

Executive Summary

- Gold’s bull market seems intact, prices spiked higher in August, then corrected sharply in September, but a rally is underway again. Given the stresses the European monetary system is experiencing, we expect the rally to continue.
- In addition to attracting safe-haven buying, the chances of seeing deflation in the West have increased and that is likely to prompt investors to hold cash – but as faith in paper money has waned, they may want to hold Gold as well.
- The world has become a scarier place in recent months as the European financial system is under severe test. If it does not hold up, the fallout is likely to be catastrophic. As such, the reasons for being bullish for Gold seem as strong as ever.

Introduction

Gold prices have had an exceptionally strong run over the past ten years and judging by the chart it looks as though prices may have run far enough. However, given the situation the world’s financial system is in, we feel there is still a strong reason to continue holding Gold. Indeed, given the amount of debt that has been created out of thin air over the past three



years, it is perhaps not surprising that the value of Gold, which can be viewed as an international form of money, has risen so strongly. The price chart suggests Gold is being monetarised, not by government decree, but by investors whose faith in the fiat monetary system has weakened. Unfortunately, it looks as though the situation in Europe will deteriorate further and possibly a lot further before it recovers. Also it is not just Europe that has problems, US debt is ballooning and that will need to be dealt with soon if the US is not to follow in Europe’s footsteps. Given the scale of the EU debt situation, the potential for contagion and the fact policy makers do not seem to have a handle on the situation; we are fearful for what lies ahead and feel that Gold will be seen as a means to preserve wealth.



The Big Picture

The monetary system in the West is straining to cope with the mass of debt that some countries have allowed to build up and that is putting considerable pressure on both financial markets and incumbent governments. Judging by how policy makers are handling this unfolding crisis, it does seem as though we may have to accept that there might not be a conventional solution to the problem. Measures taken so far have tended to buy time and the plans that have been put in place often seem inadequate, or unworkable in the long term. When you look at the size of the problem, either masses of debt will have to be written off and that will cause contagion, or else more and more layers of debt will have to be created in which case countries and banks will be saddled with high debt for years to come. Either way, it is hard to see anything other than economic hardship in Europe for the foreseeable future and that is likely to lead to a period of stagflation, or more likely deflation.

The US is in trouble too. At present the US is struggling to keep the recovery going, the second tranche of quantitative easing (QE) has stopped and growth is flagging. However, its debt has taken off since the 2008 financial crisis and is in danger of getting out of control. So far there seems little political will to tackle the budget deficit. This raises the question whether the US will follow the EU into a debt crisis - albeit at a later date.

The measures taken to tackle the financial crises in 2008 and 2009, notably QE and numerous stimulus packages, have gone on to make today's global problems bigger. The bailing out of banks increased government debt and QE has led to commodity price inflation. The latter has made governments in Asia raise interest rates to combat rising prices and in turn that has lowered growth in the region. China, in an effort to avoid following the West into recession, pumped money into the economy, but the increased spending created property bubbles and bad loans. Deflating and unwinding of these may well mean lower than normal growth for a while, although there is an outside chance of a hard landing too.

Overall the EU is in a mess and the US could easily get into one too if it mishandles its budget deficit.

Unfortunately, the situations are likely to get worse before they get better. Given the unprecedented levels of debt that needs to be brought under control, it looks highly likely that these regions will suffer recession and with governments' finances already stretched they may find it hard to avoid deflation. Given this outlook, financial markets are expected to correct further and that is likely to make investors increasingly nervous. The chart of the Dow shows that equities are still holding up well, but we would say the risk lies to the downside.



The situation in Asia needs careful monitoring as any deterioration in China's economy is likely to spook global markets and that might well boost demand for safe-haven investments.

Overall, given the falling confidence in the economic outlook and in governments' ability to get to grips with the situation, we feel there is a high risk of deflation and in such circumstances investors are likely to turn to cash – this is likely to be bullish for the dollar. However, because faith in governments has waned with their handling of the crises, we expect

investors will not want to rely solely on paper money and will look to spread their risk by holding Gold as well. Greater monetarisation of Gold is likely to be bullish for prices.

