

# “Gold as an Asset Class”

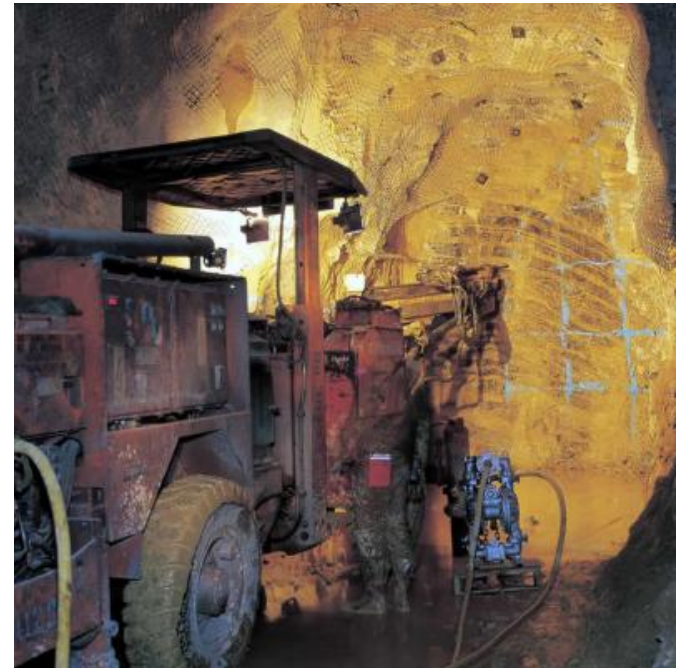
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MD, Investment  
March 2010

“No wonder governments don’t like gold, when gold rises, it’s telling the world that they are debasing the currency.”

- Richard Russell, Dow Theory Letters

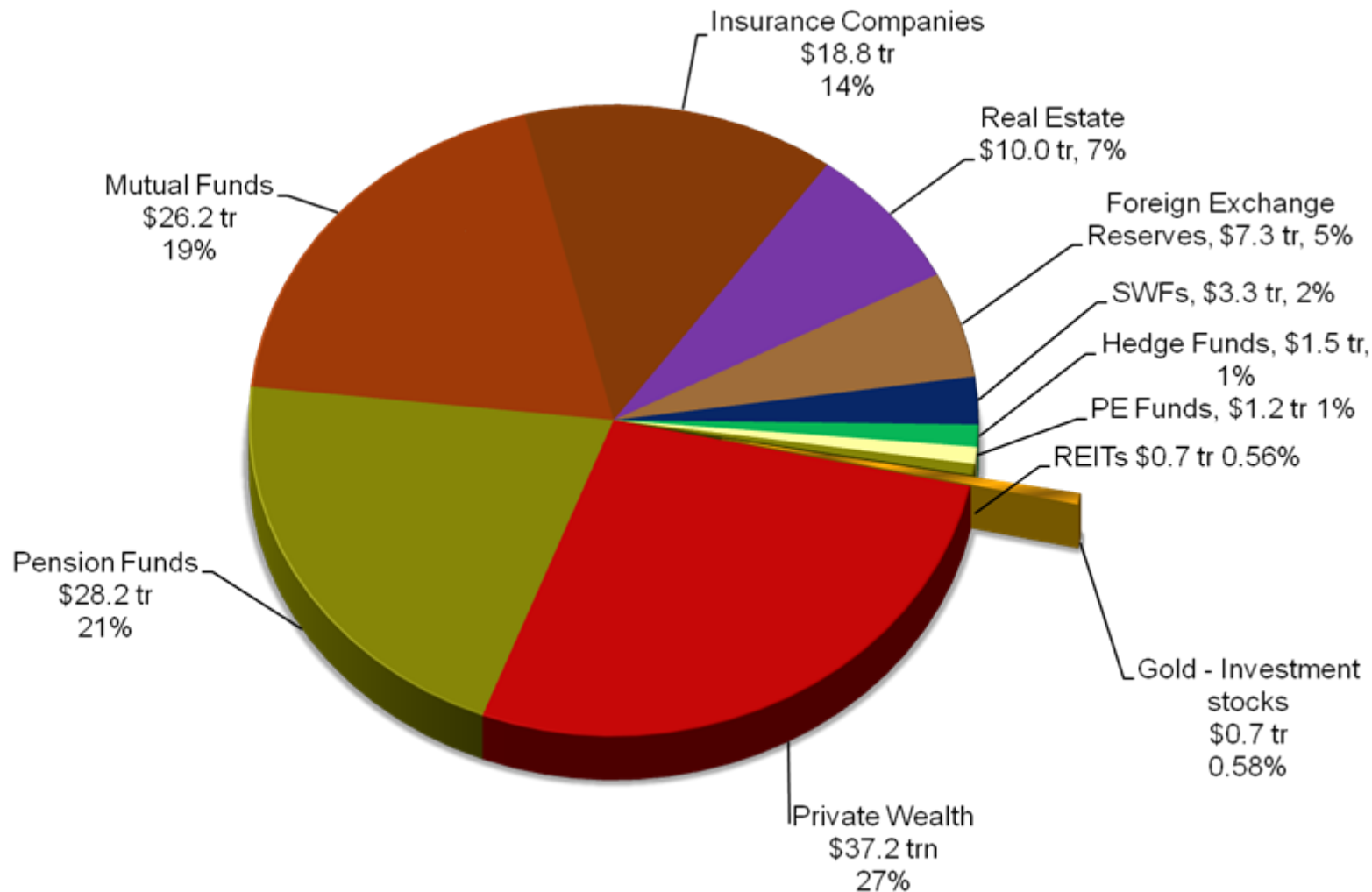
# Stock of gold

Total above ground stocks:  
163,000t



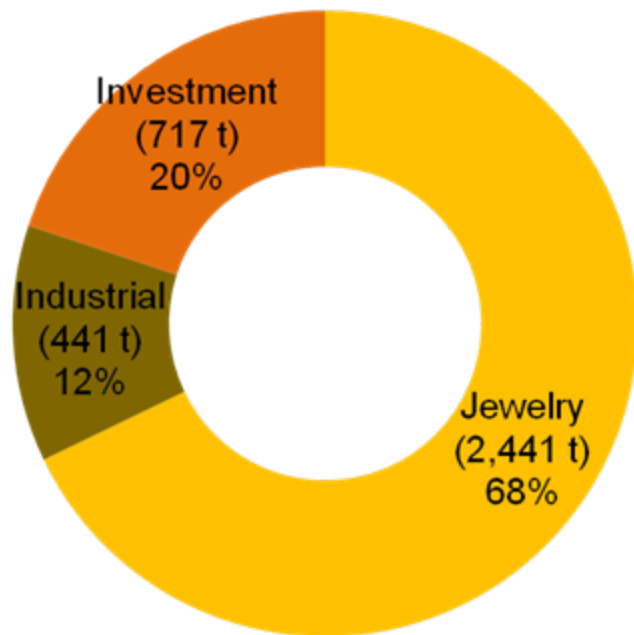
# Global allocations to gold are small

- Investment stock of gold = 27,300 tonnes in 2008

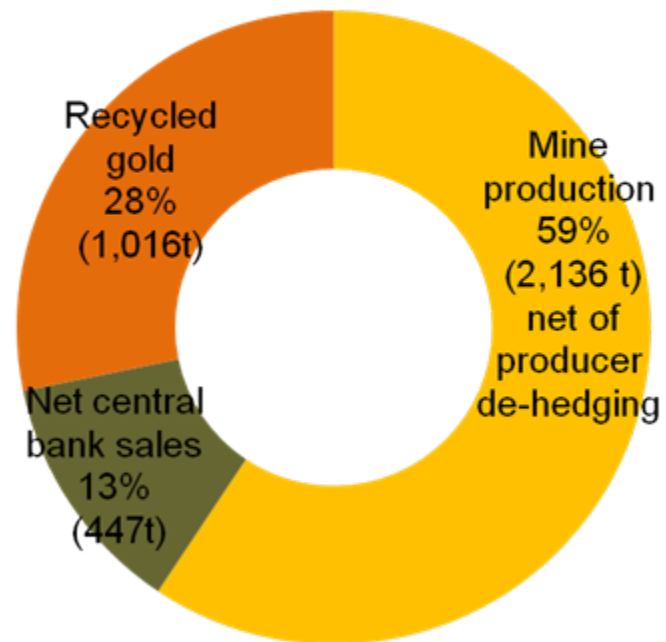


# The structure of the gold market

Demand flow 5-year average  
(2004-2008)



