy Sluggish
And commodity prices generally are down ...



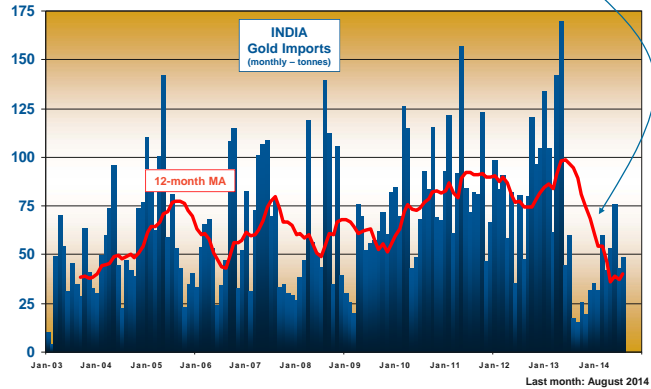
Bearish: (3) Global Economy Sluggish
Headline inflation is going nowhere fast ...!



Bearish: (3) Global Economy Sluggish
Scrap supply elevated when liquidity needs rise



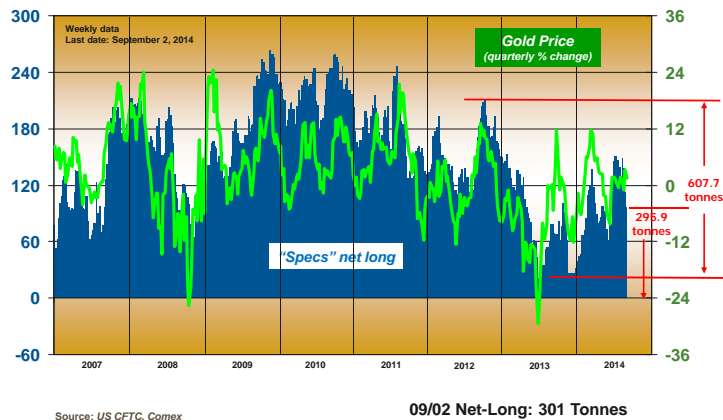
Bearish: (3) Global Economy Sluggish
India: import barriers to preserve liquidity



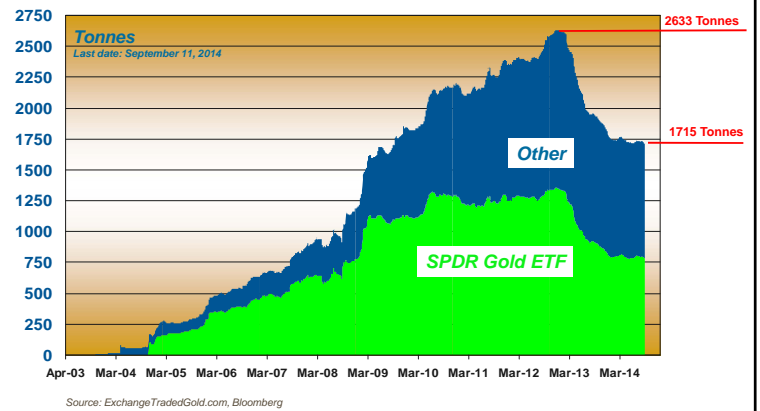
Bearish: (4) Equity Markets Rally Further
Monetary factors also help equities!



Bearish: (5) Gold for Sale
COMEX "specs" net-long position still significant



Bearish: (5) Gold for Sale
ETF holdings still substantial ...!



Bearish: (5) Technical Picture



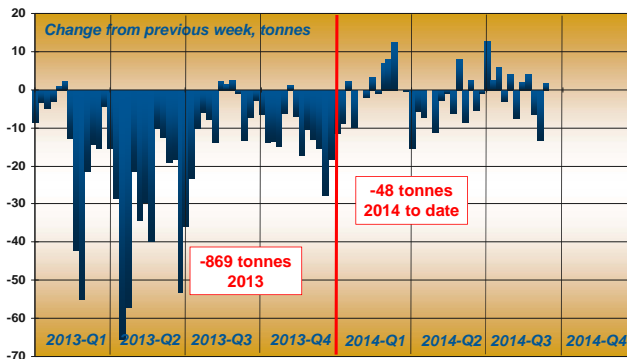
Source: London Bullion Market Association

Bullish Factors for 2014-15

1. ETF "supply" down dramatically in 2014-15
2. Asian physical demand will continue to expand
3. Central banks will continue to buy gold
4. Global debt crisis will require ongoing monetary reflation
5. Global imbalances will remain unresolved until the dollar declines significantly
6. The commodity cycle will run many more years
7. Geopolitical crises will multiply
8. Gold price not "expensive" by normal measures

Bullish: (1) Gold Supply

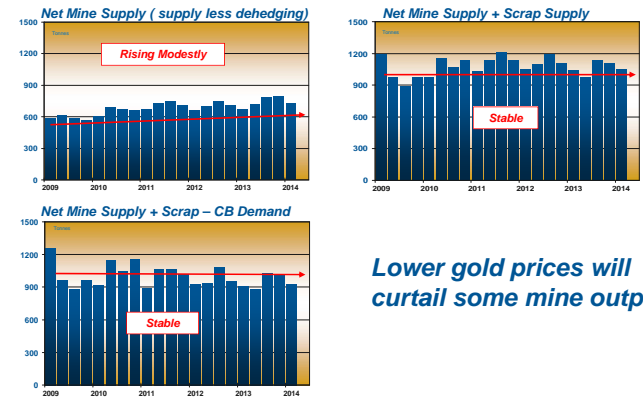
Massive sales not to be repeated in 2014-15



