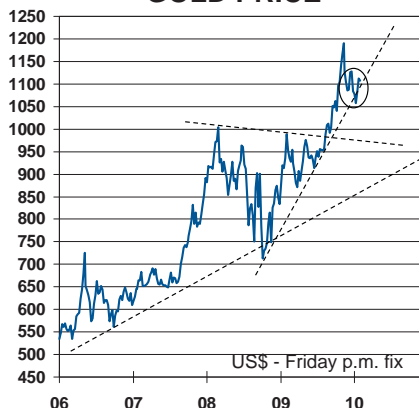


Gold Monitor

by Martin Murenbeeld

February 26, 2010

GOLD PRICE



TSX GOLD INDEX



XAU



	Feb-22	Feb-23	Feb-24	Feb-25	Feb-26
Gold - 2nd Fix	1115.25	1107.00	1103.00	1094.50	1108.25
Gold - COMEX	1113.10	1103.20	1097.20	1108.50	1117.00
Silver - HH	1618.50	1592.00	1592.00	1590.50	1612.00
Platinum - NYME	1531.90	1510.30	1507.30	1531.20	1538.50
Crude Oil - NYME	80.31	78.86	80.00	78.17	79.83
CRB Bridge - NYBOT	276.78	272.58	274.74	270.87	273.49
US \$ (Excluding Cdn.)	85.10	84.93	84.86	84.33	84.06
Fed Funds (Overnight)	0.13	0.13	0.12	0.12	0.12
US Bonds - CBOT	116.38	117.88	117.72	116.94	117.28
TSX Global Gold Index	319.22	311.67	310.08	321.96	322.11
S&P 500	1108.01	1094.60	1105.24	1102.94	1103.82

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

1106.68

Gold was fairly quiet this week, in line with the more subdued pattern we've seen all month. The average pm fix in February was \$1095.41, which is down from a January average of \$1117.94. Our December 18th forecast for gold had a 2010-Q1 average of \$1087 for Scenario B and a probability-weighted forecast of \$1116. It appears that gold is indeed on track to average \$1100, give or take, but one never knows for certain.

At this time of the year it is important to remind readers of the seasonal factors that run through the bullion market - see the chart overleaf. (We last pointed to this chart in August-September, when gold was heading into its seasonally strongest period of the year.) The period from February to April-May is a seasonally weak period for gold; there is a seasonal

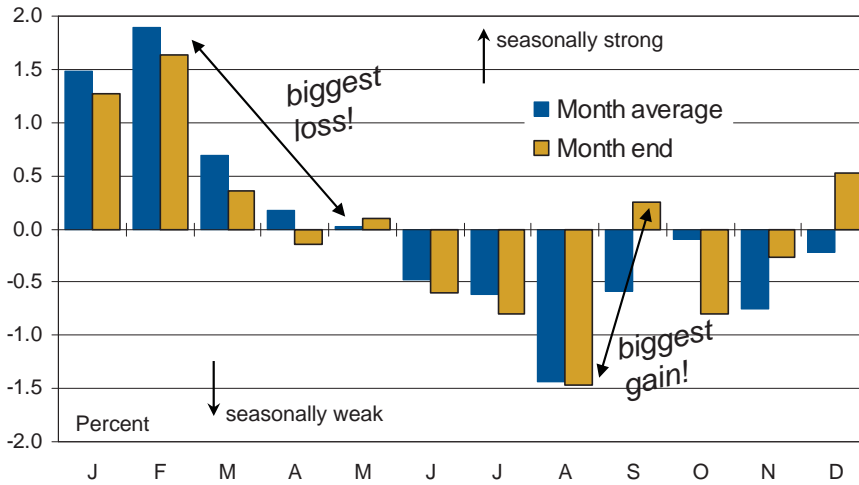
price swing of almost 2% - or \$22 at current gold prices. (Not insignificant, in other words!) Ergo, one should not expect great things for the gold price, inter alia, over the next few months. Of course, \$22 can easily be made up in the event something breaks positively for gold, such as a financial or geopolitical calamity, or news that a central bank bought the remaining 191.3 tonnes of IMF gold, for example.

