

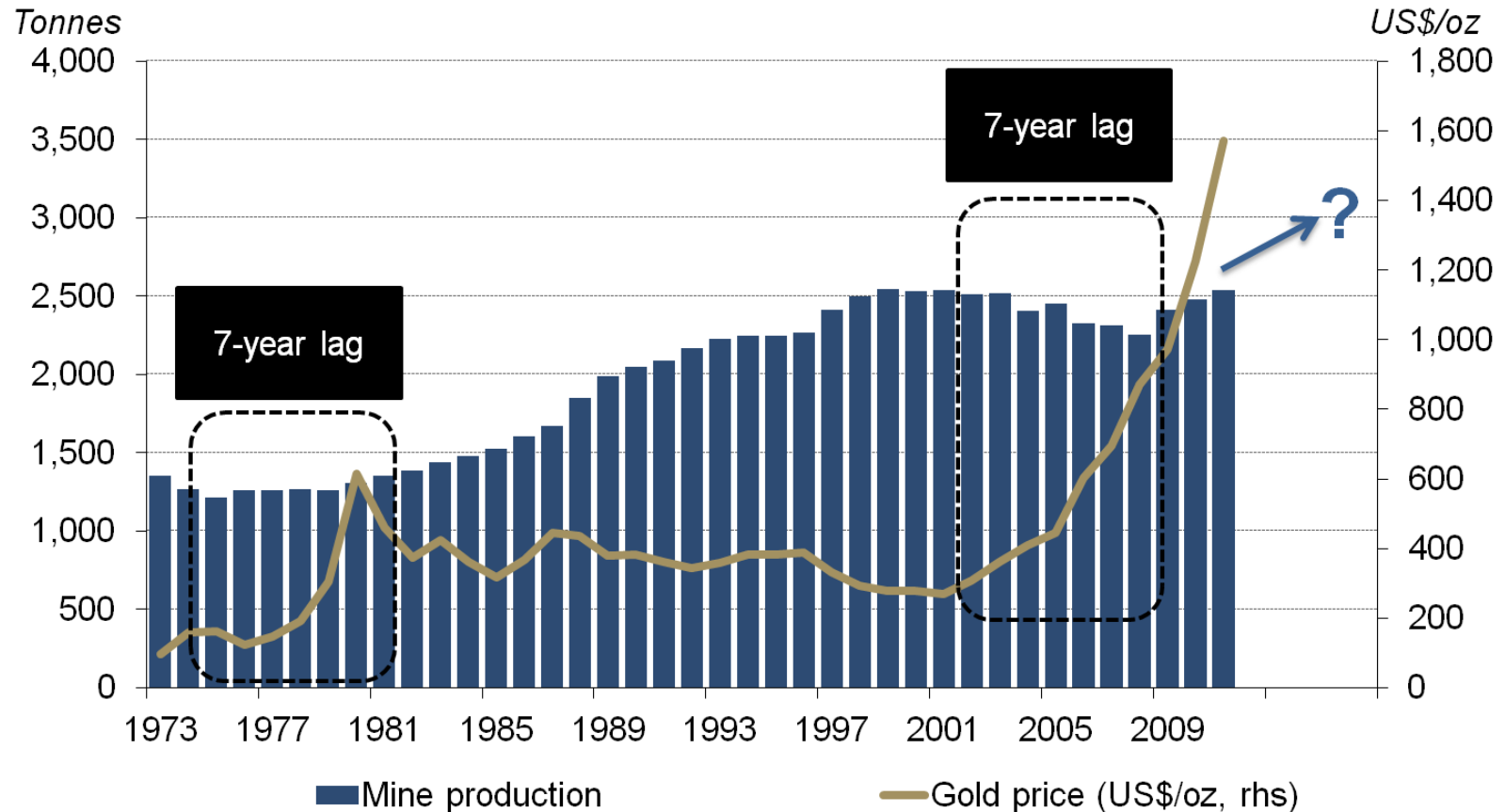
# **“The Perfect Gold Storm”**

**Presented by Pierre Lassonde | Tuesday October 23<sup>rd</sup>, 2012**

**Grant's Interest Rate Observer Conference, New York**

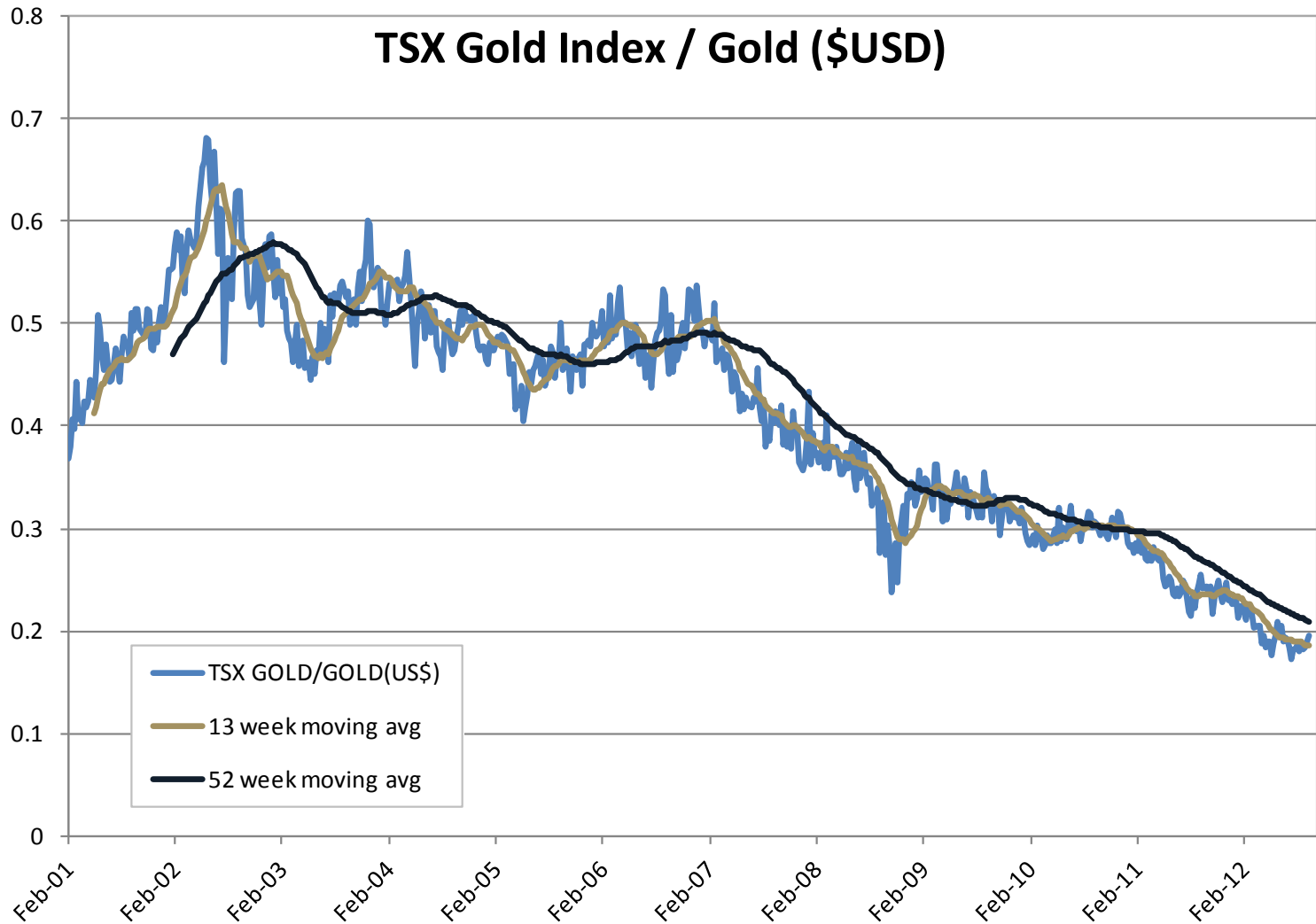
# A gold bull market brings a production response...

