The SA Bullion Gold Report

First Quarter 2010

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Prices

	Gold in USD/oz	ZAR/USD rate	Gold in ZAR/oz
01 Jan 2000	290.28	6.15	1,785.04
01 Jan 2001	274.45	7.56	2,076.21
01 Jan 2002	276.50	11.95	3,304.18
01 Jan 2003	347.20	8.62	2,992.69
01 Jan 2004	416.25	6.58	2,739.65
01 Jan 2005	435.60	5.69	2,477.48
01 Jan 2006	513.00	6.32	3,243.19
01 Jan 2007	632.00	7.02	4,437.90
01 Jan 2008	833.75	6.81	5,678.25
01 Jan 2009	843.50	9.62	8,114.98
01 Jan 2010	1087.50	7.36	8,008.08

Note: in our previous report we used figures that vary from some of those above. The difference arises from previously using latest trading prices from Rand Refinery and LBMA Afternoon Fixes. The above figures are LBMA Afternoon Fix prices.

Performance to 31 Mar 2010 (Cumulative in %)

	Quarter	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr
Gold in USD	3.3	21.7	19.5	68.6	160.9	303.1
Gold in ZAR	1.5	- 6.1	7.9	70.6	207.5	351.5

Note 1: at quarter-end (31/03/2010) gold prices were USD 1,115.50 and ZAR 8,182.52.
Note 2: at time of writing gold prices were USD 1,145.35 and ZAR 8,303.72.

Events

The key events of the last quarter, to be discussed in further detail later, have been:

- Central Bank gold buying
- Reflation and Rising stockmarkets
- Rising sovereign risks and rising bond yields
- Ending of the US Federal Reserve asset purchase program (one day after quarter-end)
- Visit by Mr Jeffrey Christian to SA Bullion

Central Bank Gold Buying

In the previous quarter we reported a large gold purchase by the central bank of India. This quarter we can report that the central bank of Russia has made a sizable purchase of gold somewhere in the region of 10 tons. We also observe that the central bank of China, whilst ever cagey, would seem to be intent on expanding its gold holdings. Most interesting to note is the sea change of central banks moving from a position of net sellers (Britain sold 400 tons between 1999 and 2002) to net buyers of gold. This change accords with our mantra “in good times gold is a commodity, in bad times gold is a currency”.

Reflation and Rising Stockmarkets

Last quarter we wrote “the reflation of asset prices has been fairly successful, at least in stock markets, although not in property markets and bond markets.” Our clients know that this was as we had expected; and that we had preached that the US had to “inflate or die”. Well, inflate it has, and fairly successfully so in terms of Wall Street - but not without creating huge risks.

In the last 15 years we have not often found ourselves agreeing with the previous Chairman of the US Federal Reserve but we find ourselves agreeing with a point that he has made recently. In a televised interview on Bloomberg TV on 27 March Mr Greenspan said "ordinarily we think of the economy affecting share prices. I think we miss a very crucial connection here in that this whole economic recovery, as best as I can judge, is to a very large extent the consequence of the market's bottoming last March, and coming all the way back up. It is affecting the whole structure of the economy as well as creating the usual wealth effect impact."

The Federal Reserve has goosed the stock market through its unprecedented use of Quantitative Easing to the tune of $1.75 trillion (And in so doing caused the investment banks to be happy recipients of these state funds). The big risk today is that the "smart market", i.e. the bond market, is going to declare its dissatisfaction with the assumed risks of the state, and demand a higher reward (yield) for carrying sovereign risk. It has been our contention that "the real story lies in the bond market". Should this big risk manifest itself then one would expect a reversal of the recent gains – both in the stock market and in the economy.

Rising Sovereign Risks and Rising Bond Yields

In our Second Quarter 2009 report we wrote:

"... the real story lies in the bond market. US debt raising presents real challenges..."

"This means that in the future the US government is going to be borrowing ever greater amounts from a reluctant private sector at higher and higher rates of interest."

"Currency debasement is the story of the next 15 years."

Let's take a look at US bond yields at the beginning of last year, the beginning of this year, end of March and today.

Table of US Bond Yields

Date	10 Year	20 Year	30 Year
01 Jan 2009	2.46	3.22	2.83
01 Jan 2010	3.85	4.60	4.65
31 Mar 2010	3.84	4.55	4.72
06 Apr 2010	3.98	4.68	4.84

Source: The Department of the Treasury, United States of America

The clear picture is one of rising long yields – something we have long warned of as the key economic risk confronting the United States and the world. In the aforementioned interview of Alan Greenspan, he called this the "canary in the mine".