Indeed, there is much room to speculate in that regard. While news reports have seemingly had their fill of Greece's problems, although Greek demands that gold stolen by the Nazis be returned caused a bit of a flutter on the newswires, Spain is now attracting more attention. And after Spain there will be Portugal.... and so on. Since the problems with the PIIGS can infect the gold market without

Executive Summary

1. Gold is moving into a seasonally weak period
2. Physical demand in Asia appears to be strengthening
3. Which a possible currency up-valuation this year will reinforce
4. Gold and the euro continue to go their separate ways

GOLD SEASONAL FACTORS: 1972–2009



Gold is moving into a seasonally weak period.

warning, we are not really inclined to look negatively on gold - despite the seasonal factors.

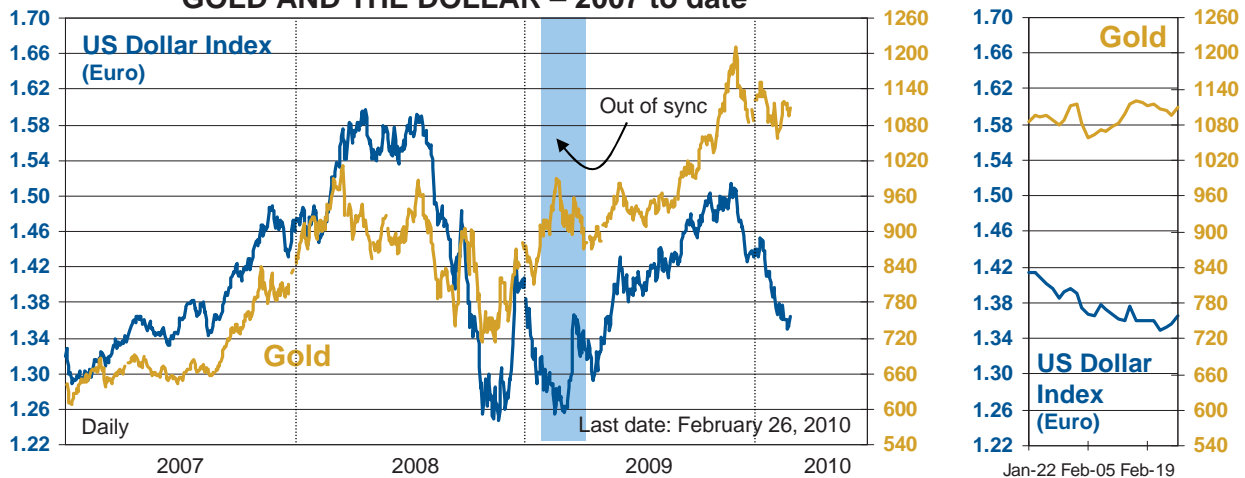
We are more or less convinced that China will not buy the remaining IMF gold in an off-market transaction, despite rumors published by the Russian FinMarket news agency this week. We argued last week that China

prefers less transparency in their gold purchases than that allowed for in an off-market purchase from the IMF. But that is not to say that China will not be adding to its gold reserves. As noted here before, with the euro on the ropes the choice of reserve assets has narrowed; the remaining reserve currencies – essentially the dollar, pound, and yen – are also

associated with governments that have significant debt problems. Ergo, by default gold has by become a more attractive asset for reserve purposes. (It also explains why China is diversifying its reserves, by way of the CIC, into mining properties and such!) Sources within China continue to argue that China needs to hold more gold reserves – 1800 tonnes by 2014 has been suggested by the Beijing Gold Economy Center, for example, and we fully expect to see confirmation of additional gold reserves in coming quarters.

