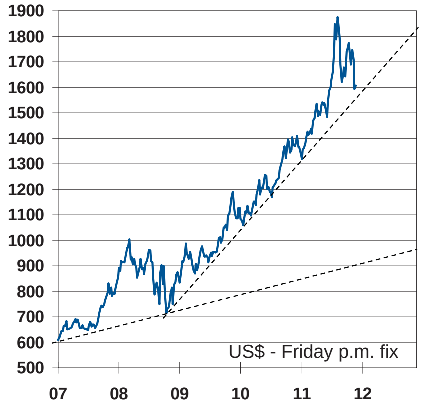
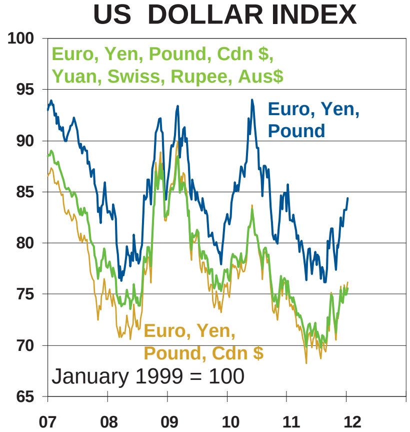
Gold Monitor

by Martin Murenbeeld **January 6, 2012**

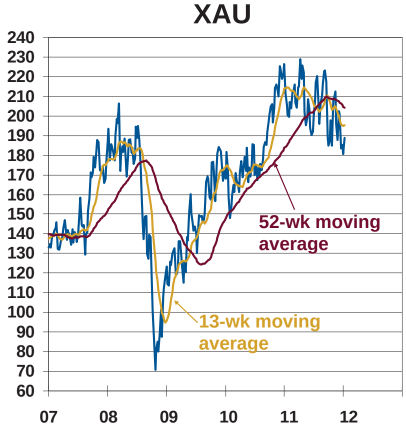
GOLD PRICE



US DOLLAR INDEX



XAU



Welcome to 2012! Gold ended 2011 on a down note – the $1531 pm fix of December 29 (while quickly reversed at the am fix of December 30) proved to be the lowest pm fix since July 7! Since the fix was also just below our narrow risk range of the report dated December 22, there was clearly some negative sentiment running through the gold market as 2011 drew to a close.

The technical charts do not give cause for bullishness either; gold is below its 200-day MA currently and appears locked for the moment in the "European recession-induced" downward-sloping channel. Such has been the situation for some time now, and it may not change quickly. In 2008 gold declined (trend-wise) for some 159 days on the back of the recession – or for about 60% of the year!

This is the time of the year when forecasters are asked to provide some numbers for the year as a whole, as well as highs and lows and such. The London Bullion Market Association (LBMA) has one of the more prestigious survey of forecasts (see *http://www.lbma.org.uk/pages/index.cfm* for full details), and our submission is repeated herewith:

Martin Murenbeeld
Range: $1450 – $2125
Average: $1835

> *2012 will be a difficult year for all forecasters of commodities, equities, interest rates, etc. The macroeconomic background will include a recession in Europe, difficult politics in the US (with no certainty that Obama will not be reelected), and slowing growth in gold's two largest physical markets – India and China. Indeed, with* ***slow growth or recession all aroun****d – the US economy will remain problematic in 2012 – gold prices will be pulled intermittently lower. 2008 serves as a rough guide in this regard; gold declined some 30% peak-trough in 2008 on the back of the recession. With gold recently having peaked at $1895 (pm fix) a 30% retracement would put gold below $1400. We think the low for 2012 will be higher however.*

Executive Summary

1. *It's the time of year for forecasts*
2. *We have brought our 2012 forecast down a little*
3. *But we will shortly be updating our price scenarios*
4. *Despite recent price weakness, we remain bullish*

*The **US dollar** will not likely be a bullish factor for gold, although the dollar is fundamentally overvalued (specifically against the yuan and associated currencies of the Far East), and should decline. Depending upon US politics, Congress could force dollar "devaluation", which would be quite bullish for gold.*

