Philequity Corner - November 5, 2007
By Valentino Sy

Gold on the way to $1000

Gold futures rallied to its highest level in nearly 28 years, hitting an intraday high of $810.70 per ounce for its December delivery before settling at $808.50 last Friday on the New York Mercantile Exchange (Nymex). At the pace it has ascended, gold is poised to test the record high of $873 set on January 21, 1980 (see chart below).

Gold Chart (1975 to present)

Source: www.kitco.com

Amid a confluence of factors, we believe that it is just a matter of time that gold prices will trade at $1,000 per ounce.

A traditional inflation hedge
Gold is a traditional hedge and a solid refuge amid inflationary pressures. With oil prices on the way to $100 per barrel, rising inflationary expectations should provide further boost to gold prices.

A hedge against the falling greenback
Gold is also benefiting from the added liquidity brought about by the Fed easing and the weak US dollar. As real interest rates fall in the US, the liquidity created by the Fed rate cuts should continue to drive gold and other commodity prices higher. Consequently, this has also caused the US dollar to weaken, prompting investors to seek alternatives and hedge against the falling greenback.

A new asset class
Gold is now an asset class in its own right, given the strong interest from exchange traded funds (ETFs), hedge funds and other institutional investors. This is one factor that was not present during the 1970s-80s when gold and other metals last had their shining glory.

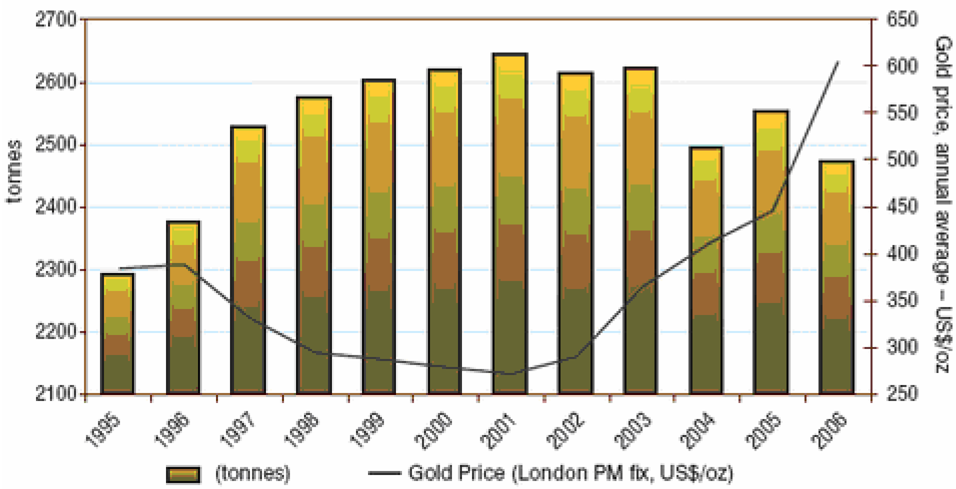
To give you an idea of how this has dramatically changed the supply/demand dynamics, StreetTracks' Gold Shares ETF (GLD) - the world's largest gold fund - now holds more gold bullion than the Bank of Japan. GLD's holdings is just a few tons shy of 600 tons as of October 31 and about to surpass the Chinese central bank's holdings unless the Chinese have been buying lately (which would not be surprising).

Demand from China, India and the Middle East

Meanwhile, the growing economies of India, China and the Middle East will continue to bolster demand for gold. India, the biggest buyer of gold, is expected to expand its purchases of the precious metal 8.4 percent in 2008, while China will increase 10 percent, according to the International Monetary Fund.

Meanwhile, in the face of rising demand, mine production has been going down since 2001 as you can see below.

Gold Mine Production (1995 to 2006) and the Gold price



Source: GFMS

Central bank diversification

Central bank diversification toward gold reserves is another factor which should fuel increased demand for gold. China, for example, is among the countries with low gold holdings in relation overall reserves - about 600 tons of gold reserves with a value of a mere 1.3% of the total reserves. It is very likely, that China (in the near future) will increase its gold holdings to between 3-5% in order diversify its holdings away from the US dollar.

In the 1990s and earlier this decade, central banks (especially the Eurozone central banks) were major sellers of gold. Recently, however, their sales have abated as gold prices have more than doubled in the past five years. Eurozone central banks, including the European Central Bank, held 186.2 billion euros worth of gold as of end-September 2007.

Boon to Philippine economy

If you've read our article last week (see "*Oil on the way to $100*" in the Oct. 29, 2007 issue of *The Philippine Star*), you may have noted that the factors that are driving oil prices upwards are similar to the reasons why gold prices are heading higher. But while higher oil prices impact the Philippine economy negatively (since we are an oil-importing country), rising gold and other metal prices (such as copper, nickel, etc.) is advantageous for the country.

We have written extensively in the past on the potentials for the Philippine mining industry (see "*The Philippines Does Not Have to Remain Poor*" and "*Mining Boom, Back to the 60s*" on the April 3 and April 24, 2006 issues of *The Philippine Star*, respectively). We saw the importance of the mining industry to the overall economy and to the stock market, which has proven to be profitable. This is why we felt we have to write about it from the very start.

For investors wanting to participate in this move, they can invest their funds in mining companies listed in the Philippine Stock Exchange. We caution, though, that many of these companies may be speculative as they are not yet producing and most are not yet even in the feasibility stage. However, we especially like Philex Mining Corp., which is the biggest gold-copper producer in the country. We continue to recommend the stock even if it has been our top recommendation in the past years. (Disclosure: Philex Mining Corp. is one of the top holdings in Philequity Fund's portfolio.)

For comments and inquiries, you can email us at info@philequity.net. You can also view our archived articles at www.philequity.net or www.yehey.com/finance.