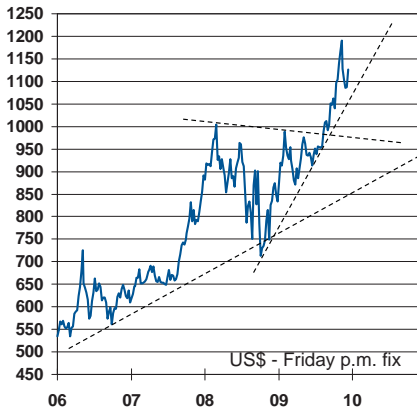


Gold Monitor

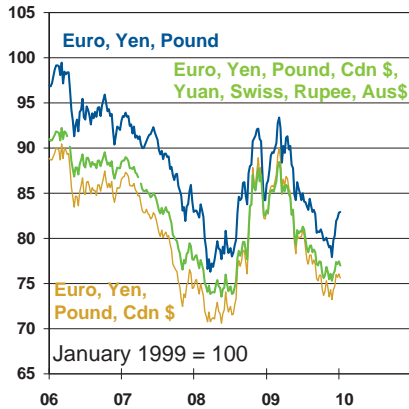
by Martin Murenbeeld

January 8, 2010

GOLD PRICE



US DOLLAR INDEX



TSX GOLD INDEX



	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Gold - 2nd Fix	1105.50	1094.25	1085.25	1104.50 *	
Gold - COMEX	1096.00	1086.70	1094.00	1104.80	C
Silver - HH	1717.00	1697.00	1721.50	1745.00	H
Platinum - NYME	1428.60	1402.90	1432.90	1474.00	R
Crude Oil - NYME	73.72	74.40	76.67	78.05	I
CRB Bridge - NYBOT	274.78	274.89	279.36	280.92	S
US \$ (Excluding Cdn.)	82.87	83.36	83.15	82.98	T
Fed Funds (Overnight)	0.13	0.13	0.12	0.11	M
US Bonds - CBOT	116.88	116.09	115.94	115.22	A
TSX Global Gold Index	330.44	330.99	338.64	340.32	S
S&P 500	1114.05	1118.02	1120.59	1126.48	-

* a.m. fix

Gold Price Average (2nd fix, daily) - 2009 to date **971.36**

	Dec-28	Dec-29	Dec-30	Dec-31	Jan-01
Gold - 2nd Fix	n/a	1106.00	1087.50	1104.00 *	
Gold - COMEX	1107.90	1098.10	1092.50	1096.20	N
Silver - HH	1759.50	1719.00	1689.00	1692.00	E
Platinum - NYME	1489.70	1476.00	1463.30	1471.00	W
Crude Oil - NYME	78.77	78.87	79.28	79.36	-
CRB Bridge - NYBOT	284.45	283.73	283.63	283.38	Y
US \$ (Excluding Cdn.)	82.94	83.34	83.42	83.70	E
Fed Funds (Overnight)	0.12	0.12	0.11	0.11	A
US Bonds - CBOT	115.00	115.41	115.88	115.38	R
TSX Global Gold Index	n/a	332.62	333.65	334.38	'
S&P 500	1127.78	1126.20	1126.42	1115.10	'S

*a.m. fix

Gold Price Average (2nd fix, daily) - 2009 **972.36**

	Jan-04	Jan-05	Jan-06	Jan-07	Jan-08
Gold - 2nd Fix	1121.50	1123.25	1130.00	1130.25	1126.75
Gold - COMEX	1118.30	1118.70	1136.50	1133.70	1128.20
Silver - HH	1747.00	1785.00	1817.00	1827.00	1812.00
Platinum - NYME	1523.90	1537.80	1558.40	1559.40	1563.40
Crude Oil - NYME	81.51	81.77	83.18	82.66	82.30
CRB Bridge - NYBOT	289.34	289.39	293.73	290.53	290.37
US \$ (Excluding Cdn.)	83.28	83.01	83.26	84.00	83.77
Fed Funds (Overnight)	0.12	0.12	0.12	0.12	0.11
US Bonds - CBOT	115.09	116.03	115.31	115.28	114.97
TSX Global Gold Index	342.27	344.00	351.00	348.42	347.70
S&P 500	1132.99	1136.52	1137.14	1141.69	1140.29

Gold Price Average (2nd fix, daily) - 2010 to date **1126.35**

Happy New Year, everyone, and welcome to a new decade!