*The shape of the **Chinese economy** is a large uncertainty for 2012; a significant slowdown – or recession (growth below, say, 6%) – will pull gold down. Gold could accordingly experience its first year-over-year decline since 2001. (Every bull-cycle since 1800 has seen a mid-cycle, year-on-year, "correction"; one of these years it will happen, but we are not forecasting it for 2012 in our base-line scenario.)*

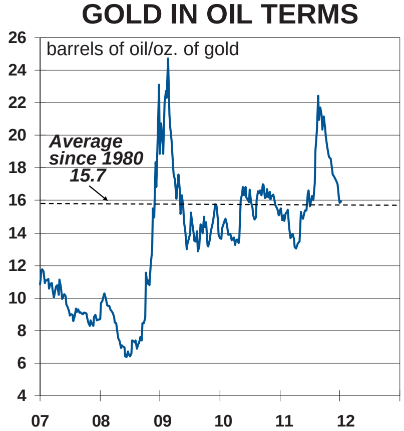
*Our key bullish factor has not changed for years: **monetary reflation**. In response to record government debt levels, slow growth/recession, and a drift in much of the OECD towards deflation as the household sector continues to deleverage and governments are forced to cut entitlements, the full weight of economic stimulus falls on the shoulders of central banks. With a 1930's environment threatening to engulf Europe, the ECB and other central banks (including the PBoC) will maintain extremely loose monetary policies throughout 2012; the Fed, if nothing else, will wish to ring-fence the US financial sector in the likely event the Eurozone is downsized or splits. The monetary reflation factor alone, depending upon the specific crisis, could see gold rise well above $2000.*

*Other factors should continue to favor gold in 2012, including **central bank gold demand**, which should add to demand for years to come, and **geopolitical turmoil** in the Middle East and elsewhere. The latter could cause periodic surges in the gold price, surges likely also to be reflected in the oil price.*

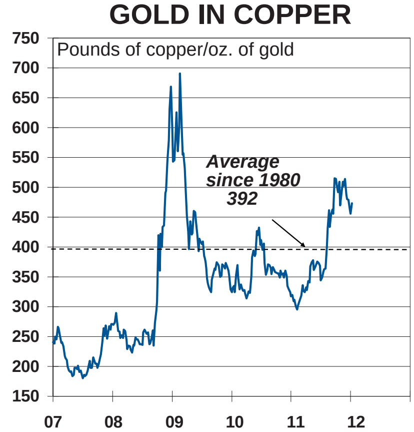
In short 2012 will, somewhat like 2008, be a contest between recession and monetary reflation. We are forecasting reflation will win the day for gold.

The reader will note that our numbers – hi-lo-average - are drawn from the October 14 quarterly forecast issue, with minor modifications. (We will be updating the quarterly forecasts shortly.) Whether the numbers prove to be accurate remains to be seen of course. We are perennially close to the actual average, but have not hit the average dead on. Last year we missed the LBMA deadline, but did submit an average of $1471 to *www.minefund.com*. This proved to be some $100 lower than the $1572 average for 2011, and I have no excuse other than that gold was in the low $1300's when that forecast was issued.