FACTORS DRIVING GOLD PRICES

The dollar

The dollar remains in an overall downward trajectory and this seems to be in line with the fundamentals. After all, it is the currency behind \$14.5 trillion of national debt, ongoing budget deficits (forecast this year to be \$1.3 trillion) and massive future liabilities – all of which implies the US has lived well beyond its means. The current debt level is around 100% of GDP - this has increased from 51% in 1988. How the US will repay this debt is difficult to imagine, when the interest bill alone in 2010 was around \$414 billion. The fact that foreign investors continue to have such faith in the US finances is somewhat alarming, but for now they do. That said, the confrontation Congress had in the summer about raising the debt ceiling may well have made some creditors nervous and that might become more of an issue down the road. Indeed, when you analyse the extent of US debt and liabilities, it is not difficult to imagine that the US debt situation has potential to turn into a crisis similar to what Europe is now experiencing. However, although the dollar is trending lower and has been since 2002, it has not fallen in a straight line and there have been major counter-trend moves along the way. The first was in 2005, when the dollar rallied on the back of positive interest rate differentials; then in late 2008, the dollar rallied as safe-haven demand flooded into the dollar as the banking crisis unfolded. The rally stalled when QE1 was underway, as that meant the dollar was being debased. The dollar then rallied again as the market was spooked by the emergence of the EU sovereign debt problems in early 2010, but the rally ended when QE2 was announced and the dollar continued lower in mid-2011 as the US struggled to get its debt ceiling lifted. The latest rebound in the dollar has come about on a combination of an escalation in concerns over the EU debt crisis and the ending of QE2. What is interesting is this latest rebound in the dollar suggests a pick-up in safe-haven demand, but this time the buying into safe havens seems to be largely avoiding Gold. However, after the powerful rally Gold experienced in the first half of 2011 and with the EU crisis prompting broad based long liquidation, it seems that Gold has suffered in line with other asset classes as institutional investors have had to raise cash.



Having watched the market over the past ten years, we have seen similar patterns before, where the initial reaction to a crisis has been for Gold prices to fall in line with general risk reduction, but the secondary reaction has seen buying return. Given the EU debt crisis is expected to unnerve markets further in the months ahead and may well cause contagion across the international banking sector, we do feel there is a high chance that Gold prices have further to travel on the upside.

Inflation – Stagflation

Regionally the global economy faces both inflation and deflation. Emerging markets, especially those in Asia, are experiencing and fighting inflation, while developed economies are treading a fine line between stagflation and deflation. The use of QE by Western governments, in an effort to kick-start economic growth, has so far avoided economies from

experiencing deflation, but it has not produced sustainable economic growth. However, what it has produced is commodity inflation and that is affecting all economies, especially emerging market economies, particularly those in Asia. Indeed, QE may well be partially responsible for forcing China and other Asian economies to tighten monetary policy in an effort to curb inflation and that has led to slower growth. Inflation in Asia, however, has been an important bullish factor for Gold demand, especially in China. With investors discouraged from putting more money into property, investing in Gold has benefitted. So far, however, investment buying in the developed world does not seem to be driven by inflation, but more by concerns over currency debasement and the risks the market faces from the massive EU debt problem. At a later date, once policy makers have a handle on the debt situation in Europe and the prospects for growth start to improve, then Western investors may well start to focus on inflation, especially if high debt levels and fragile growth prospects, mean governments find it hard to raise interest rates.

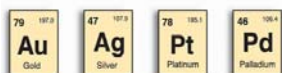
Stagflation – Deflation

As mentioned above, successive QE programmes have not promoted sustainable growth, but they have caused commodity inflation. As a result, most economies in the developed world and emerging European countries are suffering low growth and inflation - ie stagflation. Take for example the UK, where inflation (CPI) was running at 5.2% in September, while GDP for the third quarter was 0.5% - given the low growth rates the Bank of England is in no position to raise interest rates to tackle inflation. In Poland, GDP is 1.1 percent and CPI is 3.4%; in Germany, GDP is 0.1%, while inflation is 2.4% and in the US, GDP is 0.4 percent and CPI is 3.9%.

