

Erste Bank Analysts: “Gold Fever Not Yet Over”

[Back](#)

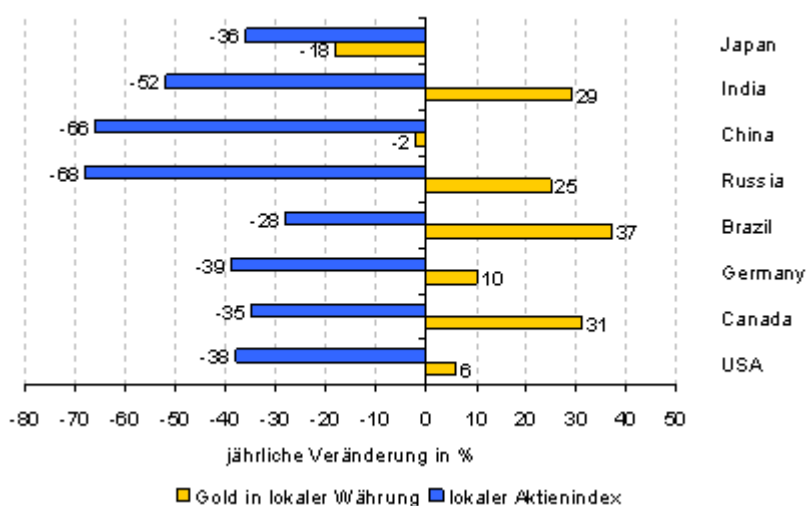
02.07.2009

- Central banks are creating perfect setting
- Gold is still in early phases of bull market
- Medium to long term: higher gold prices
- The magic threshold of USD 1,000 expected to be surpassed in 2009

Many market participants had expected gold prices to explode due to the panic and turbulent events of last year and were ultimately disappointed by the performance. Still, even collapsing oil prices or the rising USD were not able to check the gold price; it gained 13.6% last year (in EUR). Gold performed better than most other investments in absolute figures as well as in relative terms. Gold reached new all-time highs in euro, British pound, Canadian USD, South African rand, Russian ruble, Indian rupee and many other currencies. In 2009 as well, performance has been quite good up to now, posting a gain of 11.1% (in EUR) or 7.7% (in USD).

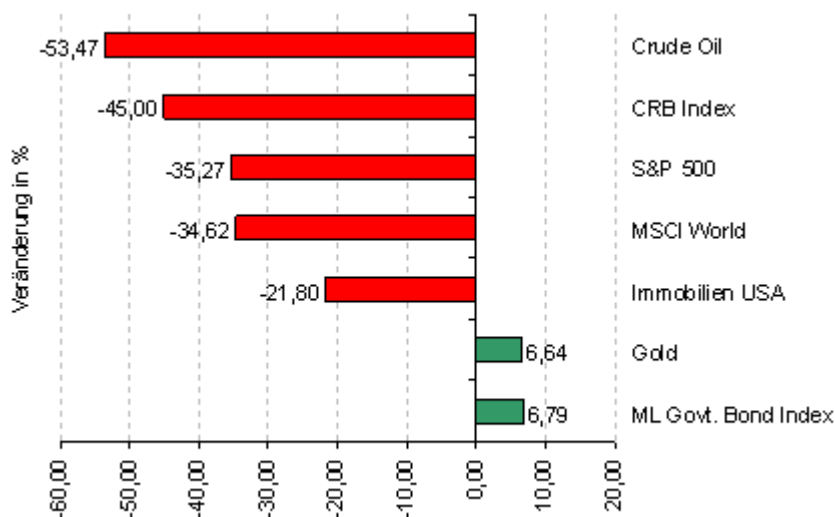
Particularly interesting is the comparison with stocks when one looks at stock indices in local currency:

Gold in local currency vs. stock indices 2008



Quelle: Datastream

Gold vs. other investment classes since the last Gold Report (June 2008)



Quelle: Datastream

The strongly expansive policy of central banks – and the related creation of money in historic dimensions – as well as the massive expansion of sovereign debt around the globe could turn inflation into a problem in the coming years. In conjunction with nearly global zero-interest rate policy and growing criticism of the USD as global reserve currency, we see the perfect starting situation for further increases in the price of gold.