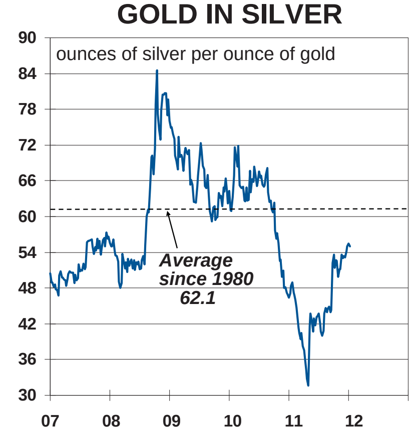
GOLD IN OIL TERMS



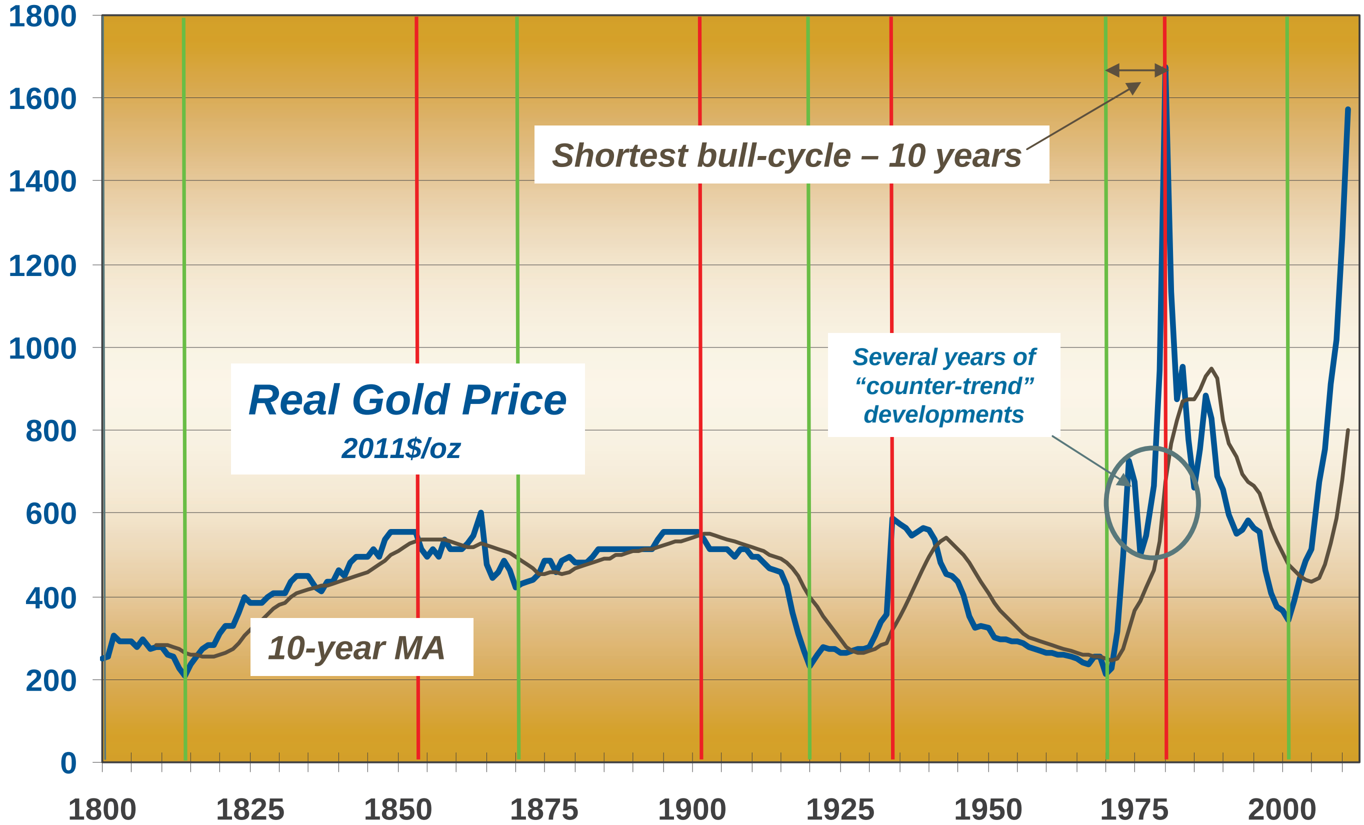
GOLD IN COPPER



GOLD IN SILVER



Gold has completed the tenth year of its bull cycle. One year there will be a mid-cycle correction.



Regardless, I did not expect at this time last year that gold would be fixed as high as $1895 in 2011.