Source: Bloomberg, DCM Economics

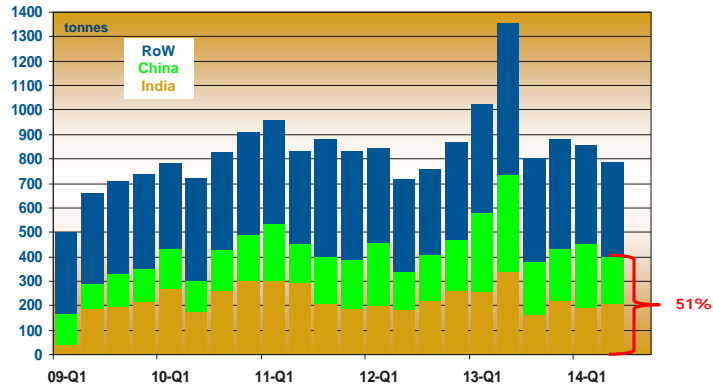
Bullish: (1) Gold Supply

Indeed, supply to jewelers/investors unlikely to rise



Lower gold prices will curtail some mine output!

Bullish: (2) Consumer Demand*
India/China becoming richer ... LT demand positive



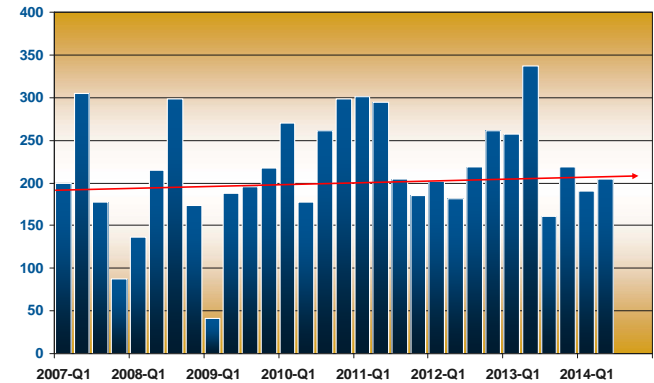
Source: World Gold Council "Gold Demand Trends – Second Quarter 2014" data tabulated by Thomson Reuters GFMS

*Consumer demand = jewelry plus bar/coin/medal investment demand

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DUNDEE CAPITAL MARKETS

Bullish: (2) India Consumer Demand*
Demand down in 2014-H1 (YoY) but trend positive



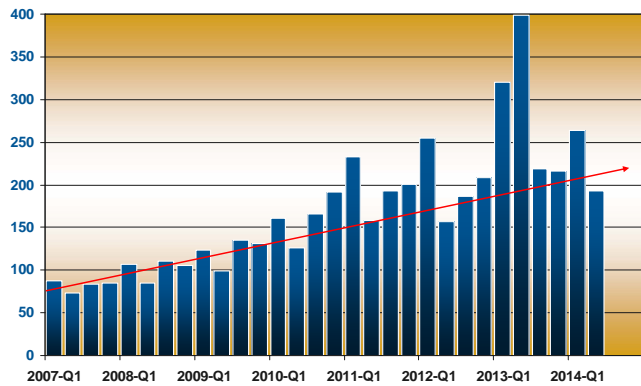
Source: World Gold Council "Gold Demand Trends – Second quarter 2014" data tabulated by Thomson Reuters GFMS

*Consumer demand = jewelry plus bar/coin/medal investment demand

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DUNDEE CAPITAL MARKETS

Bullish: (2) China Consumer Demand
Down in 2014-H1 - but trend very positive



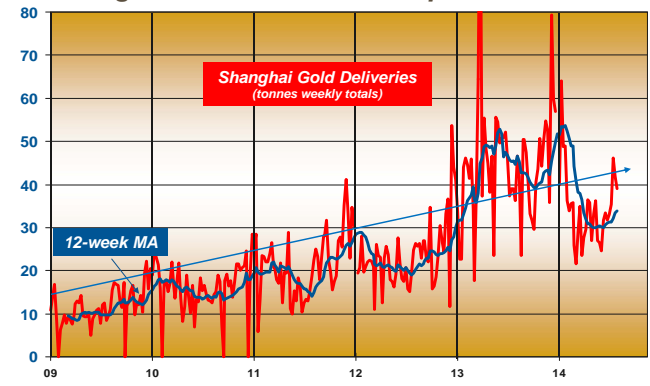
Source: World Gold Council "Gold Demand Trends – Second quarter 2014" data tabulated by Thomson Reuters GFMS

*Consumer demand = jewelry plus bar/coin/medal investment demand

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DUNDEE CAPITAL MARKETS

Bullish: (2) China Consumer Demand
Shanghai deliveries in clear uptrend!



