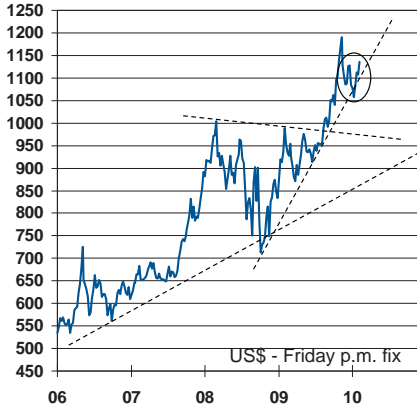


Gold Monitor

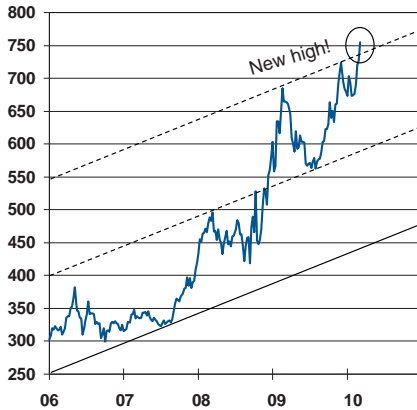
by Martin Murenbeeld

March 5, 2010

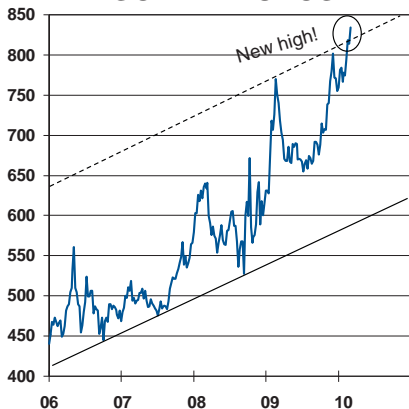
GOLD PRICE



GOLD IN UK £



GOLD IN EUROS



	Mar-01	Mar-02	Mar-03	Mar-04	Mar-05
Gold - 2nd Fix	1114.00	1126.50	1136.50	1134.50	1135.00
Gold - COMEX	1118.30	1137.40	1143.30	1133.10	1139.90
Silver - HH	1666.00	1696.00	1735.50	1722.00	1725.00
Platinum - NYME	1544.00	1576.00	1583.50	1583.60	1584.90
Crude Oil - NYME	78.70	79.68	80.87	80.21	81.94
CRB Bridge - NYBOT	272.71	275.13	277.71	274.80	277.75
US \$ (Excluding Cdn.)	84.64	84.34	83.81	84.52	85.18
Fed Funds (Overnight)	0.14	0.14	0.15	0.16	0.17
US Bonds - CBOT	117.47	117.34	117.28	117.81	116.88
TSX Global Gold Index	325.02	330.58	334.77	328.84	333.28
S&P 500	1115.71	1118.31	1118.79	1122.97	1134.11