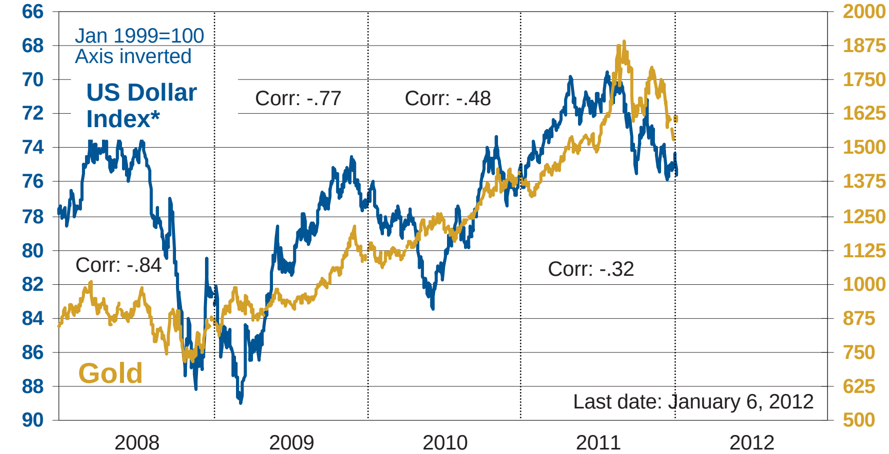
The above LBMA submission summarizes our thoughts at the moment; there will be a tug-of-war between recession and reflation in 2012. And there will be competition for gold in the form of US dollar assets (equities) in the event the US economy surprises on the upside, and debt assets in the event the economy surprises on the downside.

I should also note that each year at this time we ask ourselves if this is the year that gold will experience a long-cycle correction, defined as a decline (or rise) in the yearly average price of gold somewhere in the middle of a long bull (or bear) cycle. The chart above, which we use often in presentations, sets this out more clearly.

The chart (of real gold prices - the year-average price of gold is deflated by US consumer prices) shows that in every long cycle (bull or bear) there is at least one mid-cycle correction. During the last bull cycle – the 1970-80 cycle – gold experienced a massive mid-cycle correction on the back of a nasty US recession (1973-1975).

The US will not experience a serious recession this year, but we cannot be as sure that China and India will escape a major downturn. And I think the negative pressure on gold will come from that region. (I am assuming that, as in 1973-75, a mid-cycle gold price correction will be caused by a major recession - one almost global in nature.) The trigger to a global recession could well be the spread of Europe's recession/ quasi-depression to China and India. A gold price more in line with our Scenario A, an average price in 2012 well below the

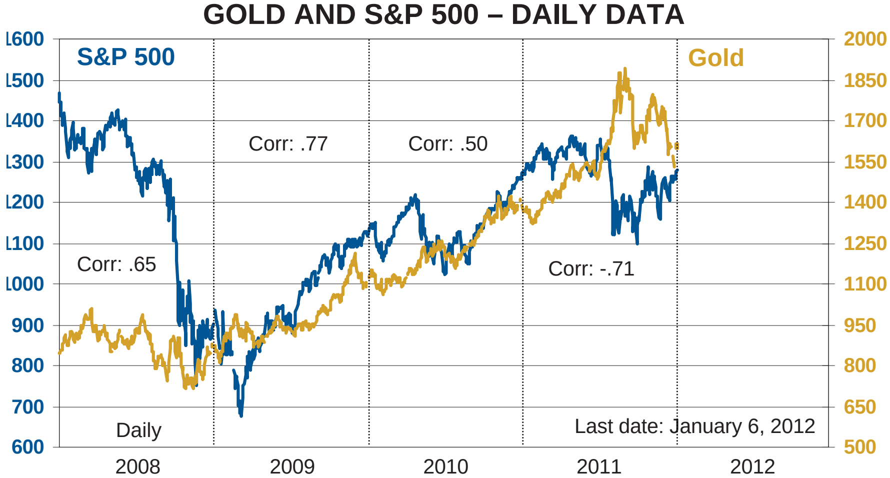
GOLD AND THE DOLLAR – DAILY DATA



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

Gold is under pressure from the dollar...

