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The State of the Gold Market Fourth Quarter 2013 through 2014

***Denver Gold Group
Toronto, 21 October 2013
Denver, 31 October 2013***

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Topics For Today's Presentation

The Economic Outlook

The Outlook For Gold

The Relationships Among Monetary Supply, Inflation, And Gold

Gold Standards Do Not Work

Gold Has No Role In Future Monetary Systems

The Optimal Future International Currency Regime

Gold Investment Demand And Price

Gold Supply

Hedging

Gold Fabrication Demand

Official Transactions

The Gold Market Does Not Know Itself

A Note About Comex Inventory Levels Relative To Open Interest

Forwards Are Not Spot Physical Transactions

The Next Big Thing For Gold Investors



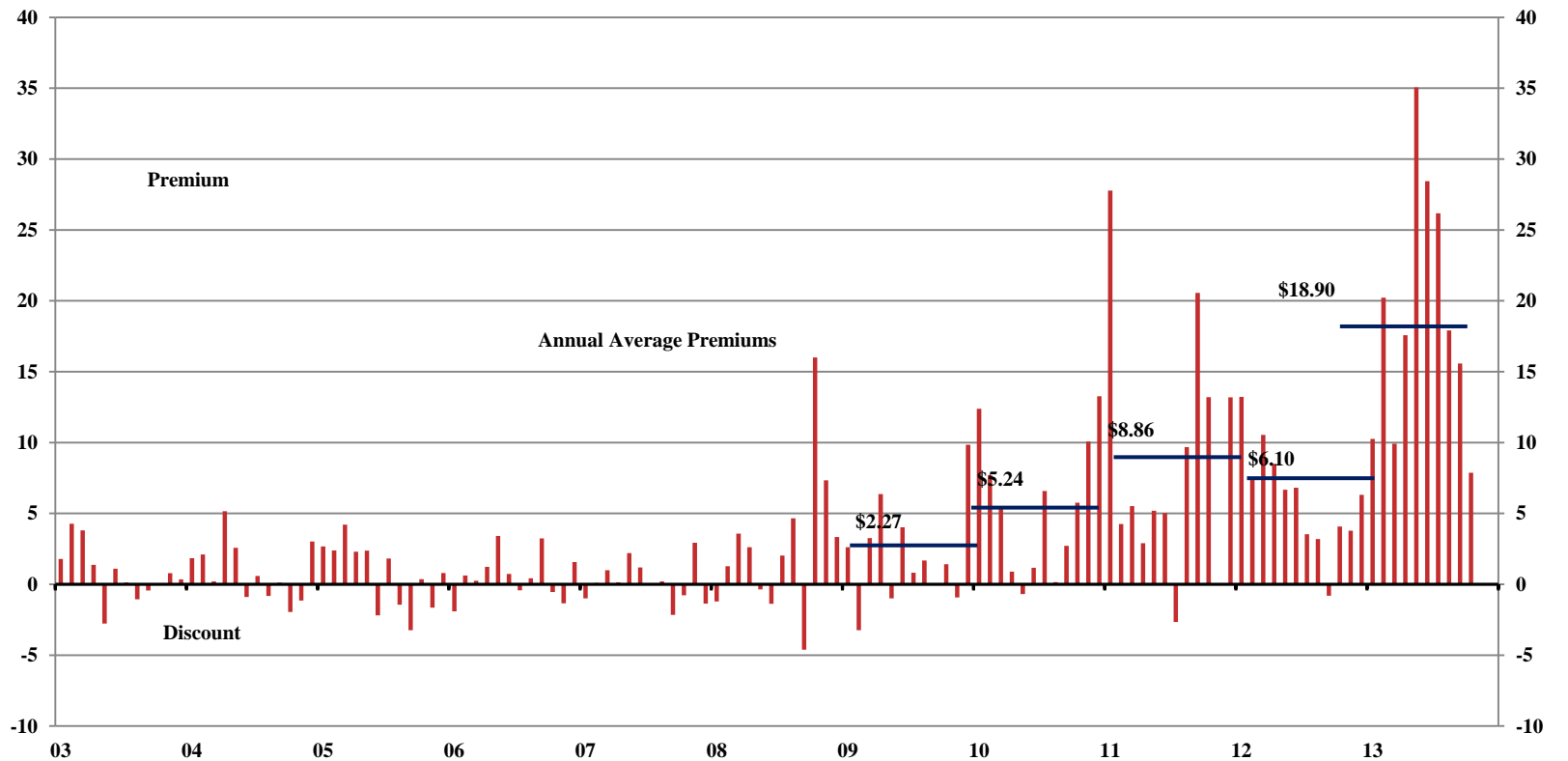
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Spread Between Shanghai and London Gold Prices

Spread Between Shanghai and London Gold Prices

Monthly Average, Through October 30, 2013

\$/oz



Large Comex Gold Trading Volumes In October

Contrary to market commentary:

1. Half of the trades have been heavy buying pushing prices higher; obviously not 'smack-downs.'
2. No single entity but hundreds of algorithmic traders using similar systems generating the same sell points.