## Mine supply of gold and the gold price

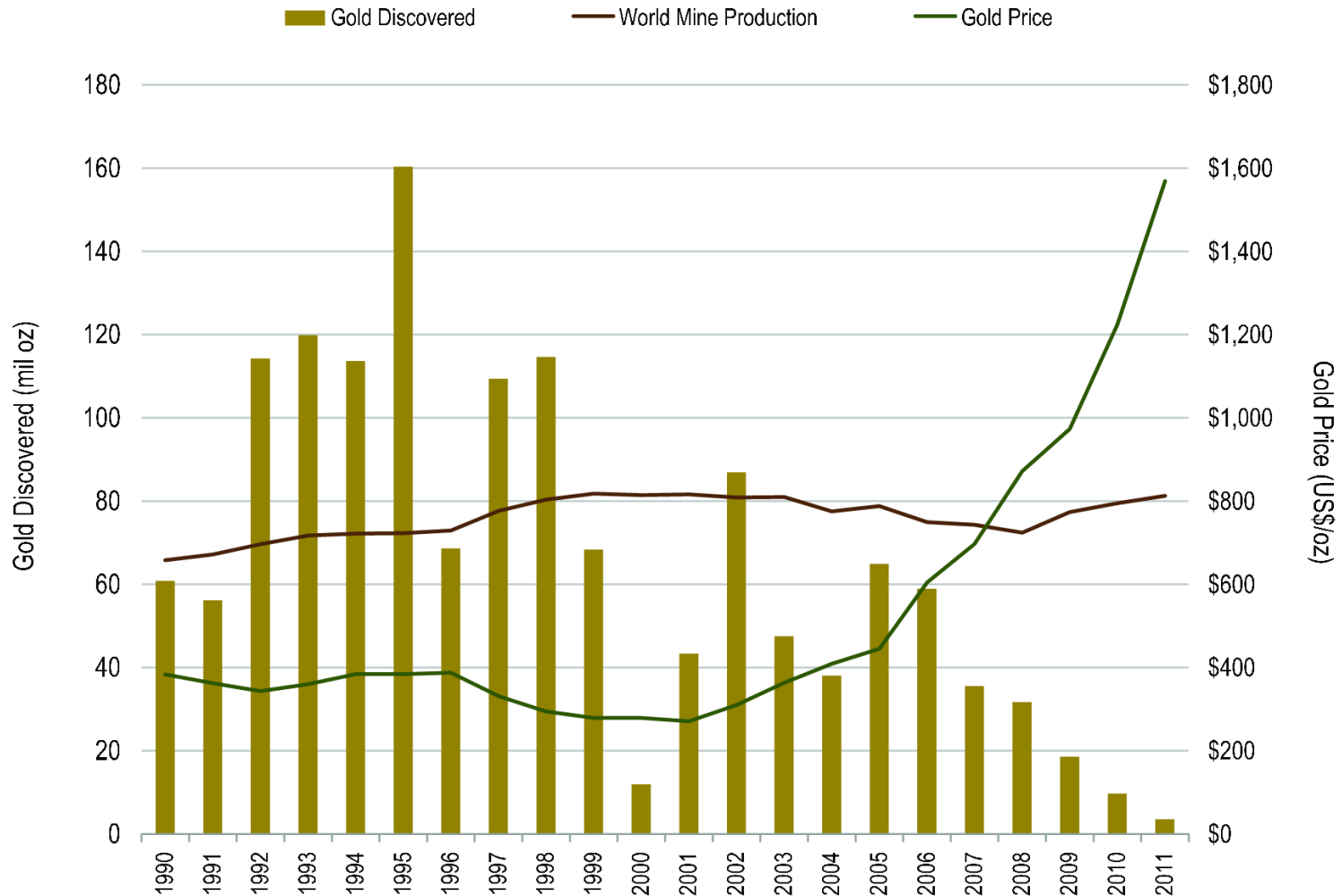


Source: CPM Group, LBMA, World Gold Council

# OOPS! Not this time



# New finds are proving increasingly elusive...

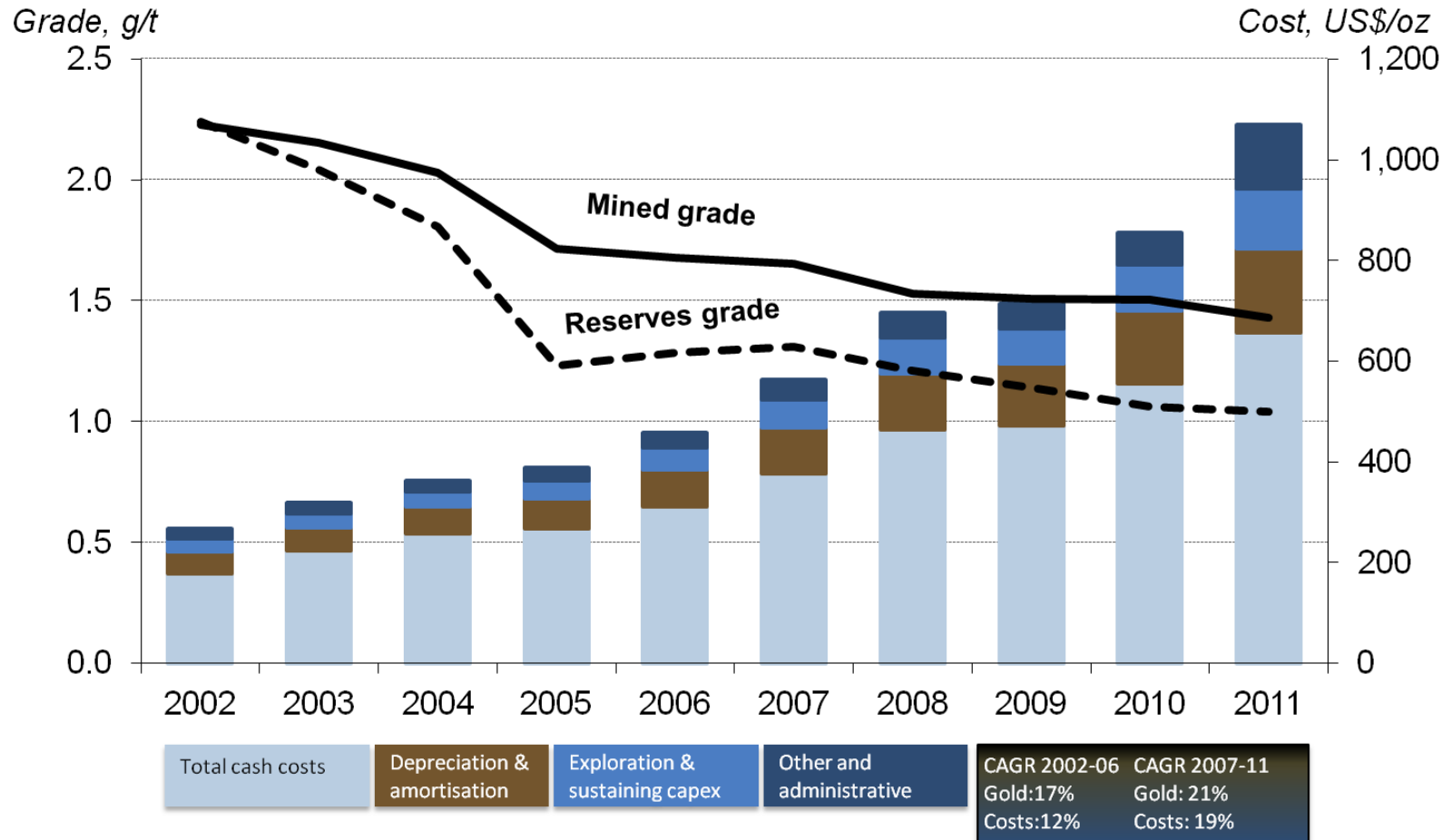


Represents 189 gold deposits discovered since 1990, each with at least 2m oz of gold in total reserves, resources and past production (or at least 1m oz in reserves)

Data sources: Metals Economics Group – *Strategies for Gold Reserves Replacement 2012*

# It's all about grade...or lack of it

## Low-grading and All-in costs\*

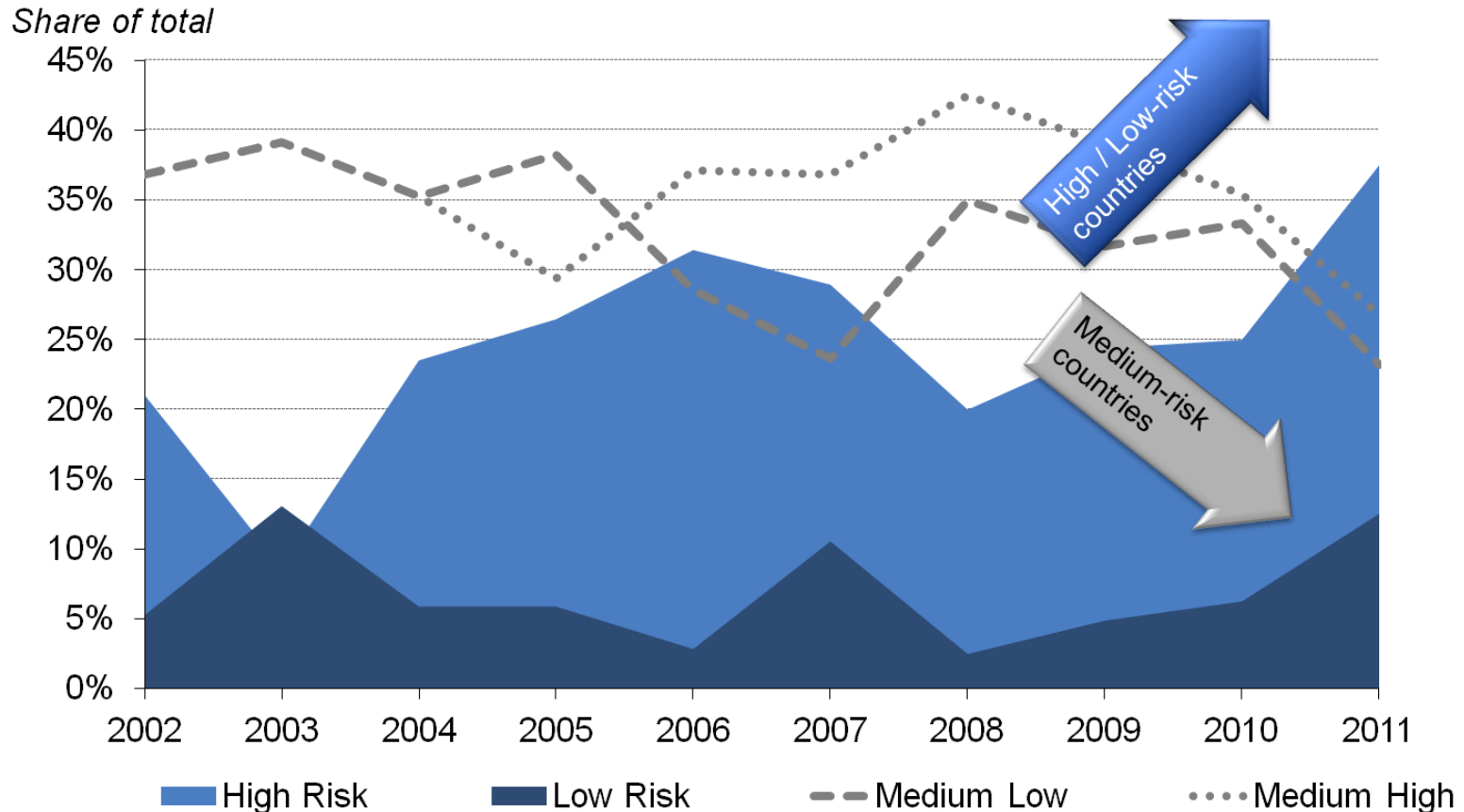


Source: GFMS Mine Economics, LBMA, World Gold Council

\*All-in costs are a GFMS proprietary measure, designed to reflect the full marginal cost of mining

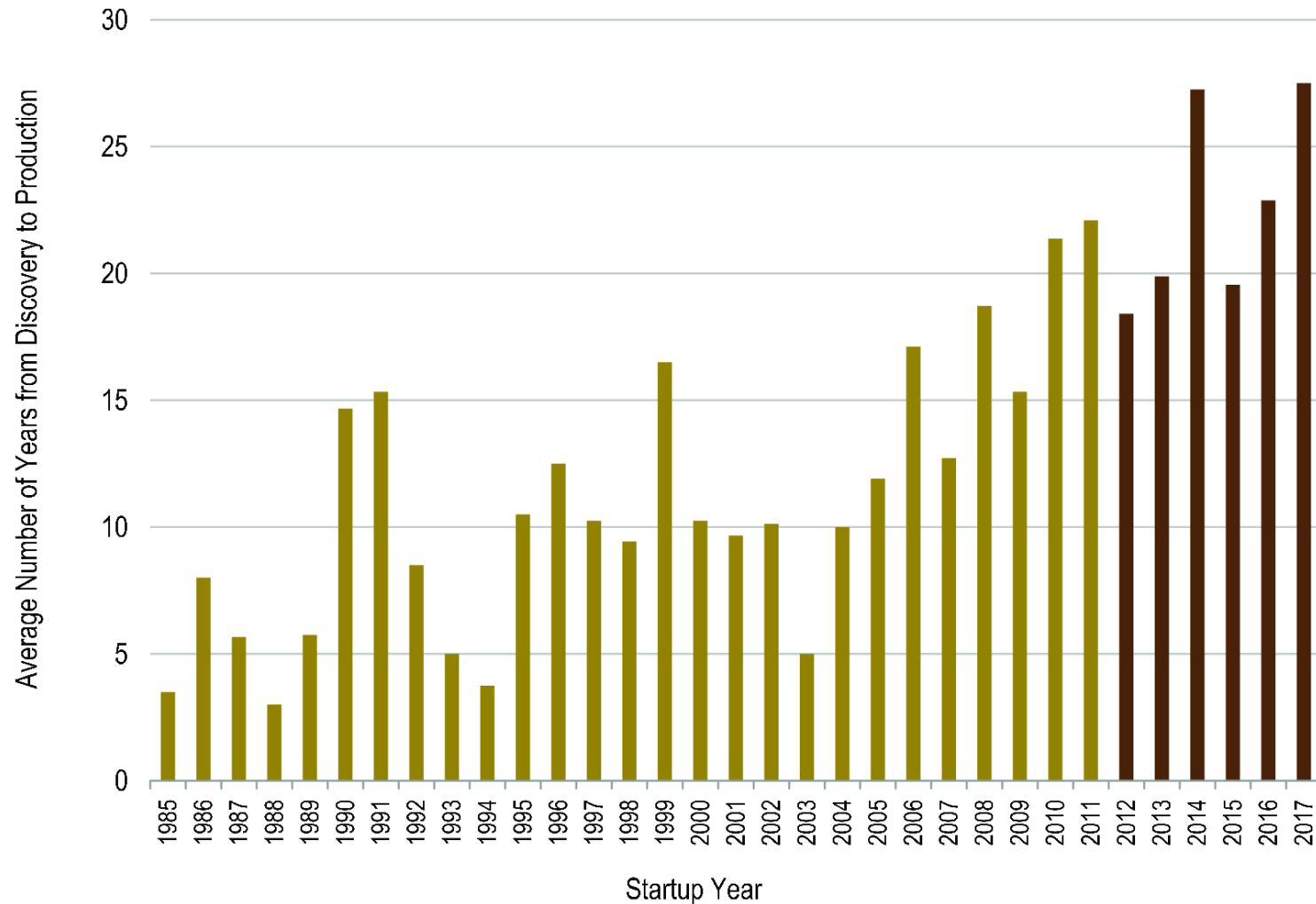
# Resource nationalism is polarising production...

