

## How low will gold go?

On the bright side, dip suggests drop in world tensions

Correction was expected among gold-watchers

Sep. 18, 2006, 07:02 AM  
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BUSINESS REPORTER

After a nice run over the first half of the year that saw gold sprint ahead by \$200 (all figures U.S.) an ounce, the mercurial yellow metal has suddenly fallen back into correction mode in time for fall.

Now that bullion is hovering below the \$600 level and can't seem to find firm footing, everyone including those buoyant gold bugs can't help but wonder: How low will gold go?

"I don't know where the floor is this time," says bullion investment maverick Rob McEwen, chief executive of U.S. Gold Corp., although his long-term view is outright bullish.

"It may be coming off with oil and some of the commodities, but the trend continues up," says the long-time gold guru and founder of Goldcorp Inc.

Still, it's hard to ignore that over the last nine trading days gold has fallen more than \$60 an ounce, or about 10 per cent. It closed at \$576.40, down \$2.90 on Friday to its lowest level since June. And it's taken a 20 per cent tumble from those halcyon days in spring, which culminated in a 26-year trading high of \$732 an ounce on May 12.

Summer is almost over and so is gold's hot streak, at least for now. And it wasn't unexpected among market watchers. Last week marked bullion's biggest weekly decline since July as lower prices for energy and other commodities took some of the shine off the precious metal's traditional draw as a hedge against inflation.

"We're only within a few dollars of the last correction in June," notes Vancouver-based gold watcher Martin Murenbeeld. It closed at its last low of \$562.30 on the New York Mercantile Exchange on June 14.

The culprits include the U.S. dollar — which usually moves in the opposite direction of gold — showing some surprising recent strength and tensions on the world political stage easing up a bit, he explains, noting gold is always more attractive in times of uncertainty.

Declining oil prices have also fuelled speculation that demand for raw materials may be easing.

"We would need a geo-political shock to get back to \$700. I don't think the market is in the mood to hit that price level right now," says Murenbeeld. "We'll just have to wait this out."

Autumn is traditionally a strong season for the pretty yet unpredictable metal, and September is historically a good time for the gold stocks.

But the recent correction has some analysts including Michael Jalonen of Merrill Lynch Canada revising their forecasts down for the year.

In a research note last week, Jalonen lowered his 2006 price forecast from \$650 to \$625, although the move wasn't decidedly bearish.

"Year to date the gold price has averaged around \$590 an ounce. Based on our revised forecast, this implies bullion has to average around \$675 an ounce for the balance of 2006 within a trading range of \$600 to \$725," he says in his global precious metals report.

Jalonen left the 2007 spot gold price forecast of \$675 unchanged.

Barry Allan of Research Capital Corp. did not revise his 2006 average price forecast for gold of \$630 an ounce and adds that even if bullion weakens further, these are still red-hot times for the industry after the 20-year bear market following 1980's peak.

"The bullion market is still a robust market. People forget that, even at \$450, gold mines are still economic and we'll still have a robust industry," Allan says.

And it's a good thing too since merger-mania has hit Canada's mid-tier gold mining sector big-time in recent weeks following a year dominated by the takeover drama surrounding senior base metal players Inco Ltd. and Falconbridge Ltd., which has since been scooped up by Anglo-Swiss miner Xstrata PLC.

Iamgold Corp. announced Thursday its plan to buy Montreal miner Cambior Inc. in an all-stock deal worth about \$1.2 billion, catapulting the new Iamgold into the club of million-ounce producers. And two weeks ago Vancouver's Goldcorp announced a takeover of Glamis Gold Ltd. that will bring its market value up to \$19 billion.

But McEwen, the ex-CEO of Goldcorp Inc. and still its largest individual shareholder, strongly disagrees with the 'bigger is better' philosophy sweeping the industry these days, saying investors fare much better with a strong earnings and cash flow approach rather than one based on net asset value.

McEwen is sticking to his five-year-old prediction that the precious metal will test its all-time high, reached in January 1980, of \$850 in 2008 and will go significantly higher in 2010 and will one day soar up to an unimaginable \$2,000 an ounce.

He argues that in inflation-adjusted terms, gold's all-time peak of \$850 would amount to \$2,200 in the current marketplace.

About 80 per cent of gold is used for jewellery and investment in gold bars as a hedge against currency fluctuations. Investment gold has been the driver of the last few years.

A sixth straight year of gains by year's end would translate into the longest bull market for gold since central banks allowed the commodity's price to find its own level in the free market in the late 1960s.

"I still see a positive trend in gold but it never moves in straight lines," says McEwen, adding: "It just means it's a good time to buy."