Commodity prices have started to come down and that should help reduce inflation, but if the financial crisis escalates, causing markets to slump and consumer confidence to fall, then stagflation could well be followed by deflation. How Gold will behave in a deflationary environment is debateable. In theory, you would expect US treasuries to do well as even a small yield is good in such an environment, but we would argue Gold would also do well. If faced with deflation, we would expect the Fed to do more QE and in turn that would likely debase the dollar further, whereas although Gold would not pay a yield, it would stand a good chance of holding its value against currencies that are being debased.

De-hedging

At the start of the bull market for Gold in late 2001, which roughly coincided with the start of de-hedging, the total hedge book stood at 3,107 tonnes (99.9Moz). At the end Q2' 11, the hedge book stood at 121 tonnes (4.2Moz), according to the Gold Hedging Report produced by Virtual Metals Group (VM Group), down from 195 tonnes (6.75Moz) a year earlier. As the hedge book shrinks, the level of de-hedging has slowed: in 2009 the hedge book was cut by 249 tonnes, in 2010 it fell 96 tonnes and in the first half 2011, it dropped 19 tonnes. The end of the 'de-hedging era' removes one of the bullish drivers of the bull market as producers are no longer buying back Gold on the open market to close out their hedges. The question now is will producers start to forward hedge again once the bull market shows signs of ending? At present, the attitude towards hedging has not changed and new hedges only seem to be put on when bankers/financiers demand it for new projects. However, at some stage Gold's bull market will end and even though the current wishes of shareholders of mining companies is for no, or limited hedging, their attitude is likely to change when the prospect for economic recovery improve, the need for safe-havens recedes and investors start to reduce their exposure to Gold. For the moment, the mood amongst producers is, in the majority, still bullish for the Gold price



and the attitude of shareholders still seems to be anti-hedging – but we think that will start to change over the next few years. That said, up until the end of Q2'11, VM Group data shows there was no pick-up in the number of put options bought, although the number of puts sold did drop, which suggests producers were aware that the risk of a price drop had increased.

Central Bank Official Sales

For many years, central banks have been net sellers of Gold, but that changed in 2010, when the sector became a net buyer. In the first year of the third Central Bank Gold Agreement (CBGA-III), which ended in September 2010, disposals totalled 136.2 tonnes. (The agreement allows for sales of 400 tonnes of Gold per annum.) In the second year to 26th September 2011, sales from CBGA signatories were just 1.1 tonne, but in addition to that the IMF sold 52.2 tonnes - but even sales of 53.3 tonnes highlights the extent to which official sales have slowed.

The lack of uptake of the CBGA quota does leave room for European central banks to make further sales if they need to - that is if they are allowed to. Although the general feeling is that central banks will be very reluctant to make outright sales, it may be feasible that some central banks could put their Gold to use in a way to help alleviate their debt situation. There is precedence for this as the Bank of International Settlements, BIS, completed a 346 tonne Gold swap in July 2010 with various commercial banks, whereby it lent them money and took Gold as collateral. The table above shows the amount of Gold various European central banks hold.

Gold Reserves (tonne)	
Germany	3401
Italy	2452
France	2435
Netherlands	613
ECB	502
Portugal	383
UK	310
Spain	282
Austria	280
Belgium	228
Greece	112