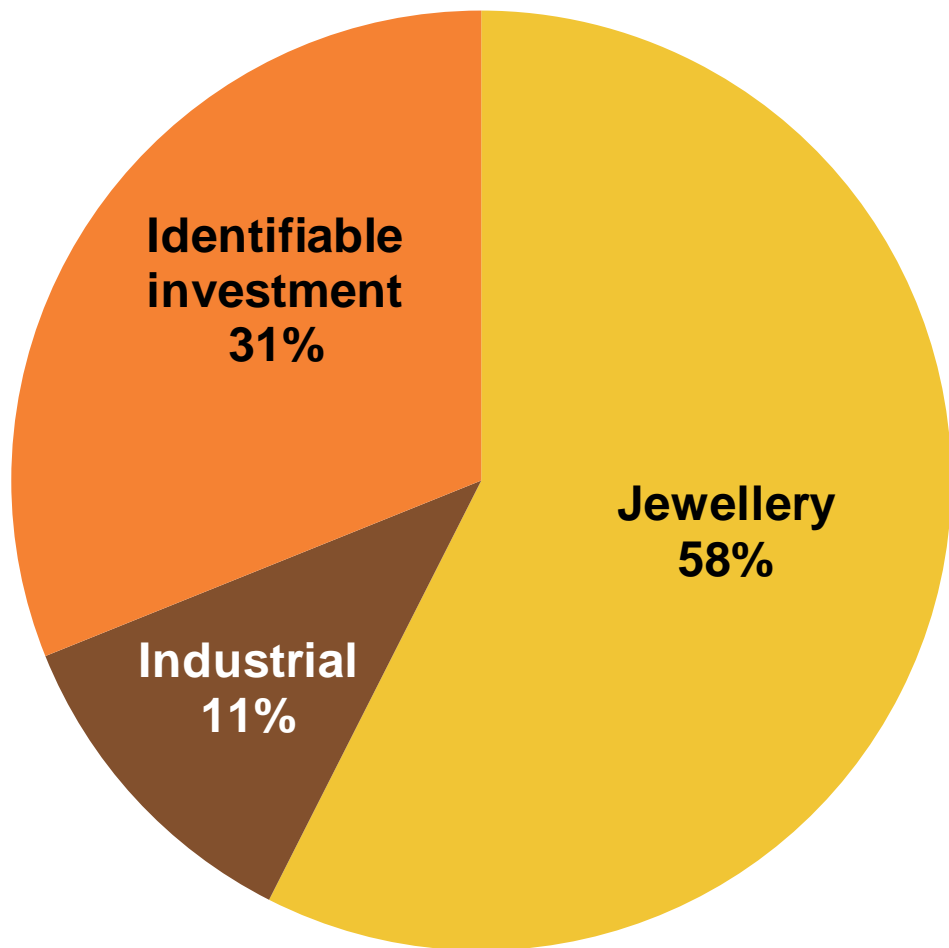
Supply flows 5-year average  
(2004-2008)



