

GOLD SHOULD CONTINUE ITS UPWARD JOURNEY

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President Bush's victory in the US election was good news for gold prices.

He won the majority of the popular vote, and the Republicans now have a better hold on the House and Senate. Largely, Bush is expected to continue his policies on all fronts. One such front, the 'war on terrorism,' is high on his agenda. Two fundamental factors that drive the price of gold, therefore, remain intact: geopolitical tension and massive budgetary deficits.

The 'war on terrorism' is expensive and the burdensome debt load that it brings will only increase. Add to it the declining dollar, which has been shown to be grossly overvalued, higher oil prices to negatively impact on economic growth, concern about instability in West Asia (Yasser Arafat is reportedly in coma), and we have a perfect recipe for gold touching new highs.

In the short term, though, we have a major battle looming, say some analysts. In one corner is the dollar, previous champion and current reserve currency of the world, but suffering a downward trend over the last three years. In the other is the challenger, gold, currency of last resort, now experiencing a price level that is at a 16-year high of \$433 per ounce.

Will the dollar punch gold into submission?

If the US employment report provides evidence of the US economy coming back on track, we could see major reversals take place very soon in the dollar and precious metals as we head into the close of the year. The dollar could firm up against other currencies and the price of gold could see a decline.

Another viewpoint is that of Tim Wood, a US-based technical analyst (www.cyclesman.com), who observes that past cycles and statistical facts suggest gold should go down and the dollar should move up from here. But, he adds, the same statistical facts also suggest: "If gold moves above \$433 an ounce and is up in November, the bullish case will become very strong and support an initial move towards \$500 in the coming months." He adds that if the bearish case is confirmed and gold does not surpass \$433 in November, the odds suggest gold will move below last May's low of \$370 in the coming months.

One thing is certain. Demand and supply factors are changing in gold's favour. A strong case can be made for significant growth in each of gold's demand components of jewellery, other fabrication uses, hedging repurchases and investment demand. At the same time, forces are causing a major reduction in supply. According to World Gold Council, the total mine supply of gold, after net producer hedging, was 2,303 tonne in 2003. Total world gold demand in the same year was 3,230 tonne.

Additionally, the unwinding of the large hedge (short) positions should both increase demand and reduce supply, thereby putting strong upward pressure on the price of gold.

My belief is that long-term gold should continue its upward journey. It has touched highs, in excess of \$800 per ounce, albeit a very long time ago. It could do this again. I wish to see my company adding a lot more tonnage to the miserly nine tonne a year our country now produces, and the price of gold around \$500. I do not think I will have to wait too long to realise this dream.

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