Recent Major Intraday Price and Volume Changes

Volume During Time Interval

<u>Date</u>	<u>Time Interval</u>	<u>Stop Logic</u>	<u>Troy Ounces</u>	<u>as % of Total Daily December Contract Volume</u>	<u>as % of Total Daily Aggregate Futures Volume</u>	<u>Price Action during Time Interval</u>	<u>Daily Change in Settlement Prices</u>
17-Oct	4:00 - 4:10	No	1,780,000	8.2%	8.1%	\$33	\$41
15-Oct	9:50 - 10:00	No	1,320,000	6.5%	6.1%	\$11	(\$3)
11-Oct	8:50 - 9:00	20 Seconds	2,810,000	15.1%	14.3%	(\$27)	(\$29)
9-Oct	10:10 - 10:20	No	1,280,000	8.1%	7.8%	(\$10)	(\$17)
7-Oct	9:50 - 10:00	No	1,140,000	11.9%	11.4%	\$11	\$15
1-Oct	8:40 - 8:50	10 Seconds	2,410,000	11.3%	10.9%	(\$24)	(\$40)

Note: Time is military time, EDT.

Sources: Reuters data, CPM Group

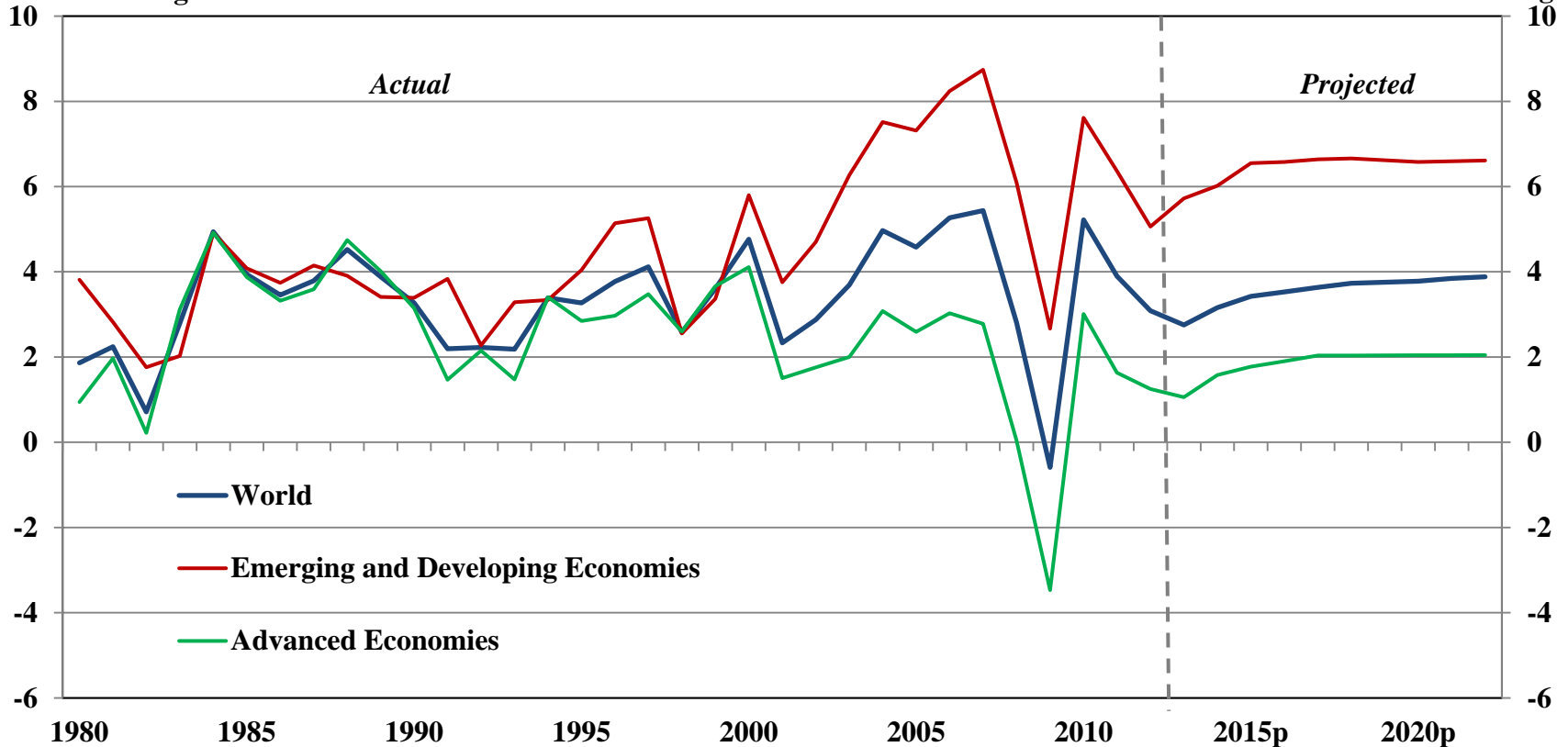
The Economic Outlook

Slower Real Economic Growth Globally Long Term

Real Gross Domestic Product

Annual, Projected Through 2022

Percent Change



Source: IMF, CPM Group

Note: Historical data are IMF statistics. Projections are made by CPM Group. Projections for "Emerging and Developing Economies" are only for BRIC countries, which account for approximately 52.8% of this category. Projections for "Advanced Economies" are only for the U.S., U.K., Eurozone, and Japan. These countries accounted for 82.2% of this category.