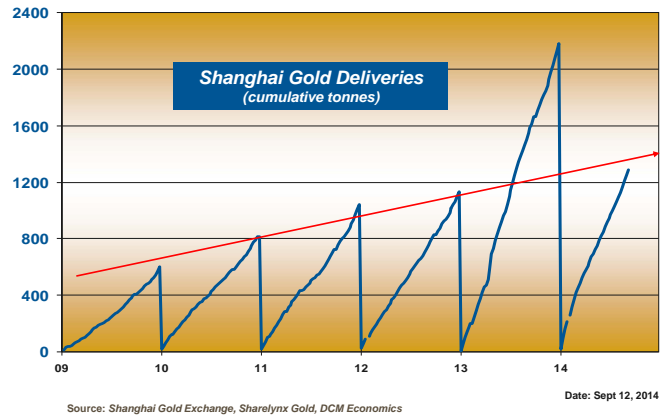
Source: Shanghai Gold Exchange, Sharelynx Gold, DCM Economics

Date: Sept 12, 2014

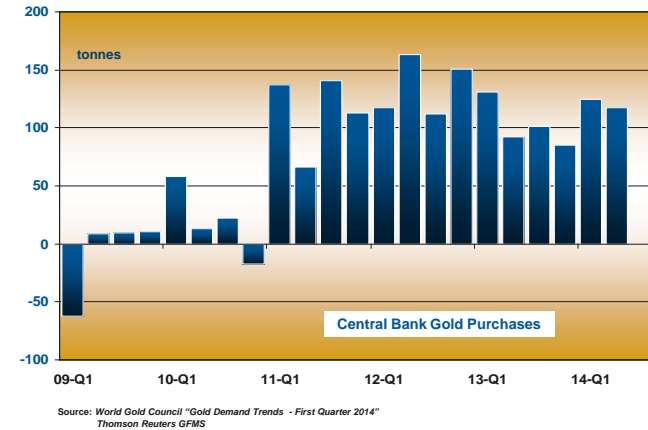
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DUNDEE CAPITAL MARKETS

Bullish: (2) China Consumer Demand
Cumulative Shanghai deliveries on trend!



Bullish: (3) CB's Buying Gold
CB demand will continue for years ...



Bullish: (3) CB's Buying Gold
Global FX reserves are excessive ... (62% in \$'s)

Foreign Exchange Reserves (countries over \$100 bn)			
	bn\$		bn\$
China	3993.2	India	289.3
Japan	1210.0	Algeria	191.6
Saudi Arabia	741.7	Mexico	181.1
Switzerland	505.5	Thailand	160.8
Taiwan	423.7	Malaysia	127.3
Russia	409.6	Turkey	109.9
Brazil	367.0	Indonesia	105.4
Korea	355.8	Libya	104.3
Hong Kong	320.8		
		TOTAL	9596.9

Addendum: Fuel Exporters \$1839 bn

A number of central banks like the fact that gold is not a liability of the Federal Reserve/US Treasury

**RUSSIA
CHINA
OIL EXPORTERS**

Source: IMF International Financial Statistics, July 2014

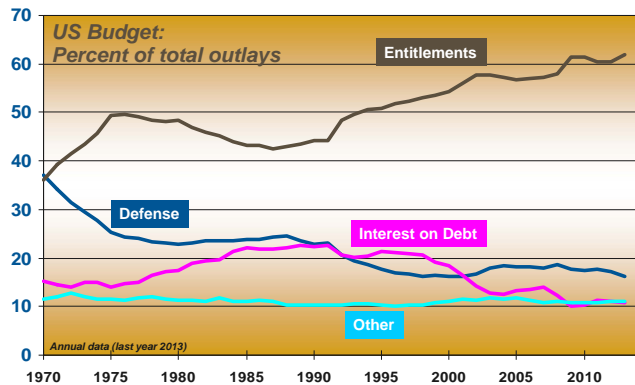
Bullish: (3) CB's Buying Gold
Other currencies vying to become reserve currencies

China wants the CNY to be used more actively in Chinese and SE Asian trade; indeed many countries want the US dollar to be replaced in global trade and global reserves.

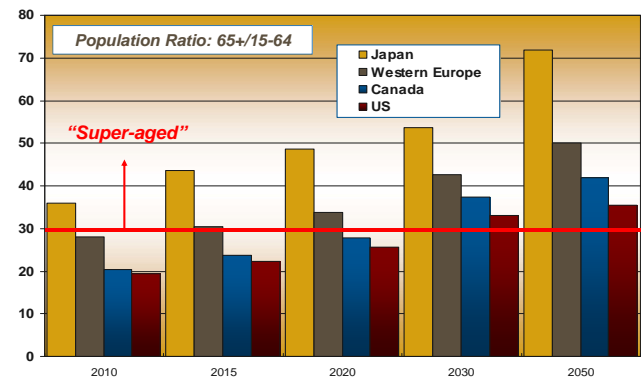
To encourage other countries to hold CNY balances (and as reserve currency) the CNY must have:

- Deep capital markets, which allows the CNY to be readily banked around the world and therefore acceptable for transactions
- Some form of guarantee to enhance acceptability in the initial phase of internationalization (historically this included some form of gold convertibility)

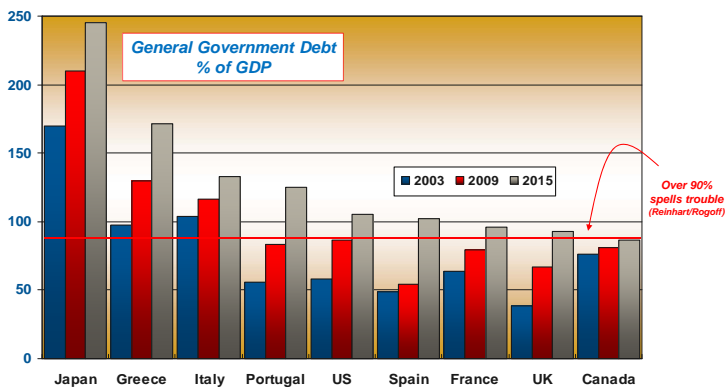
Bullish: (4) Global Debt Crisis
Entitlements are killing Western economies ...