## Political risk ranking of mining countries



Source: Fraser Institute, World Gold Council

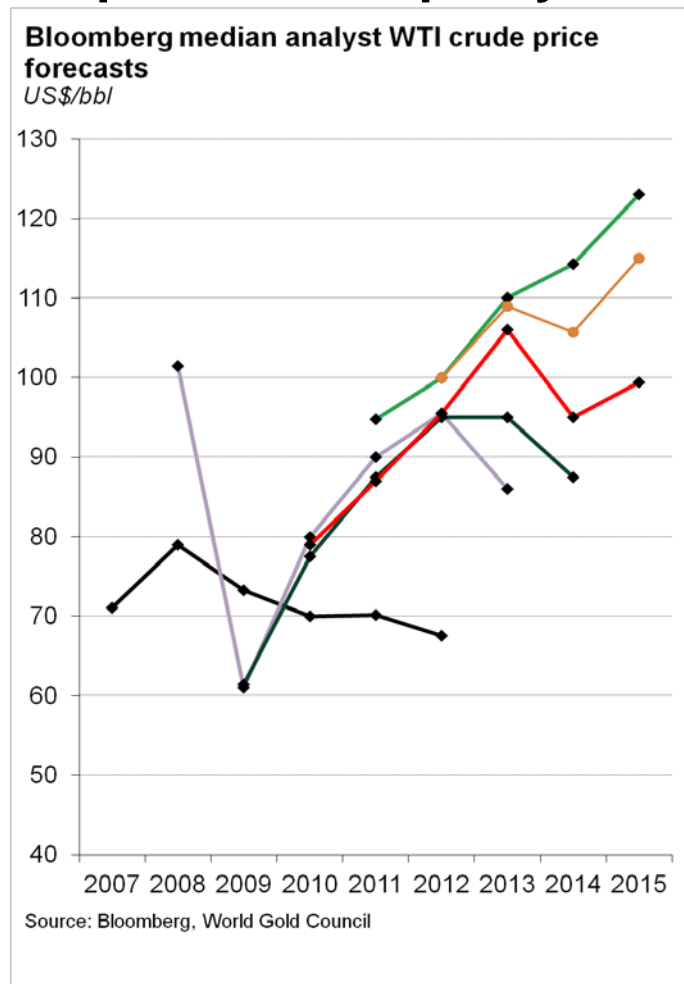
# New finds are taking longer to bring to market...



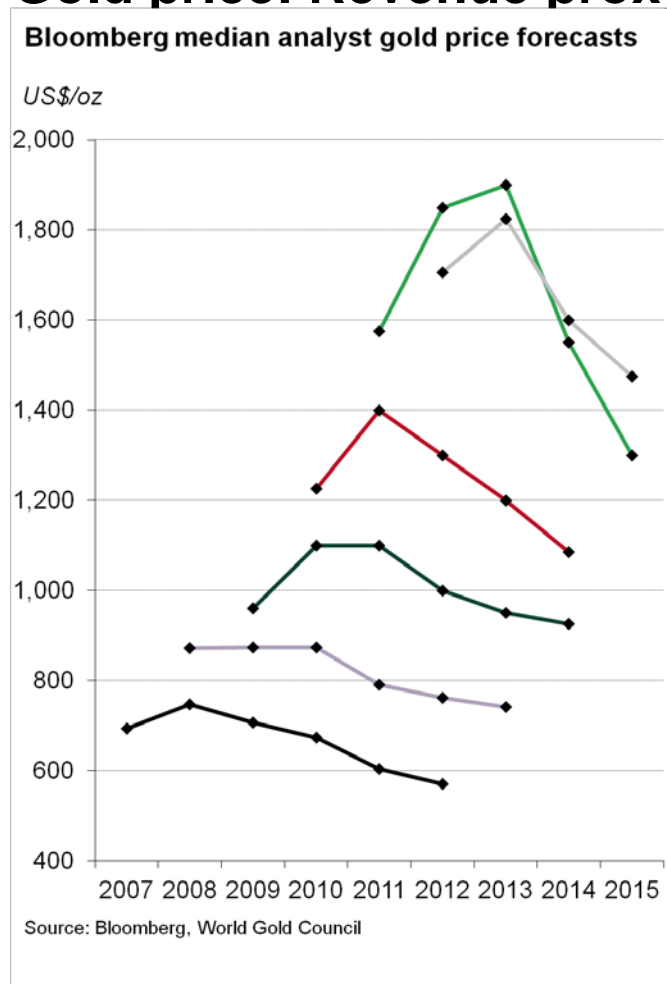
Data sources: Metals Economics Group – Strategies for Gold Reserves Replacement 2012

# Analysts: Perfectly wrong forecasts

## Oil price: Costs proxy



## Gold price: Revenue proxy



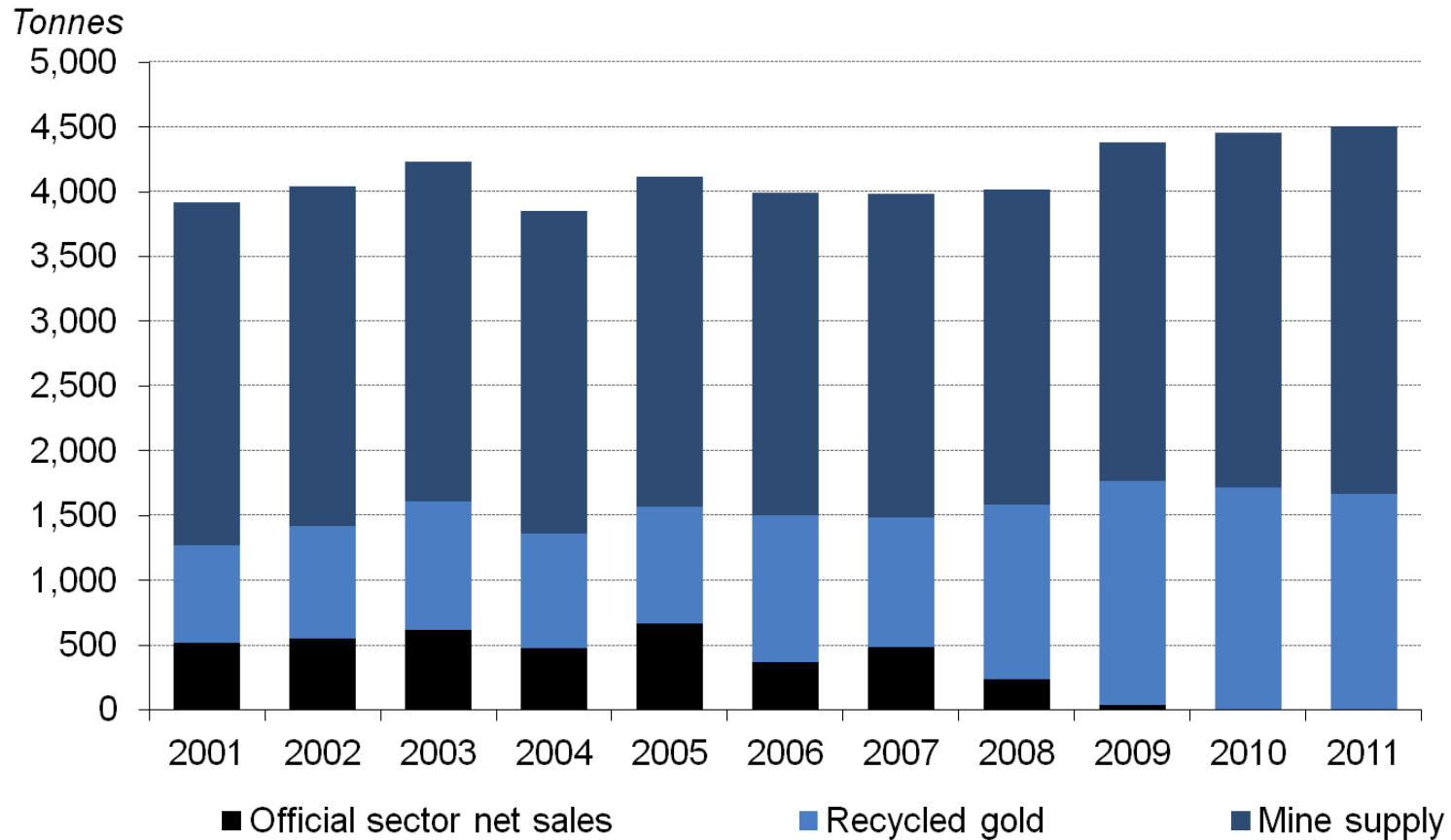


# Dead cat bounce or ninth life

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- Cut-off grades reaching limits of current technologies
- Energy (25%) & labor (40%) could provide stability
- Capex still a wild card (location, labor productivity)
- Consensus price forecast  $\neq$  reality

