Financial Mail

Money & Investing

Commodities

Gold price: The shining safe haven

by Stafford Thomas, 17 December 2015, 09:29

Hilton Davies: A country can go bust and gold will still keep its intrinsic value. Picture: HETTY ZANTMAN

Related Articles


Chinese gold trade: Silent on strategy

Commodities

Mentioned in this Article

FM Edition:

- December 17 - 2015

RENOWNED economist John Maynard Keynes once slammed gold as a “barbarous relic”. It is a view unlikely to be shared by SA investors who have entrusted part of their assets to Krugerrands or gold-linked exchange traded products.

They have been abundantly rewarded for their decision. While the gold price in US dollars has fallen 9% this year, a collapsing rand has powered a 19% jump in the rand gold price to a record high of almost R16 300/oz.

It has left gold ruling the SA investment roost this year. Trailing feebly, the JSE top 40 index has managed a mere 3,9% total return and the JSE all share index an even more dismal 1,6%.

Worse still is the bond market, which was hit by an aggressive sell-off of government bonds following President Jacob Zuma’s sacking of Nhlanhla Nene as finance minister. The sell-off has resulted in yields spiking to their highest levels since the 2008 global financial crisis, and has left the JSE all bond index’s total return so far this year at a concerning negative of 5,6%.

Not even SA listed property, which until recently had been a high-flying sector, is a match for gold, limping in with a 3,2% total return so far this year.

Gold’s performance has by no means been a flash in the pan. Since the start of 2005, the rand gold price has rewarded investors with a 545% rise. It has trounced the JSE top 40 index’s 419% total return and the JSE all share index’s 424%.

The question is: is it too late for SA investors to consider taking an exposure to gold?

While Econometrix chief economist Azar Jammine does not advise going overboard on gold, he advocates an exposure. “I am absolutely sure you must have some gold in a portfolio,” he says.

It is not about making a quick buck but, if you want to protect your wealth, gold is an important asset, says SA Gold Coin Exchange CE Alan Demby.

SA Bullion Management CE Hilton Davies shares his view. “Gold is the only currency with no-one’s obligations backing it,” says Davies. “A country can go bust and gold will still keep its intrinsic value.”

Davies believes this is pertinent in the uncertain times in which SA finds itself. “Local investors need to get more attuned to the fact that they are living in a very damaged economy with an intrinsically weak currency,” says Davies.

Risks abound, stresses Davies. Among the foremost is a real danger SA’s sovereign debt rating will be downgraded to junk status. Recent actions by rating agencies Standard & Poor’s and Fitch have left SA precariously clinging to its investment-grade status.

“If SA is downgraded to junk status capital will pour out of the country,” says Davies. “It would send bond yields soaring and put huge strain on the capital account.”

Danger signs are there. Not least is the bank sector’s rating, which has this year slumped from a p:e of more than 15 to one of 9,5, its lowest level since 2009.

While the rand gold price is of key importance to SA investors, there are also signs that the dollar gold price bear market may have almost run its course. Gold hit US$1 896/oz in 2011 and $1 791 in 2012 and has since fallen back to $1 073.

“I am mildly bullish on gold,” says Daniel Sacks of Investec Asset Management. “The speculative element is out of the gold market.” Sacks is referring to the huge influence exchange traded funds (ETF), backed by physical gold holdings, have had on the gold price. Huge buying into gold ETFs drove the gold price to its highs, only to be followed by aggressive selling, especially in the past three years.

Optimistically, Citi says in a December research note: “We expect modest net ETF inflows to return, as the composition of investors once again favours long-term investors, [who] were controlling less than 10% [of ETF gold holdings] in 2012, control more than one-third today for the larger ETFs.”

Seemingly reflecting growing investor interest in gold are sales of American Eagle and Buffalo gold coins. The US Mint reports combined sales of the coins in the first 11 months of 2015 at 1,02moz, up 43% from 702 000oz in 2014 as a whole.

A further positive sign is the gold price’s relative resilience this year in the face of dollar strength and a commodity market in which other key commodities such as oil, copper, platinum and coal have fallen by 22%-30%.

Another slant on gold’s prospects is provided by Morningstar in a new research piece. Though the research firm sees the gold price dipping below $1 000 in 2016 in the wake of a US Federal Reserve interest rate hike, it is bullish beyond that.

Underpinning gold’s prospects, argues Morningstar, will be its transformation from a financial commodity driven by the likes of central bank and ETF demand to a consumer one driven by jewellery demand.

Putting figures on its view, Morningstar forecasts a 4,7%/year average increase in physical gold demand, led by Chinese and Indian jeweller purchases. This will make jewellery, it estimates, account for two-thirds of gold demand by 2020, up from 50% in the past five years.

The end result, according to Morningstar, will be a gold price of $1300 by 2020. But from an SA investor standpoint, if there is a strong motivation for gold exposure it is the longer-term implications of Zuma’s moves, which have given SA three finance ministers in four days.

Though the market rallied on news that Pravin Gordhan is back as finance minister, huge damage has been done to SA’s credibility. “The probability of a ratings downgrade has increased dramatically,” says Jammine “Proper confidence can only be restored when Zuma resigns.”

More in this section

- Directors' Dealings: Golden rewards
- Investor's Notebook: Futuregrowth in a political power play

- Shop Talk: The scarcity principle and pumpkin
- Diamonds & Dogs: Famous Brands; Mr Price
- The Foschini Group: Cutting new cloth
- Super group: Super performance

Top Stories

- Bruce's List: Big capital steps into the ring against Zuma. Hier kom groot kak
- Bruce's List: Chinese TV belittles Zuma, gently
- Editorial: ANC must recall Zuma, and soon
- President Zuma forced to back down
- Bruce's List: Zwane and the Zuptas zoom in on banks
- A line in the sand

MORE FROM FINANCIAL MAIL

- Letter: Education will be the key OPINION
- A line in the sand COVER STORIES
- Letter: Help the investors first OPINION
- The Foschini Group: Cutting new cloth MONEY & INVESTING
- Commodities: Rising fortunes MONEY & INVESTING