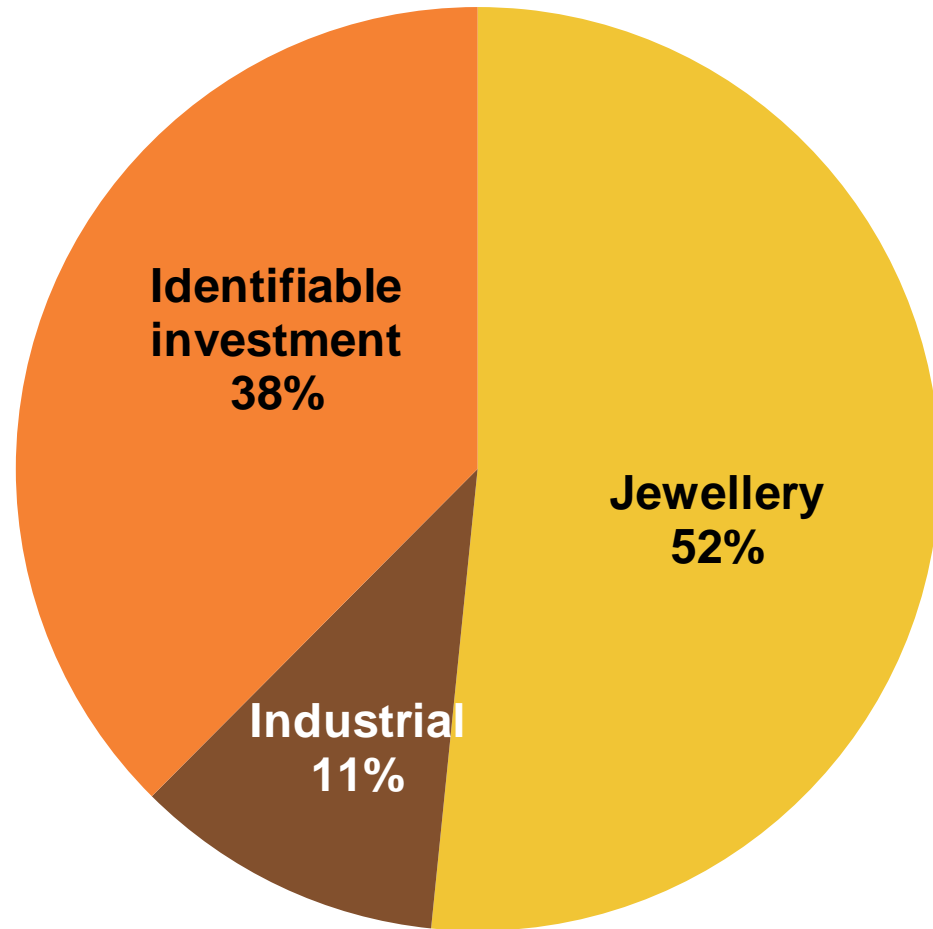
Source: GFMS, WGC

# Structure of gold demand 2008 - 2009

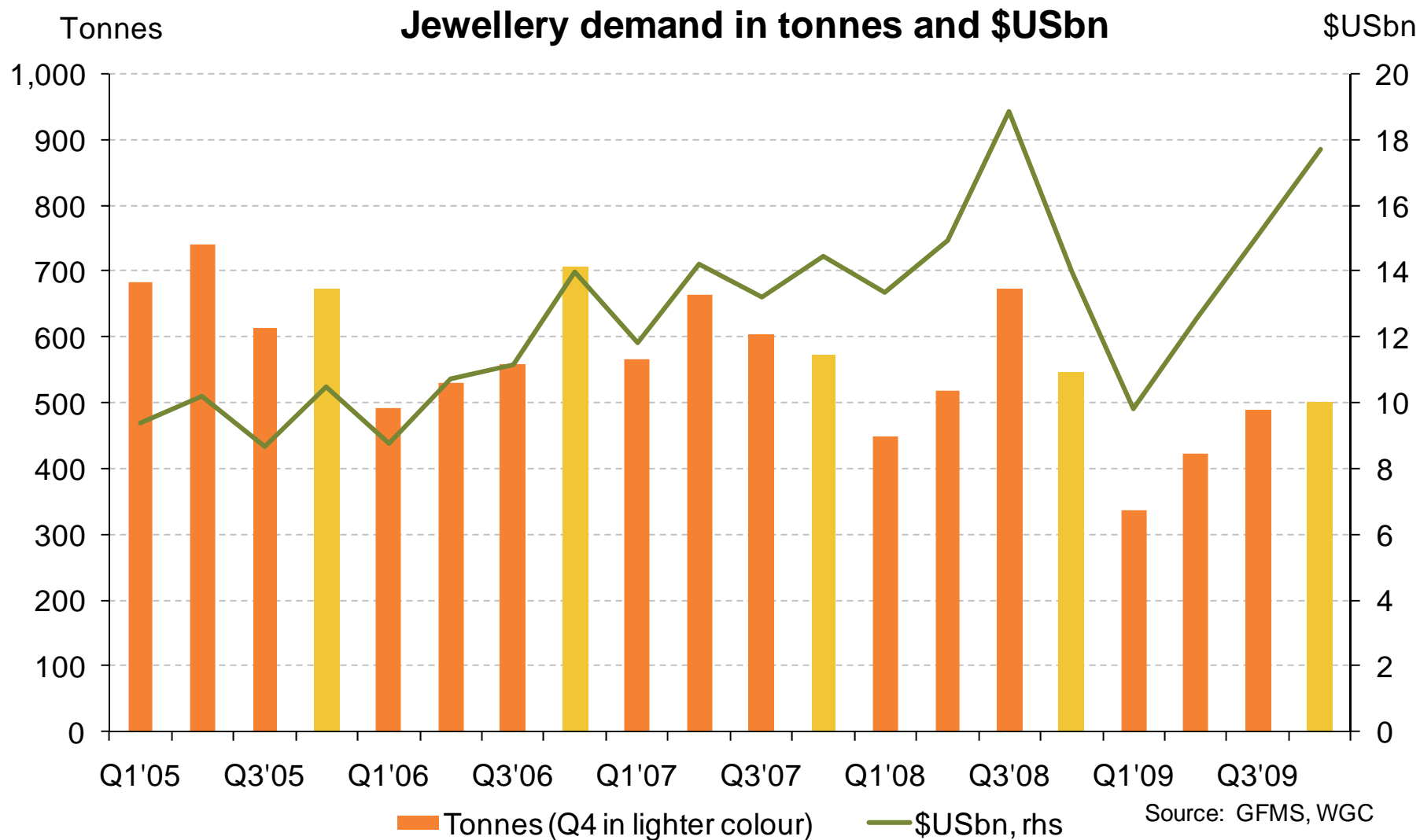
**2008**



**2009**

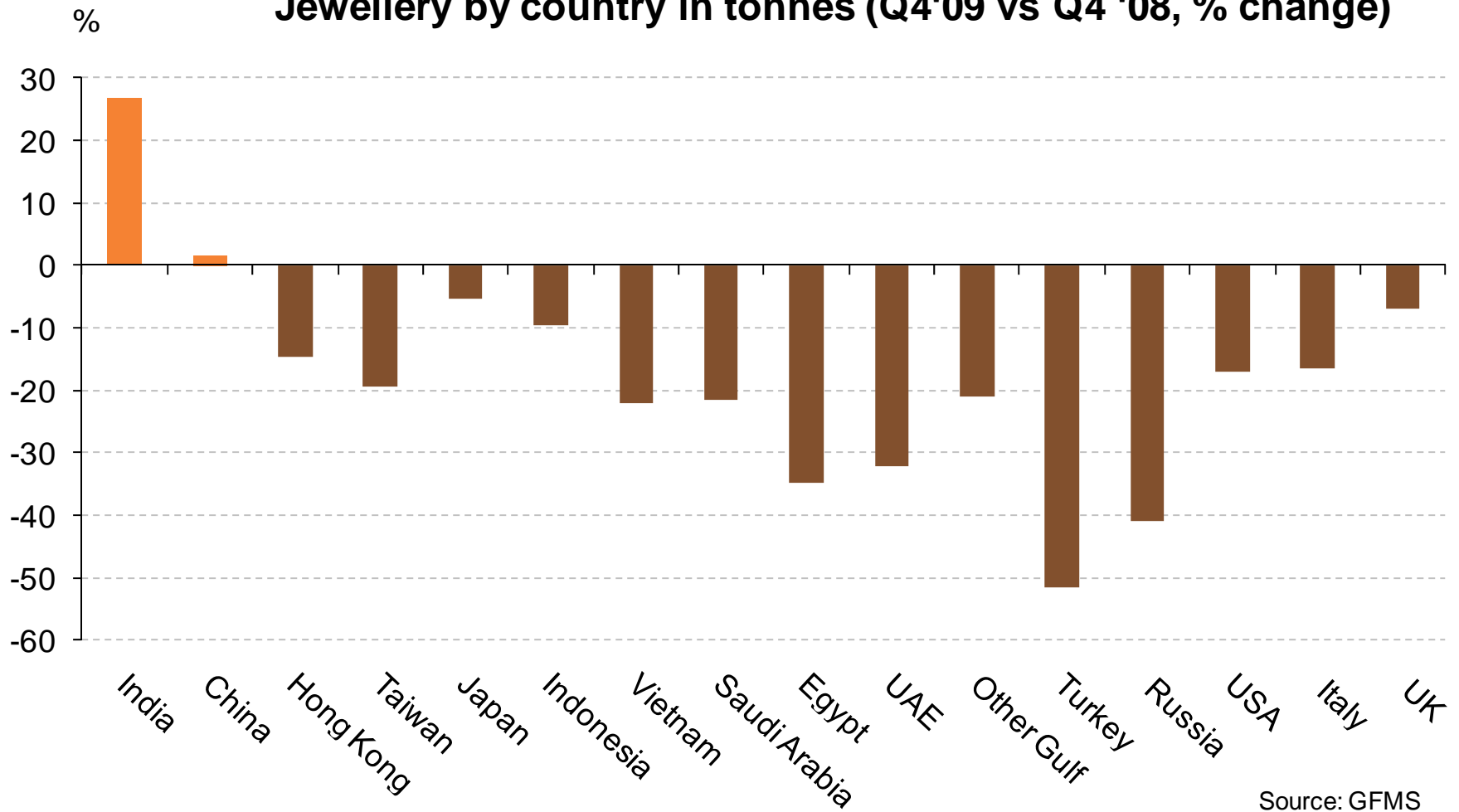


# Jewellery demand is declining



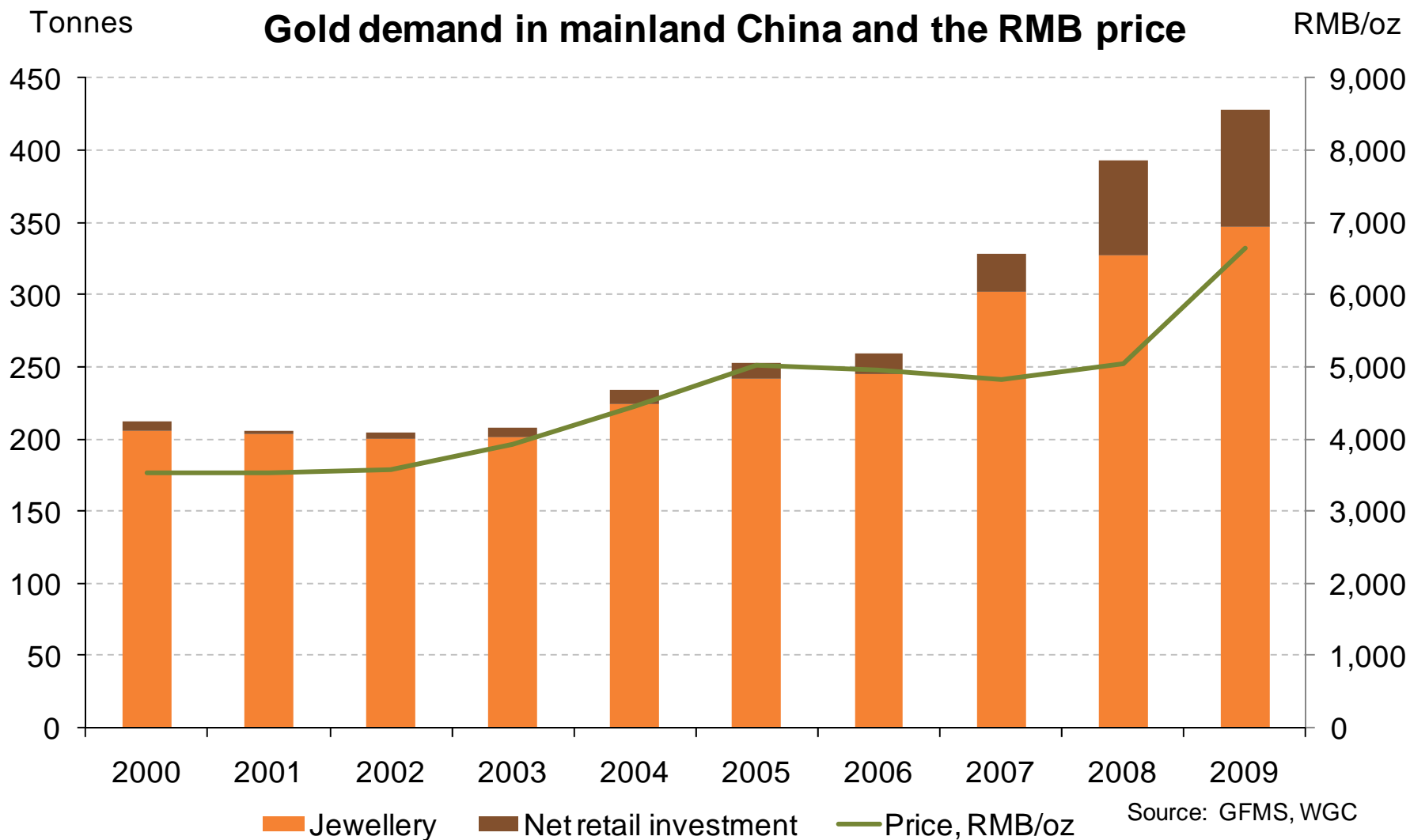
# India improved after a weak start in 2009