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

1109.19

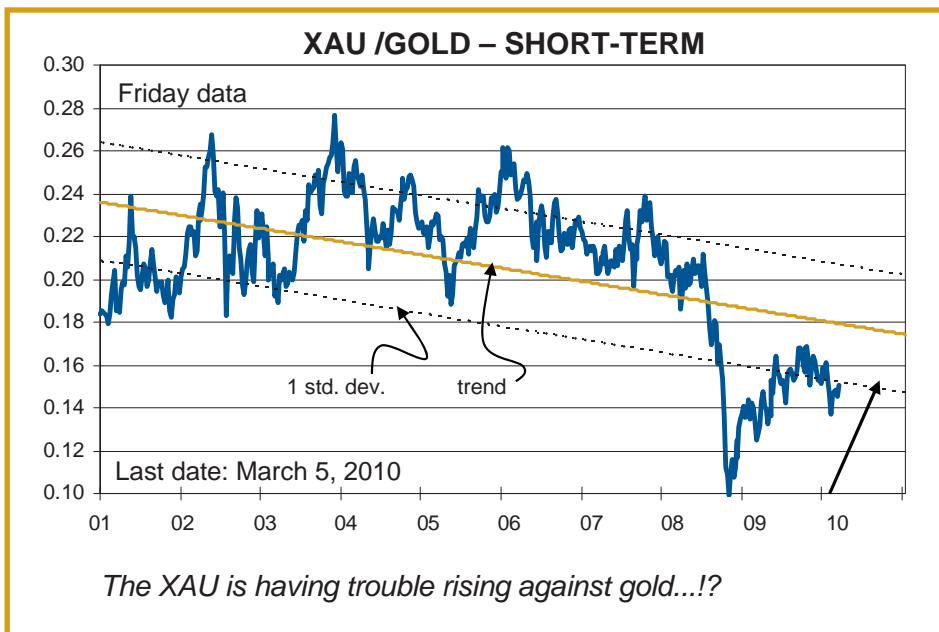
Gold moved a little higher this week and it wasn't because of the dollar. Indeed, the dollar is up or down, depending upon exactly what basket of currencies is included in the dollar's calculation (see the dollar charts in this report). Oil prices moved up very slightly, and this might have helped gold. But the real issue in recent days has been the sovereign debt issue. Greece is in the eye of the storm at the moment; the Prime Minister is meeting with Angela Merkel today while the streets of Athens are clogged with people protesting the government's austerity initiatives. As others have also noted (see "Gold Watch" below) not much good is likely to come out of any eventual resolution of Greece's debt crisis for the value of European currencies (nor for other currencies from the resolution of other debt crises to come).

Accordingly, the gold market is getting a bit of a bid on the back of fears of currency debasement.

Indeed, we have said for some years, the choices governments face are very limited, as they attempt to balance the promises made to their voters about to retire with rising government debt levels and bond market indigestion. Governments can cut services that were promised, alter/renege on earlier promises, and/or raise taxes. Not one of these choices is popular with voters! (The raising of the retirement age, for example, is one of the issues behind various public demonstrations in the Euro region!) So what will governments end up doing? We long ago suggested that governments will drift towards the "printing press"; central banks will be "encouraged" to buy government debt when credit markets balk at absorbing more government debt

Executive Summary

1. *The fiscal crisis in Europe boosts gold*
2. *More crises in future are likely, and will also boost gold*
3. *Straws in the wind suggest gold may be taking on more of a monetary role again*



(when interest rates rise beyond some “comfortable” level).

But since we first pointed to this future fiscal crisis, governments have run up some of the largest budget deficits in peace-time history.

