The SA Bullion Gold Report

Third Quarter 2009

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Performance Third Quarter 2009

	30 June 2009	30 Sept 2009	Change in %
Gold in USD/oz	935.50	989.50	5.8
ZAR/USD rate	7.81	7.42	5.0
Gold in ZAR/oz	7,305.13	7341.10	0.5

Long Term Performance to 30 Sept 2009

	01 Jan 2000	30 Sept 2009	Change % cumulative	Change % per annum
Gold in USD/oz	281.50	989.50	251.5	13.7
ZAR/USD rate	6.11	7.42	-21.4	-2.4
Gold in ZAR/oz	1721.09	7341.10	326.5	16.0

Long Term Performance of Major Equity Indices to 30 Sept 2009 [out of interest]

	01 Jan 2000	30 Sept 2009	Change % cumulative	Change % per annum
Dow Jones Ind Ave	11453.48	9712.28	-15.2	-1.7
S&P 500	1498.58	1057.08	-29.5	-3.5

Note 1: at time of writing gold prices were $1,053.50 and R7,740.39

Review

In our report last quarter we said that we thought the gold price would move in a fairly stable range for July and August and present attractive performance in the last few months of 2009. Happily we have been proved correct on both counts, so far. Of course, no one has their hands on the levers of price direction but we generally find that our analytical approach yields respectable results.

Rationale for Owning Gold

SA Bullion's stated vision is "Gold bullion as a currency component in every investment portfolio". This carefully crafted vision is intended to convey to investors a message that we believe gold's role to be that of a currency-diversifier and that it should be represented in the cash component of every investor's portfolio. We do not see gold as a direct competitor to shares, bonds, property and other mainstream investment vehicles.

Our vision needs a caveat. We don't state our vision as an enduring principle. Ultimately nothing is, or will be, enduring on this blue planet. Our most crucial insight that we hope to convey to the investing public is that in good times gold is a commodity and in bad times gold is a currency. And we are in the bad times. We are convinced that commencing around the turn of this century gold is in a generational upswing. We don't know when the good times will come again but we are sure that those times are very far off. Meanwhile, it makes sense to own some gold!

Recent Drivers of Gold

The predominant theme in the media has been that the rise in the gold price has been a weak dollar phenomenon. This is a partial truth. More correctly, the run in the gold price has been an anti-currency phenomenon. Money has been flowing away from most currencies and into gold.

Let's take a look at the US dollar. We have sounded like a stuck record on this story for some years. The US is in a tight spot and is faced with a variation on Hobson's Choice that has nothing to do with horses (as it did in the original version!). The US has only one solution and that is to inflate. Any alternative would be too terrible to contemplate.

On 10 October 2008 I sent out an email that contained the following sentence: "its time for the odd state and country to fail - California and Iceland being leading contenders". Of course Iceland went bankrupt shortly thereafter and California is in its death throes. When I say that the US is in a tight spot I mean the difference between it and the state of California is that it can run the printing presses and produce dollars. There's not much else that's different.

Healthy final demand, or consumption, requires a fully employed and well paid workforce. The US unemployment picture is not supportive of healthy final demand. In fact it is an ugly sight and is bringing huge pressure to bear on the dollar. During this current recession, from December 2007 to August 2009 the US has lost 7.6 million jobs. That is a loss of more than 5% of all jobs. Unemployed workers now number 15.6 million. In September US unemployment climbed to 9.8%, and now surpasses Europe's 9.5%. These figures however, all use the official unemployment rate. A more accurate picture of total unemployment is provided by the Bureau of Labor Statistics U-6 measure of unemployment which now records 17%!

In order to assist with job creation the US needs growth, cheap money and government spending. This means reflation. (And this means a weak dollar!).

The **US Federal Reserve advises us of the following Money Stock statistics:**

	M1 ($ bn)	M2 ($ bn)
August 2008	1,391.6	7,698.2
August 2009	1,649.8	8,297.9

The US Bureau of Economic Analysis advises us of the following GDP statistics:

	GDP in US$ (billions)
End second quarter 2008	14,497.8
End third quarter 2008	14,546.7
End fourth quarter 2008	14,347.3
End first quarter 2009	14,178.0
End second quarter 2009	14,151.2

In 12 months M1 increased by 18.6% and M2 increased by 7.8%. While this huge monetary stimulus was taking place (not to mention the fiscal stimulus), the US economy contracted by $346 billion to produce a growth statistic of -2.39%. Total Public Debt meanwhile rose from $10.7 trillion on New Year's eve (9 months ago) to $11.9 trillion on 6 October. That looks and smells like desperate reflation to us!

What about the other currencies? America's key problems that have built up over decades are debt and dominance. The unwinding of these two elements will correspond with the decline of the dollar. But what about the other currencies?

As the dollar depreciates it causes other currencies to appreciate in relative terms. This puts pressure on companies that export to the US, rendering them less competitive, and in turn, this puts pressure on the home countries of those companies as tax revenues fall off and foreign exchange inflows diminish.