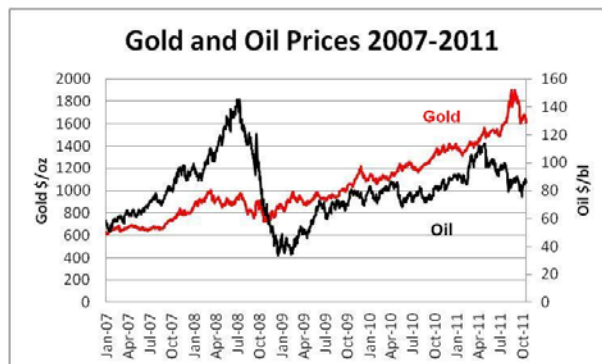
Central Bank diversification

Given the ongoing down trend in the dollar that continued into the early part of 2011, central banks that hold dollars in their reserves have been placed in an awkward position. The dollar is still the world's reserve currency and the main currency for international trade, so countries need to hold dollars. However, with the dollar weakening, there is pressure on creditors to diversify some of their reserves away from the dollar. Before the EU debt crisis unfolded, some of this diversification made its way into the euro and other hard currencies, but there are now fewer non-fiat currencies around. Even the Swiss franc has been tampered with to the extent that the Swiss National Bank set a minimum exchange rate of 1.20 francs to the euro. The announcement saw an immediate 10 percent drop in the franc's value. The yen does seem to be attracting a lot of safe-haven buying, but with the currency at record highs and damaging Japan's export market, more intervention seems likely. As fewer currencies can now be called non-fiat, the attractiveness of Gold as a reserve asset has increased and this has not been lost on central banks. Mexico's central bank bought 99 tonnes of Gold in the first quarter, South Korea's central bank bought 25 tonnes, Thailand's bought 14 tonnes and Russia remains a steady buyer, increasing its tonnage to 852.2 tonnes as of 1st October, up 8% from the start of the year. Russia's Gold holdings now represents some 8.7% of its foreign exchange reserves; it has previously stated that it aims to hold 10% of its reserves in Gold. What is interesting is that South Korea has returned as a buyer having sold metal in 1998 during the Asian financial crisis. Their renewed interest does suggest a change in sentiment. Kazakhstan's central bank is also reportedly planning to buy all its country's mine output starting in 2012 and this raises the question whether the likes of China will follow their lead. China's official Gold holdings of 1,054 tonnes only account for some two percent of its reserves, whereas Gold held by the US, Germany, Italy and France accounts for around 70 percent of their reserves. We feel central

banks' purchases of Gold will continue, driven by the prospect of further currency debasement and higher inflation down the road.

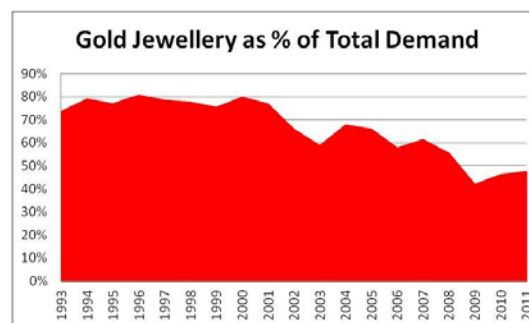
Oil

Oil and Gold prices have tended to be positively correlated for most of the recovery off the early 2009 lows. However, the correlation broke down in April 2011, which is around the time industrial commodities started to correct lower as concerns about economic growth materialised again. With Libyan oil output likely to pick-up in the months ahead and with slower economic growth on the agenda, we would not be surprised if oil prices head lower again. If that turns out to be the case, then we would expect the correlation between Gold and oil to inverse again. Eventually when oil prices start to move higher as a result of an improvement in the economic outlook, then that might be an early warning sign that Gold's bull-run may start to struggle. That said, initially we could envisage Gold and oil running higher in tandem as a return to growth might well boost inflationary expectations.



Jewellery demand

The bull-run in Gold that has been going for ten years has brought about some significant changes in the structure of the Gold market. Before the bull-run started, jewellery accounted for a high proportion of Gold consumption, averaging 78% between 1993 and 2000. It has since slipped to less than 50% of total demand, see chart. The impact of higher prices has been more noticeable in some regions than in others.