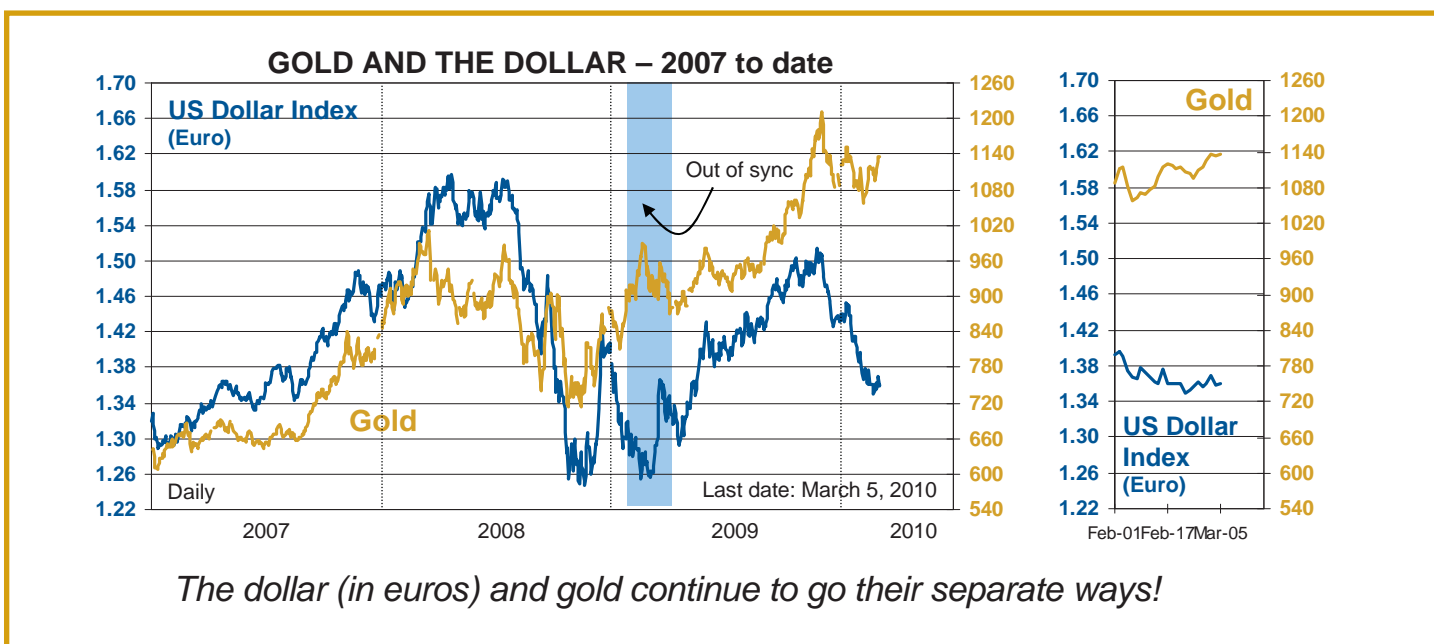
This gives us a glimpse of how policy will likely unfold as baby boomers commence retiring. In essence, economies will weaken under the yoke of fiscal retrenchment demanded

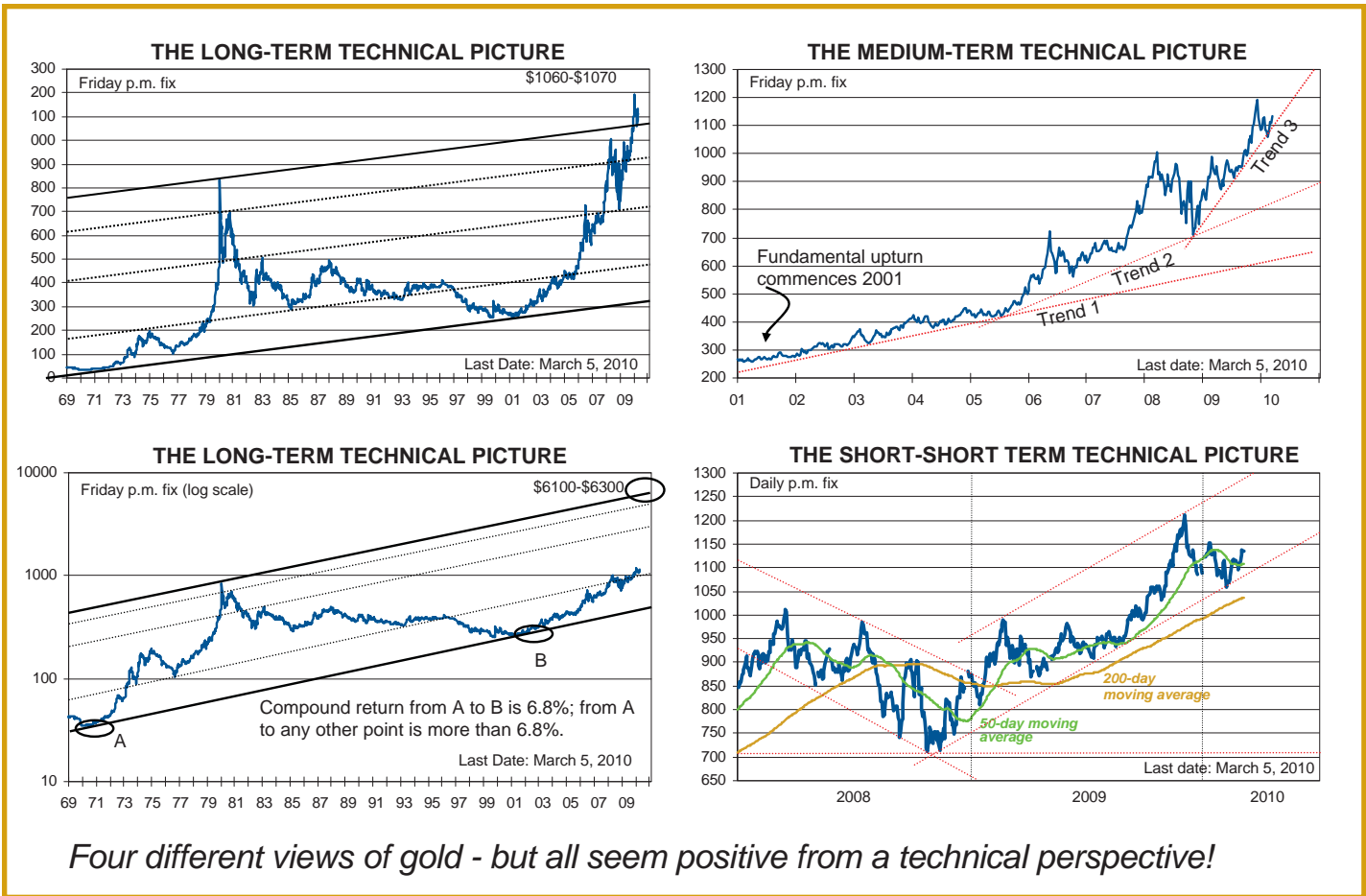
by the already large deficits and debt levels, and which will be stretched further as retirement costs mount. Monetary policy will therefore almost certainly have to remain “easy”; the high level of bank reserves in many countries (i.e., the monetary base) will likely not be reduced quickly and interest rates will likely remain low relative to inflation. Central banks cannot risk another economic downturn, which among other things will raise