GOLD AND S&P 500 – DAILY DATA

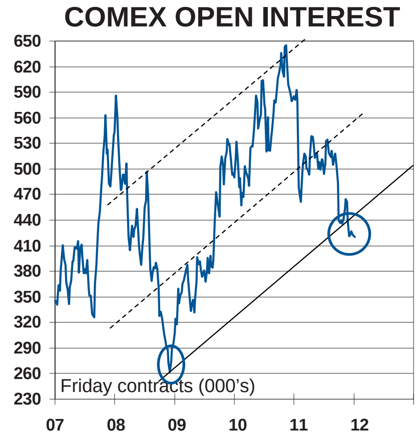


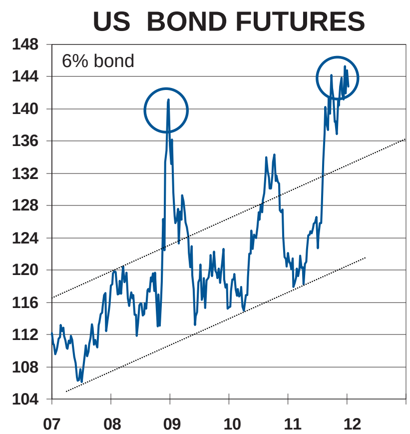
...and, as of late, also under pressure from the S&P 500.

2011 average of $1572, might then be likely. But we do not think this is the most probable outcome.

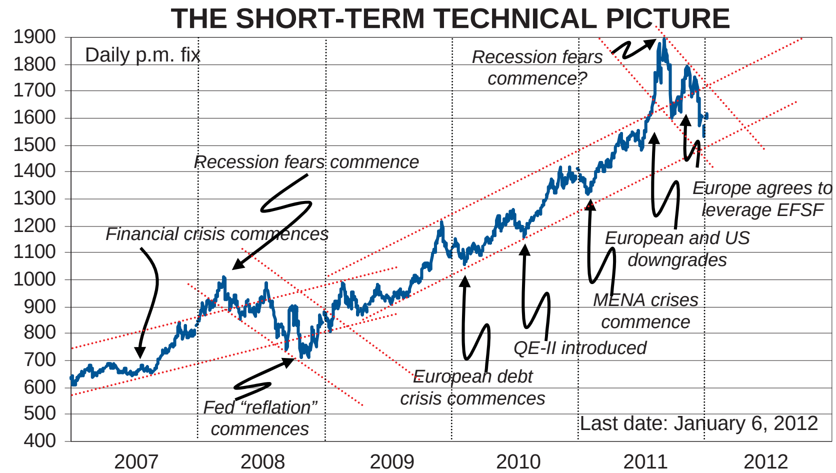
Suffice it to say that a mid long-cycle correction is not likely for 2012; even the PBoC stands ready to "print" in the event the Chinese economy suddenly tumbles. More likely, gold prices will periodically catch downdrafts – not unlike the one the gold market has caught just now – which are then reversed when central banks react with yet more policy ease and QE's of one form or another.

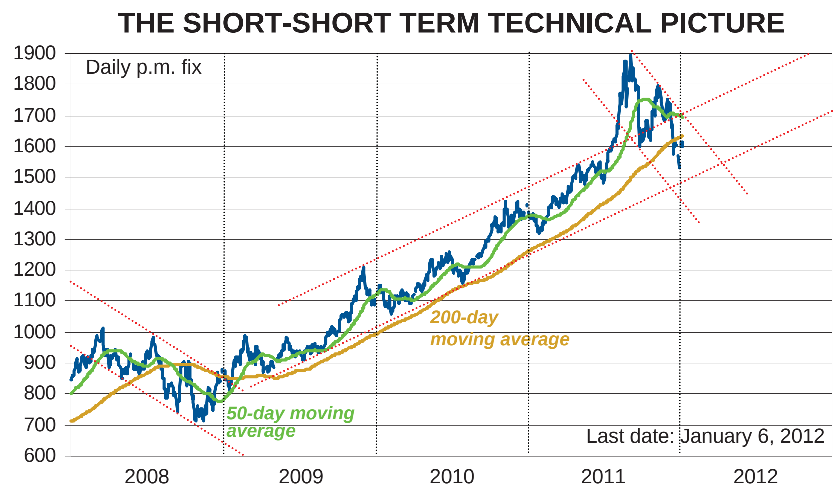
Gold Watch (1) Interestingly, Of the 26 forecasters that participated in the LBMA survey for 2012 only one forecaster projected the gold price to be lower this year than last. At the other end, the winner for 2011 – Edel Tully of UBS – is looking for a gold price average of $2050 in 2012. The forecasts range from $1525 to $2050, with an average of $1766. At $1835 we are above the average.