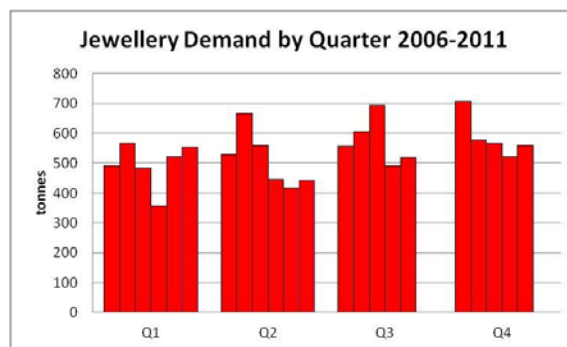


For example, demand for jewellery in India and China has remained robust with demand over the twelve months to the end of Q2'11 climbing 19% and 22% respectively, according to the World Gold Council (WGC). Demand in Indonesia, South Korea and Thailand has been more price sensitive with demand falling an average of 13% since Q2'10. Demand is down 17% in the Middle East – this will not have been helped by the Arab Spring uprising. In the developed world demand is also weak, falling by 12% in the US, 15% in Italy and 17% in the UK.

Where jewellery demand has been price elastic, jewellery fabricators have had to reduce the carat of their jewellery in order to keep sales flowing. In Indonesia, Gold jewellery now tends to be made from 10 carat Gold, down from 17 carat and in South Korea it has fallen to 14 carat from 18 carat.

Another trend that has hit jewellery demand is the increased popularity of investment bars. In Asia, jewellery has always tended to be seen as both an investment as well as an adornment, but with prices moving much faster these days and becoming more volatile, investment bars have provided a more standard product to trade. However, as more money has gone into investment bars, it probably means there is considerable pent-up demand for jewellery, so once the investment hype passes, we would expect jewellery to recapture market share.

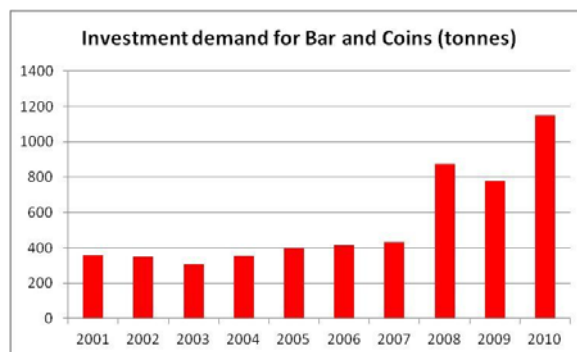
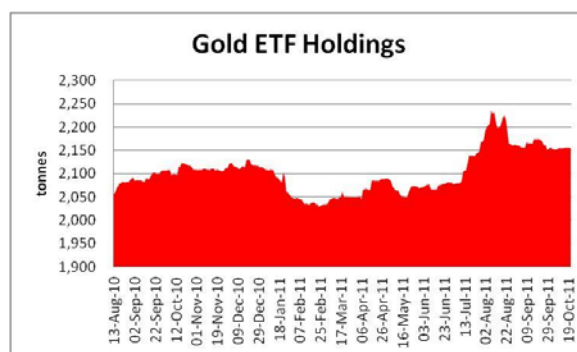
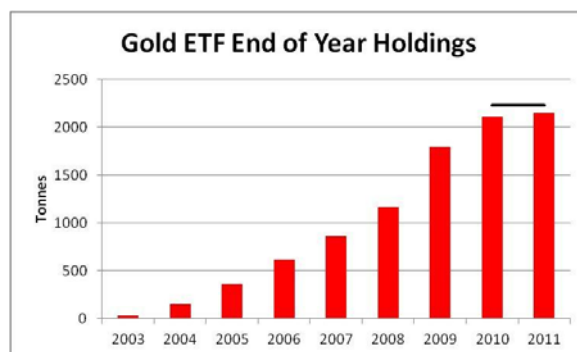
Despite all these changing trends and high prices, demand for jewellery did pick-up in the first half of 2011. According to the WGC, jewellery demand was up around 8 percent in the first half of the year. Indeed, a look at the chart comparing jewellery demand by quarter between 2006 and 2011, shows that demand has been picking up in each quarter compared to the year before, since the third quarter 2010.



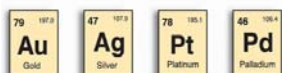
In 2010, global jewellery demand climbed 11%, yoy, to around 2,017 tonnes, according to Thompson Reuters GFMS and judging by gains in the first half and the fact prices have been under pressure during the second half, we feel demand will grow around 10% to 2,220 tonnes this year. For 2012, we expect demand to fall as higher prices and more widespread economic hardship weigh on jewellery demand across most of the globe, with the likely exception of China.