## Jewellery by country in tonnes (Q4'09 vs Q4 '08, % change)

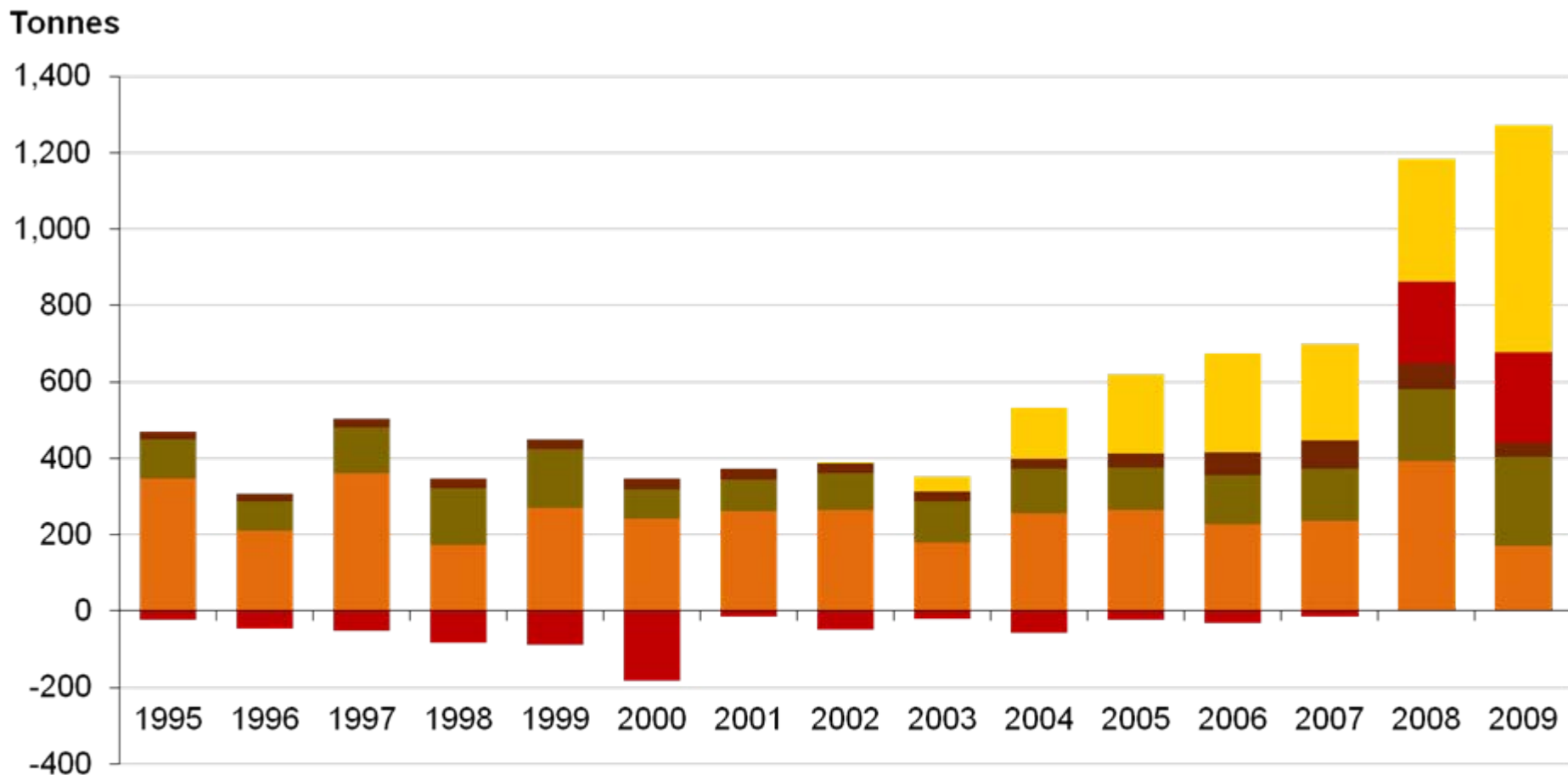


Source: GFMS

# China remains strong

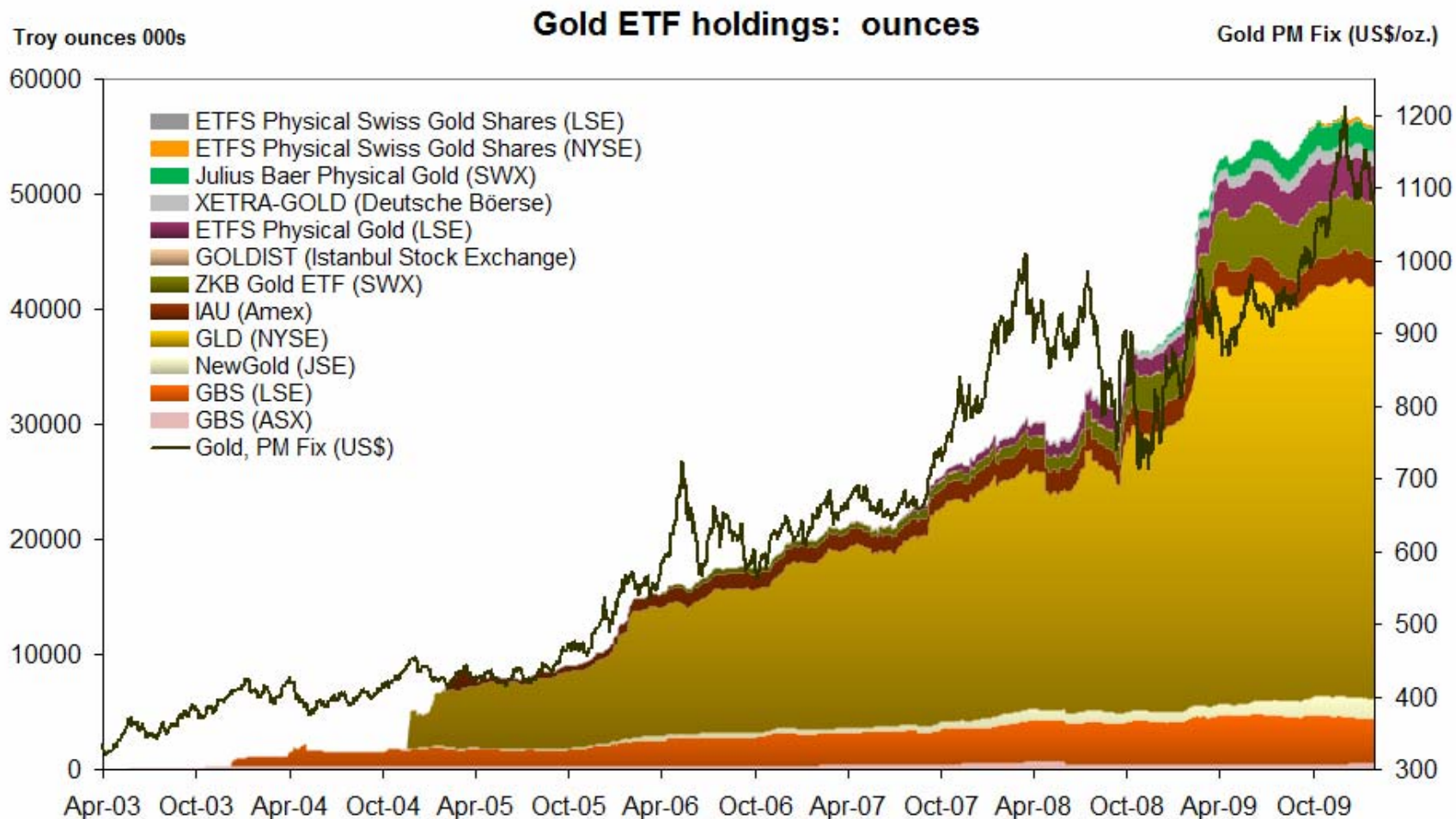


# Investment demand is strong



Data: GFMS

- Bar Hoarding
- Medals/Imitation Coins
- Official Coins
- Other Identified Retail Investment
- Investment in ETFs and Related Products



Data: [www.ishares.com](http://www.ishares.com); [www.exchangetradedgold.com](http://www.exchangetradedgold.com); [www.ETFSecurities.com](http://www.ETFSecurities.com); Zurich Kantonalbank; Finans Portföy; [www.Deutsche-Boerse.com](http://www.Deutsche-Boerse.com); [www.juliusbaer.com](http://www.juliusbaer.com); Global Insight  
 Chart: World Gold Council, [www.gold.org](http://www.gold.org)

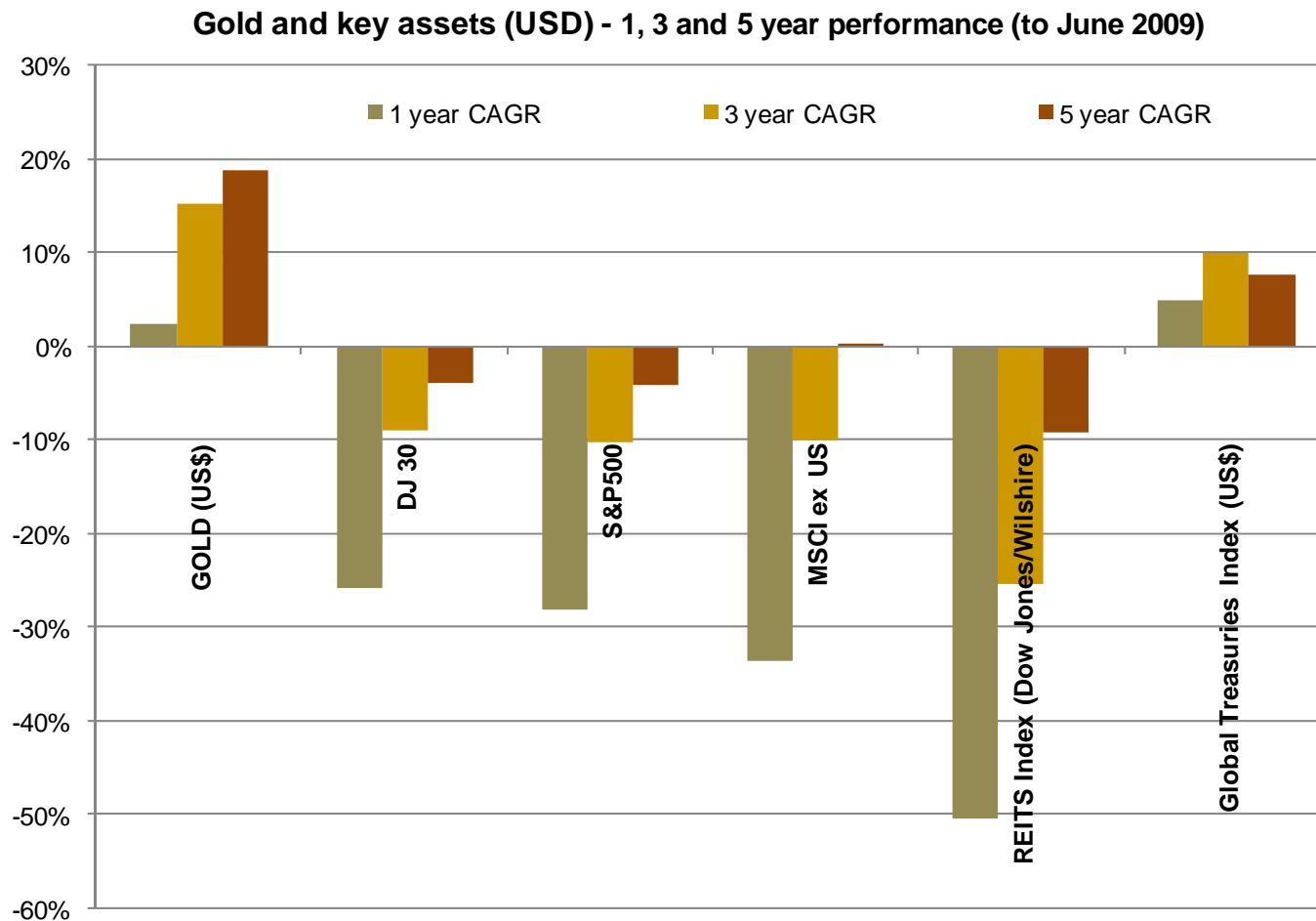


# Gold as an asset class

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- 10 year returns 280%, 14% per annum top performer
- Gold during the credit crisis and recession
- Gold as a currency and dollar hedge
- Gold as an inflation hedge
- Gold and China
- Gold as a portfolio diversifier & 'tail risk' hedge