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Slowing Chinese Economic Growth: On Target For Government

Chinese GDP

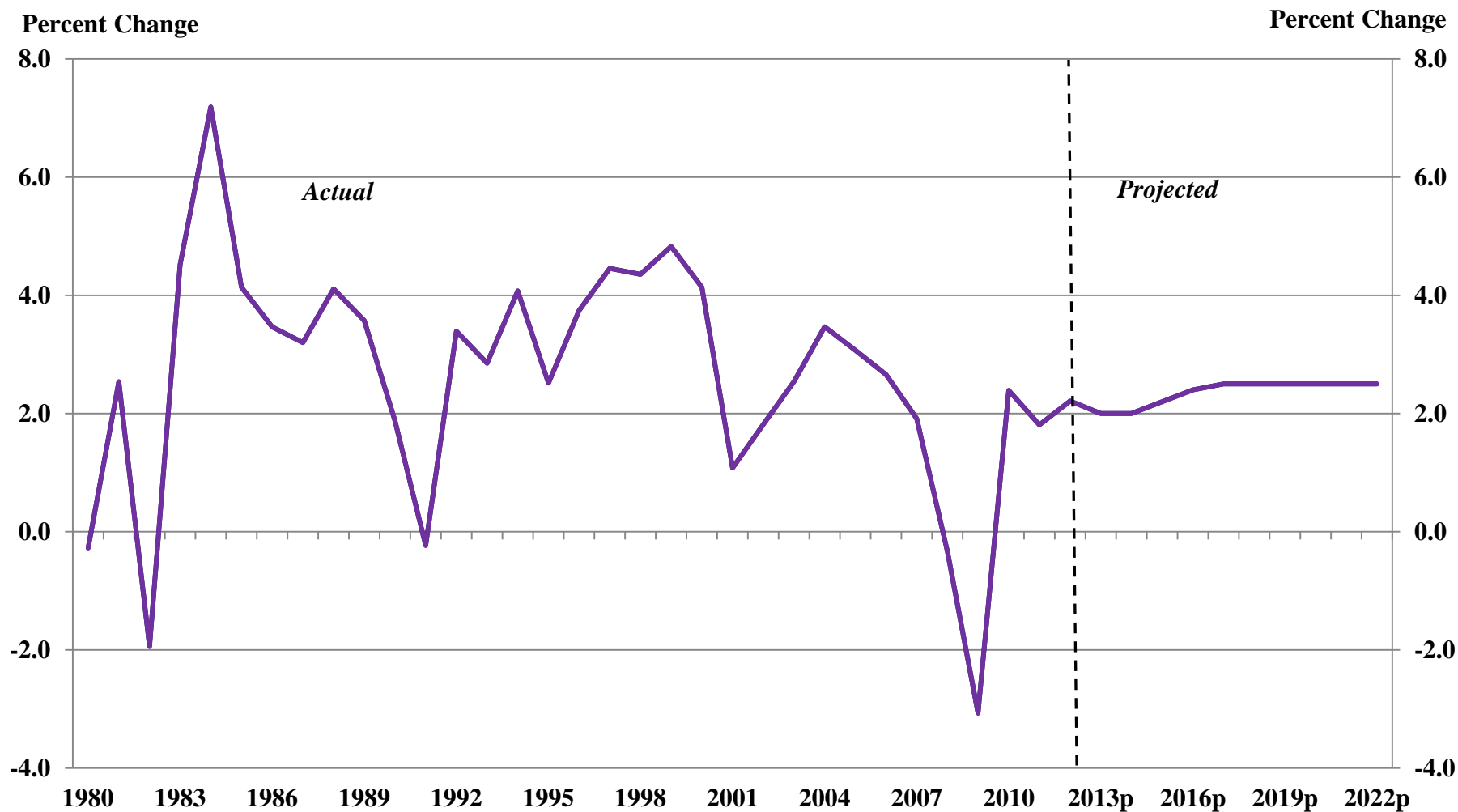
Quarterly Data, Through Q2 2013



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Sub-par Growth in U.S. Real Gross Domestic Product