Investment demand

Exchange traded funds (ETFs) have become a highly popular investment vehicle, but the rate of buying has slowed this year. Holdings peaked at 2,236 tonnes (see black line on chart) in August, but have since dipped to 2,155 tonnes and are just holding up above the end of 2010 level of 2,113 tonnes. Given the pull back in prices it is not surprising that some ETF holders reduced their exposure. Also once broad market sentiment turned bearish as EU debt concerns escalated, some institutional investors no doubt needed to raise cash. That said, the fact holdings dropped to just 3.6 percent below their peak, while prices underwent a 20 percent fall since the highs, suggests the vast majority of holders are in for the long term. This is an important factor to take on board and monitor, as when investors do start to redeem their ETF holdings in volume, the market is likely to undergo a significant price correction. Looking forward, if we assume that most of the ETF investors are in for the long term, then the fact that prices now seem to have built a base and are edging higher again, may well attract more ETF buyers back into the market.



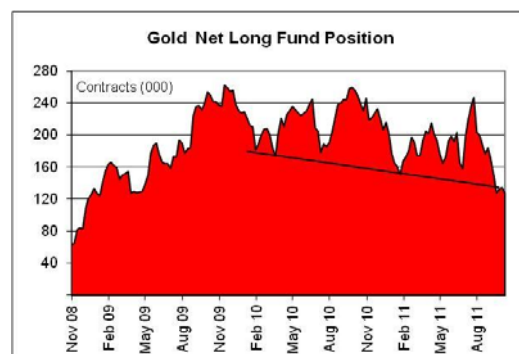
Investors' interest has not just been confined to ETFs, in recent years there have been unprecedented levels of investment in Gold bars and coins, see chart above. The buying dipped in 2009, as the economic recovery pushed



money back into more traditional investments, but rebounded in 2010, as concerns over inflation and sovereign debt picked up. We expect demand will remain strong in 2011 and into 2012, although at some stage once more sustainable economic growth is back on the agenda, we would expect investors to reduce their exposure to Gold in all forms. So not only will demand fall, but bars and coins are also likely to be sold back into the market, thus adding to scrap supply. However, this is unlikely to be an issue in the medium term as the risks of double-dipped recession, dollar devaluation, inflation and deflation, all mean that the case for owning Gold remains strong.

The Futures market

The chart opposite suggests that the funds have a saturation point between 250,000 and 260,000 contracts. Needless to say the various peaks in the net long fund position (NLFP) have meant the dollar value of Gold held by the funds has increased significantly - due to higher Gold prices - but there does seem to be a cap on the number of contracts the funds are comfortable holding. Conversely the chart shows that at the various lows, as shown by the downward sloping trend line, the NLFP is also seeing greater amounts of long liquidation. It will now be interesting to see whether the NLFP drops significantly below the line - we think this line may indicate the level of 'die-hard' longs - those who are in for the long term. If this is the case and considering we feel the big picture outlook for Gold remains bullish, then we would expect the NLFP to start to climb again and in turn that should underpin a stronger market. As investors get more concerned about fiat money and the massive levels of debt in the West, we would not be surprised if the market was eventually able to sustain an even larger fund long position.



SUPPLY

Gold supply has started to climb in recent years on the combination of rising mine output and increased scrap supply. The rise from these sources has been enough to offset declining supply from official sales. Mine production peaked at 2,646 tonnes in 2001 and drifted to a low of around 2,400 tonnes in 2008, according to Thompson Reuters GFMS data, but since 2009, mine output has rebounded - indeed it reached an all-time high of 2,689 tonnes in 2010. According to the WGC, mine output has continued to increase in the first half of 2011 and our expectation is for output to climb towards 3,000 tonnes by 2013, as new mines are commissioned.

As for total supply, we expect the trends to generally continue, that is with the possible exception of producer dehedging/hedging. Supply from old scrap is likely to remain high, initially as strong Gold prices attract more scrap into the market and then once prices start to turn lower we would expect profit-taking to lead to dishoarding of coins, bars and jewellery.