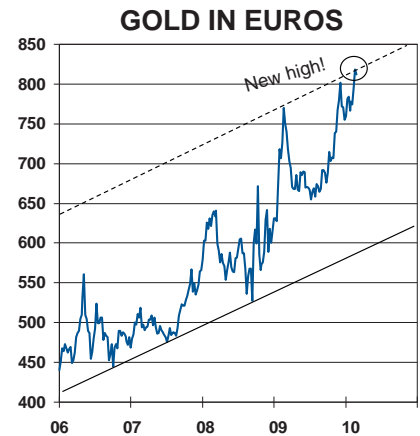
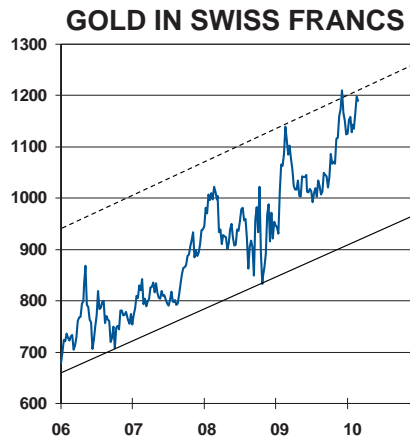
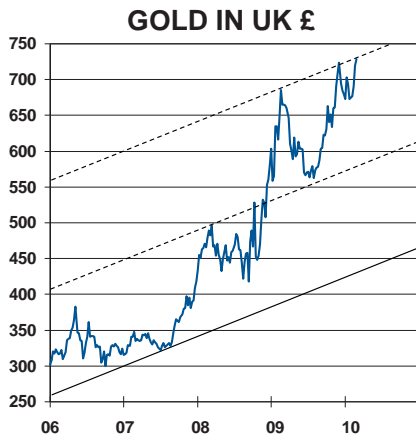
And what of the yuan, which everybody by now knows should rise against the dollar? We have forecast in the Financial Monitor that it will rise this year (8.2% on a probability-weighted basis across three scenarios). Bernanke urged more flexibility in the yuan this week in testimony, there are numerous rumors that China will indeed let the yuan rise this year, and for good measure US senator Charles Schumer

GOLD AND THE DOLLAR – 2007 to date



Gold and the euro generally trade in sync - both up, both down. As of late they have not. We expect that gold and the euro will continue to go their separate ways, now that the PIIGS have damaged the euro.

Gold is at a new high in European currenciesw.



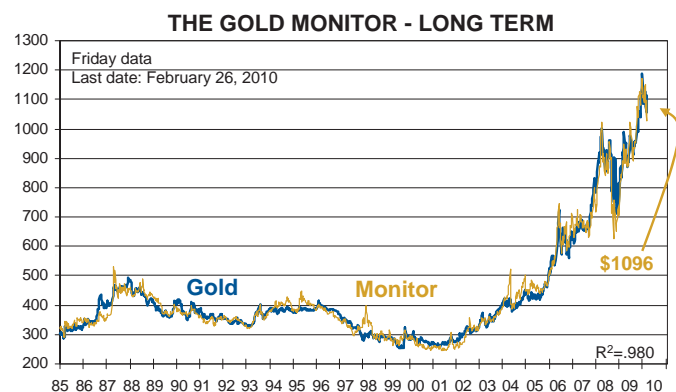
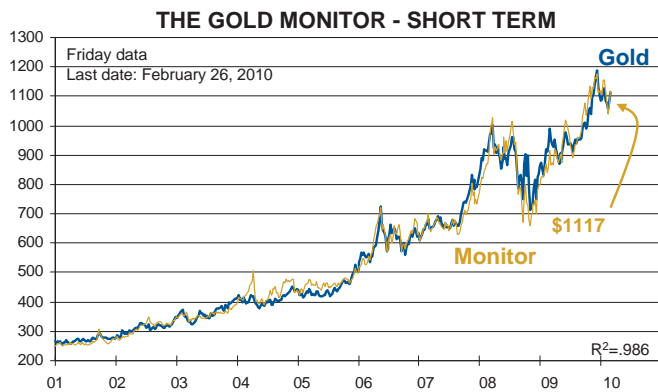
and 14 colleagues are reported by Bloomberg to be asking for “stiffer US tariffs on Chinese exporters to compensate for the unfair advantage they get from an undervalued currency”. (Obama had said earlier this month that China’s currency policies are “impeding the [global] rebalancing that’s necessary”).

Now, a 5% to 10% hike in the yuan isn’t going to set the gold market alight, but it will dampen the impact of a rising dollar on the back of a severely weakened euro.

