Gold bull market not over - gold price to climb to USD 1,480 on the back of expansionary central bank policies

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- **Despite recent technical damage inflicted on gold price, expansionary central bank policies are expected to push gold price up – 12-month target price at USD 1,480**
- **Gold sentiment currently at a low after crash – yet trading positioning signals upcoming bottom followed by rally**
- **Long-term case for gold intact – quantitative valuation model sets long-term gold price at USD 2,230**
- **Gold should be kept in the portfolio: its advantages – highly liquid global currency with long-term track record and no credit risk – make it particularly appealing in the current environment**

Despite the current market consensus that the gold bull market has ended, the fundamental case in favor of gold is more compelling than ever, according to the latest Erste Group report “In gold we trust”. “There is no 'back-test' for the current financial era. Never before have such enormous monetary policy experiments taken place on a global basis - if there ever was a need for monetary insurance such as gold investments, it is today. We expect this expansionary central bank environment to continue and definitely lead to increases in the gold price.” Hans Engel, International Equities Analyst at Erste Group says: “Overall we expect the positive fundamental case for gold to get more attention over the next quarters and that the gold price will recover from current levels. But the expected recovery will take some time."

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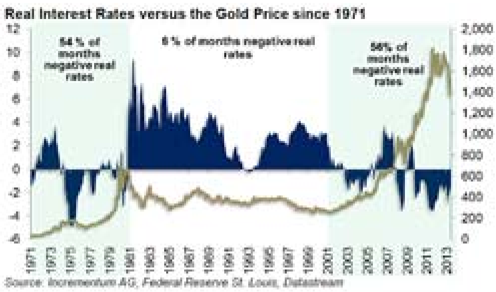

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Despite recent technical damage inflicted on gold price, expansionary central bank policies are expected to push gold price up – 12-month target price at USD 1,480

Contrary to 1979/1980, the current gold bull market won't end due to a sudden strong rise in interest rates, as the balance sheets of governments, households and corporations are tainted by huge debt. In the current environment, this would lead to a deflationary depression. According to the BIS, the combined debt burden of governments, households and non-financial corporations in the 18 OECD core countries has risen from 160% of GDP in 1980 to 340% of GDP in 2012. In order to counter the current problems in the financial sector, but also in the real economy, the Fed, the Bank of Japan, the Bank of England and the ECB are going to continue to hold interest rates at a low level. “Since 2008 there have been more than 500 interest rate cuts around the world. Never before has there been such a low interest rate framework on a worldwide basis. In many countries interest rates are at the lowest levels ever recorded. Due to the level of debt reached in the meantime, real interest rates are bound to remain negative, respectively low. There has always been a strong correlation between negative real interest rates and the gold price, which means the current environment is the perfect building block for a gold price rally," the report highlights.

Gold sentiment currently at a low after crash – yet trading positioning signals upcoming bottom followed by rally.
In the course of the recent crash the market has once again proved that it tends to maximize pain. The cascading price collapse beginning in mid April had a standard deviation of more than five. Since trading volume was extremely high, the sell-off fulfilled all the requirements for a 'panic low'. The fact that sentiment is by now at the most negative level since the beginning of the bull market, gives analysts reasons to be clearly positive about the long term. Sentiment indicators show that the gold price is miles away from excessive euphoria. According to the Hulbert Financial Digest, the allocation recommended by gold newsletter writers was recently at minus 44%, an all time low.

The commitments of traders report (CoT) currently shows – from a contrarian perspective – a clearly positive situation. It confirms that a great deal of speculation has been wrung out of the sector over the past few months. The majority of bulls appear to have thrown the towel. According to the report, "the largest, most deep-pocketed and best-informed traders have positioned themselves for higher gold prices. On the other hand, the fact that speculators have significantly decreased their long positions signals an attractive counter-cyclical entry point. The current positioning data in the futures market are a recipe for a pronounced rally." Since the all time high in August 2011, the gold price has been in a long-term consolidation phase, similar to the 'mid cycle correction' of 1974-1976. As a result of extremely negative sentiment and the clearly positive implications of the CoT, analysts assume that a bottom will soon be forming. From a seasonal perspective, not much momentum is to be expected before August.

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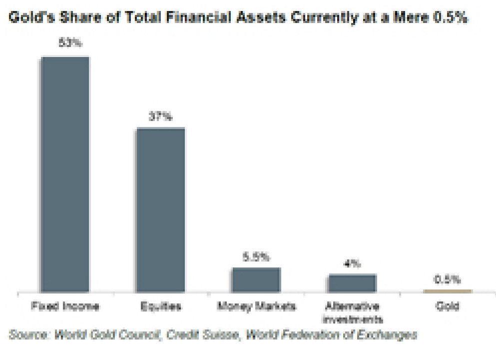
The long-term comparison between gold and other asset classes clearly paints a positive picture. Both in relation to monetary aggregates as well as relative to stocks and bonds, gold remains below long term average values. Relative to 'real assets' some ratios are above the average, however, they are not at extreme levels.

Long-term case for gold intact – quantitative valuation model sets long-term gold price at USD 2,230
For the first time a quantitative evaluation of gold has been undertaken in the 2013 edition of the report "In gold we trust". With the aid of a model, a wide range of different scenarios regarding future US monetary policy and its effects on the gold price were taken into account. Even if small probabilities of occurrence are modeled for extreme scenarios, the model justifies a considerable risk premium. Based on this parametrization, a gold price target of $2,230 has resulted.

Gold should be kept in the portfolio: advantages – highly liquid global currency with long-term track record and no credit risk – make it particularly desirable in the current environment
The Erste report emphasizes that gold should continue to be an integral part of investment portfolios. Gold is the only liquid investment asset that neither involves a liability nor a creditor relationship. It is the only international means of payment independent of governments, and has survived every war and national bankruptcy. Its monetary importance, which has established and manifested itself in the course of the past several centuries, is in the process of being rediscovered. For centuries, gold has stood for stable values, independence and stability. The question whether gold is becoming more expensive, or whether the purchasing power of paper currencies is falling, is in the eye of the beholder.

The Value of Global Assets amounted to $223 trillion as of the end of 2012. The share of investable gold currently amounts to $ 1.1 trillion, or only 0.5%. "We believe that this share is going to increase considerably in the future, since the notable characteristics of gold - global currency with a long term track record, no credit or counterparty risk, highly liquid and globally traded, very little inflation through mine production - are especially desirable in the current environment," the report concludes.



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Goldreport 2013 [pdf; 2.2 MB]