budget deficits yet further.

Gold feeds off easy monetary policies; our models make this very clear. Hence, to the degree central banks purchase government and private sector paper – which was a feature of the crisis just passed - gold will benefit. And, of course, if all central banks decide to do so, gold will rise against all currencies (regardless of whether the dollar goes up or down against any specific basket of currencies).

We don’t expect this likely chain of events to preoccupy the gold market day-in and day-out, but it will be unfolding behind the scenes - behind whatever catches the gold market’s fancy at any point in time. Indeed, unless governments are willing to risk outright depression, governments and central banks will not let households (and businesses) deleverage as rapidly as otherwise (i.e., allow household debt levels to collapse), and governments will fill whatever borrowing vacuum develops with borrowing of their own – exactly as has happened during the crisis just past.





In other words, bullish argument number 1: *monetary (and fiscal) reflation* will be around for years to come.

(I mention above “*other debt crises still to come*”. Here is an excerpt from the Washington Post online, March 5: “*Consider, for example, a foreign bank that loses money on loans it made in Greece or other European nations with fragile finances. That bank’s problems in turn can become trouble for its home government, especially now that banks in many large nations are effectively backed by their governments. This support is the result of efforts in many capitals to protect financial firms during the financial crisis by standing behind them ... ‘The banking system could really act as a shock enhancer in this case’,*

said Elisa Parisi-Capone, a senior research analyst at Roubini Global Economics. ‘Given that banks in Europe hold large claims on Greece, if Greece gets in trouble and those claims lose value, the governments of the banks that hold Greek paper are on the hook. This is the link through which contagion propagates’.)

On a different matter, Russia noted on March 3 that its central bank would like to increase the share of gold in its international reserves (Bloomberg). While this is not the first time such has been said it was followed by a statement on March 5 that “*Russia may scrap the ruble and introduce a common currency with Belarus and Kazakhstan as the nations broaden their alliance and seek to reduce their dependence on the dollar*” (Bloomberg).