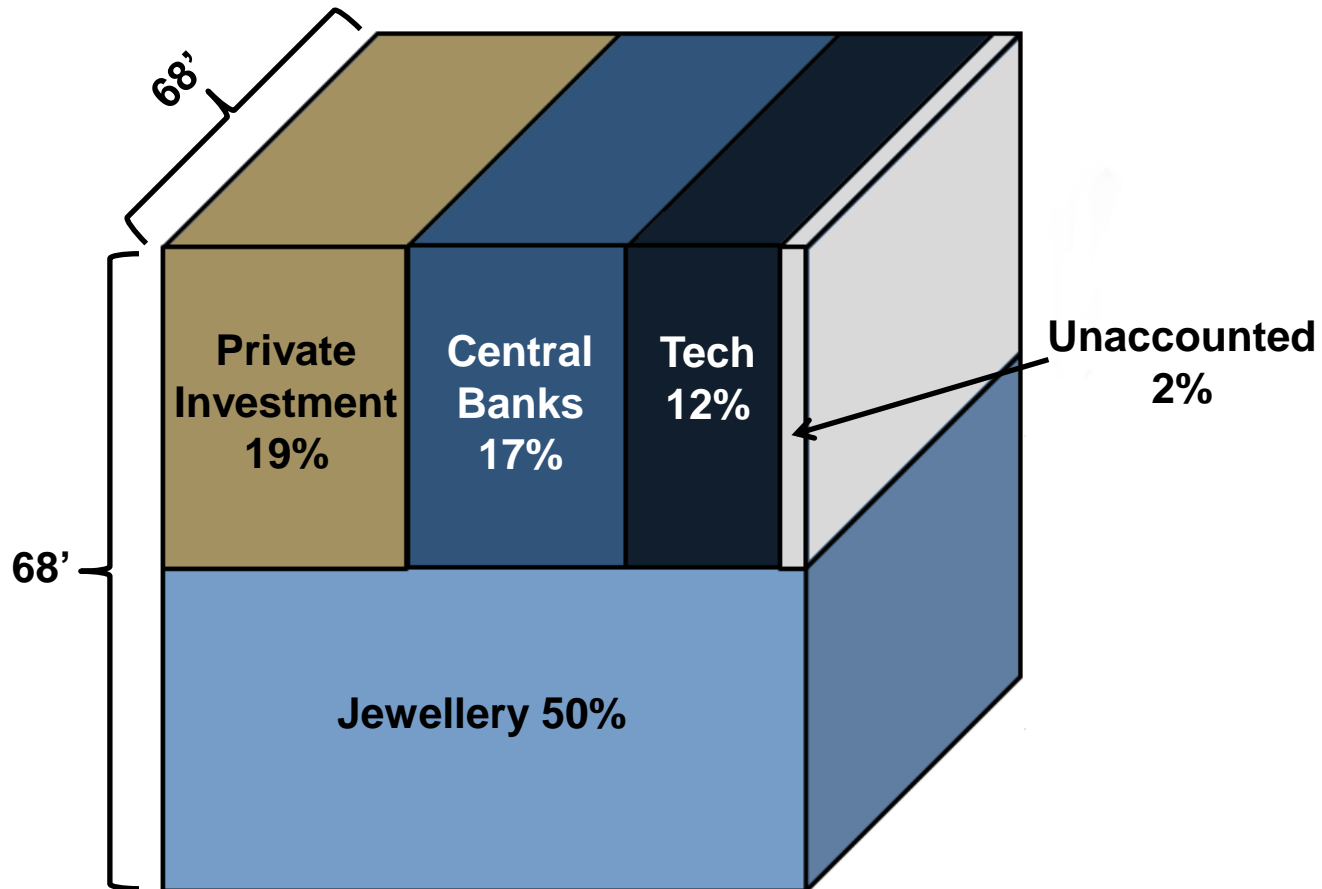
# Yearly gold supply – 2001 & 2011



Source: Bloomberg

# All the gold in the world! 171,300 tonnes

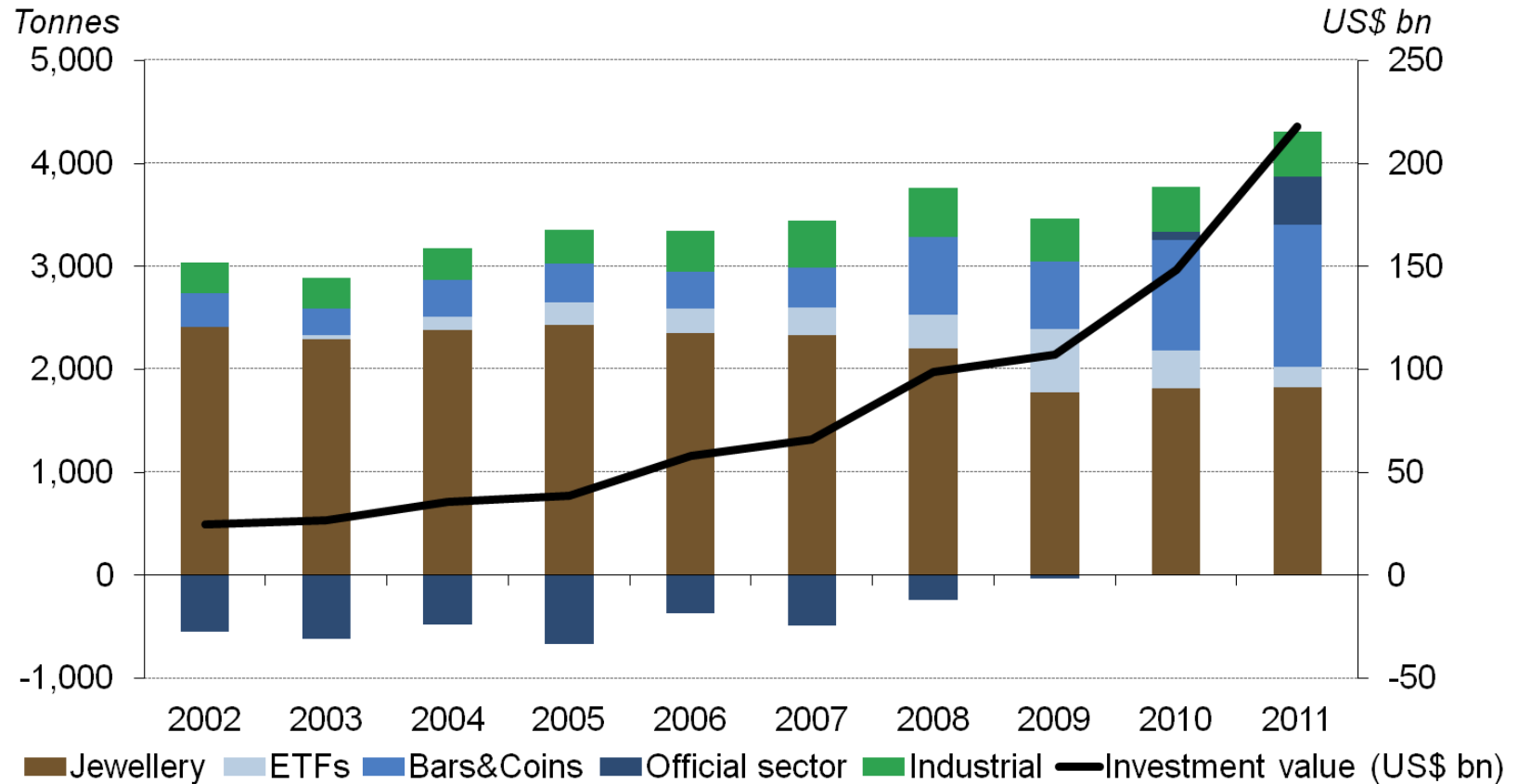
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- Value @ \$1,700/oz = US\$ 9.3 Trillion
- ~0.78 oz/person on the planet (assuming 7 B people)
- ~1 part/billion in earth's crust

# Demand continues to expand and broaden...

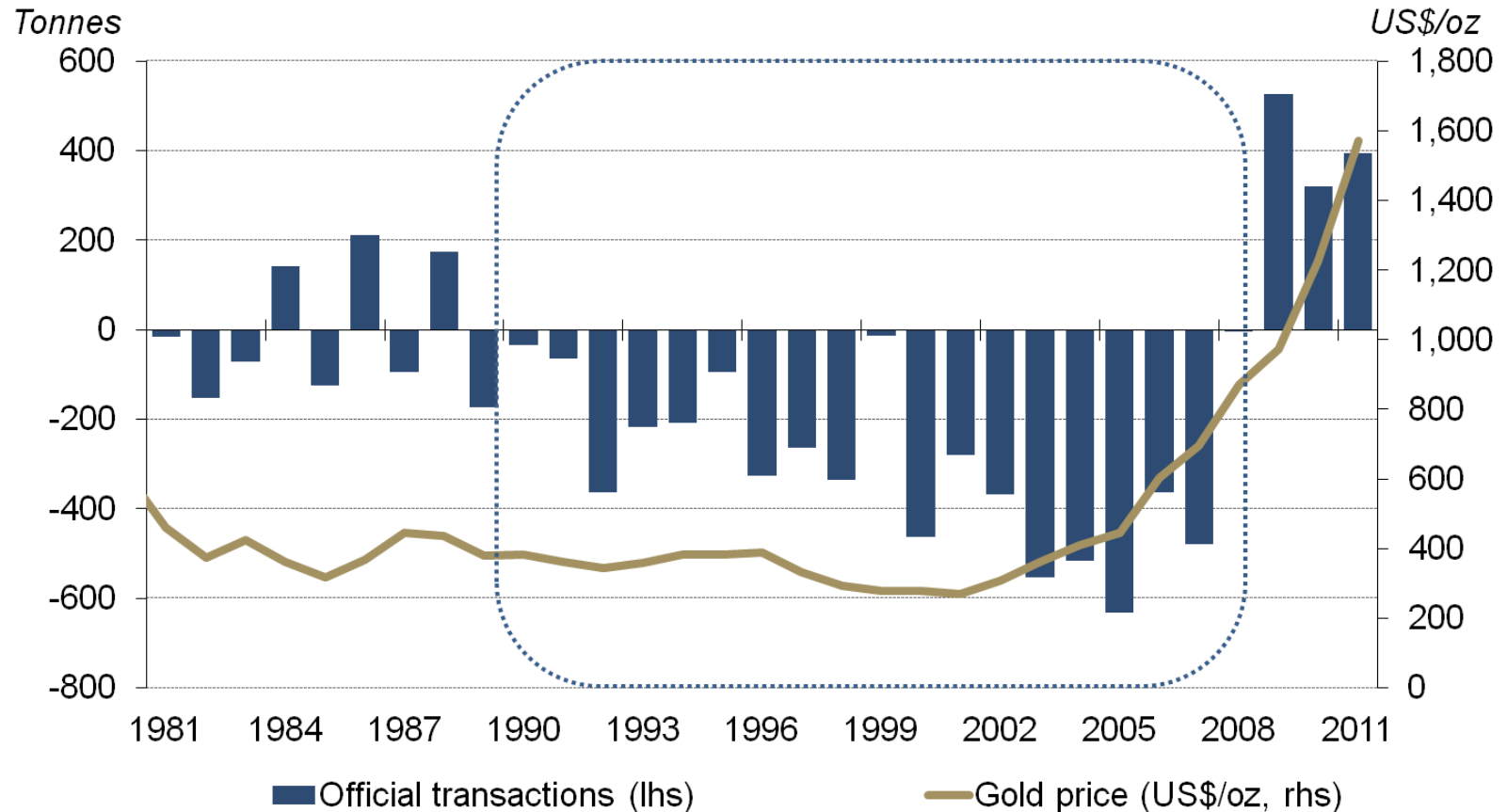
## Global gold demand in tonnes and value (US\$bn)



