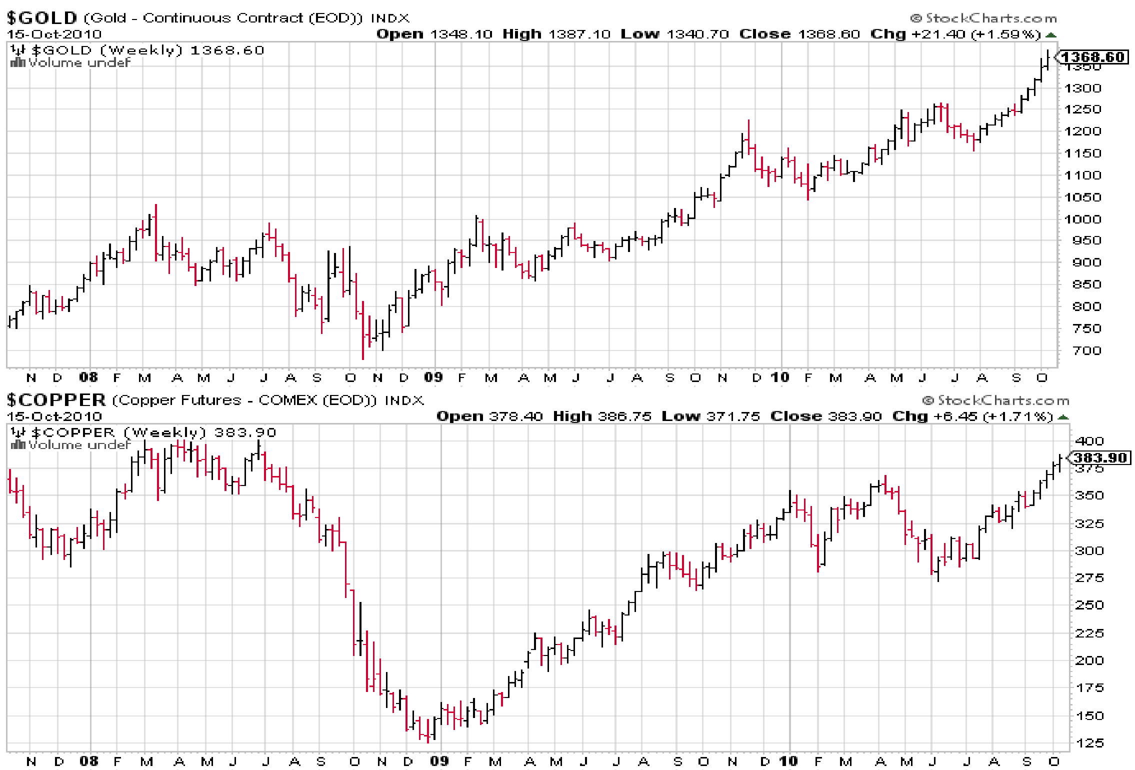
Philequity Corner (October 18, 2010)
By Valentino Sy

All Time High

In our previous article, we talked about the race between nations to debase their respective currencies in order to spur domestic economic growth (see *Currency War*, October 11, 2010). We have shown you how - as a result of these currency wars – the US dollar is losing its value. This has also precipitated a move towards the purchase of gold.

Gold surged to a new all time high of $1,387 per oz. last week before closing at $1,368 per oz. on Friday. Silver touched $24.9 per oz. before closing at $24.3 per oz. for a new 30-year high. Meanwhile, copper finished the week at $3.81 per pound, just 5 percent shy of the all time high of 4.065 recorded in 2008.



Source: Stockcharts.com

15 Reasons why gold and other metals are making new highs

Gold and other metal commodities have record performances because of the following reasons:

1) **Record low interest rates.** Continued monetary easing of central banks has resulted in record low interest rates in most countries. Concern of a bubble in bonds (due to ultra-low interest rates) and the reluctance of investors to participate in equities because of the poor economies in the developed world have led mainstream financial players to investment in gold and other metal commodities.

2) **Quantitative easing by central banks.** The US Fed, the Bank of Japan and the Bank of England are introducing another round of quantitative easing to sustain economic growth

in their respective economies. They are creating new money out of thin air to purchase financial assets (from treasury debt, mortgage-backed securities, corporate bonds and even stocks) with the objective of keeping interest rates low and stimulating lending. The new supply of paper money is driving the prices of finite assets like gold and other metals higher.

3) **US dollar weakness.** QE2 is driving the US dollar weaker, prompting investors to seek alternatives like gold, silver and other precious metals in order to hedge against the falling greenback.