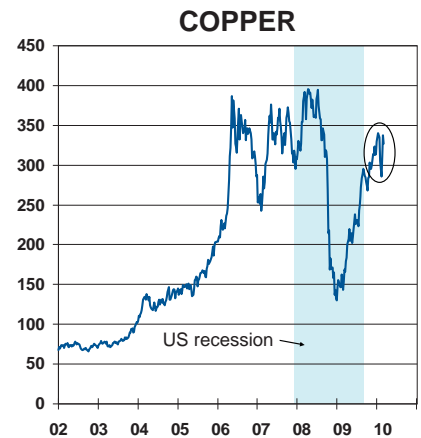
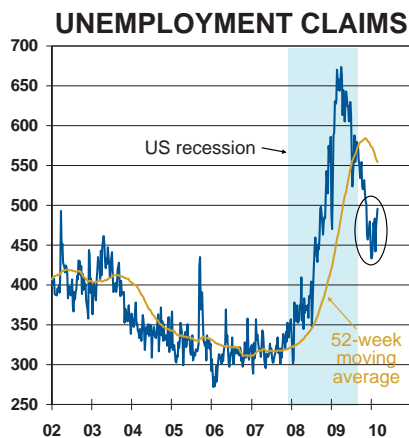
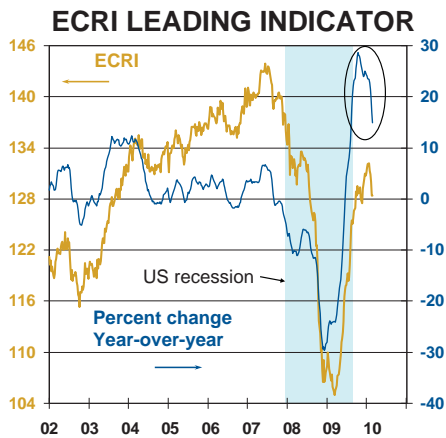
Indeed, stronger currencies in Asia will help Asian gold demand; a stronger rupee, for example, will encourage Indian consumers, who are known to be quite price-sensitive in the short term, purchase more gold. Chinese gold consumers have been buying more gold in recent quarters, which is a trend a higher yuan will only help to reinforce.

On the official front, the latest data from the WGC indicate there has been negligible selling under the CBGA III to date. The

participating central banks (19, including the ECB) have sold only 1.6 tonnes in year 1 to date. This is less than in previous first years of CBGA. The good news for the IMF is that there is room to sell all the 191.3 tonnes this year, if it chose to do so. And if it did so choose, I doubt there would be much price impact; other central banks might well be “silent” buyers, and I fully expect investors will appreciate the opportunity to buy this much gold without affecting market prices significantly.



The updated Monitor models indicate gold is trading about where it should be trading!



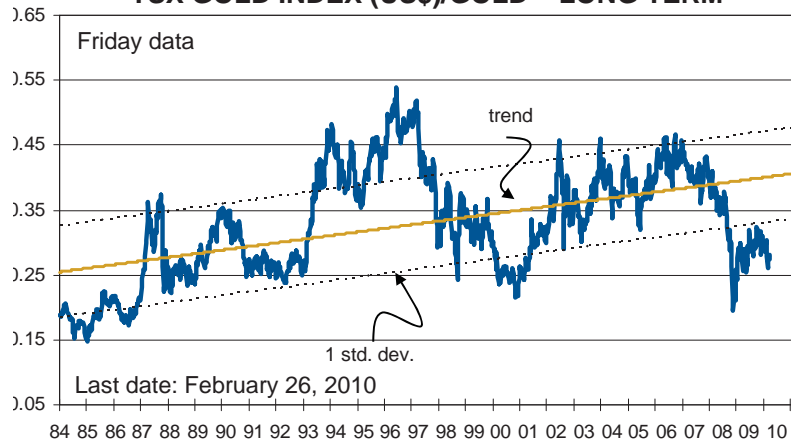
There is clearly a "lull" in the global recovery; the implication is that neither fiscal nor monetary stimulus will be withdrawn any time soon!

Gold Watch (1) Gold prices appear to be forming a bottom of sorts – see the technical charts. The CFTC data furthermore suggest that the net-long position of the "specs" has risen again in recent weeks. Accordingly, we remain constructive on the price despite the negative seasonal factors.