Annual, Projected Through 2022



Inflation Remains Under Control For Now; Deflation is the Major Risk

Monthly Data, Through August 2013



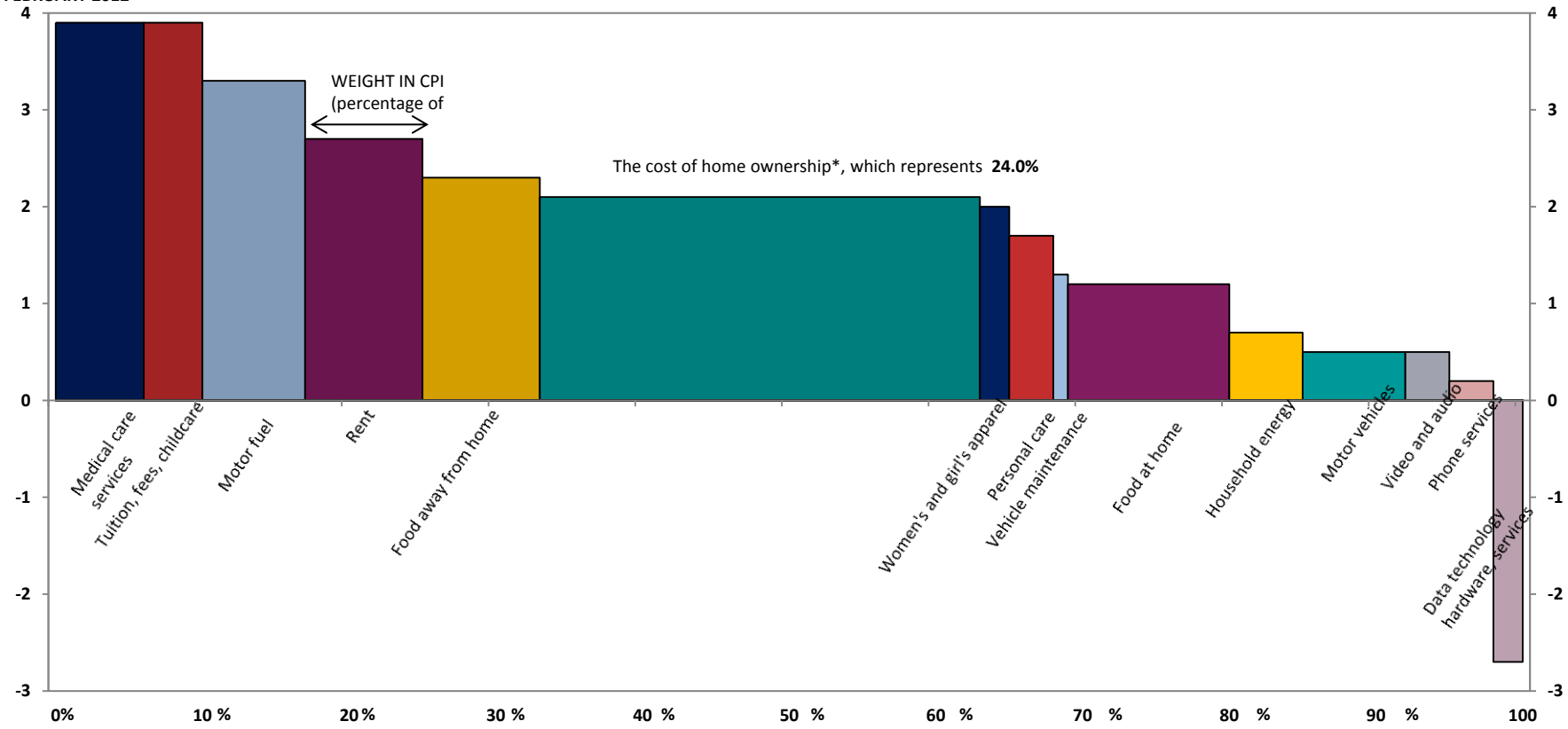
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U.S. Consumer Expenditures, Weighted To Percentage of Spending

Weightings of the components of the consumer price basket

Bar heights measure change from a year earlier in some major areas of spending.