Source: Bloomberg, CPM Group, LBMA, World Gold Council

# Central banks return as net buyers after 20 years...

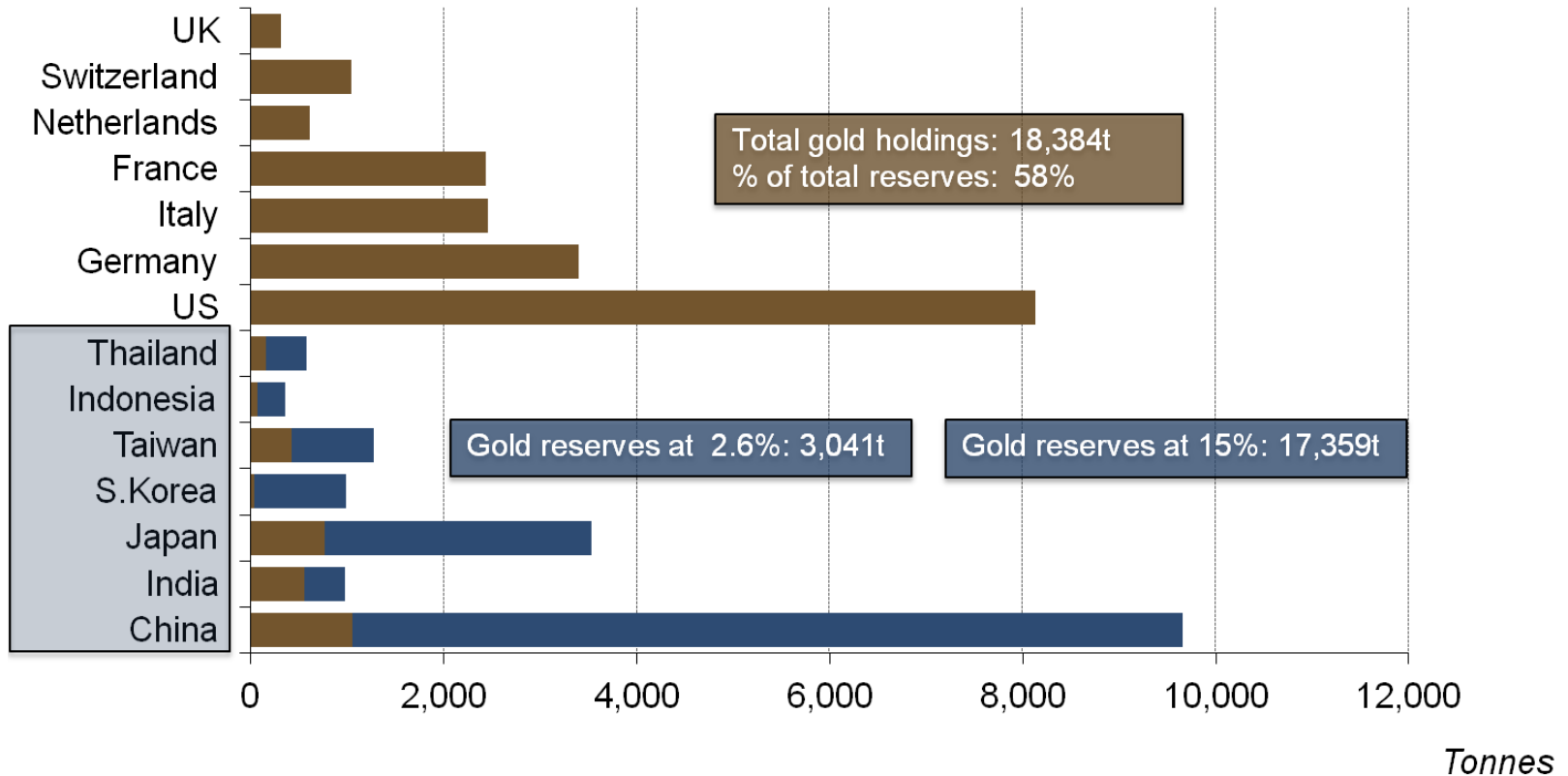
## Official sector net transactions



Source: CPM Group, LBMA, World Gold Council

# and are not done yet...

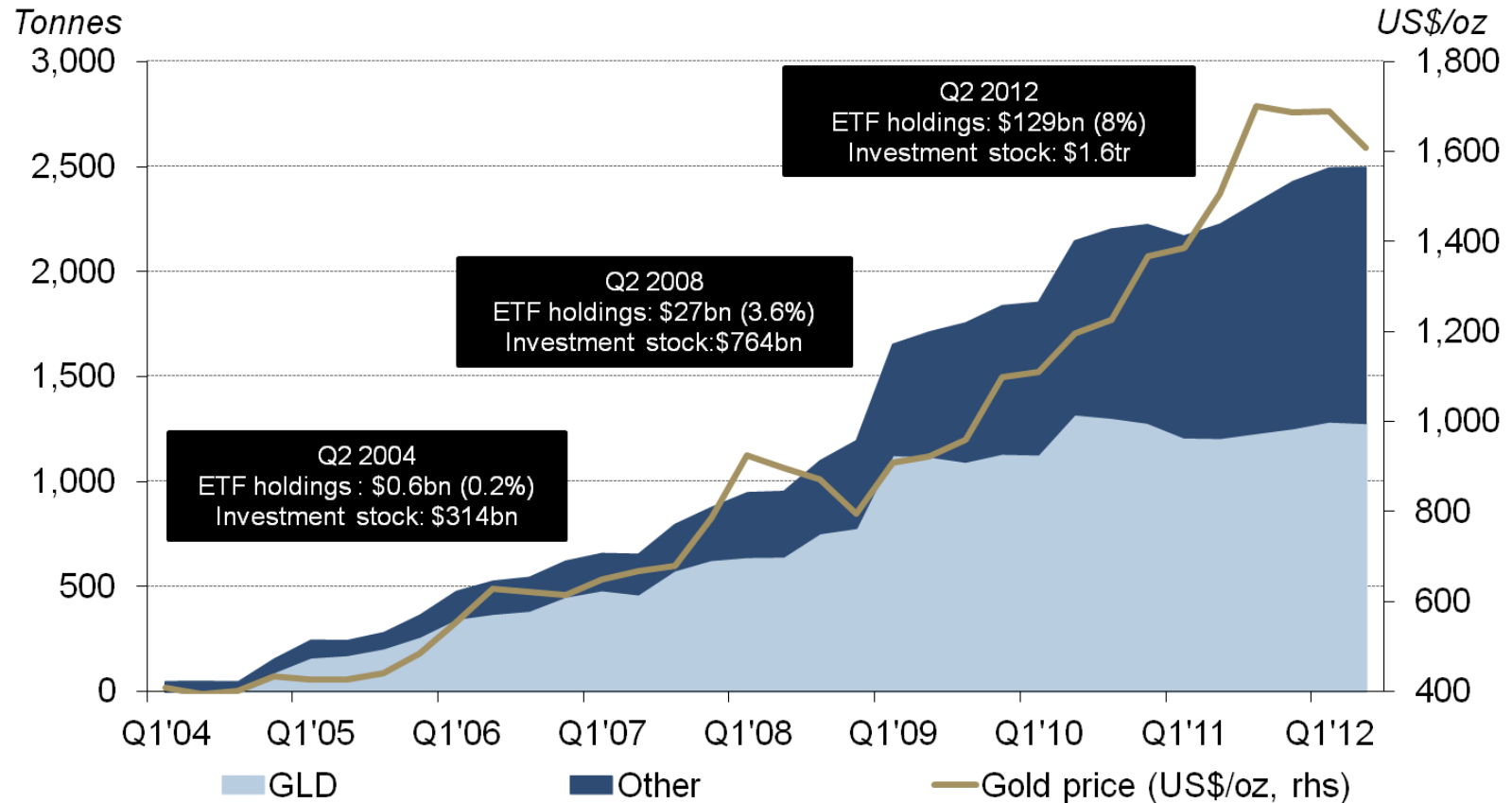
## Central bank gold holdings in tonnes



Source: IMF IFS, World Gold Council

# Investment growing steadily, but gold is significantly under-owned...

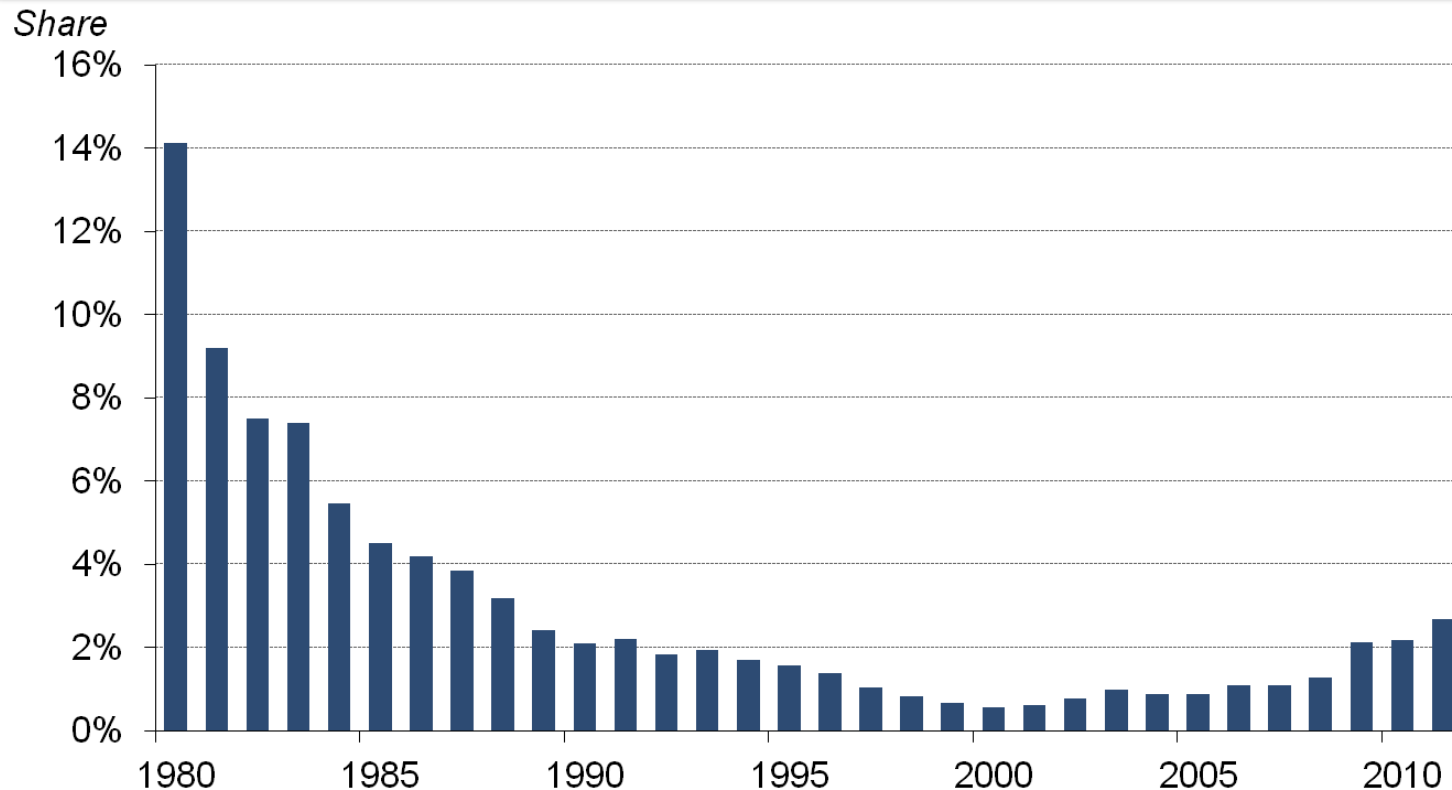
ETF holdings are sticky and an established feature of the investment landscape



Source: LBMA, Respective ETF providers, Thomson Reuters GFMS, World Gold Council

# Gold's share of global allocations, 1980-2011

Includes: global equity, global marketable gov't debt, global private investment stocks of gold  
Excludes: corp/agency debt, money markets, commodities, real estate, hedge funds, private equity

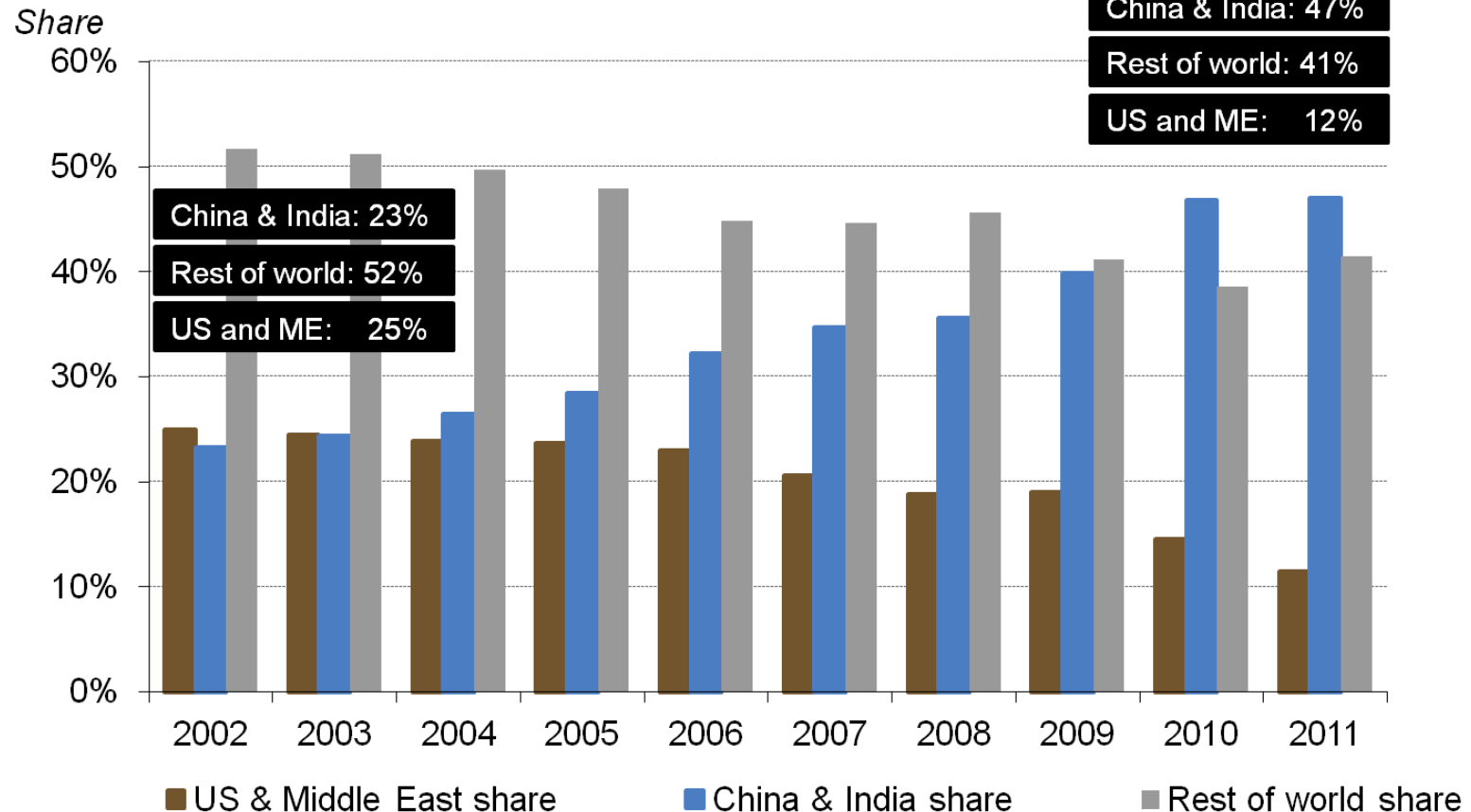


If gold's share doubled, it would amount to c.66,000 tonnes, equivalent to 23 years of production at current levels.