Executive Summary

1. Professional forecasters expect gold to average close to \$1200 this year
2. Government debt levels will rise to new highs this decade, raising the probability of default and monetary debasement

Brainstorming the other day our group here in Victoria concluded that the new decade would test the limits of monetary and fiscal policy. Yes, monetary authorities might presently be discussing how and when to implement their “exit strategies” (which we noted in our forecast report of December 18 represented a future hurdle for the gold price – see “bearish factors”), but the decade will witness record government budget deficits and record government debt-to-GDP ratios. Standard economic analysis indicates that large budget deficits and tighter monetary policies invariably lead to higher interest rates. In turn, the economic outcome is generally sub-par growth. Ergo, governments will naturally wish central banks to adopt more relaxed monetary policies - and may well pressure them to purchase government debt directly (which keeps interest rates from rising too severely).

The fundamental problem is that governments haven't come to terms with the costs of baby-boomer retirement. Indeed, it is very likely more governments will join the Japanese with debt-to-GDP ratios above 200%. (According to OECD data Japan's gross financial liabilities are forecast to rise to 204.3% of GDP in 2011. This can only be

supported with interest rates near 0%. Were Japanese government bond yields to be 10%, for example, the government would be subjected to annual interest payment totalling 20% of GDP - and would almost certainly have to default!

We'll see how the decade unfolds, but I cannot stress enough that demand for monetary debasement will be high in the years to come! (Let me refer the reader again to “Using Inflation to Erode the US Public Debt”, NBER working paper wp15562, December 2009, referenced in the December 18th *Gold Monitor*.)

But all that is out on the longer-term horizon. In recent weeks gold did indeed pull back into the \$1050-\$1100 range as suggested, but for a surprisingly brief spell. In fact, gold was less volatile than one might have expected, and moved back more solidly into the \$1115-\$1130 range this last week.

At this time of the year a number of organizations poll forecasters, and we submitted the following comments to the London Bullion Market Association (LBMA) on January 6:

Average for 2010: \$1205

Range: \$995 – \$1345

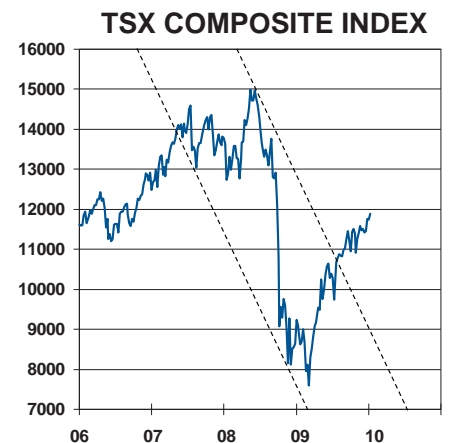
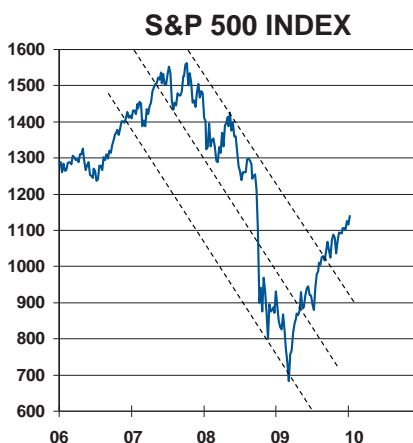
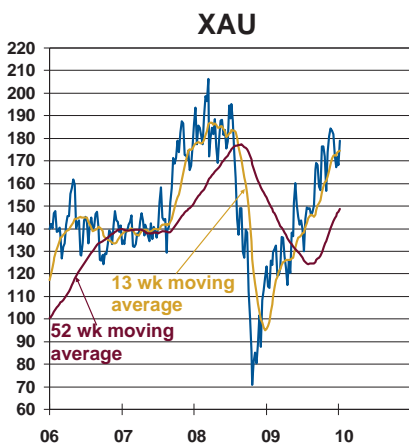
“Last year we said the following:

‘At least two factors suggest

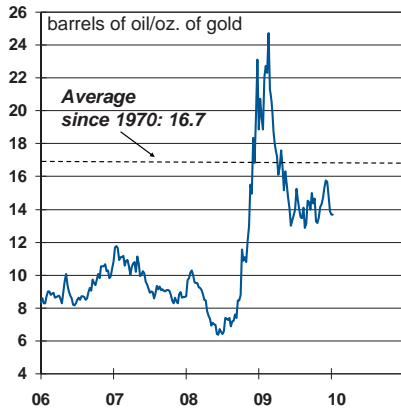
2009 could be an explosive year for gold: policy reflation and geopolitical crisis. Policy reflation would buttress gold against the downdraft of economic recession. Gold will likely set a new high again in 2009 – despite the broadly disinflationary/ deflationary macro-environment. Gold demand will continue to be driven by investment demand, by way of diversification out of currencies and other ‘paper’ assets. Jewelry demand, being driven by wealth and price factors, will be weak in 2009.’ We liked these comments so much we are repeating them for 2010 – with new twists, of course.

At the beginning of last year we did not expect that 2009-Q4 would be so explosive a quarter for gold – on the back of the Indian purchase of IMF gold, to be sure. Were it not for that quarter gold might have averaged very close to the \$945 we forecast. But that was last year!

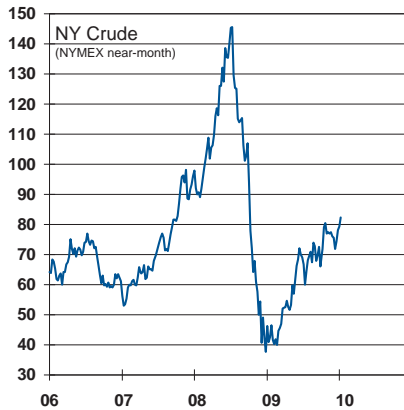
For 2010 we expect at least four factors to drive the gold price, other than the geopolitical factor which cannot be forecast with any accuracy. These are (1) continued monetary and fiscal reflation on account of a sub-par economic recovery