The official sector swung from a net seller to a net buyer of Gold in 2010, so should now come out of the supply side of the equation to join the demand side. The other development we need to be on the lookout for is producer hedging. Since 2001, producers have been net buyers of Gold as they have unwound hedges, however, once the bull market in Gold is deemed to have ended and a down trend emerges, we would expect producers to start hedging again. Although shareholders have been against producer hedging, once the outlook for Gold does become bearish, then we think shareholders attitudes will gradually change. We would not expect any

quick change in attitude, but when faced with the likelihood of falling prices, they may agree to allow companies to hedge via put options.

China remains the world's largest Gold producer

China became the world's largest Gold producer in 2007 and has held that position each year since, with output in 2010 climbing 9% to around 341 tonnes, according to China's Ministry of Industry and Information Technology. According to Thompson Reuters GFMS data, Australia remains the second largest producer with output of 261 tonnes, the US is in third place with 234 tonnes and the former major producer, South Africa, is now in joint fourth place with Russia, with output of 203 tonnes. Peru is the sixth largest producer with production of 162 tonnes, in 2010.

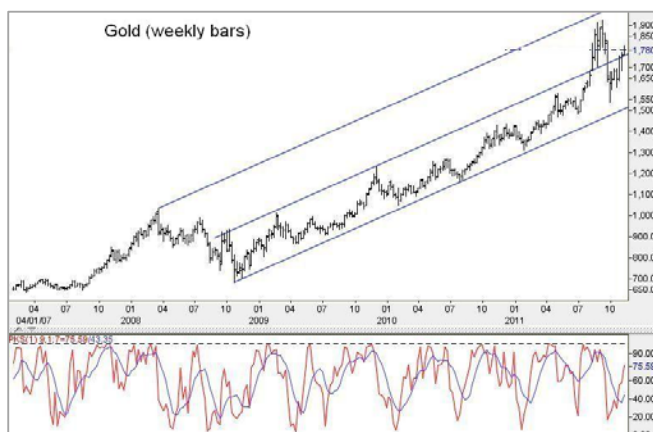
Scrap

The amount of old scrap entering the market has taken off in recent years for a number of reasons. The combination of record high prices, economic hardship and a surge in high street shops and web-based companies offering to buy Gold scrap, have encouraged and facilitated scrap collection. In addition, high prices have meant that some consumers who can not afford to continue buying new jewellery are instead swapping old jewellery pieces for new pieces. Supply from scrap in the 1990's, before the bull-run started in 2002, tended to average around 620 tonnes per year. There was an exception in 1998, when scrap supply almost doubled, but that was a result of distress selling in Asia during the Asian financial crisis. Since the bull-run started, the amount of scrap supply has increased, reaching a peak of around 1,695 tonnes in 2009, according to Thompson Reuters GFMS data, although the level dropped slightly in 2010. Does the drop suggest that a lot of the old scrap has already been "sucked out of the woodwork" – given the price increases and the 'We Buy Gold' marketing campaigns – we think it may have. It is now likely to take a move up to higher highs, over \$2,000/oz, to see another pick-up in scrap sales.

Overall with mine output picking up again and with scrap supply expected to level out in the medium term, we think Gold supply will continue to increase at a moderate pace. The rate could speed up should sentiment towards the outlook for Gold start to deteriorate to the extent producers put on forward hedges and redemptions from ETF start to gain momentum - but the earliest we would expect that is late 2012.

Technical Outlook

Gold's bull-run accelerated in August and that turned out to be a spike. Prices pulled back into the former up channel, consolidated and are once again trying to get back into the higher of the two up channels. The fact the underlying trend line remains intact is constructive and a look at the recent upside cross in the stochastics, and the low level of the slow stochastics line, all bodes well for further gains. We expect there will be considerable supply to erode in the \$1,800-\$1,860/oz area, but if prices can climb above \$1,860/oz then we would expect a rechallenge of the highs and a move on up towards the



\$2,000/oz level. Below the market support is likely to be seen at \$1,600/oz and then between the bottom of the up channel at \$1,500/oz and the June 2011 lows at \$1,478/oz.