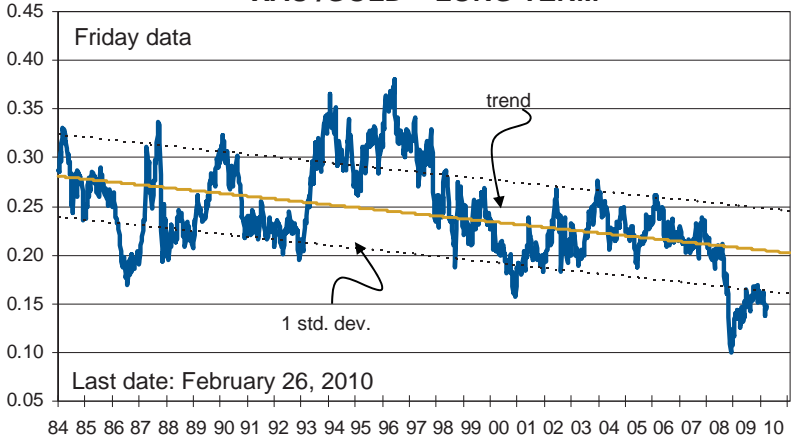
(2) Gold equities continue to look depressed relative to gold bullion; in recent weeks equities have declined relative to gold. This may be a factor specific to equities, however, as gold equities often move in sync with other equities – not always in sync with gold bullion. (Hence I am fond of a fund to which I am an advisor – a fund which holds both bullion and equities.)

(3) **Risk Ranges: Narrow \$1050-\$1175, Wide \$1025-\$1200.** The risk ranges have not been changed this week.