# Gold the top performer



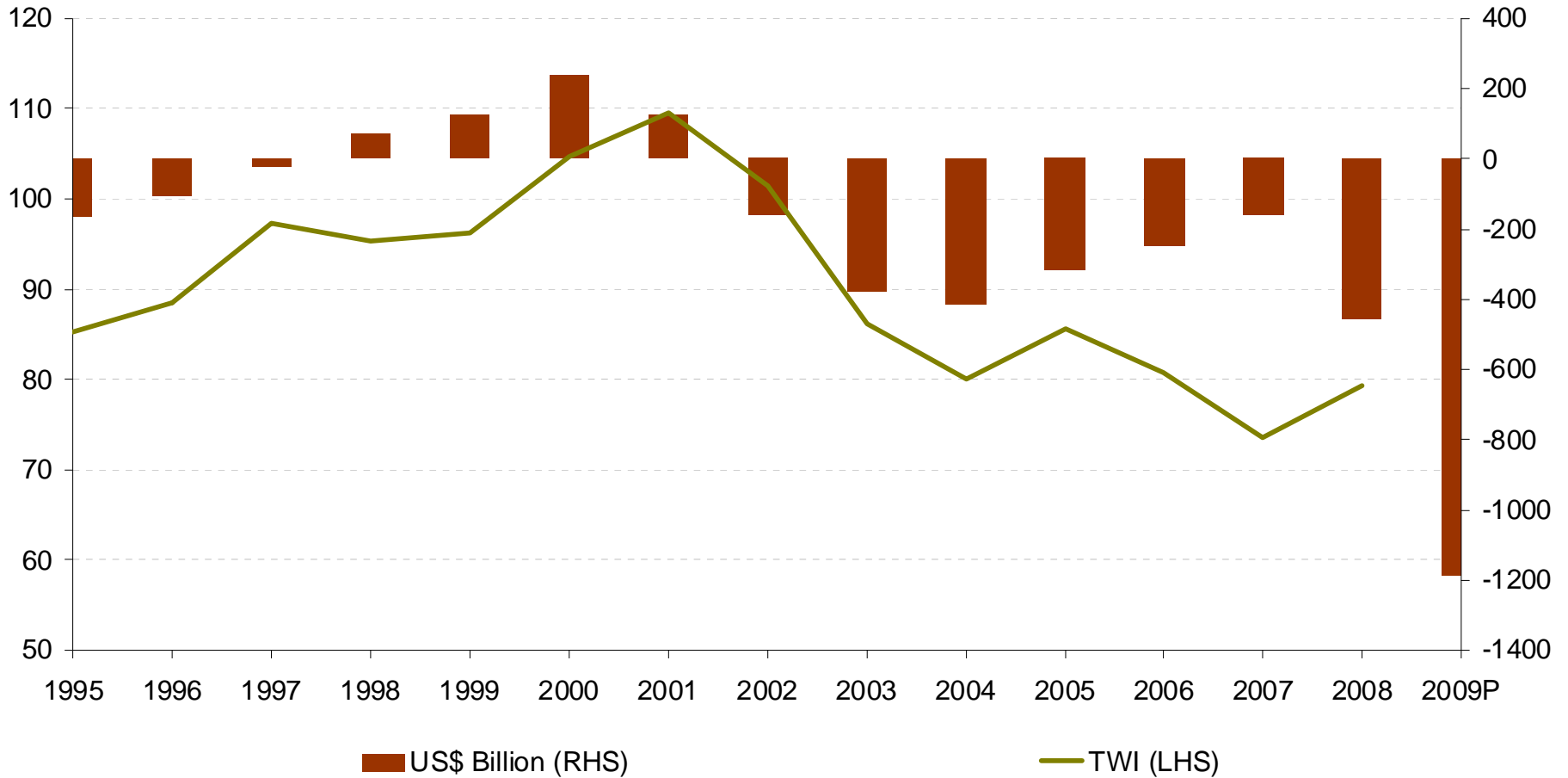
# Macro economy

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- Base case, 2010 is likely to be a low growth, low inflation, low interest rate environment
- When will the credit multiplier re-start?
- Risk 1 - exit strategies from QE?
- Risk 2 - sovereign risk, supply, rating downgrades, dollar?
- Risk 3 - an 'inflation scare'?
- Risk 4 - China pre-tightening & bubble?
- Deficit reduction or US dollar capitulation?

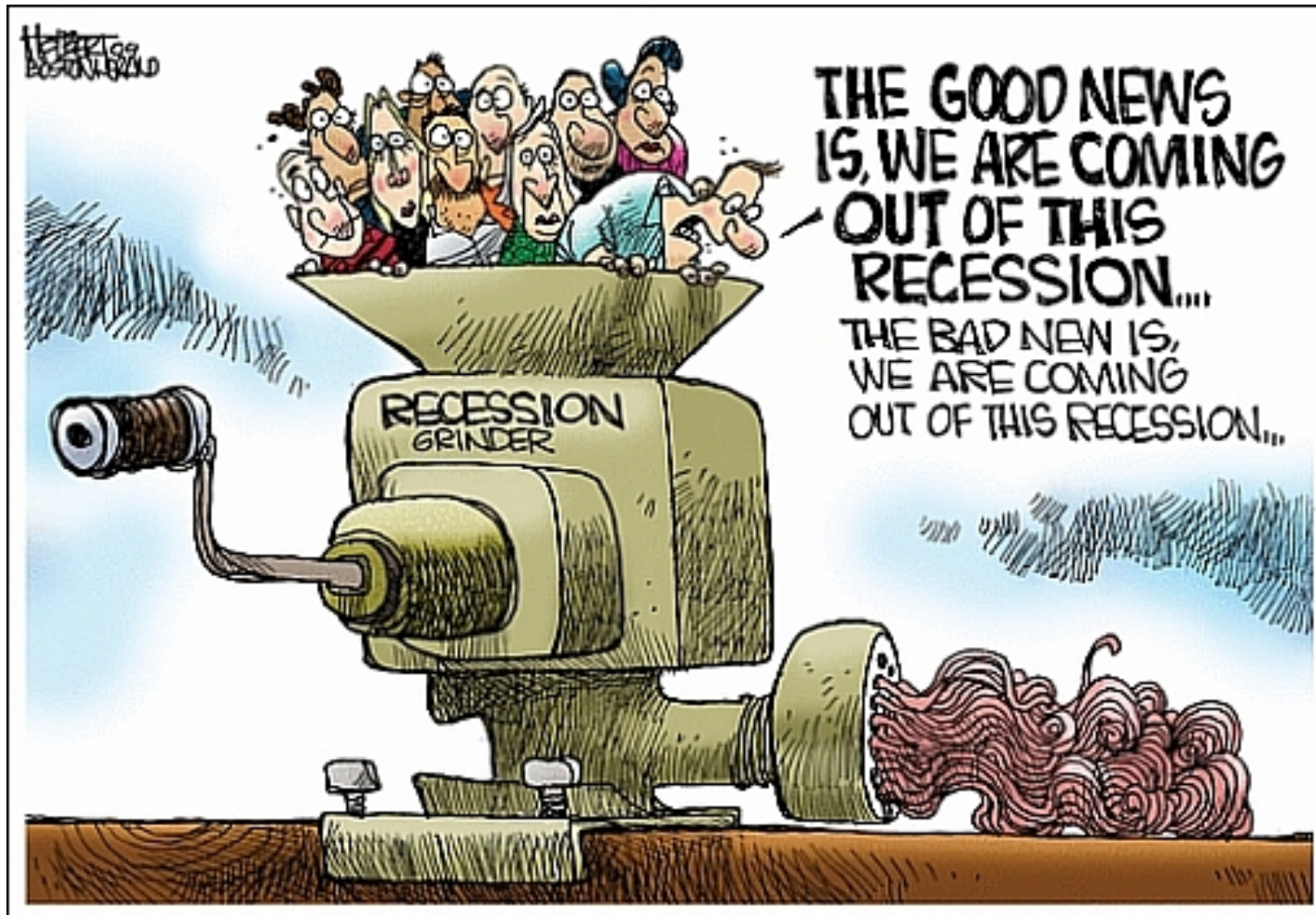
# The \$1.2 trillion + deficit

US Budget Deficit (US\$ Billions) and Trade Weighted Dollar (Index)