We have felt for a long time that the international monetary system was breaking into currency blocs, and we argued that the dominant central bank in any bloc would find it useful to hold gold as part of its reserves. (Ergo, we have in the past suggested that the Peoples’ Bank, the Bank of Japan, the ECB, the central bank of India and the Russian central bank would find it useful holding more gold.) I can’t say for sure that this is what is happening in Russia, but it looks like it is.

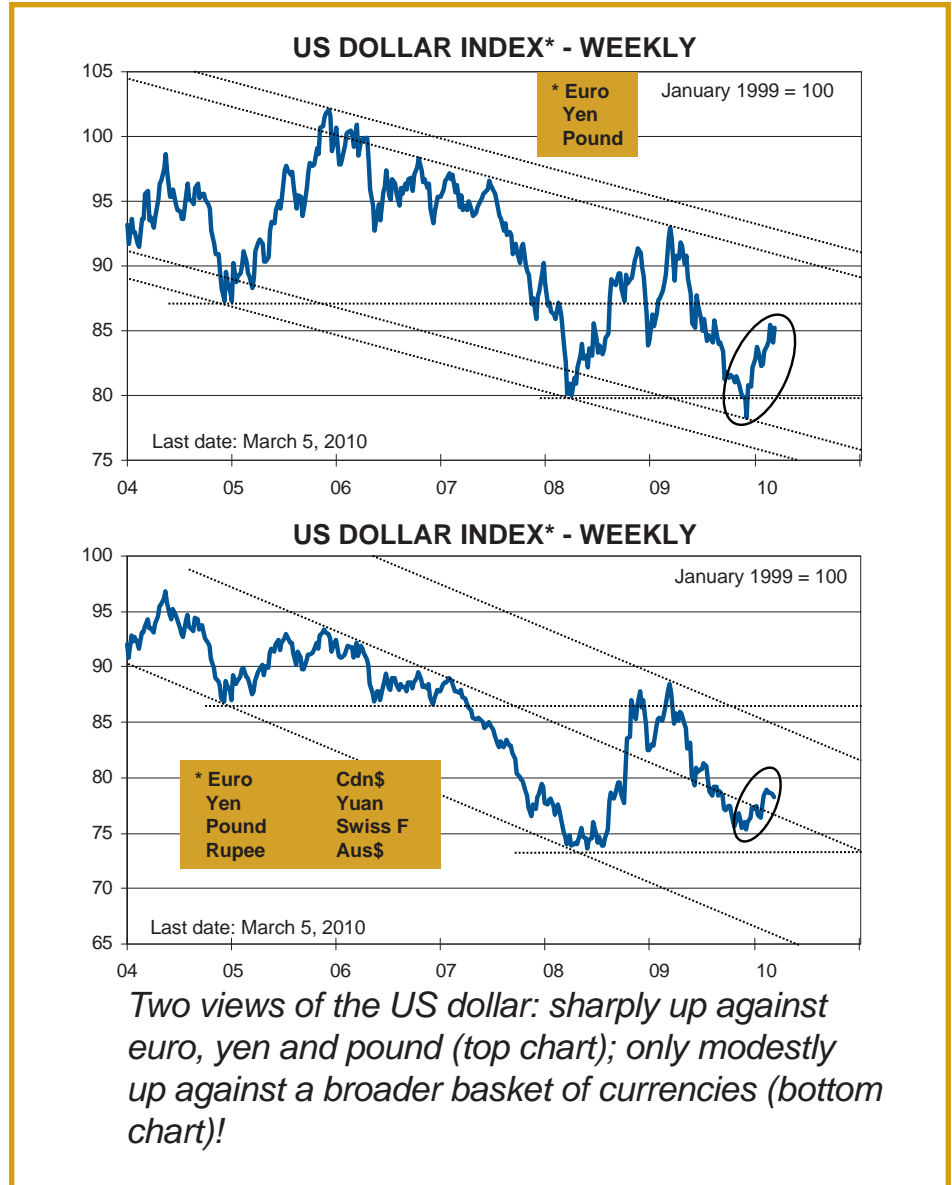
Not unrelated, the head of the IMF said earlier this week that it would be “*intellectually healthy*” to explore the creation of a new global currency, “*to reduce dependence on the US dollar*” (Business Times, March 1). The reader might remember that