Bullish: (4) Global Debt Crisis
And developed economies are aging ...



Bullish: (4) Global Debt Crisis
Which leads to ever higher debt/GDP ratios ...



Bullish: (4) Global Debt Crisis
Unless growth and inflation can be boosted ...!

Estimates for 2013

	Primary Balance	Nominal GDP Growth	5-year Bond Yield	A+B-C
	A	B	C	
Greece	1.5	-5.8	5.0	-9.3
Japan	-7.6	1.0	0.2	-6.8
Spain	-4.3	-0.6	0.7	-5.6
Ireland	-3.4	0.1	0.5	-3.8
Portugal	-0.7	0.3	1.6	-2.0
US	-4.1	3.4	1.7	-2.4
Canada	-2.6	3.3	1.6	-1.0
Italy	2.0	-0.4	1.0	0.6
Germany	1.7	2.7	0.2	4.1

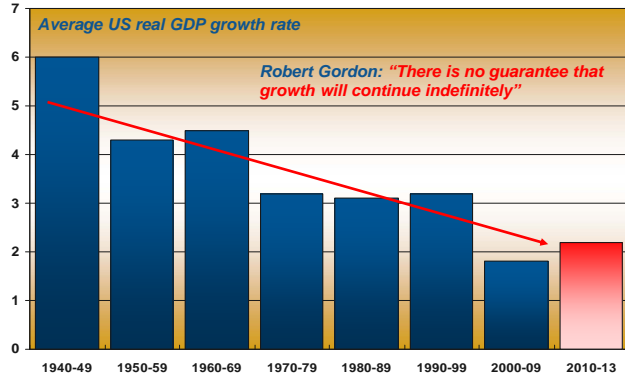
Sources:
 Primary Balance - IMF Fiscal Monitor, April 2014
 Nominal GDP - IMF World Economic Outlook, April 2014
 Yields as of September 5, Thomson Reuters DataStream (Greece: April 10 bond sale)

RED: Debt/GDP ratio to rise further!

For debt ratio to decline
A+B > C !

As it stands only Germany will really reduce its Debt/GDP ratio in 2014 !

Bullish: (4) Global Debt Crisis
 But growth appears to be in secular decline ...!



Source: Bureau of Economic Analysis
 Robert Gordon, NBER – WP 18315, August 2012

Bullish: (4) Global Debt Crisis
 What will governments do about debt/entitlements?

Government Choices:

Austerity:

- Cut services and raise taxes
- Deflate and accept "depression"

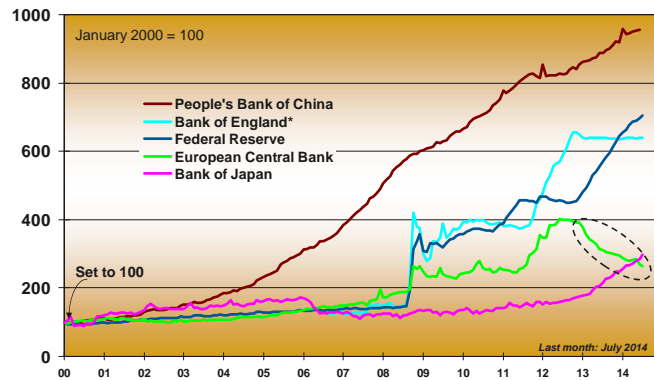
Bad for gold

Reflation:

- Go for growth: Inflate-devalue
- Default/financial repression

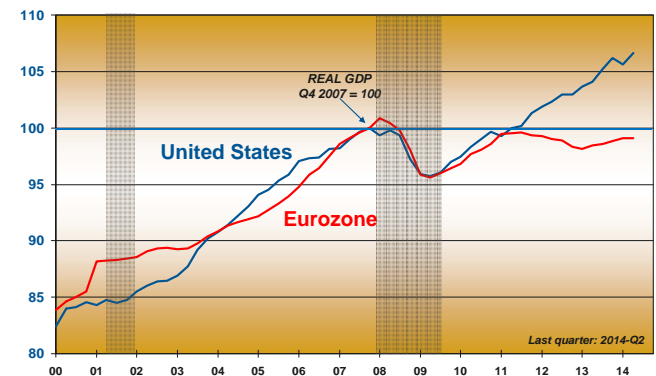
Good for gold

Bullish: (4) Global Debt Crisis
 All balance sheets expanding – ECB soon too!