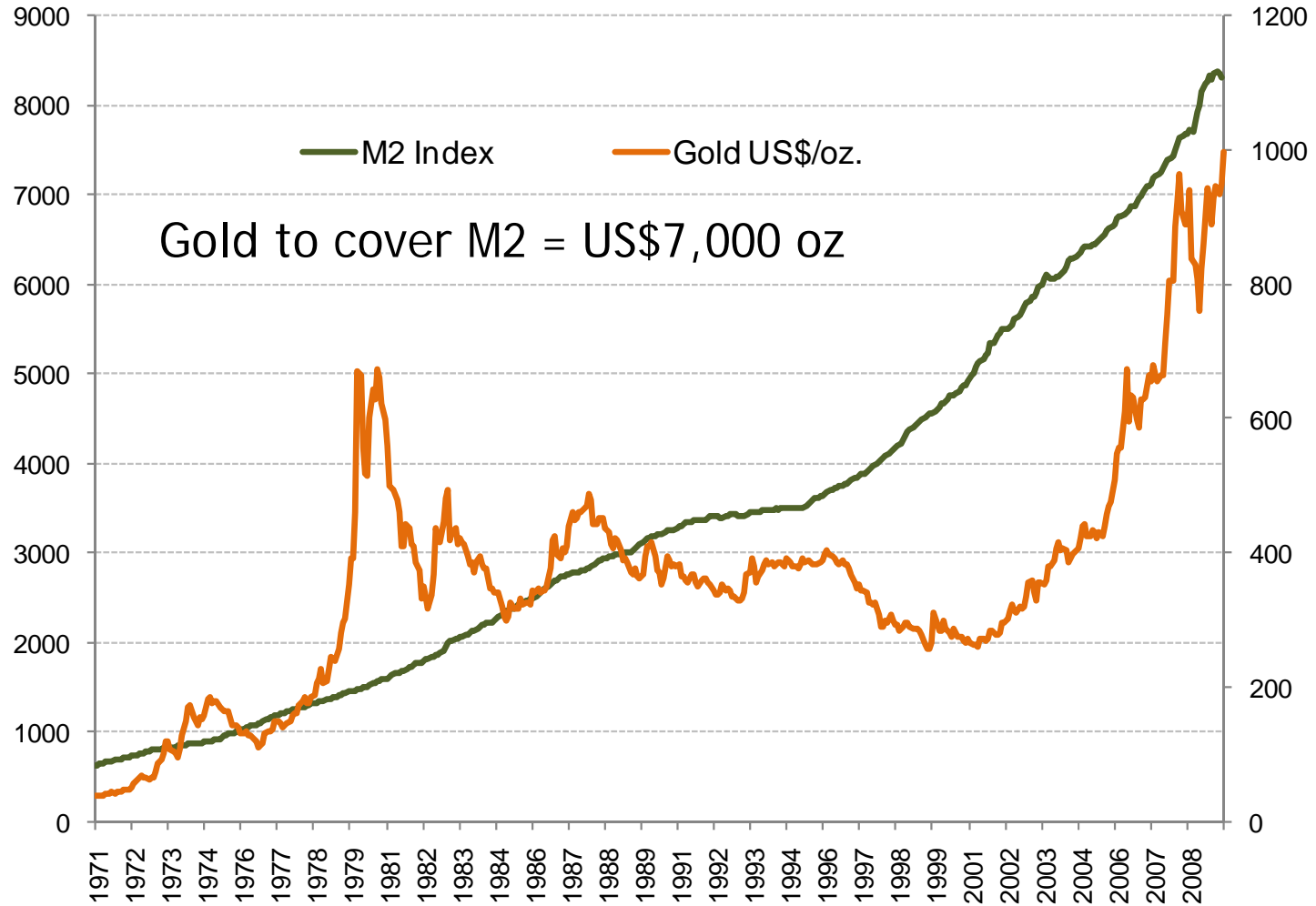
Source: Congressional Budget Office, Bloomberg

