

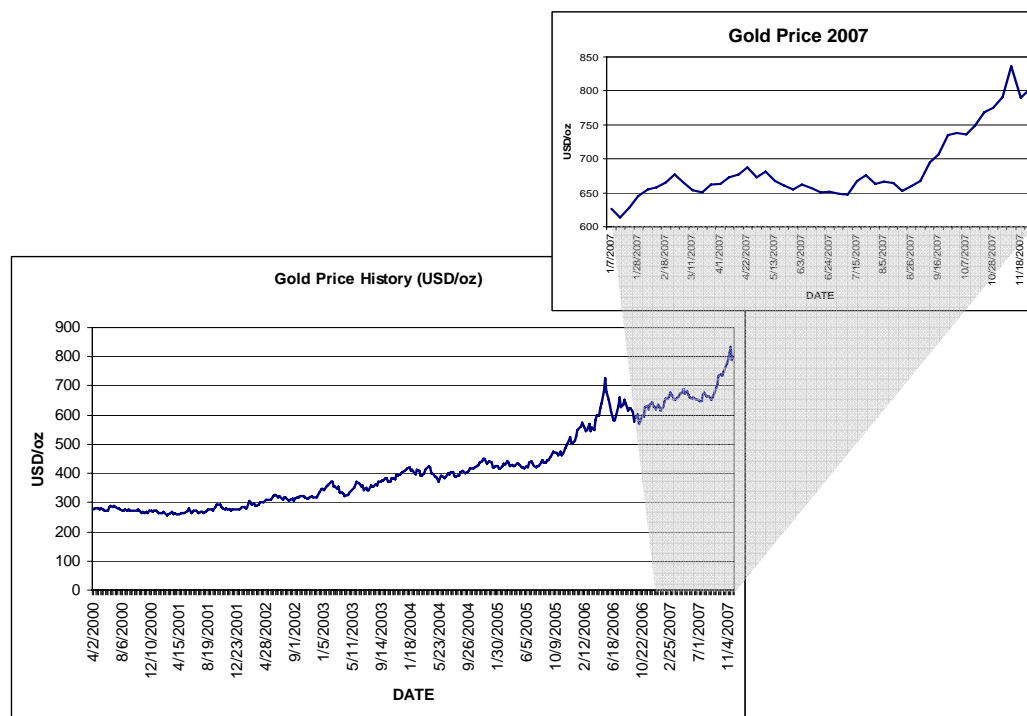
# Gold... What a Year!

By Neil Mc Kenna

Our regular readers may remember a newsletter I wrote at the beginning of the year entitled "Gold to USD850/oz this year". I used that as a headline hoping that the absurdity of the title would draw attention to the article. Now as we approach the end of another eventful year in the resources sector, it is interesting to take a look at the year that has passed.

At the beginning of the year, Au was hovering around USD650/oz and was approaching levels only previously seen in the 1980's (when Au prices rose from USD35/oz to over USD600/oz within 10 years). Several analysts were also speculating that Au could reach and exceed USD700/oz during this year. In January 2007, HSBC Securities raised their forecast average Au price for 2007 to USD680/oz from USD660/oz and in March 2007, Merrill Lynch raised their average Au price forecast for 2007 to USD675/oz. Spot prices of approximately USD850/oz were suggested by a few brave analysts but essentially dismissed as highly speculative at best and foolish at worst.

With the end of 2007 in sight, Au is trading at USD809/oz, having hit USD841.75/oz earlier this month. It is volatile and there has been a significant component of profit-taking, but Au appears to have exceeded even the most bullish analysts' realistic expectations during 2007.



The Au price has increased by approximately 35% during the year. Can the same be expected for 2008?

Unlike early 2007, revised short and medium-term forecasts are hard to come by. It would seem that this bull-run has taken analysts by surprise and there appears to be a 'wait-and-see' attitude in the market, with few analysts willing to stick their neck out regarding the short-term.

However, the principle drivers for continued growth in the gold market remain:-

- relative USD weakness;

- a slowdown in the US economy;
- threat of higher US inflation
- soaring oil prices (these have doubled this year alone); and
- increased geopolitical tensions.

While it is clear that the long-term trend is a positive one, it seems that Au is currently overbought and many analysts predict price corrections towards the end of this year and in early 2008. The short-term market looks to be a volatile one.

Long-term forecasts however, remain extremely bullish. Louise Yamada, managing director of Yamada Technical Research Advisors LLC in New York, sees Au on its way to USD3,000/oz within a decade. Sound ridiculous? Well just 6 months ago I thought USD850/oz was ridiculous!

It certainly is exciting times in the minerals industry and whilst conservatives continue to caution that commodities are over-cooked..... this bull-run looks set to continue! It will be a bumpy ride, but I look forward to referring back to this letter with a 350% increase in Au in ten years time.

Happy Holidays!

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