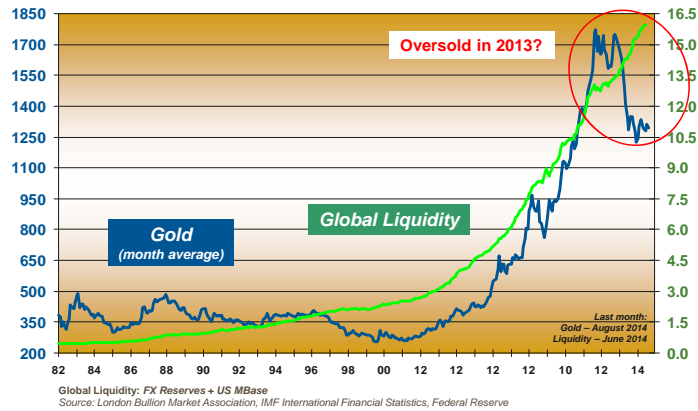
*Bank of England June 2706 = 130
 Source: Thomson Reuters Datastream

Bullish: (4) Global Debt Crisis
 Eurozone in desperate need of growth/inflation

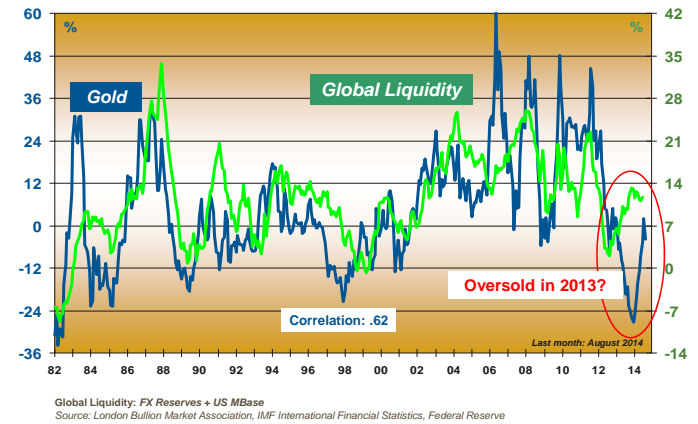


Source: US Bureau of Economic Analysis, Eurostat, DCM Economics calculations

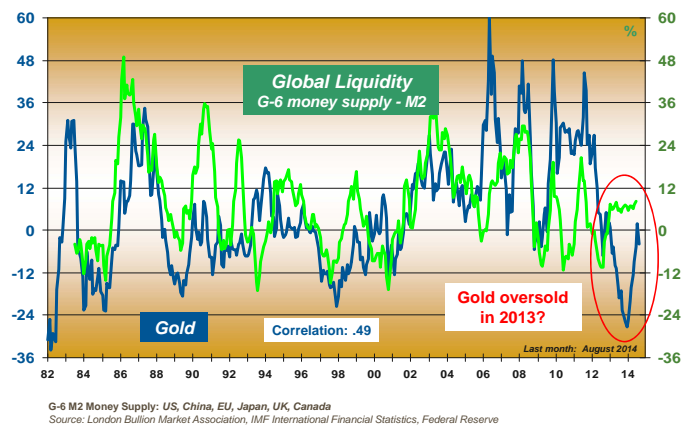
Bullish: (4) Global Debt Crisis
 Liquidity is important to gold ...



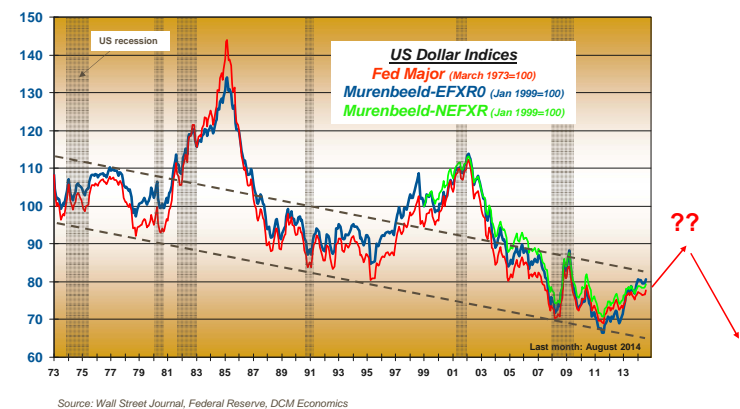
Bullish: (4) Global Debt Crisis
 Gold often rises and falls with liquidity ...



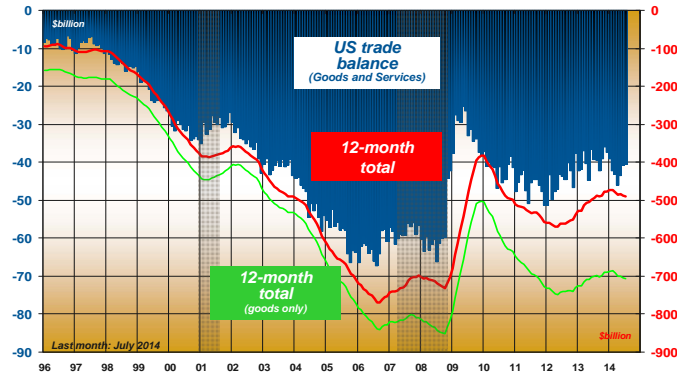
Bullish: (4) Global Debt Crisis
 ... Liquidity in one form or another ...



Bullish: (5) Dollar Fundamentally Overvalued
 US dollar in long-term downtrend ...

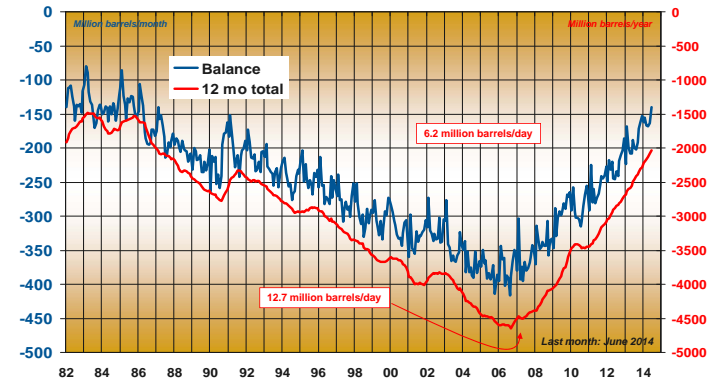


Bullish: (5) Dollar Fundamentally Overvalued
 The US trade deficit has declined recently ...