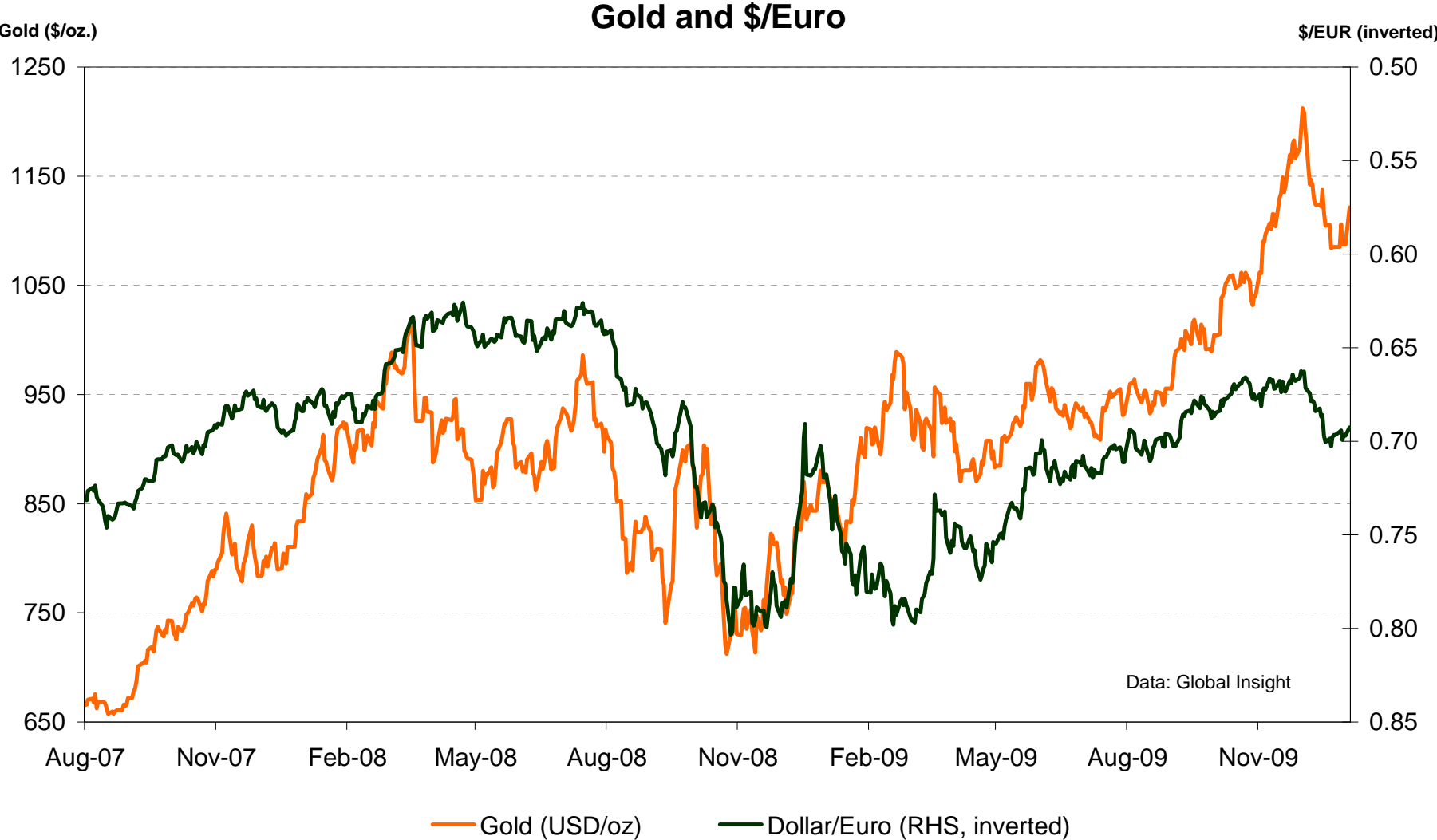




Source: Jerry Holbert

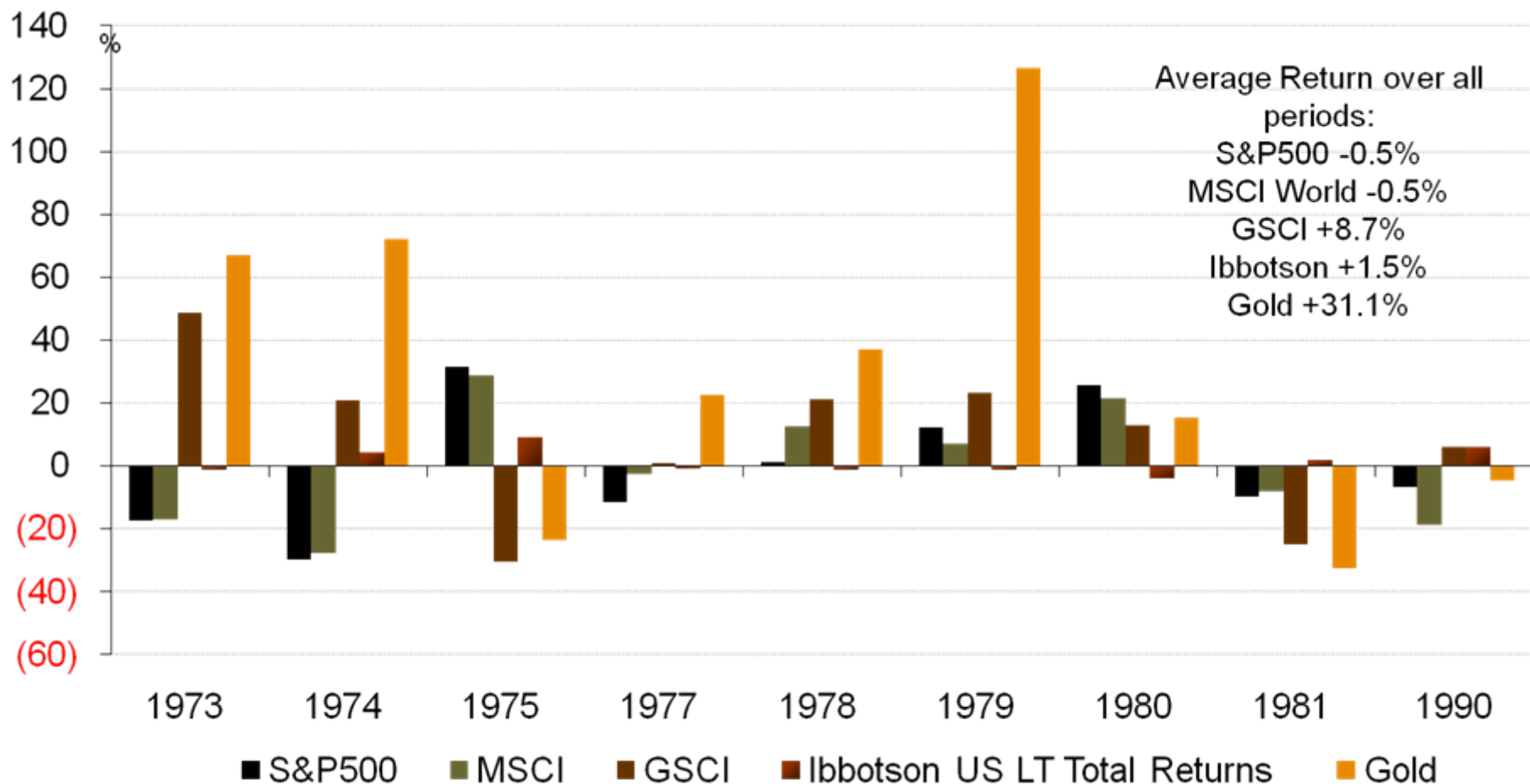
# US M2 & gold as a currency





# Gold Performs Well in a High Inflation Environment

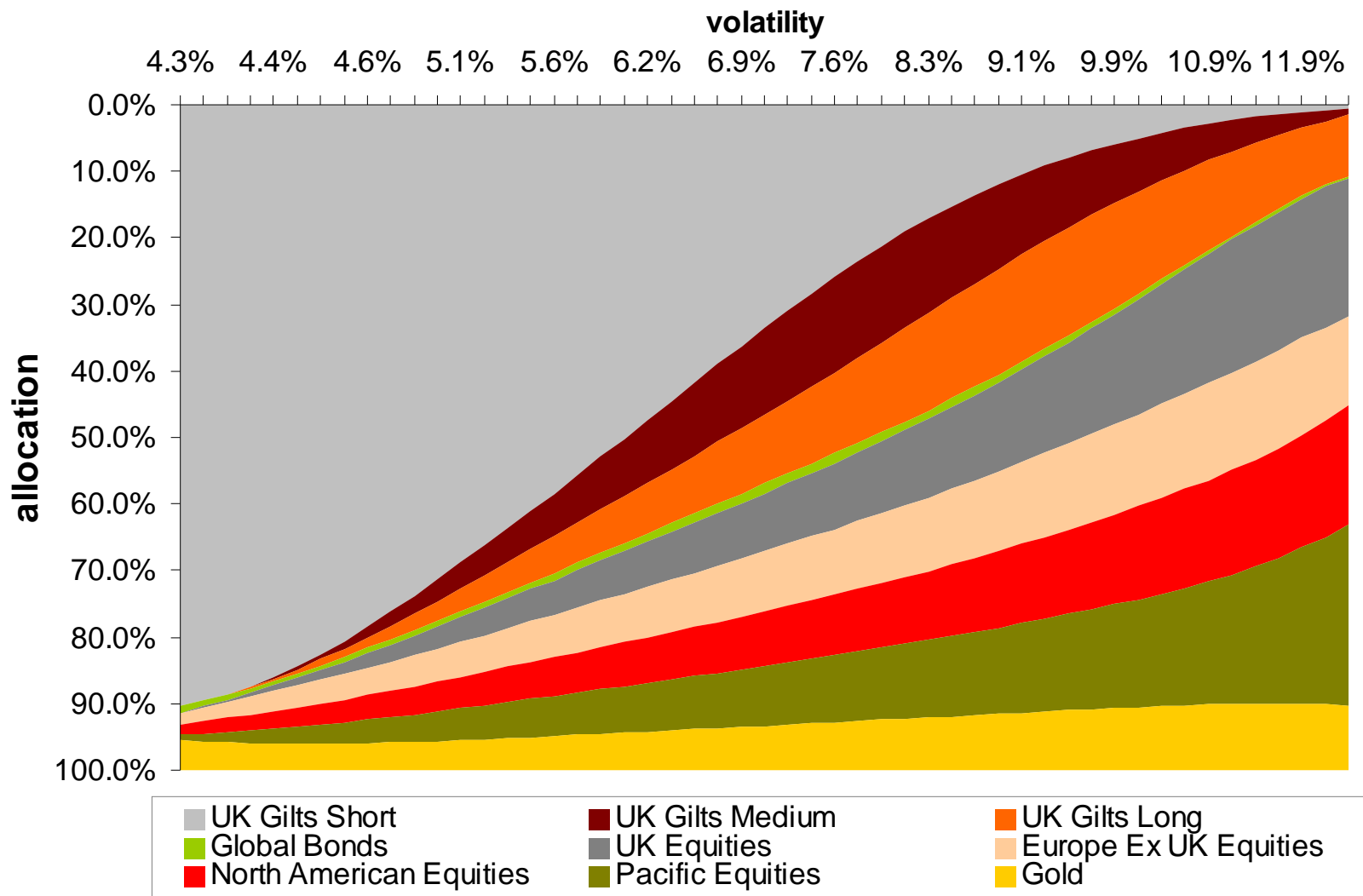
Performance of Equities, Commodities, Bonds and Gold in High Inflation (US CPI > 5%) years (% annual return, Dec/Dec)