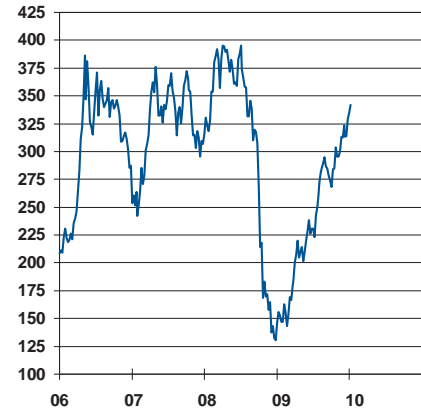
GOLD IN OIL TERMS



SPOT OIL PRICES



COPPER



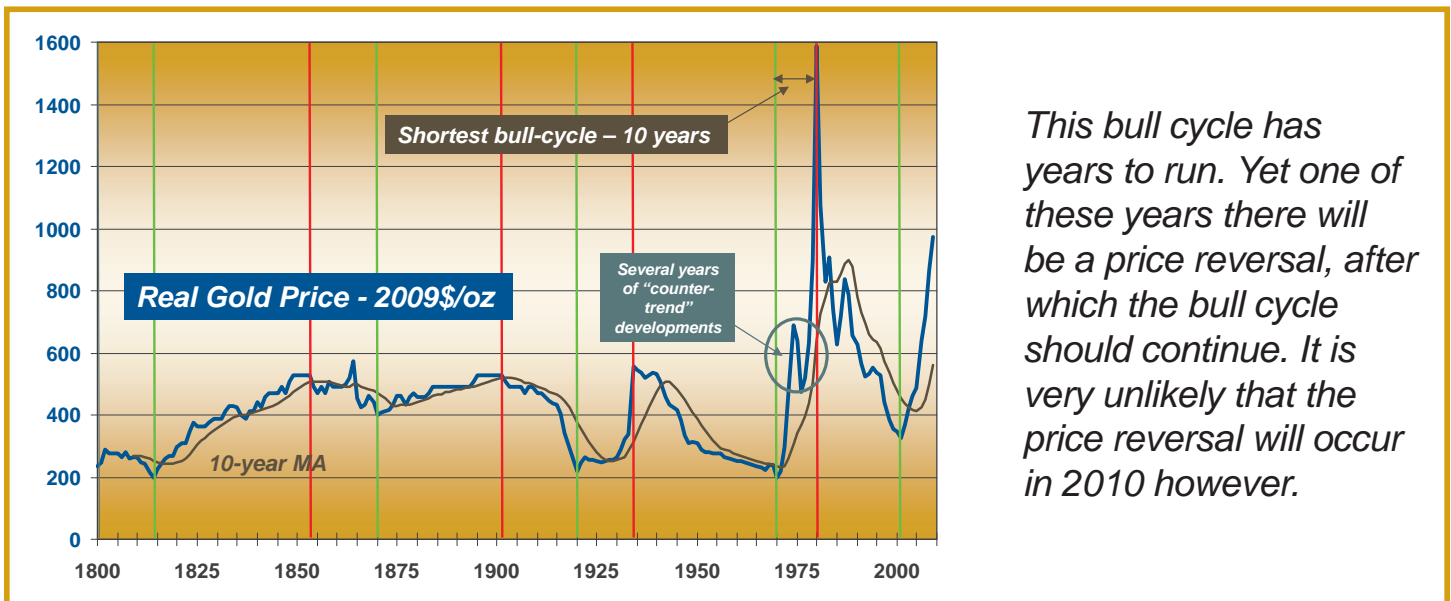
in the developed economies, (2) the eventual exit strategy from monetary policy reflation in all economies, (3) the value of the dollar against the Asian currencies (not against the euro, which is irrelevant to the gold market except that many traders continue to trade gold on the basis of the dollar's euro cross-rate - indeed, gold and the euro are likely to part company one of these days), and (4) emerging-country central bank purchases of gold.

Our baseline assumptions include (1) continued monetary and fiscal reflation punctuated with a very timid exit strategy (if any in 2010),

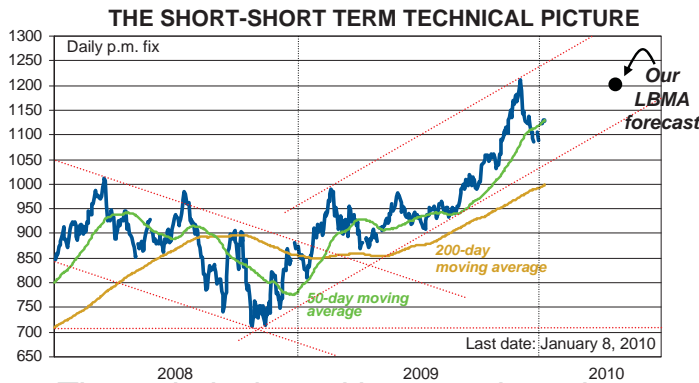
(2) a dollar likely to be reasonably flat against the euro (possibly a little firm on account of PIIGS), but down against the renminbi and other Asian currencies (quite possibly as a result of protectionist threats from the US Congress), and (3) continued diversification out of dollars by reserve-heavy emerging-country central banks that will also add to their gold reserves (central banks will be net buyers of gold going forward, which will help offset the absence of dehedging). Inflation was not an issue in 2009 and is unlikely to be an issue in 2010, although many will worry about it on account of the explosion in the US

monetary base. As long as there is widespread unemployment and excess capacity in the major economies policy makers are unlikely to act against higher commodity prices (which feed into consumer price statistics). But global liquidity is rising sharply and this is the fundamental factor expected to drive the gold price irregularly higher in 2010."