% CHANGE FROM
FEBRUARY 2012



*Measure as the cost of renting the home you own

Source: Labor Depart

Inflation Data Should Be Understood Before It Is Criticized

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Unadjusted 12-mos. ended Sep. 2013
	Mar. 2013	Apr. 2013	May 2013	June 2013	July 2013	Aug. 2013	Sep. 2013	
All items.....	-.2	-.4	.1	.5	.2	.1	.2	1.2
Food.....	.0	.2	-.1	.2	.1	.1	.0	1.4
Food at home.....	-.1	.1	-.3	.2	.1	.1	.0	1.0
Food away from home (1)...	.2	.3	.2	.2	.2	.2	.1	1.9
Energy.....	-2.6	-4.3	.4	3.4	.2	-.3	.8	-3.1
Energy commodities.....	-4.1	-7.9	-.1	5.7	1.0	.0	.9	-7.0
Gasoline (all types)....	-4.4	-8.1	.0	6.3	1.0	-.1	.8	-7.5
Fuel oil (1).....	-2.1	-4.4	-2.9	-.5	1.1	1.2	.9	-3.1
Energy services.....	-.2	1.4	1.2	.1	-1.0	-.7	.8	3.7
Electricity.....	-.6	.5	.8	.2	-.3	-.1	.5	3.2
Utility (piped) gas service.....	1.0	4.4	2.4	-.4	-2.8	-2.3	1.8	5.3
All items less food and energy.....	.1	.1	.2	.2	.2	.1	.1	1.7
Commodities less food and energy commodities....	-.1	.0	.0	.2	.0	.0	-.1	-.1
New vehicles.....	.1	.3	.0	.3	.1	.0	.2	1.2
Used cars and trucks....	1.2	.6	-.1	-.4	-.4	-.1	.0	.4
Apparel.....	-1.0	-.3	.2	.9	.6	.1	-.5	.8
Medical care commodities	.1	.1	-.5	.5	.4	.4	.1	.2
Services less energy services.....	.2	.1	.2	.2	.2	.2	.2	2.4
Shelter.....	.2	.2	.3	.2	.2	.2	.2	2.4
Transportation services	.2	-.2	.4	-.1	.4	-.5	.3	2.4
Medical care services...	.3	-.1	.0	.4	.1	.7	.3	3.1

1 Not seasonally adjusted.

Global Surplus of Labor Is A Major Impediment to Growth

U.S. Unemployment; Monthly Data, Through August 2013

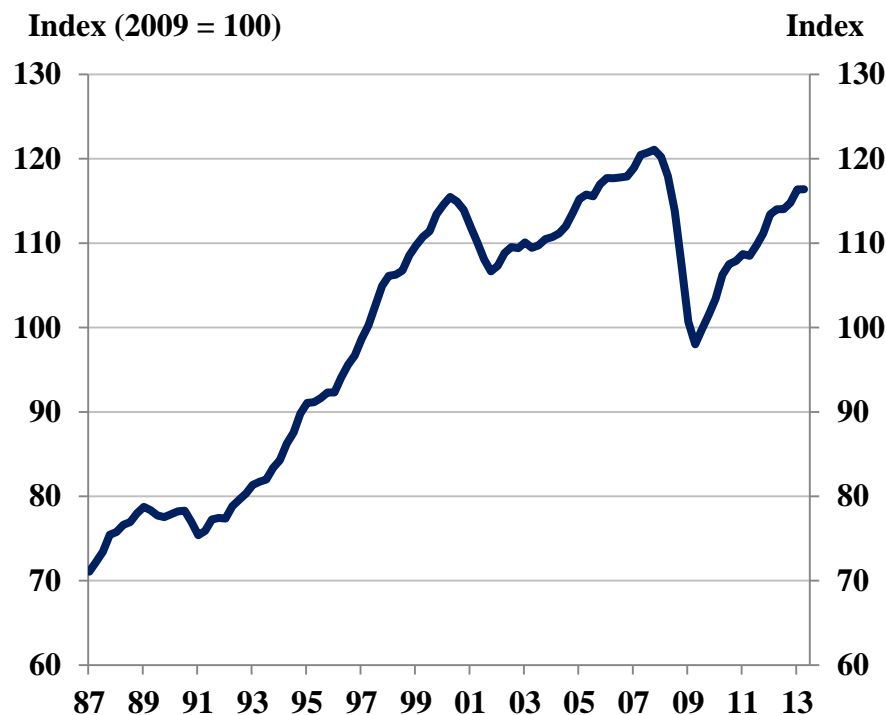


Surplus Labor Will Be A Major Global Problem Now and Going Forward

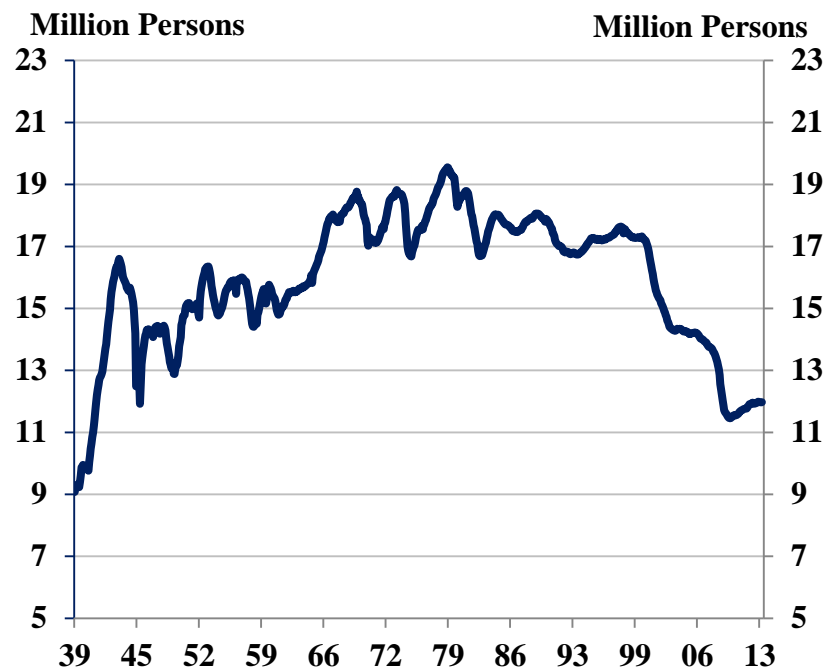
The U.S. manufactures 51% more today than it did in the late 1980s, but uses 34% fewer workers. More jobs have been lost to computers than to off-shoring.

