

Gold Price has Nowhere to Go but Up!

Gold will soon become the next global asset bubble now that pivotal global economic events are finally converging to propel its ascent into record territory. This is the most recent consensus shared by many key business leaders who have the most at stake.

Among them is Rupert Robinson, CEO of the venerable London-based Schroders Private Bank, which manages nearly US \$200 billion of investment assets, including a sizeable stake in gold futures and gold-backed exchange traded funds (ETFs).

He argues that if inflation gathers momentum, long-term interest rates will rise, which in turn should accelerate the weakening of the US dollar. This makes gold the ultimate safe haven alternative to holding US 'fiat' money (a currency that is not backed by anything of tangible value).

"If deflationary fears resurface, gold bullion will rise as investors run for cover and seek maximum security for their money," he says.

This is especially the case in the event of a currency crisis in which gold's buying power will always trump a debased US dollar. And, it is worth noting, that gold tends to have an inverse correlation to the world's dominant reserve currency, which is widely expected to continue its downwards trend against other major currencies.

"But regardless of your outlook for the economy, gold is a great each-way bet. It is an investment that works as well in an inflationary environment as a deflationary one – with bullion, it's "heads you win, tails you win," Robinson adds.

Fears of a protracted slump in the world economy, as well as the advent of runaway global money supply and inflationary forces, are the 'hot button' issues of the day. But another key portent of higher gold prices that is often overlooked is the dwindling of gold output.

Most of the world's major deposits are virtually mined-out and new world-class deposits are becoming harder to find and more expensive and politically problematic to bring on-stream. In fact, gold production has been decreasing at a rate about 4-5% annually since 2001.

This stark reality is not lost on Evy Hambro, manager of the world's largest commodities fund, the high-flying US \$17 billion London-based Blackrock World Mining Fund. He says gold supply/demand fundamentals, alone, will help the yellow metal to find a new support level at the hallowed \$1,000 an ounce mark.

"The producers don't seem to be able to reverse the downward trend in production. Without a higher price, we're going to see lower production. So we need to see that higher price (\$1,000 an ounce) just to keep production stable," he says.

Hambro also notes that central banks are now selling less gold than in the past and that both China and Russia have ravenous appetites for the noble metal.

"The trend of sales is now in reverse...Central banks that have been rumoured to be buyers, like China for many years now, have admitted that they have been buying gold," he says. "China recently announced that they have increased their gold holdings from 600 tonnes to over a 1,000 tonnes. And Russia continues to buy almost every day."

Indeed, both China and Russia are two of the biggest holders of foreign reserves and both have recently voiced their growing disillusionment with the U.S. dollar (the ultimate debt instrument) and their preference for bullion. This is why China, the world's fastest growing superpower, has stated its intention to spend more of its \$40 billion monthly surplus on hard assets rather than the toxic paper of Western democracies.

This paradigm shift is significant when considering the fact that most G8 nations have at least 50% of their reserves held in gold, whereas the reserves of China, India, Russia and Brazil are still at less than 5%. Hence, the gold reserves of these new power players are expected to grow exponentially.

All of this is music to the ears of the captains of industry who have the capital-intensive job of scouring the planet for sizeable new gold finds and then prying these buried treasures out of the ground. They include Yale Simpson, the Executive Chairman of Vancouver-based Exeter Resource Corporation.

His company believes it has a tiger by the tail in the shape of its wholly-owned, prospectively world-class Caspiche gold/copper deposit in northern Argentina. Earlier this week, Exeter announced an attention-grabbing 266% expansion of the deposit's inferred mineral resource calculation to 19.6 million ounces of gold, 137 million ounces of silver and 4.84 billion pounds of copper. This represents a total of 33.7 million ounces of gold equivalent.

Simpson concurs that \$1,000 an ounce promises to become gold's new support level. And he suggests that such a milestone development will prove to be a potent catalyst in helping to reverse the downward trend in production.

"In particular, a continuation in elevated gold prices dramatically improves the economics of the world's larger low-grade porphyry deposits, such as Caspiche," Simpson says. "And these prices are especially positive for their ability to service the capital requirements that are necessary to build elephant-sized gold/copper mines."

A great deal of additional work and more major expenditures will be required before the Caspiche Project can ever hope to go into production. But time appears to be on Exeter's side. Indeed, the 'smart money' is increasingly betting that rising bullion prices will continue to gather momentum as inflation begins to bite.

Additionally, other economic storm clouds are already gathering to ensure that gold is most assuredly reverting back to its time-honored role as the world's ultimate store of value.

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