

Gold: Become a True Safe Haven?



As investors do seem to be looking on gold as an insurance against general stock market meltdown, with the feeling that there still could be more serious economic bad news to come, it is widely expected that a strong gold price is possible this year. Although gold performed not very well against the US dollar in 2008, it has already reached new highs in a number of other currencies. What is particularly encouraging in the gold context, at least in the recent few weeks, is that overall the price has increased well despite the strong dollar. Normally when the dollar is strong, gold tends to fall back in dollar terms. This time it hasn't. In addition, interest rates are at their lowest levels ever in many countries and it is tough to generate any income at all from cash in the current environment. One of the old arguments against gold as an investment is that it is not interest bearing, but when banks and bonds are also paying

virtually zero rates, then this argument falls away in totality. Anecdotal evidence also suggests that Central Bank sales are less likely to impact the market in the medium term at least which will, with falling world mine production continuing, means overall new supply will be diminishing significantly in the year ahead, and probably beyond. Although demand has fallen significantly too in key markets like India, some of this has been because the buyers have been waiting for lower prices. As a result, if the perception starts taking hold that gold is definitely on the increase again, then that may well re-stimulate sales. However there is also little doubt that the global recession is biting and there is probably less money available for gold purchases. Meanwhile, while many commodity prices have not yet hit the floor, the pace of their decline is slowing and

the forced, indiscriminate selling by funds-triggered by investor redemptions and tight-credit appears to be subsiding. Many prices are approaching average world cash costs, triggering substantial production cuts, new project deferral and tighter supplies. Furthermore, on gold ETF sales figures, gold investment holdings are continuing to increase week by week as big investors seek to protect themselves against a further fall-off elsewhere in the markets. Many well-respected investment gurus who are not basically gold oriented, do feel that it is wise to maintain around 10% of one's investments in gold bullion or gold ETFs. Last but not the least, the prospect for gold stocks is also promising. In case the gold price can climb further, the generally geared gold producers will benefit as they are leveraging on the bull run of gold price. **E**

Microscope

There seems to be a two-year cycle in the gold price which has been repeating itself since about 2004. The even years tend to reach exaggerated extremes to the upside and to the downside on a percentage basis, while the odd years tend to be a little calmer with less volatility. For example, 2008 went very much like 2006, with exaggerated highs reached in the spring of each year, and a late start to the traditional autumn-winter-spring upswing, which began around October/November of 06 and 08. If this is indeed a reliable cycle, it can be expected 2009 to be much like 2005 and 2007 all throughout the year. In the springs of 05 and 07, gold kept hitting its head against the previous year's high all throughout the spring. More than once during the spring of 2007, gold topped out at about \$690, coming to within about 5% of the 2006 high of \$735. Similarly, the spring of 09 should see gold hitting its head against 2008's high of \$1,035, coming to within 5% of it, or up to about \$985. That will be the high for the first half of 2009 at around the beginning of May, though this will not be the high for 2009 as a whole. **E**

MARKET BRIEFING

YTD % (local curr)

US DJ	8,000 (-8.8%)
Nasdaq	1,476 (-6.4%)
Euro Stoxx 50	2,236 (-8.7%)
HSI	13,278 (-7.7%)
Japan NK225	7,994 (-9.8%)
China Shanghai Composite	1,990 (9.3%)
Singapore	1,746 (-0.9%)
India BSE30	9,424 (-2.3%)
Brazil BOVESPA	39,300 (4.7%)
Aus All Ord	3,478 (-5%)
US-10yr Bond	Yield 2.84%

As at 30/01/09

Insight: "Commodity Market"

The modern commodity markets have their roots in the trading of agricultural products. While wheat and corn, cattle and pigs, were widely traded using standard instruments in the 19th century in the United States, other basic foodstuffs such as soybeans and even weather commodities were added recently. The commodities markets have seen an upturn in the volume of trading in recent years. In the five years up to 2007, the value of global physical exports of commodities increased by 17% while the notional value outstanding of commodity OTC derivatives increased more than 500% and commodity

derivative trading on exchanges more than 200%. The notional value outstanding of banks' OTC commodities' derivatives contracts increased 27% in 2007 to \$9.0 trillion. OTC trading accounts for the majority of trading in gold and silver. Over 40% of commodities trading on exchanges was conducted on US exchanges and a quarter in China. Recently, weather trading becomes more and more popular as it is a kind of negative commodities, units of which represent harm rather than good. In fact, many people would like to fairly allocate the waste disposal capacity of nature. The atmosphere's capacity to absorb certain amounts of pollutants is measured, divided into units, and traded amongst various market players. Those who emit more SO₂ must pay those who emit less. **E**

A-Z Financial Tools

Kick-out Option is an option that is knocked out when the underlying instrument reaches a certain price. The option writer sets the limit, with the aim of restricting his losses if the price of the underlying financial instrument moves very sharply. In exchange the buyer pays less for an option which offers only limited opportunities for profit. **E**



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