

US economy may chart course of gold price in '08

Price May Peak At \$1,000/Ounce This Year, May Decline In Three Years

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THE price of gold is likely to peak at just over \$1,000 per ounce in 2008 and benefit from any weakening of the US economy as investors seek new havens for their funds, London-based consultancy IFMS said on Monday.

The influence of investors would also be crucial in turning the tide, which is likely if the United States weathers its economic problems in the middle term. If that happens, the gold price could start its decline in about three years from now, IFMS chief executive Paul Walker said. In a presentation to the Indaba African mining conference in Cape Town, Walker forecast an average price of \$866 per ounce of gold in 2008, with a low of \$810 an ounce.

"The market will be choppy, and sensitive to investment flows so we have an interesting ride ahead," Walker said, adding "The question is what happens when investor demand turns, when the US economic problems are resolved?"

Walker estimated that investor demand was 12% of total demand for gold in 2007, and saw this figure jumping as market players chart new courses to navigate a potential storm in the US economy.

US' subprime mortgage woes have already sparked a sharp spike in gold investment by funds seeking alternative asset classes, and this is likely to grow further, he said. "If the US goes into recession, and we believe it will, we could see gold prices significantly rise as anywhere around \$400 billion in funds could be invested in the com-

modity," he added.

The weaker dollar has not been the only contributor to the rising gold price, Walker said, terming the current price surge as "a genuine bull rally."

Gold is dancing to its own tune and not just being influenced by a weaker dollar," Walker said. Spot gold fell more than 1% on Monday to \$900.55 an ounce as the dollar held firm against the euro, traders said. The metal hit a record \$936.50 an ounce on Friday.

On gold mining, Walker said he expected 2008 to record a "modest" increase in output, because the current strong price was yielding substantial margins that encourage further output.

The sector was being driven mainly by demand from jewellery makers mainly in Asia and the Middle East, he said.

IFMS estimated in a report

last month that global gold output fell 1% in 2007, as gold mining costs passed \$400 per ounce for the first time in the third quarter. The consultancy also estimated that China had for the first time overtaken South Africa as the top bullion producer, although China later gave figures showing its gold output was just short of South Africa's 272 tonnes. South African output was constrained by dwindling ore grades, accidents and rising labour costs.

This year, South African metals analysts have said gold output is likely to dip further, exacerbated by massive power outages that have hit the mining sector, owing to a power shortage in Africa's biggest economy.

Gold, platinum, diamond, coal and other mines have been limited to 90% of their normal power usage. — Reuters