Not surprisingly then, since most countries rely on the US consumer for a large part of their business, these countries seek to weaken their currencies along with that of the dollar. China has their currency, the Renmimbi, tied to the dollar, which causes it to automatically weaken along with the dollar.

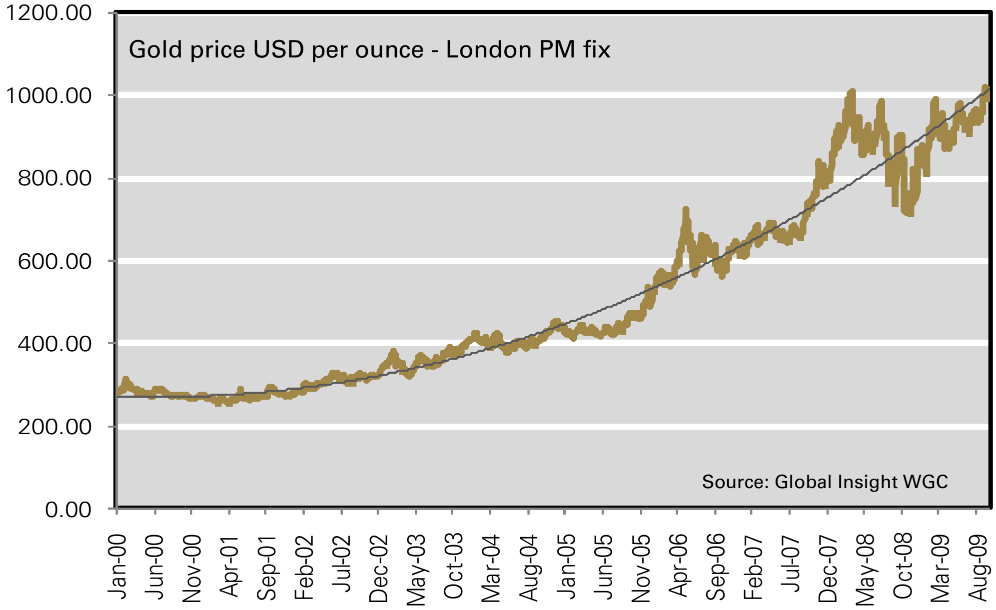
This tie-up has the Europeans squealing! The non-linked Euro has been appreciating against the dollar rendering Eurozone companies rapidly less competitive relative to US and Chinese ones. Of course you can count on the Europeans to do something so as to weaken the Euro. Perhaps they won't have to do too much given the shambolic state of their economies. Down-on-their-knees Ireland is a leading example!

Another tool in the analysis of currencies is CPI. Or multiple inflation measures to be more precise. This topic will be left for another day save to say that just as we talked last quarter of oil having been the chief driver of disinflation (even deflation), so oil is almost certainly going to be a very considerable driver of inflation in the months ahead. This observation does not require rising prices to be proven correct. If prices stay flat it's a certainty.

The low rebasing of oil in the 12-month-stats is coming and that is likely to mean a big contribution to inflation.

Gold Price Action

For 18 months gold consolidated and in the process built an enormous base from which to move up. See graph:



Investors are slowly but surely understanding that their capital in the bank is being debased at a far more rapid pace than the generation of income from that cash. Furthermore, though slow to realize this, they are beginning to understand that we have not simply gone through a blip. We are well and truly into the 'bad times'.

It is now widely understood that those with 'big' money, particularly the central banks of China and Russia, the petrodollar nations and the wealthy, are moving progressively to gold

This is the time when gold asserts itself. After all, in the bad times you surely want your chosen form of cash, at a minimum, to be the last man standing.

The Rand

The Rand strengthen by 5% against the dollar over the quarter. Our expectation remains that the Rand is not likely to appreciate much more. Certainly the South African authorities are making noises on the subject so as to abet Rand weakening. The South African Reserve Bank has reported that it has been actively buying dollars in the marketplace. The South African mining sector is rapidly shedding jobs due to pricing problems and would welcome a weaker currency. The fiscus is looking at a tough year ahead with a gaping budget deficit on the horizon. We repeat, on a balance of probabilities the Rand-strengthening run is at or near its end.

Forward

Gold closed the quarter at $989.50. As I write this report the spot price of gold is at $1,053.50. Being the considered investors that we are, it is not in our nature to chase steeply rising prices – which is what we have seen in these first days of October. In the immediate short term gold will push through to $1,080.00 on technical reasons or it will fall back a bit on profit-taking. We are inclined to hold back for a day or two on anticipation of profit-taking.

Gold has an excellent long term future and irrespective of the moves in the next few days, we would like to see our compatriots benefiting from the wealth-creating properties of gold in the years ahead. Our recommendation? Buy into the dips.

Short term we don't know what the gold price will do but doubt that there could be any great downside. Long term we have great conviction. This is a generation for gold.