India and Russia had suggested, in agreement with China, that a new reserve currency, based on the SDR concept, should include gold in the basket. My guess is that a “healthy intellectual exploration” of reserve currencies will come to the same conclusion.

These news items are all “straws in the wind”, to be sure. But my take on events is that the next international monetary system is very likely to have a place, albeit an unofficial place, for gold bullion. The alternative to the US dollar – and whatever currency it might be is not visible today – cannot help but include some role for gold, in my opinion. The emerging economies seem to be comfortable with gold in their reserves – if not they wouldn’t be buying it - and the emerging economies are getting a bigger vote in the IMF.

Gold Watch (1) Scrap gold sales were down significantly in India during the first two months of this year. I point this out because scrap supply rises with the rising price of gold (which is normal, of course). But then it also declines when gold prices decline. Apparently holders of gold in India, who might be anxious to recycle their gold, felt the prices of gold were too low in January and February. I wonder if the appr. \$1045 price India paid for IMF gold now has become a “floor” in the minds of the Indian buyer/seller!?

(2) Marc Faber has a way of putting things succinctly. Some recent statements include: “All paper currencies will continue to lose their purchasing power as they have over the last 100 years or so”; “The Greece plan won’t work – and I think other countries like Spain and probably Portugal, Italy will also have to be bailed out eventually, and it will lead to more monetization



in Europe, one of the reasons the euro has been so weak ...”; “I suggest that people accumulate gold”; (www.bi-me.com, March 5, 2010). You can’t misinterpret these comments!

(3) Don Coxe is more “wordy” but his views boil down to the same thing: “The printing of money is only part of the equation ... [gold] is a beneficiary of the deteriorating position of another asset class which is seemingly unrelated to it – sovereign credit bonds ... people are saying maybe

all currencies are going to turn out to be bad”, (Kitco News, March 4, 2010).

(3) Geopolitical problems are brewing in the background, but difficult to identify precisely. A commentary in the FT (March 1) was entitled, “Do not even think about bombing Iran”, which suggests to me this is one of the options under consideration in Israel and Washington. The latest issue of Foreign Affairs also includes a discussion of the pros and cons of other policy options.