Forecast & Conclusion

There remain a multitude of factors influencing the Gold price, but one of the main reasons we are still bullish is because of the mess the Western world is in. Europe is drowning in debt and as policy makers have not been able to come up with a workable solution to get over this problem, there is a risk that the monetary system breaks down. That should be reason enough to be bullish for Gold, but curiously Gold prices have not been that bullish in recent months. However, we think that is more to do with the fact that institutional investors have been liquidating assets as they need cash.

The US has its debt problems too, but with the dollar being the world's reserve currency it has not had any trouble financing its debt – so far. However, given the extent to which debt has grown and is growing, creditors may well start to get worried and then the US could start to find itself in a similar situation to Europe. However, the US is more focused on trying to keep the economic recovery going and that may well mean another round of QE is undertaken. We would say that regardless of whether the focus in the US is on debt reduction, or on QE, it should be bullish for Gold. QE would mean currency debasement, while debt reduction and smaller budget deficits may well lead to slower growth and deflation.

In Asia, concerns over inflation have driven Gold prices higher and the combination of a more affluent middle class and less availability of credit to buy property, has pushed more money, (that may have otherwise been used as a deposit on a second or third property), into Gold. Whether a further slowdown in Chinese growth increases, or decreases, the current affinity for Gold remains to be seen, but generally we expect China to remain a stronger buyer.

Given the precarious situation in Europe's monetary system and the potential for that to spread into the financial markets, we feel the market may soon fear another bout of long liquidation in Gold and this may well happen. However, we would say that many of the weak longs have already liquidated. Looking at the CFTC data shows the NLFP is on base line support and that the remaining longs are probably in for the long term. Likewise ETF investors have, by and large, held on to their positions. The one area of potential selling could come from distressed central banks, but we think outright sales from this sector are unlikely. If the broader markets do undergo another correction, then we would expect safe-haven buying to pick up fairly quickly. As money comes out of existing assets, a proportion of it may well move into Gold. Given the size of the Gold market, even a small rotation out of equities and into Gold could have a big impact on Gold prices.

Overall, we do not think we have seen the peak in Gold yet as we think the world's financial problems are far from over. However, the higher the Gold price goes the more volatile trading is likely to become and the more nervous investors and funds are likely to be.

We truly hope that, at some stage, the problems facing the global economy (and the West in particular) will be solved and normality will return. When that process begins, safe-haven assets are likely to be sold, producers are likely, once again, to increase hedge selling and a good deal of the stock that has built up in allocated accounts at banks and in ETFs may flood back into the market. One can imagine what prices will do under such circumstances. There may well be some scares along the way that the end of the bull market is unfolding and sharp sell-offs are likely to be seen. However, until the problems facing the global economy are

properly sorted out and a workable plan to revive robust private sector growth is seen, we expect Gold's bull market to continue.

In the months ahead we expect increased volatility in Gold prices. Given concerns over the possibility of a doubled dipped recession have reappeared in recent months, that unemployment remains stubbornly high and house prices are still depressed, and there is still talk of more QE, we feel it is too early to think the worst maybe behind us. We said in last year's forecast "If we are in the eye of the financial storm then the next part of the storm may well be the one that leads to the end-spike up in Gold prices". We think we are now entering the second part of the storm and that Gold prices will go higher over the next twelve months, but there is also a good chance that prices could be trading below current levels in a year's time.

Overall we expect prices to move higher, the top of the upper channel is currently at \$2,010/oz - extrapolating that out a year would mean the top of the channel would be around \$2,280/oz. That seems an achievable target, however, allowing for a final end-of-bull-market spike up in prices could mean \$2,500/oz is seen. Should prices undergo another correction in the short term then we would look for support around \$1,600/oz. Eventually, once the bull market has run its course and there is less need for safe-havens, then we would look for prices to move back towards \$1,300/oz.

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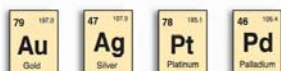
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