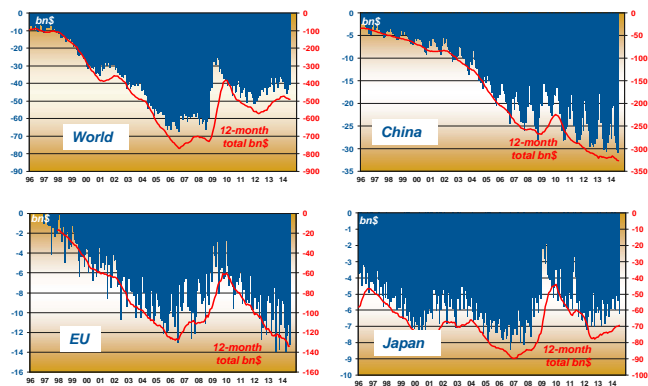
Source: US Census Bureau

Bullish: (5) Dollar Fundamentally Overvalued
 ... on back of rising US energy production



Source: US Energy Information Administration

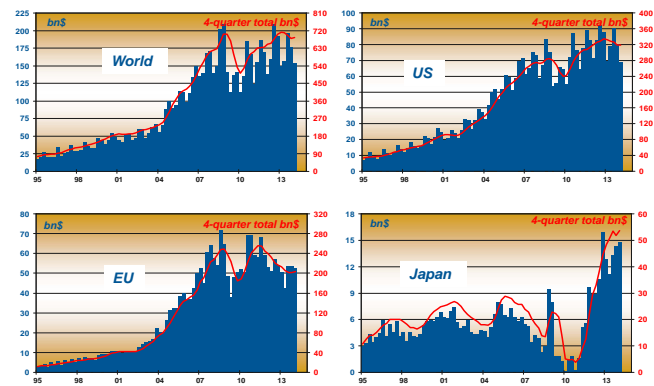
Bullish: (5) Dollar Fundamentally Overvalued
 But deficits with most countries much too large ...



Source: Thomson Reuters Datastream

Last month: July 2014

Bullish: (5) RMB Fundamentally Undervalued
 While China has huge trade surpluses ...



Source: Thomson Reuters Datastream

Last quarter: 2014-Q1

Bullish: (5) Dollar Fundamentally Overvalued

Some Asian currencies undervalued by 30%+

Country	Dollar Overvaluation	Country	Dollar Overvaluation
Singapore	48.2	UK	15.9
Taiwan	42.2	Russia	15.7
Sweden	34.6	Poland	11.7
Hong Kong	34.1	Indonesia	8.2
Switzerland	33.2	Venezuela	7.3
China	29.8	Chile	4.8
Malaysia	28.3	Australia	2.7
Japan	27.8	Argentina	2.0
Euro area	25.4	India	1.1
Philippines	24.1	United States	0.0
Korea	23.1	Mexico	0.0
Israel	20.3	Canada	-1.6
Czech	20.1	South Africa	-3.7
Thailand	19.7	Turkey	-9.2
Norway	19.3	New Zealand	-11.0
Saudi Arabia	17.3	Colombia	-11.2
Hungary	16.8	Brazil	-17.9

Source: PIIE Estimates of Fundamental Equilibrium Exchange rates, May 2014; Reworked by DCM Economics to force zero current account balances

This table is based on the PIIE's FEER analysis, modified to target zero current account balances.

Some Asian currencies would appear to be seriously undervalued ...

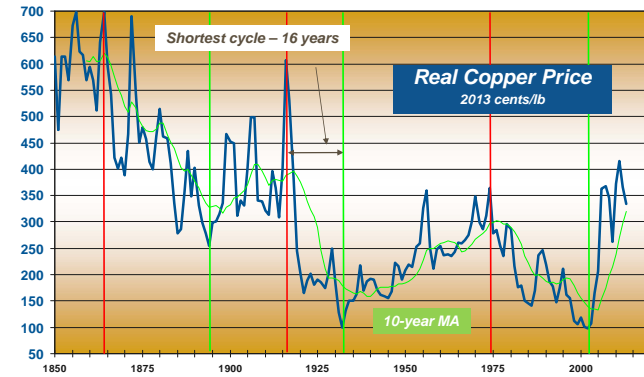
... even the Euro is undervalued by some 25% against the US dollar!

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DUNDEE CAPITAL MARKETS

Bullish: (6) Commodity Cycle

The shortest copper cycle lasted 16 years*



*despite reversals – which are common in all long cycles

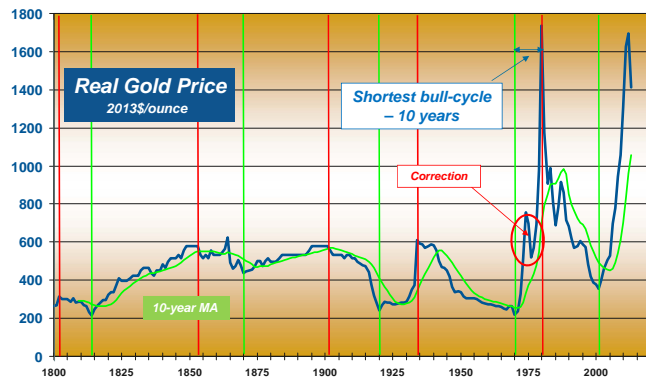
Source: Wall Street Journal, DCM Economics