4) **Currency wars.** Other central banks are responding to the Fed's move with quantitative easing programs of their own. Others retaliate with measures such as directly intervening in the foreign exchange market, keeping policy rates low or by introducing taxes on foreign investments. The worldwide race to debase currencies is pushing the price of hard assets like gold and other metals higher.

5) **Loss of confidence in "FIAT" currencies or paper money.** Fiat currencies are paper money issued by governments. There is now growing doubts over the issuance of fiat currencies. The skepticism stems from the massive printing of money in the US and other countries worldwide.

6) **Threat of hyper-inflation**. The QE program of central banks and the low interest rate environment worldwide have fostered a situation where a super-spike in inflation is highly probable. Thus, investors are turning to gold, silver and other hard assets which have been traditional hedges against inflation.

7) **Central banks turn from net sellers to net buyers.** In the 1990s and earlier this decade, central banks (especially the Eurozone central banks) were major sellers of gold. But starting last year, the central banks of India, China, Russia have bought gold turning central banks from net sellers to net buyers. Nowadays, while some central banks are buying gold and others are holding, no central bank is selling. In fact, the Bangko Sentral ng Pilipinas has been a traditional buyer of gold from Philippine producers.

8) **Investment in gold and metal ETFs.** Investments in exchange-traded funds (ETFs) have grown exponentially during the past few years. In fact, StreetTracks' Gold Shares ETF (GLD) - the world's largest gold fund – is now the 6^{th} biggest holder of gold. It holds more gold than China, Switzerland and Japan. GLD's holdings stood at 1,304 tons as of last week.

9) **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. Most portfolio managers have included gold in their holdings, in addition to equities, fixed income and alternative investments.

10) **John Paulson, George Soros and other hedge fund managers like gold.** High profile investors like John Paulson, George Soros and other hedge fund managers are betting on gold. Paulson who earned about $20 billion for his funds between 2007 and early 2009 wagering against the housing market and financial stocks, launched a gold fund early this year. He is betting on the devaluation of the US dollar and future inflation. Meanwhile, legendary hedge fund manager and philanthropist George Soros has described gold as the only current secular bull market.

11) **Supply is dwindling.** Gold mining output appears to have peaked in 2001. The only major producers with increasing output have been China and Russia. China is the world's top producer of gold, but the People's Bank of China buys all the gold produced domestically. Russia is also buying gold from both domestic and international markets.

12) **Demand has gone up.** Meanwhile, demand has increased from various sectors: from investment demand coming from asset managers and ETFs; central banks which are now net buyers; and from consumer demand coming from jewelry makers.

13) **Removal of hedges of mining companies.** AngloGold Ashanti, the world's 3rd biggest gold miner, has announced plans to wind up its hedge book by early next year, joining giant Barrick Gold in putting an end to the legacy of forward sales, which predates the boom in gold prices. In fact, the aggregate hedge book of gold producers now is equivalent to only 5 percent of annual mine production.

14) **Geopolitics and threats of war.** Gold has been a store of value and traditional hedge against uncertainties arising from geopolitics and threats of war.

15) **Technicals point to more upside.** Both gold and silver are at new all time highs. And copper is about to test its previous all time high. As explained in one of our previous articles, markets that make new highs tend to move towards higher highs. Markets always tend to move towards the line of least resistance (see *New High Means Higher,* September 20, 2010). Thus, it is more likely that gold, silver & copper will continue to make higher highs.

How to participate in this gold & metals boom?

Investors wanting to participate in the gold and metals boom can invest in the following ETFs which are listed in New York: GLD for gold, SLV for silver and JJC for copper. Investors can also buy gold stocks like ABX (Barrick Gold Corp.), GFI (Gold Fields Ltd.) and NEM (Newmont Mining Corp.) or in copper stocks like FCX (Freeport-McMoran Copper and Gold, Inc.). You can also invest in a gold mining ETF like GDX (Market Vectors Gold Mining ETF).

For local exposure, investors can look into listed mining firms such as Philex Mining Corp., Atlas Consolidated Mining & Development Corp., Lepanto Consolidated Mining Co. and Manila Mining Corp.

As discussed in a previous article (see *Fly High*, September 27, 2010), local mining shares are moving higher because of record metal prices, possible M&A activity with Philex as acquirer and the entry of Goldfields in Lepanto which may spark the entry of other mining majors into the Philippines.

Investors Briefing in Cebu

Wealth Securities, Inc. will hold an investors briefing in Cebu on October 23, 2010 (Saturday), 7pm. Investors in Cebu who are interested to attend can register with Ernest Evangelista of Wealth Securities – Cebu at 255-7315 or 255-7316.

For comments and inquiries, you can email us at info@philequity.net. You can also view equity.net or www.wealthsecurities.com.