The next wave of technological innovation will be even more devastating to jobs, replacing computer-assisted manufacturing with computerized manufacturing. It already has begun.

U.S. Manufacturing Output



U.S. Manufacturing Employment



The Outlook For Gold

Gold Prices

Nearby Active Comex Gold Futures High, Low, and Settlement Prices

Daily, Through 10 October 2013



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The Outlook for Gold

Gold prices have fallen to what CPM Group sees as a base. Prices may consolidate for a couple of years around \$1,300 - \$1,400 on an annual average basis, and may not fall much further.

For prices to fall further economic conditions would have to improve dramatically more, which we do not see happening.

For prices to rise more forcefully than we envision, economic conditions would have to deteriorate very sharply. This seems more possible than stronger than expected growth.

Mine production continues to rise, but the growth expectations have been cut in half by lower gold prices and investor disenchantment with gold mining companies.

Secondary supply has fallen sharply as prices declined – 17% in 2013 alone.

Investors have sharply reduced their gold buying. Still high, net purchases are off 25% in 2013.

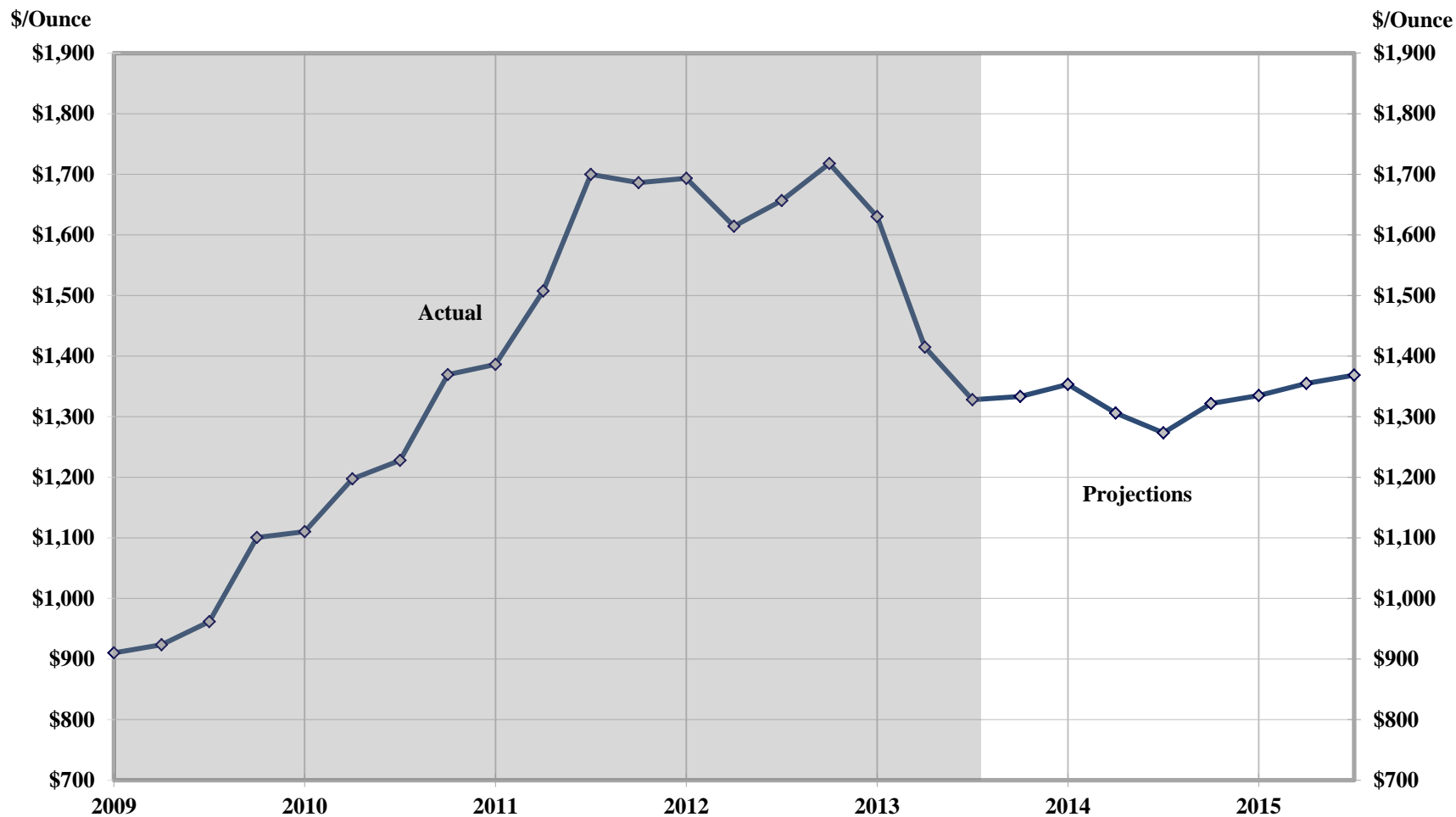
Those few **central banks** that were buying gold have pulled back on purchases, waiting to see how low prices will fall.