# China and India account for a lion's share of growth...

## China and India's growing prominence

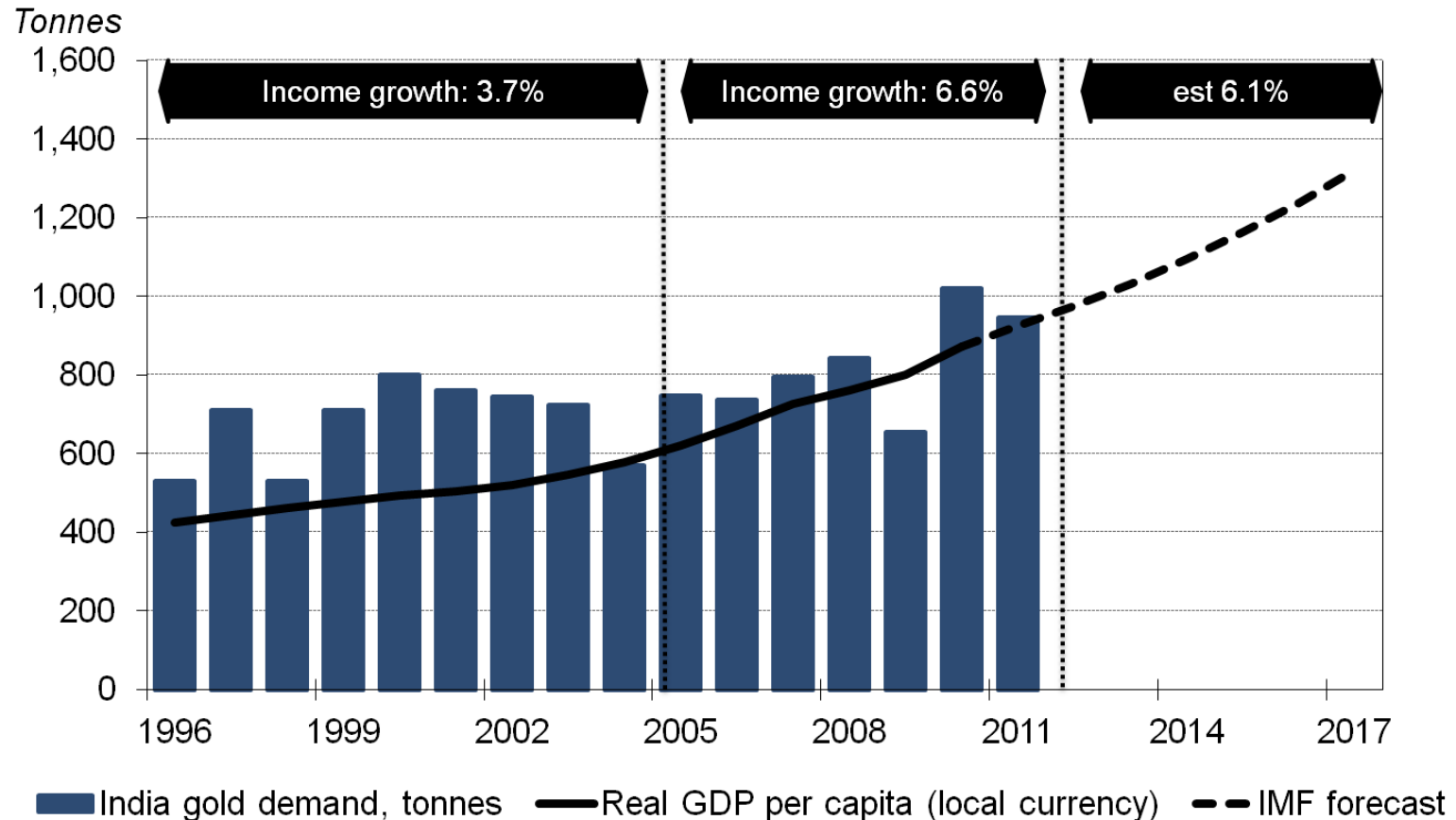


Source: Thomson Reuters GFMS

Note: gold demand comprises jewellery, investment and technology (excludes ETFs)

# With rising incomes driving demand in India...

## India gold demand and wealth creation

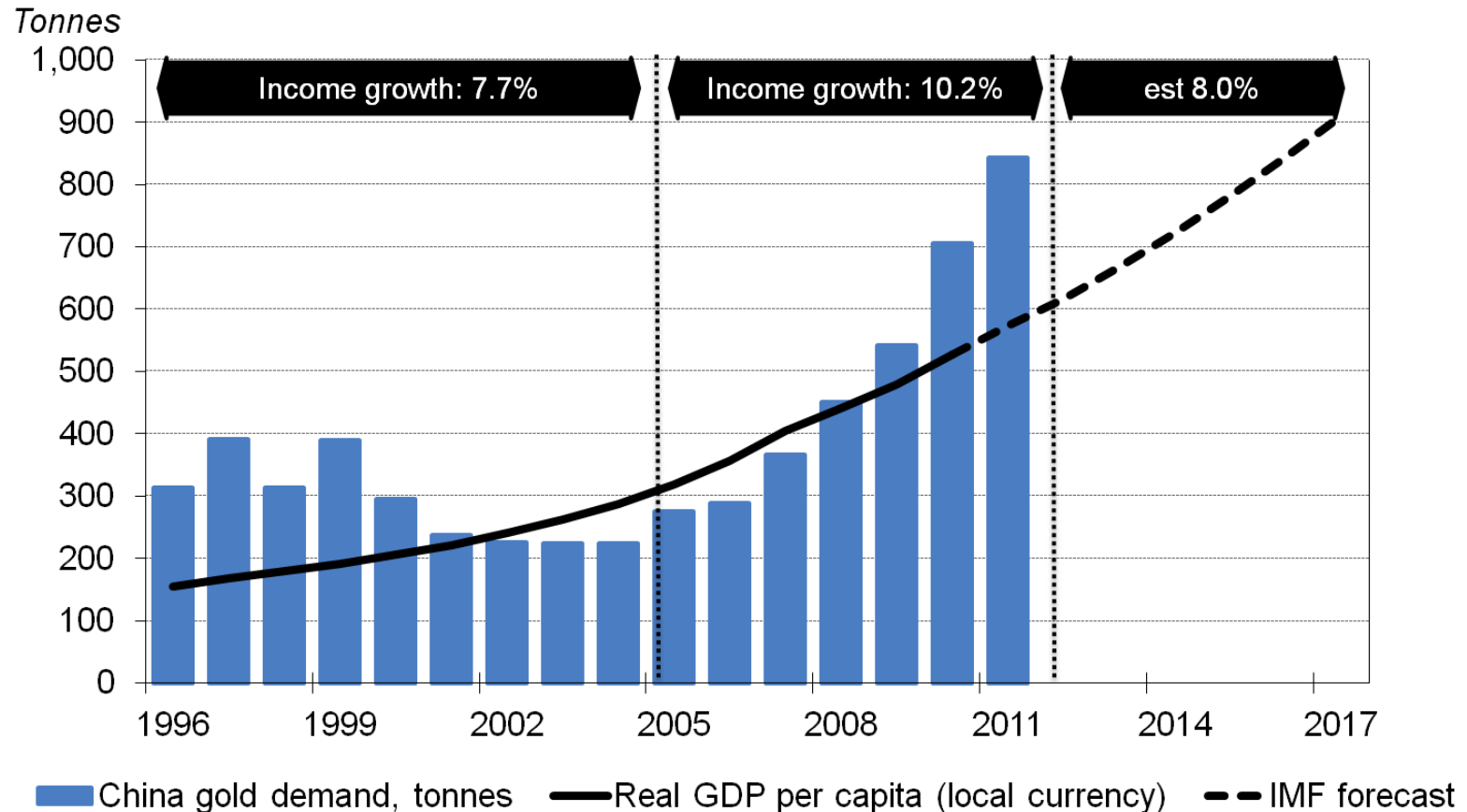


Source: Bloomberg, IMF, World Gold Council

Note: Income growth = real local currency GDP/Capita compounded annual growth rate

# and China...

## China gold demand and wealth creation

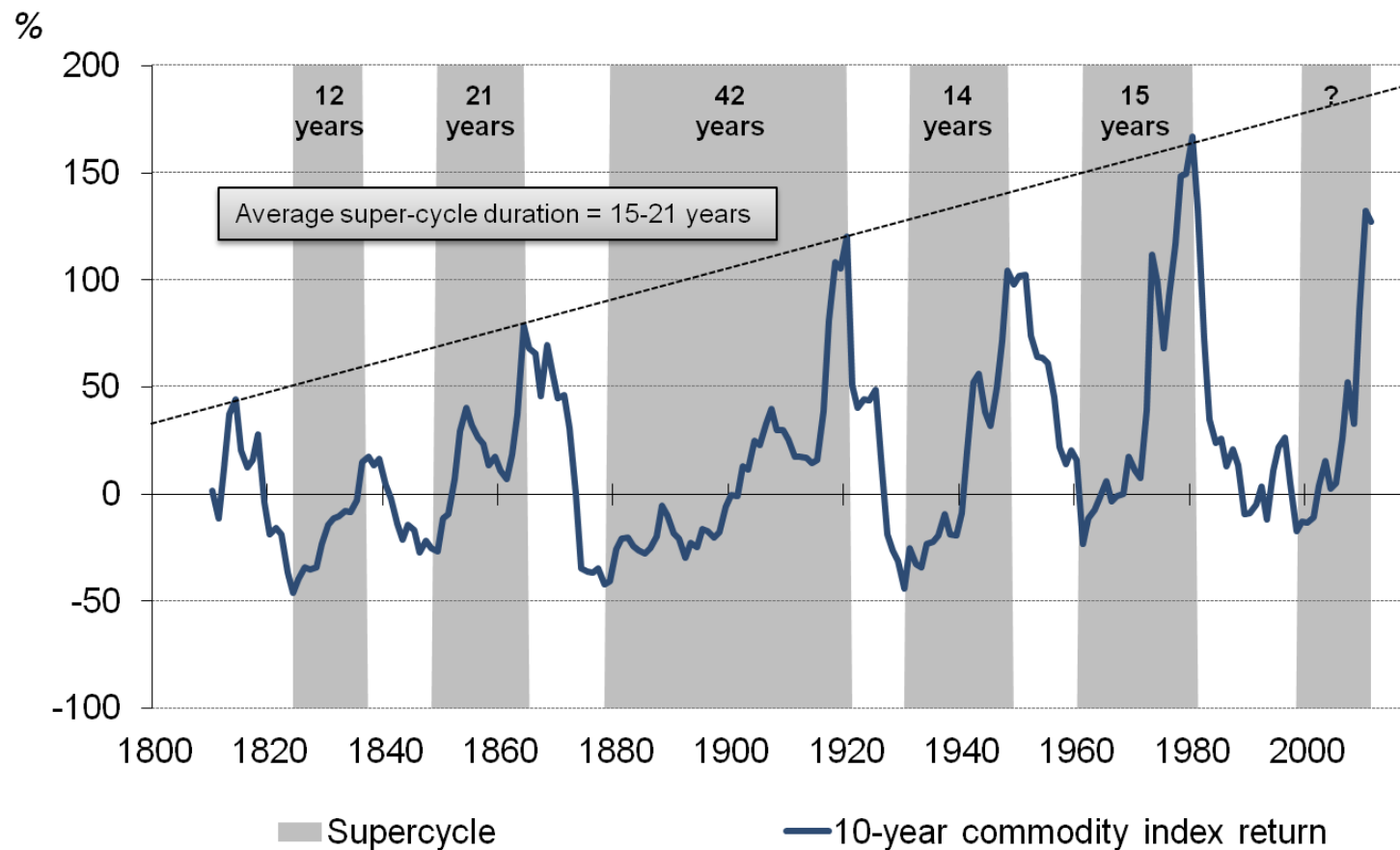


Source: Bloomberg, IMF, World Gold Council

Note: Income growth = real local currency GDP/Capita compounded annual growth rate