Intact uptrend – long-term price target USD 2,300

“We perceive the price of gold to be on an intact uptrend – now more than ever. We believe that around half of the upward movement has been completed – the most impulsive phase probably lies ahead of us.

Commodity and precious metal cycles last particularly long, at least 15 to 20 years. As the recent bull market started only in 2001, we might have only reached half of the cycle. This implies that our price target of USD 2,300 at the end of the cycle appears more realistic than ever,” said Ronald Stöferle, analyst for international stocks at Erste Group.

“Even if the race between inflation and deflation has not yet been decided, we believe that gold is a first-class investment in both scenarios,” according to Stöferle



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Gold and silver are recognized currencies

Gold and silver are the only recognized currencies that are neither created nor controlled by governments or central banks. The answer to the question of whether gold will become more expensive or if the purchasing power of paper money will become cheaper lies in the eyes of the beholder. In any case, gold can only drop to its intrinsic value, which is the level of the extraction costs.

Components resistant to crisis

When the monetary sluices open and the velocity of money accelerates again, we might see a flight into physical assets in an inflationary environment. Commodities, especially oil and gold, would profit enormously in such a scenario. Therefore, the analysts

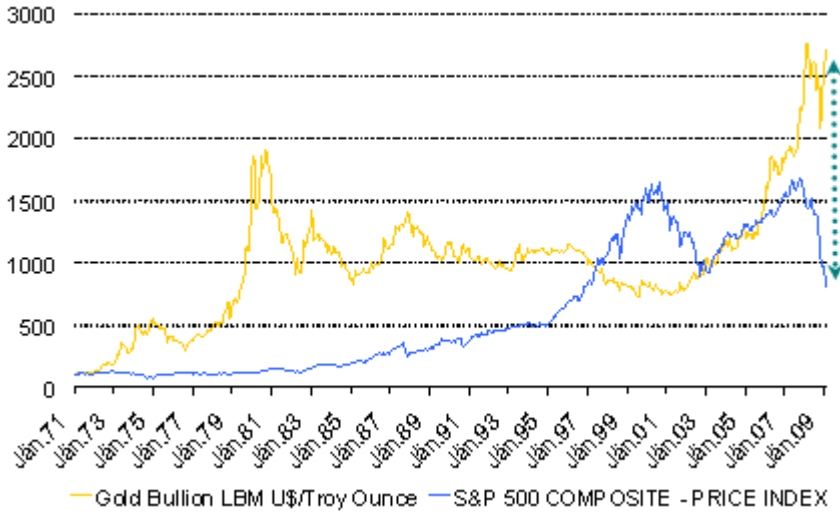
recommend keeping gold as a component resistant to crisis in an asset allocation and as a long-term means to protect purchasing power.

Based on the de facto zero-interest rate policy in the US, Japan and Europe, the opportunity costs of gold are practically around zero, and in this sense, the environment remains excellent. “As long as real interest rates remain at such a low level, we cannot imagine an end to the bull market,” Stöferle added.

Based on the positive performance in the year of horror in 2008, confidence in the yellow metal is expected to grow again. In the 1970s, it was an unwritten law that at least one-fifth of assets were to be invested in gold. In 1980, gold and gold mining stocks accounted for 26% of the world’s financial assets, today the percentage is only 0.6% of global assets. Even at a price of USD 5,000/ounce, only 3% would be invested in gold. Currently, the gold experts at Erste Group recommend investing 5% to 10% of assets in the precious metal.

“We also believe that gold investments have an excellent opportunity/risk ratio and expect higher gold prices over the medium to long term. The magical mark of USD 1,000 is expected to be exceeded in 2009 substantially, and as of the third and fourth quarters, positive seasonal demand is expected to provide further support. The first target in our opinion is the mark of USD 1,300; our long-term price target at the end of the cycle is still USD 2,300/ounce,” Stöferle stated.

GOLD vs. S&P 500 since 1971 (Start: 100, both in USD)



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[Back](#)