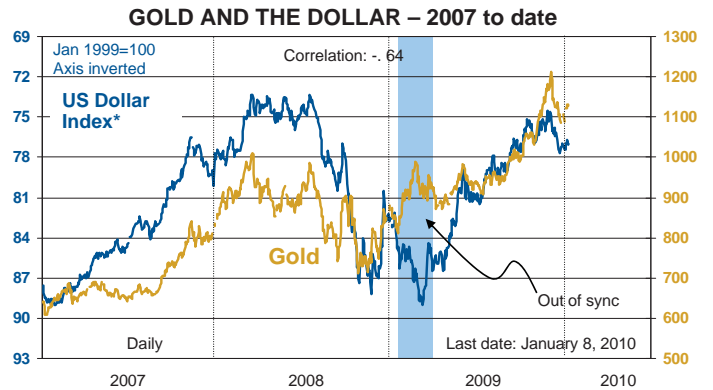
Our forecast was one of 26 the LBMA tabulated. The average of the 26 forecasts for 2010 was \$1199.38. The highest forecast was \$1388 and the lowest was \$1000. (The highest 'high' was \$1650 and the lowest 'low' was \$900!) The range of the 26



This bull cycle has years to run. Yet one of these years there will be a price reversal, after which the bull cycle should continue. It is very unlikely that the price reversal will occur in 2010 however.



The technical trend is upwards and our LBMA forecast falls well within the trend lines.



(*US\$ index includes: Cdn\$, Euro, Yen, Pound, Yuan, Swiss, Aus\$, Rupee)

Gold and the US dollar index do part ways from time to time. We expect more of this in the coming years.

forecasts is a little higher than the range of our three scenarios issued on December 18. Scenario A had \$852 for 2010-Q4 for example, and Scenario C had \$1314.

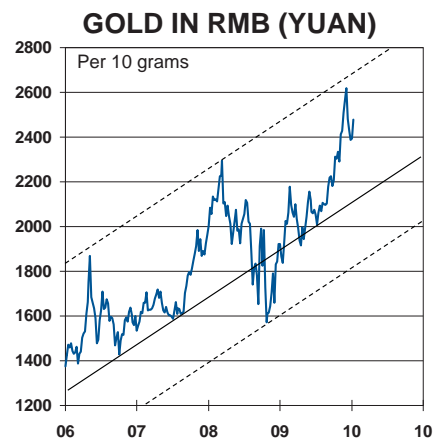
(Knowing how models work, and since our forecasts are somewhat model driven, it is probably a good thing that our forecasts have “undershot” the actual outcome somewhat in recent years. We will become more concerned when the models “overshoot” the gold price. This will undoubtedly happen one of these years, if only because the gold price has not yet exhibited any correction in its long-cycle. The chart of real gold prices going back to 1800 shows clearly that all cycles – bullish and bearish – exhibit at least one year of reversal. During the last bull cycle gold retrenched quite significantly for example - see 1975-76.)

All in, we are comfortable with our forecast for 2010. Our bias is

clearly in the direction of Scenario C (and for the LBMA projection we deleted Scenario A from the price average calculation), in no small part because the dollar has to go down against the Asian currencies and the emerging-country central banks – who have all the FX reserves – have taken a liking to gold. (Note the big buyers last year were China, India and Russia!)

With respect to the currency complex, we think it has become more probable that China will be forced to let the renminbi to rise in 2010 (by speculative forces or by Congressional action). We also expect gold to break away periodically from the dollar’s euro cross-rate this year; the euro simply is not as important as the renminbi when it comes to gold.

Gold Watch (1) Risk Ranges: Narrow \$1075-\$1175, Wide \$1050-\$1200. The risk ranges have been narrowed a little this week.



Views contained in this report regarding a particular company, security, industry or market sector are the views of the writer and do not necessarily represent the views of DundeeWealth Inc., its affiliates and subsidiaries. Views expressed should not be considered a recommendation to buy or sell nor should they be relied upon as investment advice. Information contained in this report is current as of the date of publication and has been obtained from third party sources believed to be reliable. DundeeWealth Inc., its affiliates and subsidiaries does not warrant or make any representations regarding the use or the results of the information contained herein in terms of its correctness, accuracy, timeliness, reliability, or otherwise, and does not accept any responsibility for any loss or damage that results from its use.