# Commodity super-cycle

## The commodity super-cycle

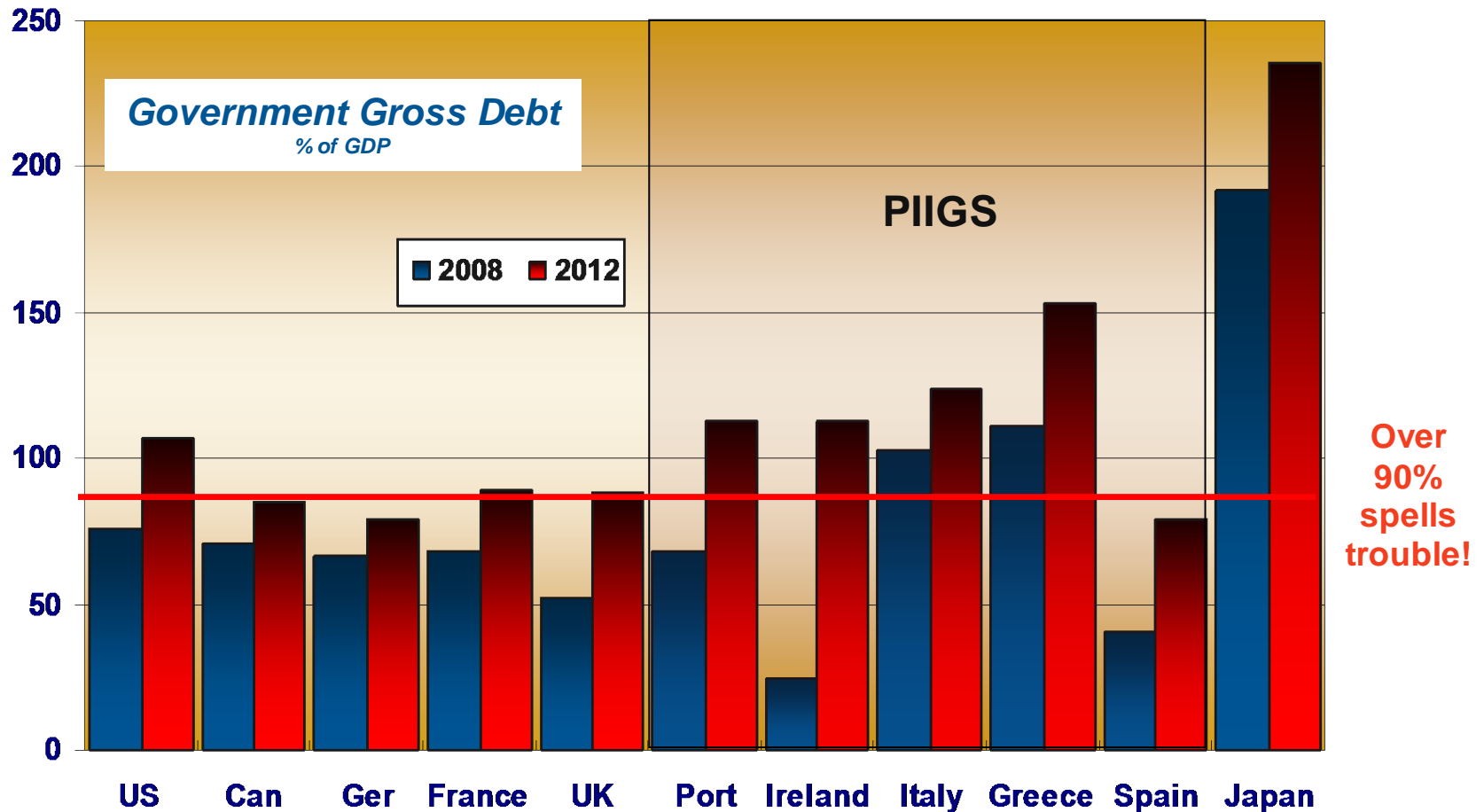


Source: Roy Jastram, World Gold Council

Note: US wholesale price index 10yr returns to 1960. CRB spot index 10yr returns from 1961 to 2011

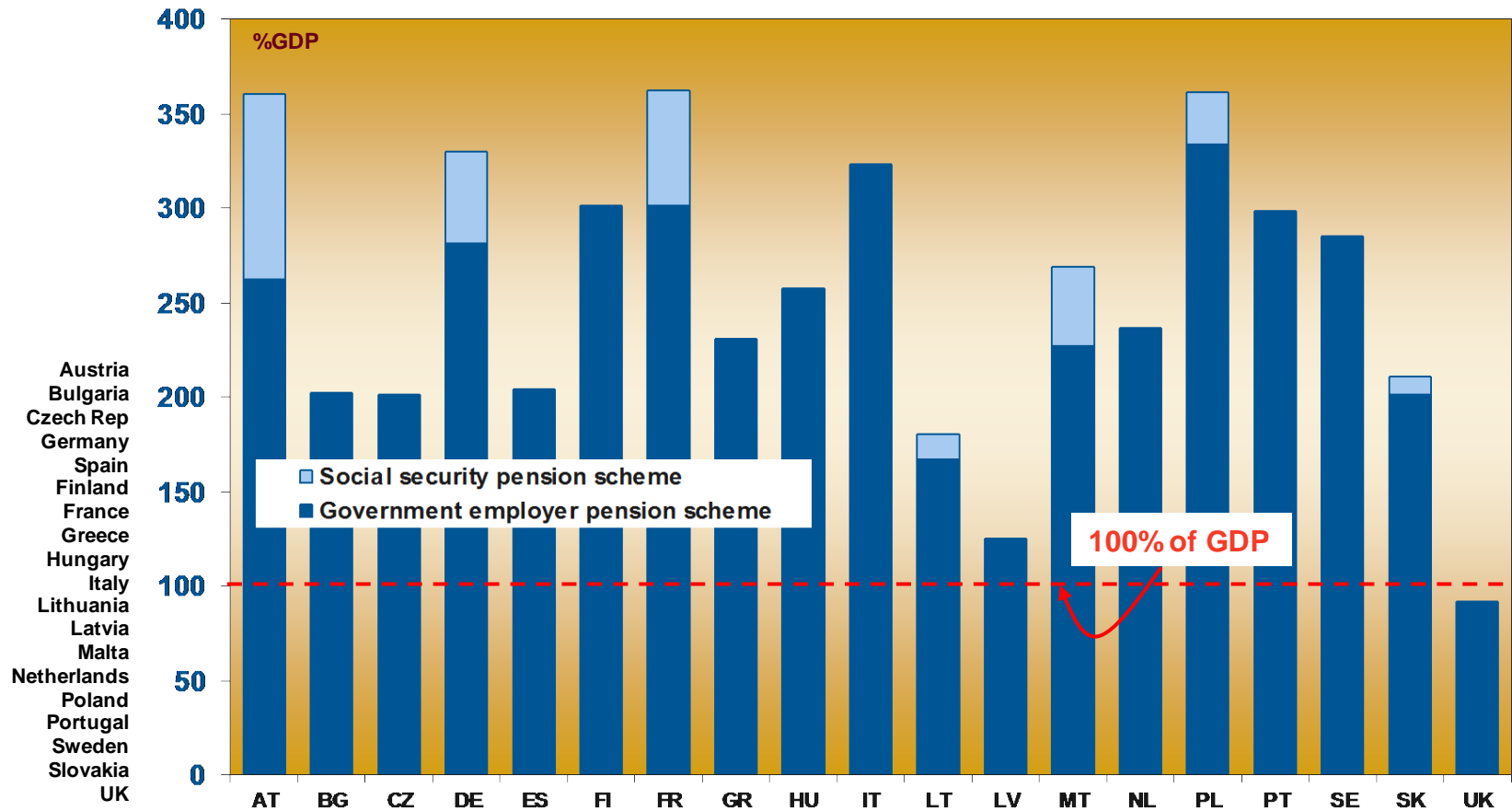
# Global Debt Crisis

## Bottom Line: most countries have excessive debts ...



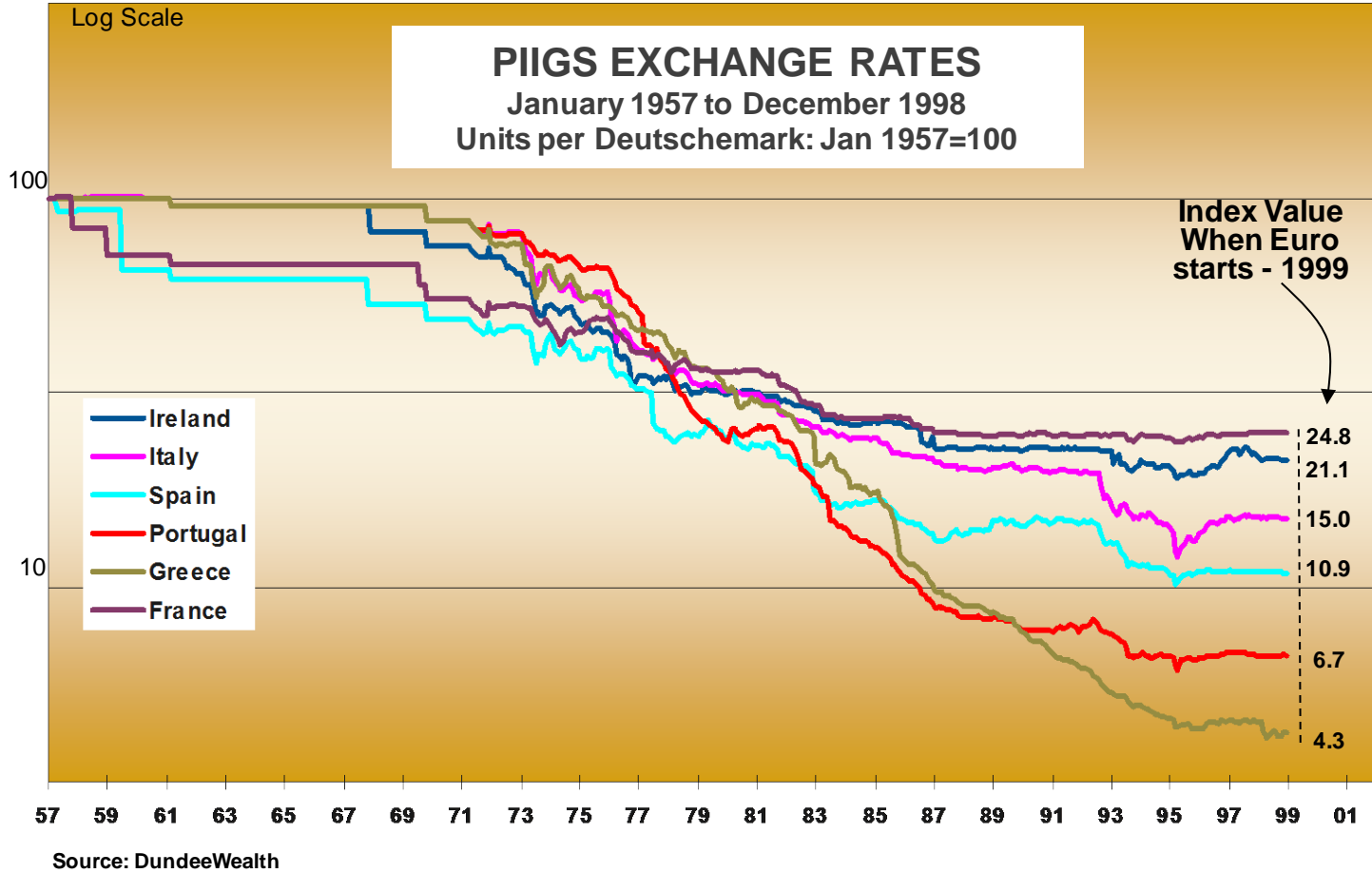
Source: IMF Fiscal Monitor, April 2012 and IMF World Economic Outlook, April 2012; DundeeWealth