One typically associates rising long rates with rising inflation – while at this stage there is relatively little inflation to observe, and even some aspects of deflation. The bond markets may well be foretelling of inflation troubles in the years ahead but in our opinion they are indicating rising risks of default i.e. the solvency of the United States of America is deteriorating. Should the rates indicated in the table above increase much more, there will be trouble in the stock market, the property market, the credit markets and the rest of the economy. Gold is saying the risks are elevating.

Why are these rates rising? The answer lies in numerous aspects, predominantly:

- the new Obama health plan that will indebt the nation to the extent of nearly one trillion dollars over the next 10 years;
- difficulty in finding buyers of US sovereign and agency debt now that the Fed has ended its program of buying these; and
- risks that China will sell some of its holdings of US government debt.

We are keeping a close eye on the US bond yields and advise our clients to do the same. A strong move above 4% on the 10-Year Treasury spells trouble for almost all assets – and the opposite for gold.

Gold Price Action

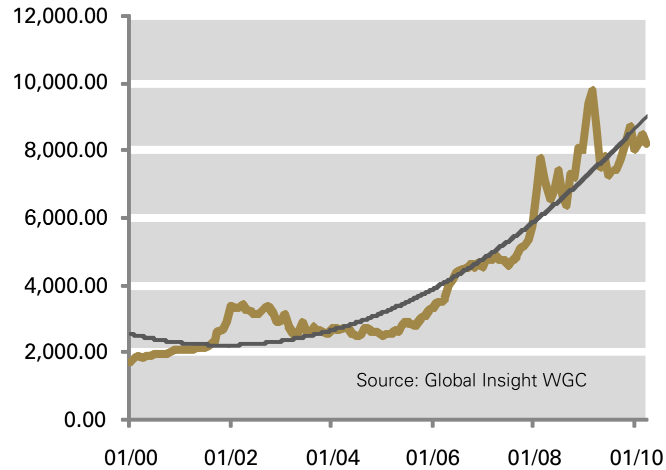
Last quarter we said "we expect gold to consolidate for some weeks prior to the next leg up in this huge gold bull market. Our analysis leads us to believe that the 20-week moving average of $1,067 will form support in the period leading up to the next leg up".

We're not always right but this prediction turned out that way. The consolidation extended just beyond the end of the quarter prior to an upturn. Support held at $1,067 with only the briefest dip below that point on 5th and 8th February when gold traded down to $1,058.

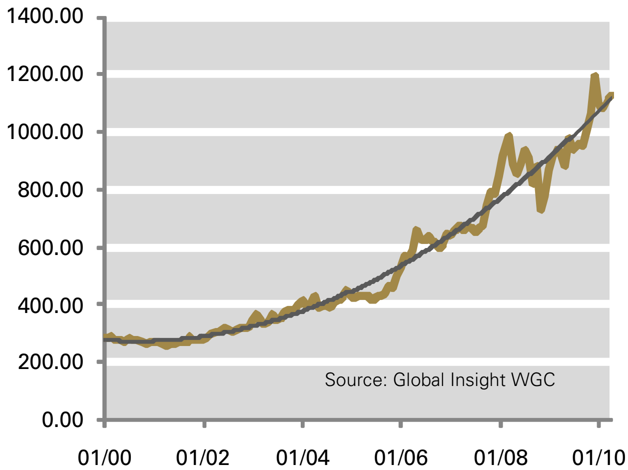
As we write, gold has broken up to $1146.70 and would appear to have exited the consolidation channel that is apparent in the chart following:

We study the market in the short term but we invest in assets for the long term. So what does the long term chart of gold look like in US Dollars and in South African Rand? We would argue that the following two charts should provide reassurance to existing gold investors and an exciting entry point for would-be investors with gold currently below trendline in both currencies.

Gold price ZAR per ounce - London PM fix



Gold price USD per ounce - London PM fix



Visit by Mr Jeffrey Christian of CPM Group

Our Strategic Alliance Partner, Mr. Sune Hojgaard-Sorensen, who looks after SA Bullion's international marketing effort engaged in conversation Mr Jeffrey Christian, Managing Director of CPM Group in New York. CPM Group is one of the global leaders in the bullion business. Their discussions resulted in Mr. Christian visiting us at our modest offices in Cape Town.

My colleagues and I enjoyed the privilege of discussing many key aspects of the gold market with Mr Christian, and also felt a warm little glow at having been shown professional courtesy by such an eminent individual and firm. We look forward to doing business together and I look forward to writing about aspects of our discussion in future issues of this report.

Hilton Davies