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DUNDEE CAPITAL MARKETS

Bullish: (6) Commodity Cycle

The shortest gold cycle lasted 10 years



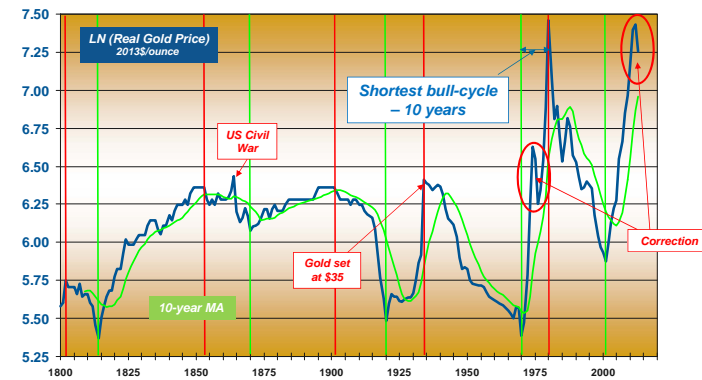
Source: Thomson Reuters Datastream, LBMA, DCM Economics

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DUNDEE CAPITAL MARKETS

Bullish: (6) Commodity Cycle

And log data suggests a correction was overdue ...

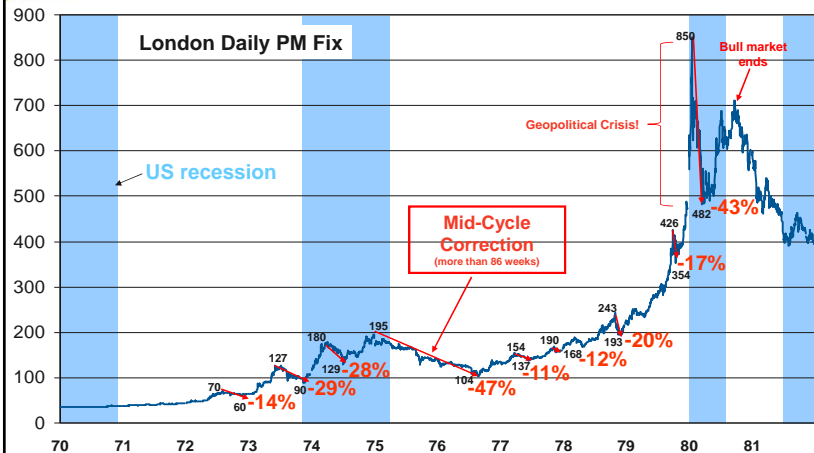


Source: Thomson Reuters Datastream, LBMA, DCM Economics

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DUNDEE CAPITAL MARKETS

The 1970 Bull Market - Price Corrections



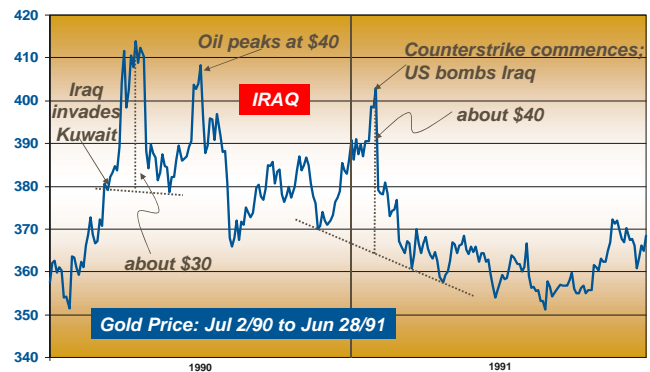
Source: London Bullion Market Association

Bullish: (7) Geopolitical The biggest geopolitical crisis to date ...



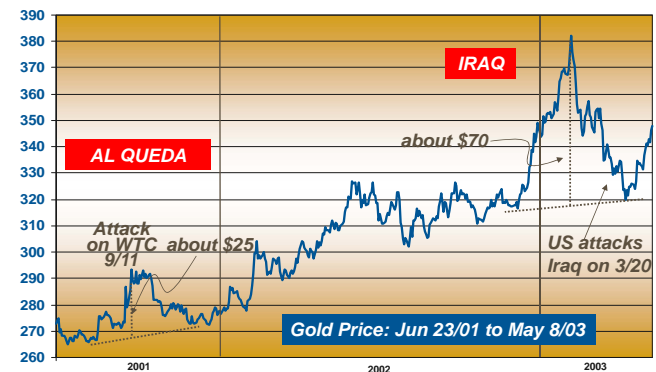
Source: London Bullion Market Association

Bullish: (7) Geopolitical But there have been others ...



Source: London Bullion Market Association

Bullish: (7) Geopolitical Some boosted gold by more than 10% - most not!