Source: WGC, Bloomberg,

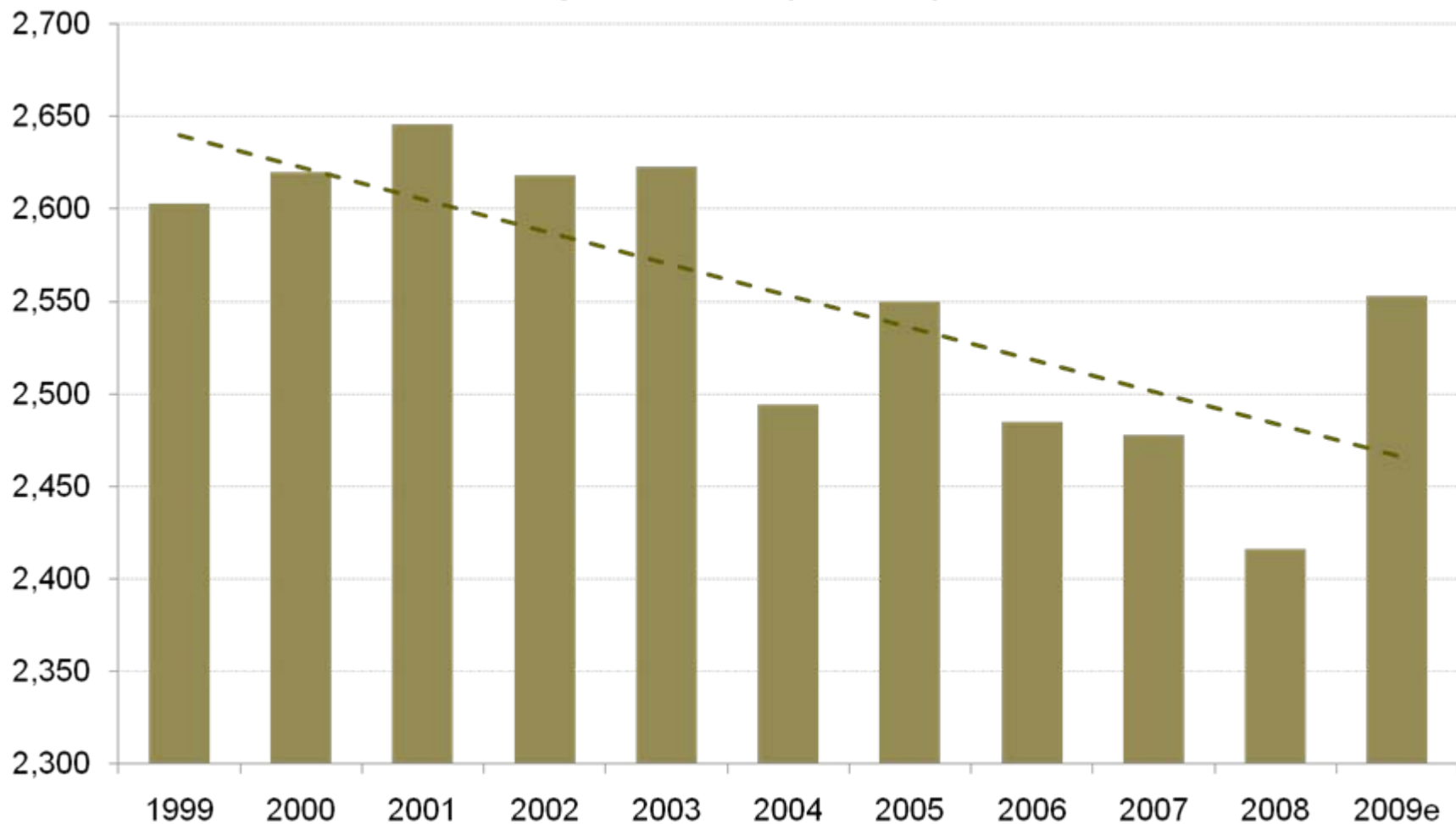


## Optimal Portfolios Composition Map



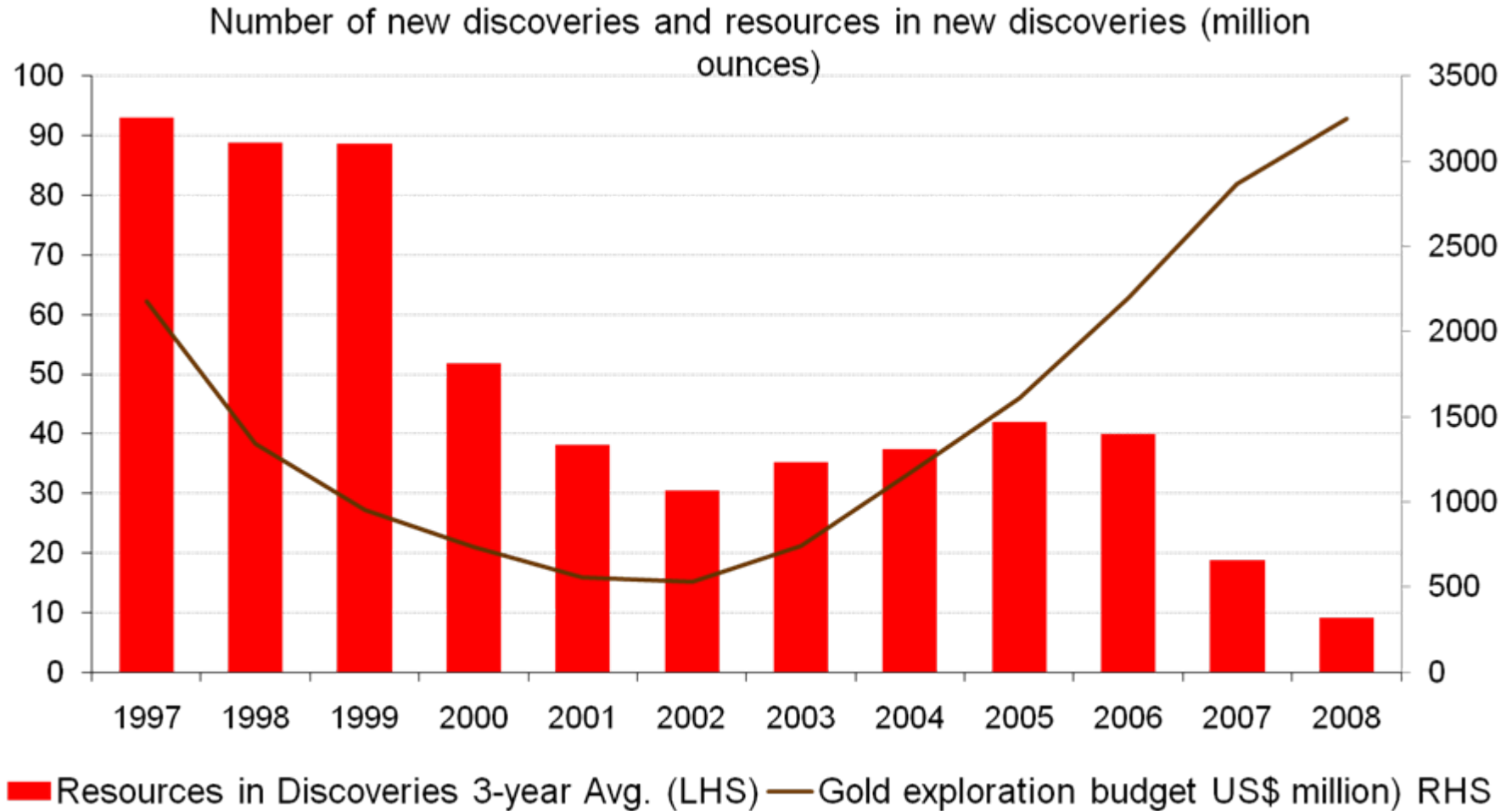
# Mine production in a downtrend but up in 2009

## Mine production (tonnes)



Data: GFMS

# Dearth of major new discoveries



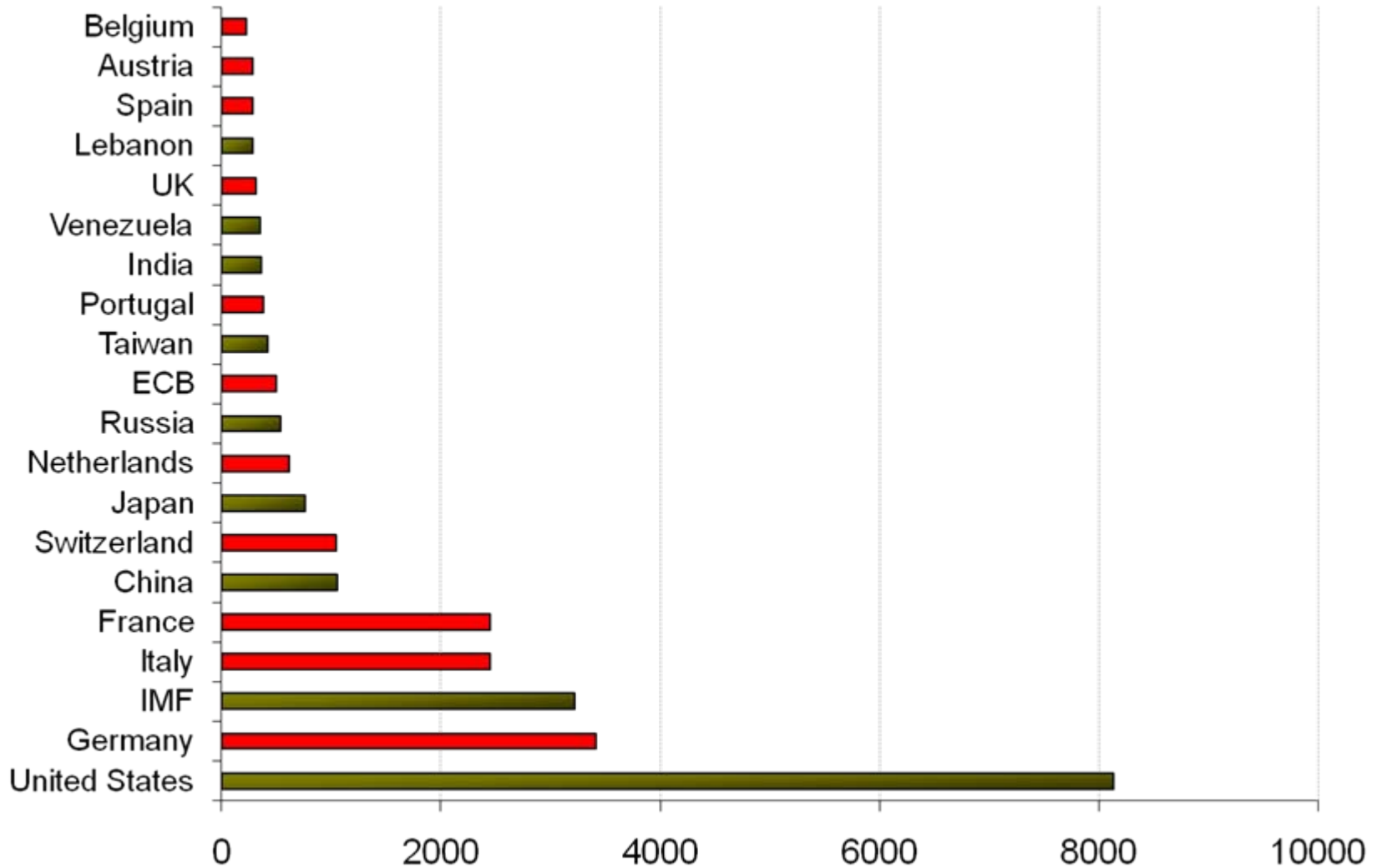
Source: Metals Economics Group, Strategies for Gold Reserve Replacement

# The Central Bank Gold Agreement

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- The “Washington Agreement” September 27 1999 to September 26 2004, limited sales to 2,000 tonnes
- CGBA2 from 27 September 2004 to 26 September 2009, limited sales to 2,500 tonnes
- CBGA3 from 27 September 2009 to 26 September 2014 and limits sales to 2,000 tonnes, 19 signatories, who hold a combined 11,960 tonnes or 40% of the world’s official sector gold holdings
- CBGA3 also accommodates the IMF’s gold sales over 4 to 5 years, 190 tonnes remaining after the RBI transaction at US\$1,045 per oz

# Top 20 official sector gold holdings (tonnes)



Source: WGC



Central banks were net sellers from 2004-08, 444 tonnes per annum. In 2009 they sold just 44 tonnes

# Asia and gold reserves

- Asia holds only c. 2.4% of its total reserves in gold
- China has expressed concern over the outlook for the US dollar
- The region is becoming a more important gold producer
- China leads the way, increasing its gold reserves to 1,054 tonnes
- Were Asia to increase its gold reserves by 1 percentage point, it would need to buy c. 850 tonnes of gold, offsetting more than 2 years of CGBA3 sales



“If you don't trust gold, do you trust the logic of taking a pine tree worth \$5,000, turning it into paper, putting some ink on it and calling it one billion dollars?”

- Kenneth J. Gerbino