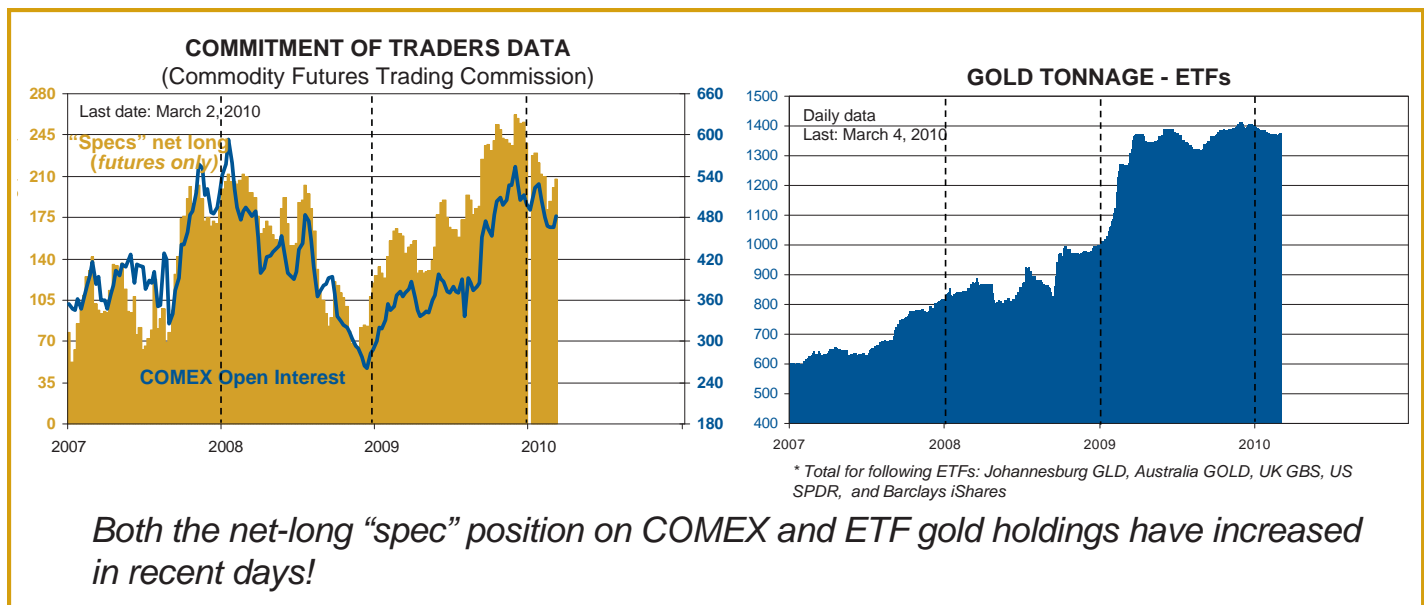
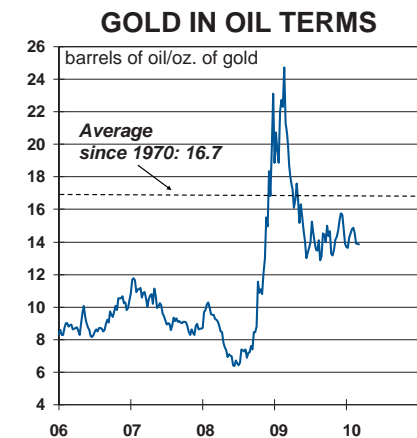
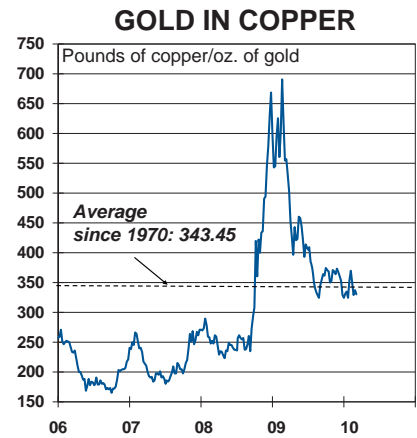
Obama, by his own timetable, will now have to do something about Iran's nuclear ambitions – but what exactly remains unclear.

(4) As we noted before, the original intent of the CFTC's review of position limits in commodity markets was to "dampen" oil speculation (which is a politically sensitive issue, but with little hard evidence support it). The FT reports (February 24) that most of the complaints from small speculators, however, actually deal with trading in silver and gold. GATA is around the periphery of these complaints, I suspect, as the general feeling seems to be that "a handful of large banks control a disproportionate 'short' position in futures".

But of course they do! (I would change the word "control" to "hold" however.) "Non-commercials" (the specs) hold a large net-long position on COMEX (a chart of which we often feature here and can be found below). Since all positions cancel out to zero, a large net-long position by "non-commercials" must of necessity be offset by a large net-short position by "commercials", which includes the dealers. (Is this therefore another tempest in a teapot?)

(5) Reuters, March 3: "IMF says Chinese currency substantially undervalued ... and complicates global rebalancing". Is the IMF finally becoming proactive again!?

(6) Risk Ranges: **Narrow \$1075-\$1200, Wide \$1050-\$1250.** The risk ranges have been raised somewhat this week.



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