Spikes in bond prices go hand-in-hand with plummeting open interest.





The charts suggest that gold is locked in a downward sloping trend, reminiscent of 2008.

(2) Dennis Gartman has declared that the bear market for gold has ended (FP, 01/05). The reader may remember that it was only a few weeks ago (see the *Gold Monitor* of December 16) when Gartman had declared gold to be in a bear market. Let me accordingly remind the reader that a trader's view of markets can be, and often is, quite different from a fundamentalist's view. From a traders perspective there were many "bear markets" in gold since 2001 – from my view there were none!

(3) To support my view that central banks will step in as necessary, note that the ECB is buying Spanish and Italian debt (at the long end) again and the Fed is coming out with interest rate forecasts in order to convince markets that it really, really, is serious about keeping target rates ultra-low. In the event the US Administration decides to pony up significant dollars to boost the US housing sector, the Fed will get the chance to buy yet more paper. And if Hungary gets IMF help…., well that money doesn't grow on trees either.

(4) Risk Ranges: Narrow $1500-$1700, Wide $1475-$1775. The risk ranges been lowered a little this week. The technical charts require it.

	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Gold - 2nd Fix	1598.00	1613.50	1608.00	1606.50	n/a
Gold - COMEX	1596.70	1617.60	1613.60	1601.30	1606.00
Silver - HH	2884.00	2935.50	2937.00	2908.00	2921.00
Platinum - NYME	1413.60	1432.90	1438.70	1431.20	1434.20
Crude Oil - NYME	93.88	97.24	98.67	99.53	99.68
CRB Bridge - NYBOT	295.82	301.67	303.90	305.67	306.84
US $ (Excluding Cdn.)	78.97	78.47	78.65	78.66	78.76
Fed Funds (Overnight)	0.09	0.08	0.09	0.07	0.10
US Bonds - CBOT	146.03	144.09	143.25	143.47	141.97
TSX Global Gold Index	361.48	372.19	370.98	364.66	367.07
S&P 500	1205.35	1241.30	1243.72	1254.00	1257.60

Gold Price Average (2nd fix, daily) - 2011 to date **1571.68**

	Dec-26	Dec-27	Dec-28	Dec-29	Dec-30
Gold - 2nd Fix	-	1613.50	1571.00	1531.00	-
Gold - COMEX	-	1617.60	1564.10	1540.90	1566.80
Silver - HH	-	2935.50	3731.00	2689.00	2826.00
Platinum - NYME	-	1432.90	1392.41	1366.80	1404.90
Crude Oil - NYME	-	97.24	336.55	99.65	98.83
CRB Bridge - NYBOT	-	301.67	305.49	304.55	305.30
US $ (Excluding Cdn.)	78.61	78.47	79.09	78.89	78.30
Fed Funds (Overnight)	-	0.08	0.08	0.08	0.08
US Bonds - CBOT	-	144.09	142.44	144.50	144.81
TSX Global Gold Index	-	372.19	350.82	358.19	360.40
S&P 500	-	1241.30	1249.64	1263.02	1257.60

Gold Price Average (2nd fix, daily) - 2011 to date **1571.51**

	Jan-02	Jan-03	Jan-04	Jan-05	Jan-06
Gold - 2nd Fix	-	1598.00	1613.00	1599.00	1616.50
Gold - COMEX	-	1600.50	1612.70	1620.10	1616.40
Silver - HH	-	2954.00	2935.00	2890.00	2940.00
Platinum - NYME	-	1432.50	1426.30	1418.00	1408.10
Crude Oil - NYME	-	102.96	103.22	101.81	103.35
CRB Bridge - NYBOT	-	313.37	313.80	308.54	308.50
US $ (Excluding Cdn.)	-	77.82	78.13	78.92	79.13
Fed Funds (Overnight)	-	0.09	0.09	0.10	0.07
US Bonds - CBOT	-	143.09	142.41	142.28	142.75
TSX Global Gold Index	-	373.26	373.50	376.47	379.05
S&P 500	-	1277.06	1277.30	1281.06	1279.46

Gold Price Average (2nd fix, daily) - 2012 to date **1606.63**