Fabrication demand is rising modestly in line with lower gold prices and slow economic recovery.



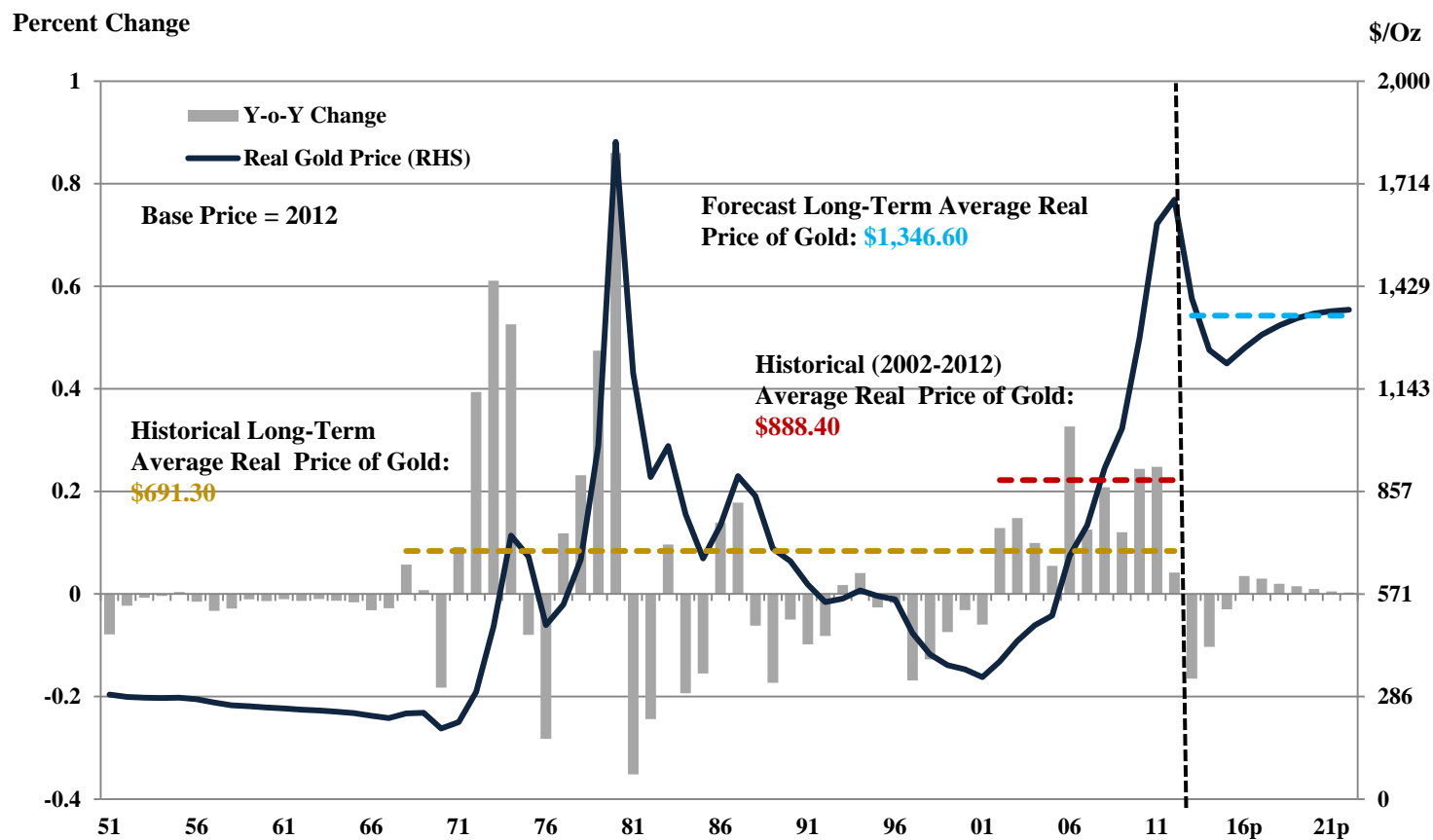
Medium-Term Gold Price Projections

Quarterly Data, Through Q3 2015



CPM Group's Long-Term Real Gold Price Projections

Real Gold Prices and Year-on-Year Change in Prices



Monetary Supply, Inflation and Gold

Monetary Ease Does Not Necessarily Lead to Inflation and High Gold Prices

- **Monetary accommodation does not *necessarily* leads to inflation.**
- **Gold prices do not inevitably have to rise due to monetary accommodation.**
- **Gold prices do not necessarily rise and fall in response to inflation.**
- **There are no fixed quantifiable relationships between gold prices and money supply (e.g. ‘gold prices should be \$10,000 per ounce because of the level of M1 money supply in the United States).**

Which money supply do you want to use? M1, M2, MZM? US, OECD, World?

