Long-term Gold Outlook: Positive

By Charlotte Mathews
10 Sep 2008 at 08:03 AM GMT-04:00

Resource Link

Gold is likely to consolidate between $750 and $1,000/oz in the short term, but in the longer term it could gain strength from intensifying financial stresses in the US, says Investec Asset Management portfolio manager Daniel Sacks.

JOHANNESBURG (Business Day) -- Stresses in the U.S. were now spreading to Europe and emerging markets, which meant investors were likely to seek gold as a safe-haven investment.

In the short term, gold should not drop below $750/oz because below that level mines would begin to close, Sacks said yesterday.

Precious metals trader Hereaus said in its latest *Precious Metals Weekly* that downside in the gold price was limited by booming physical demand from western Asia and investors in gold exchange traded funds (ETFs) holding their positions.

Supply of gold from gold mines and central bank sales was diminishing.

Sacks said gold miners that could show consistent cost savings and improved production targets should outperform ETFs, although that was not the case recently.

ETFs tracked the price of the underlying commodity.

In the past two years, gold measured by the London morning fix had risen 32% to $806.50/oz, with a spike to $1,000/oz in March, while the JSE/FTSE Africa gold mining index, reflecting the share prices of gold miners listed in South Africa, had dropped 47% to 1689.

South African miners struggled to gain from the high gold price because of rising input costs and production disruptions caused by safety issues and power failures.

Gold fell below $800/oz yesterday as the dollar strengthened, and oil fell after Saudi Arabian Oil Minister Ali Al-Naimi said there were sufficient stocks to meet demand. Gold was trading at $799.74/oz in early trade while oil was at $105.51 a barrel.

Sacks said gold was failing to hold above $800/oz because the dollar was strengthening against other currencies, including the euro and yen.

Economic data in developing economies had turned marginally weaker at the same time as U.S. data was a little better than expected.

The dollar was also benefiting from softer oil prices.

If the dollar kept strengthening it could hit the positive gold outlook, he said.

But Investec believed it would continue to weaken against the emerging currencies that were important for gold buying, mainly the Indian rupee and Chinese renminbi , and the currencies that were important for gold supply, mainly the Australian and Canadian dollars and the rand.

Gold had also failed to hold above $800/oz because as the oil price fell, investors became less risk-averse, equities moved higher, the dollar strengthened and commodities prices plunged, all undermining the short-term argument for buying gold as a safe haven.