# Europe's pension liabilities are massive

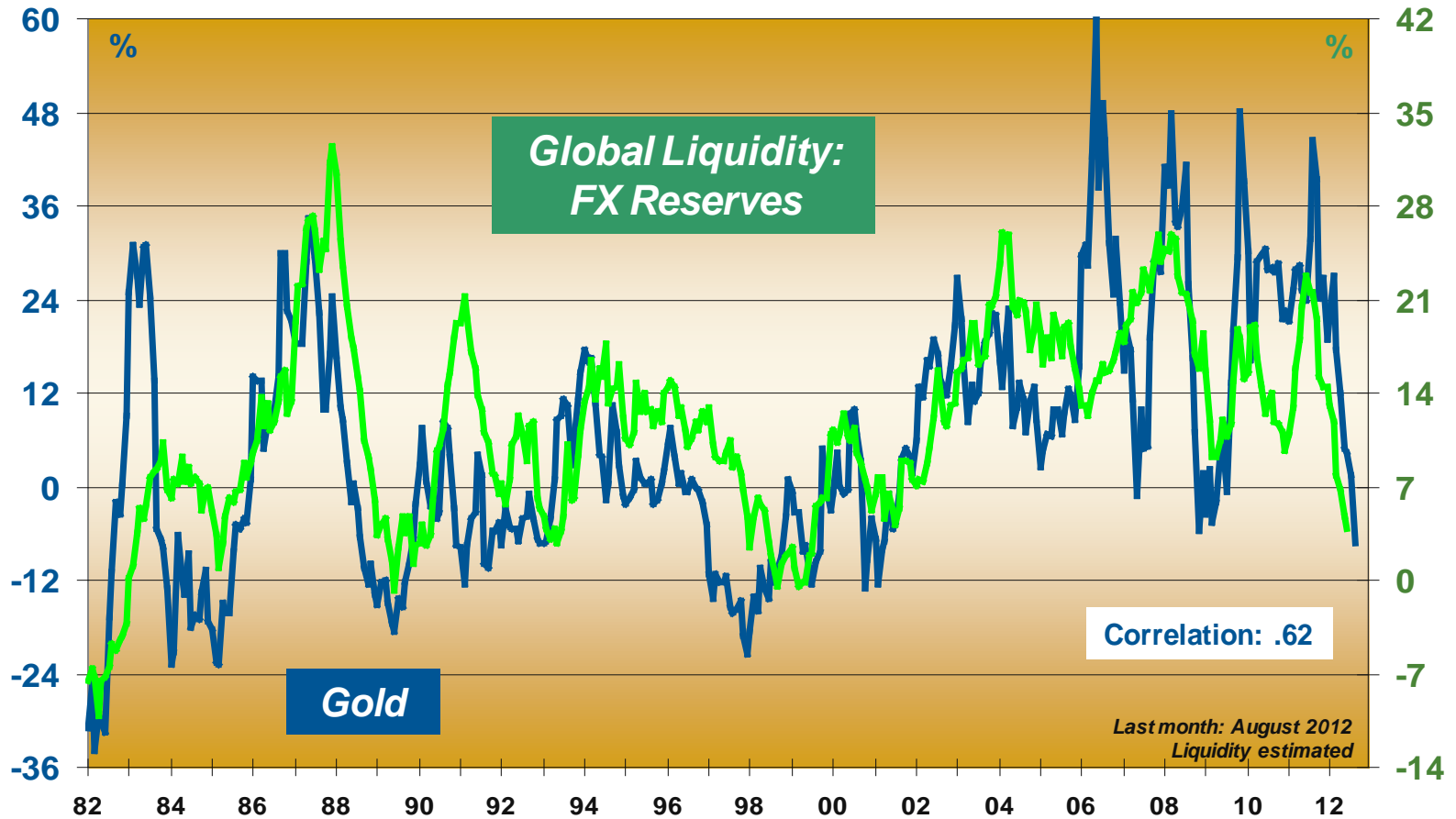


Source: Research Center for Generational Contracts, January 2009  
NB – Future contributions are not taken into account

# Before euro: PIIGS regularly devalued



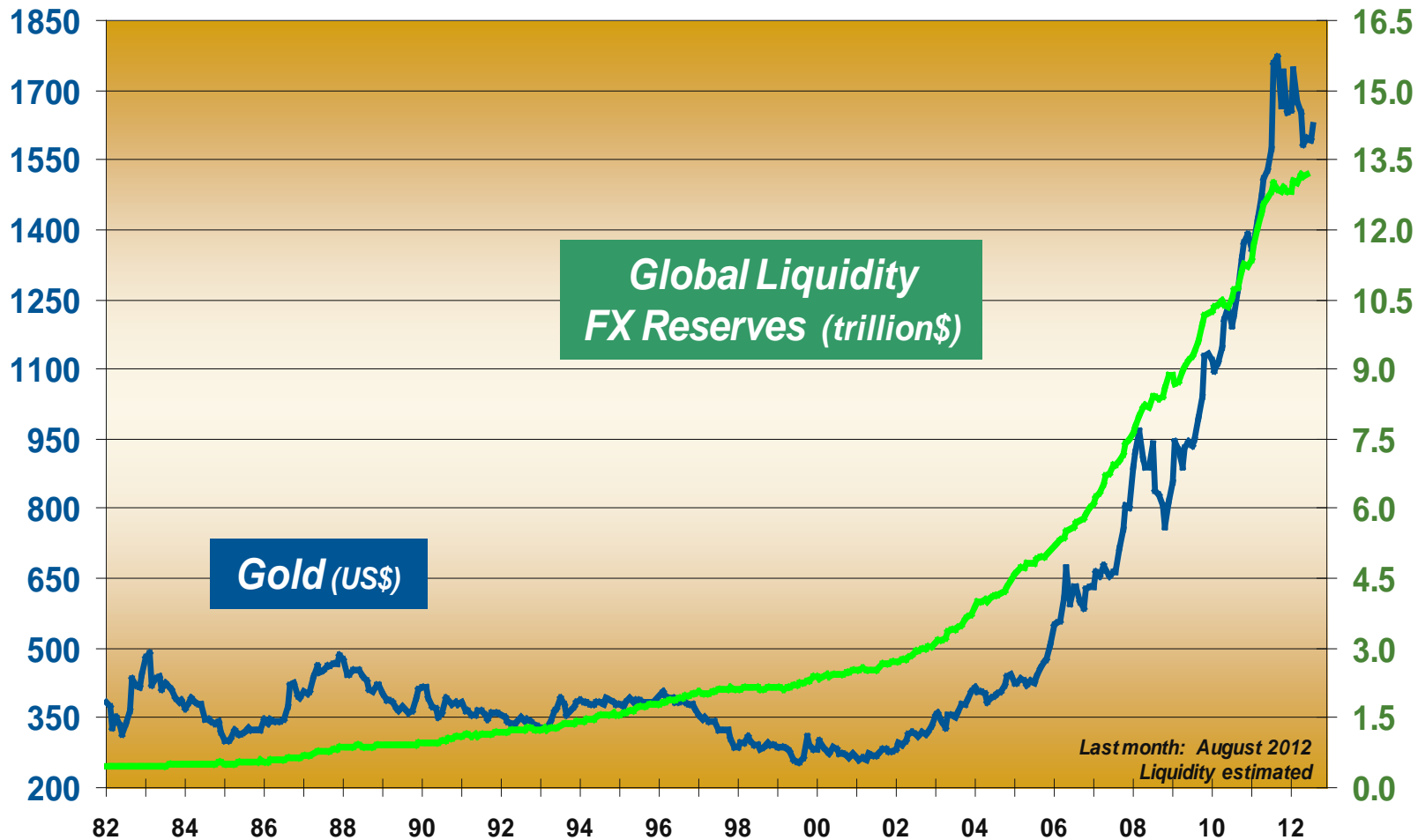
# Gold rises and falls with FX liquidity



Global Liquidity: FX Reserves + US MBase  
Source: IMF, Federal Reserve

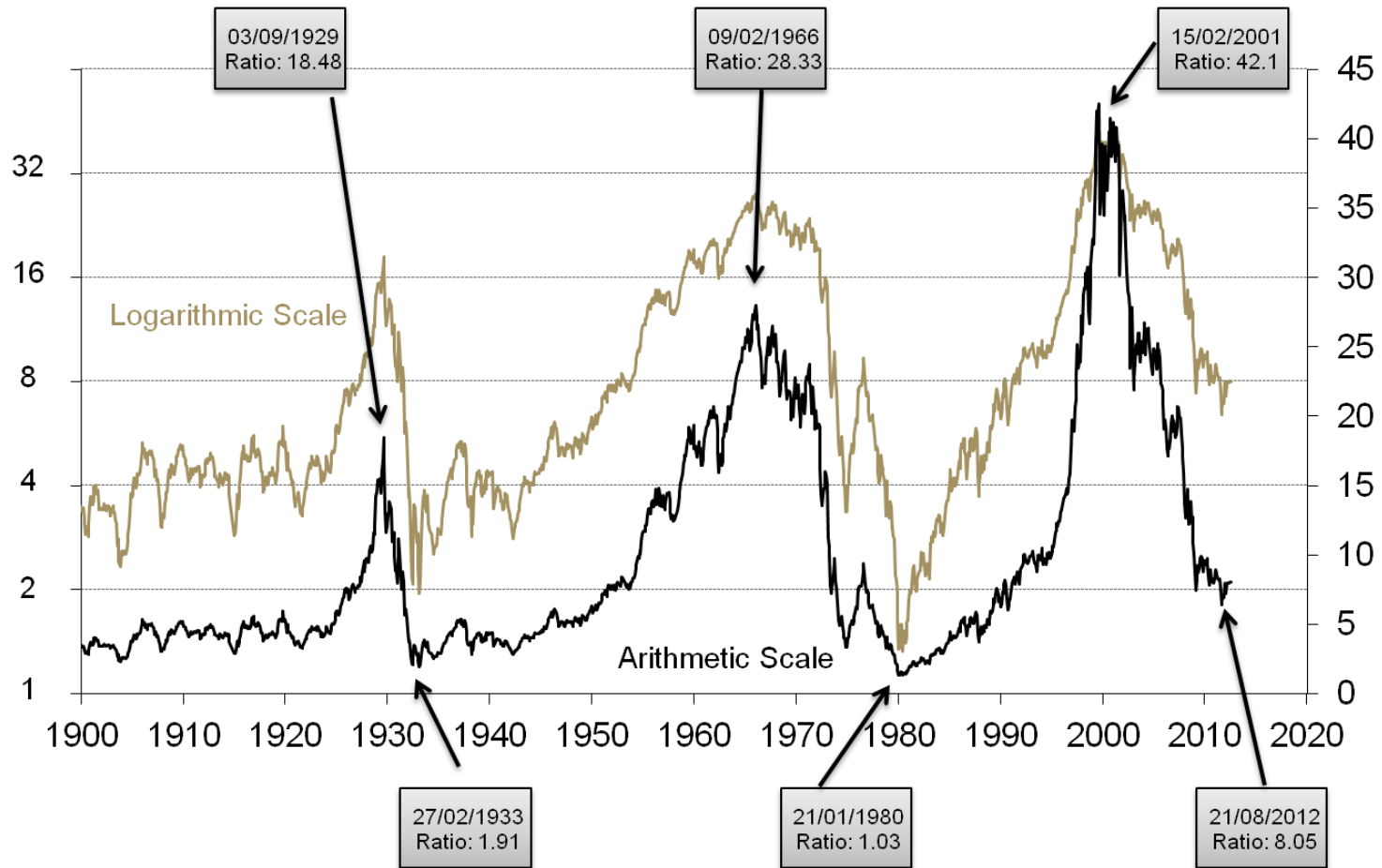


# Printing of money drives gold ...



# Dow / Gold ratio: The Ultimate Test

Dow vs Gold



\*Last data point at 21/08/2012  
Source: Bloomberg, World Gold Council

**Thank you**

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