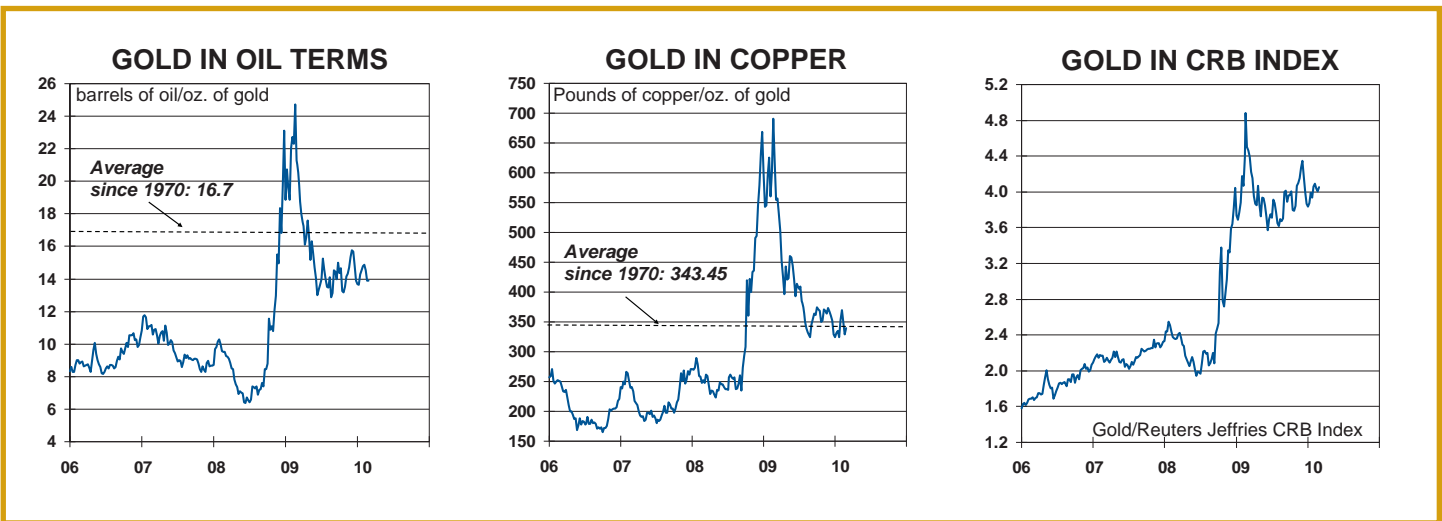
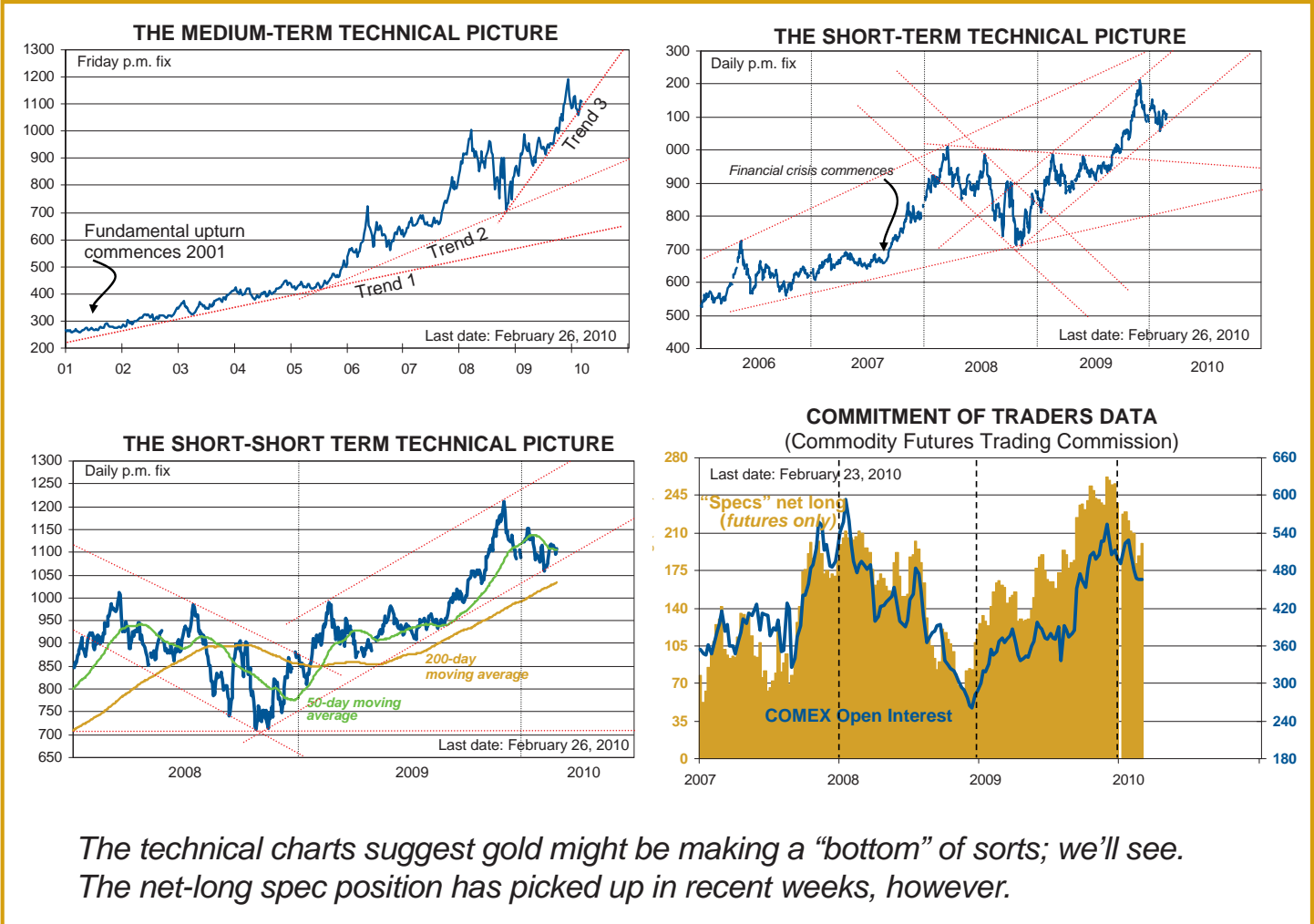
TSX GOLD INDEX (US\$)/GOLD – LONG TERM



XAU /GOLD – LONG TERM



Gold equities have lost ground to gold bullion in recent weeks, again . We accordingly think a fund that holds both bullion and equities is an attractive way to gain exposure to the sector.



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