Source: London Bullion Market Association

Bullish: (7) Geopolitical

The Ukraine/Crimea crisis added \$100 in 2014-Q1



Source: London Bullion Market Association

Bullish: (8) Gold Not "Expensive"

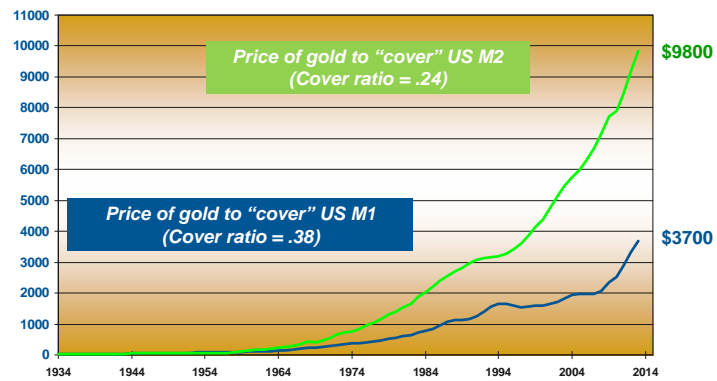
The NASDAQ was a real bubble ... not gold ...



Source: Thomson Reuters Datastream, DCM Economics

Bullish: (8) Gold Not "Expensive"

To back US money supply higher prices needed

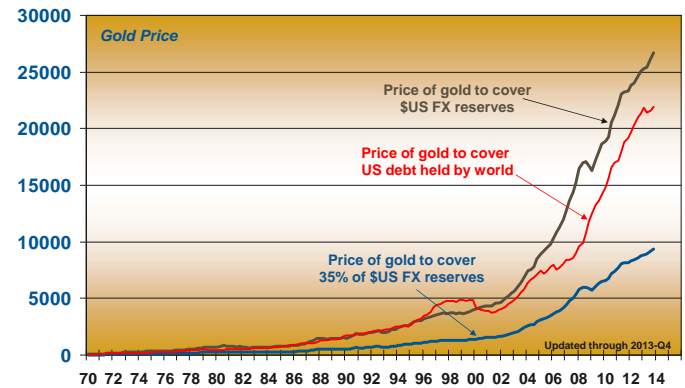


"Cover ratio" as determined in 1934 when gold was revalued to \$35

Source: Thomson Reuters Datastream, DCM Economics

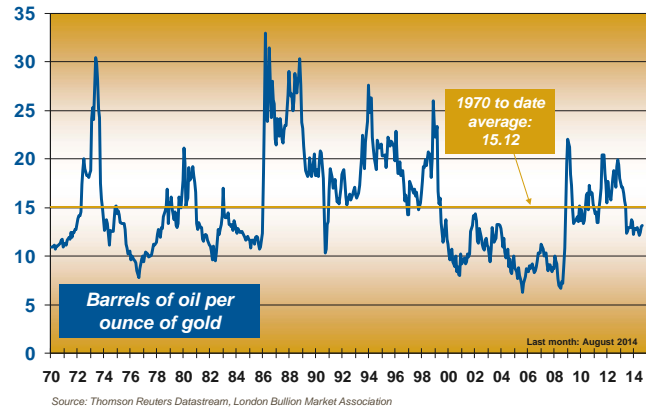
Bullish: (8) Gold Not "Expensive"

To back US\$ reserves higher prices needed

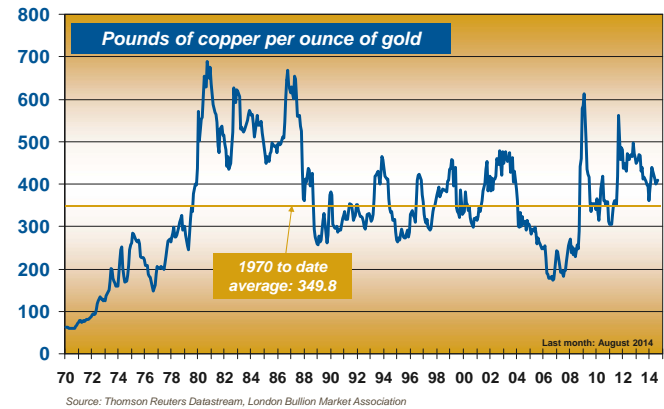


Source: Thomson Reuters Datastream, DCM Economics

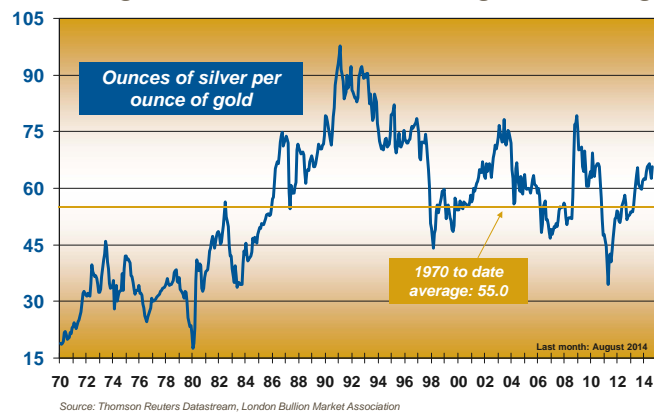
Bullish: (8) Gold Not "Expensive"
 Gold close to long-term average versus oil



Bullish: (8) Gold Not "Expensive"
 Gold close to long-term average with copper



Bullish: (8) Gold Not "Expensive"
 And gold/silver ratio close to long-term average



Forecast Update: June/Sept 2014

Gold Price Scenarios

	2014-avg	2014-end	2015-avg
Scenario A: p = 25%	\$1257	\$1120	\$1075
Scenario B: p = 50%	\$1283	\$1295	\$1355
Scenario C: p = 25%	\$1302	\$1385	\$1525
Weighted	\$1283	\$1274	\$1335

THANK YOU

To receive the **Gold Monitor**
Please contact your
Dundee representative