The 40% cover of classic gold standards.

Historical statistics do not support such beliefs. They are not theories, but beliefs.

- **Gold does not have a constant purchasing power over time. In fact, it is worth a fraction of what it used to be worth.**



What About Tapering?

The Fed may institute a very small movement toward limited reductions in the size of its monthly bond purchases in early 2014. **It will not do this as long as the political impasse between the Republican controlled House of Representatives and the White House no longer threatens the U.S. and global economies with a recession worse than the one in 2007 – 2009.** It also will not do it unless and until it sees somewhat stronger economic growth backed by sustainable trends.

- Housing market strength is not sustainable at present.
- Equity market strength is meaningless to economic conditions, and actually is indicative of future weak economic conditions.
- The labor market is not in good shape by any standard.

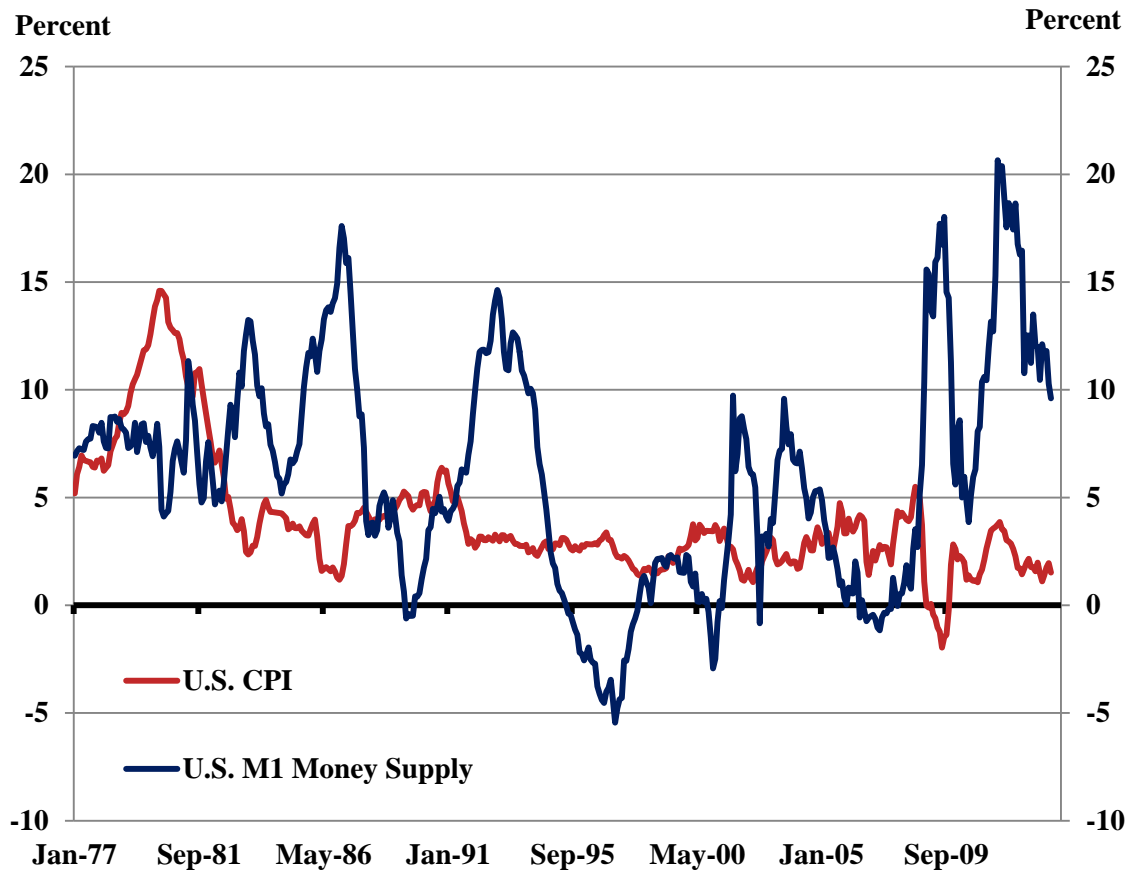
The Fed most likely will not begin any **significant** tapering until the economy is much stronger.

Significant tapering only will occur at some point in the future when the economy is in such a strong shape that it begins to show signs of nascent inflation. Only when the economy is strong enough to support itself and is consequently showing signs of future inflation will the Fed significantly tighten monetary policy.

U.S. Narrow Money Supply Does Not Necessarily Cause Inflation

M1 Money Supply and U.S. Inflation

Monthly Data, through August 2013



Correlation

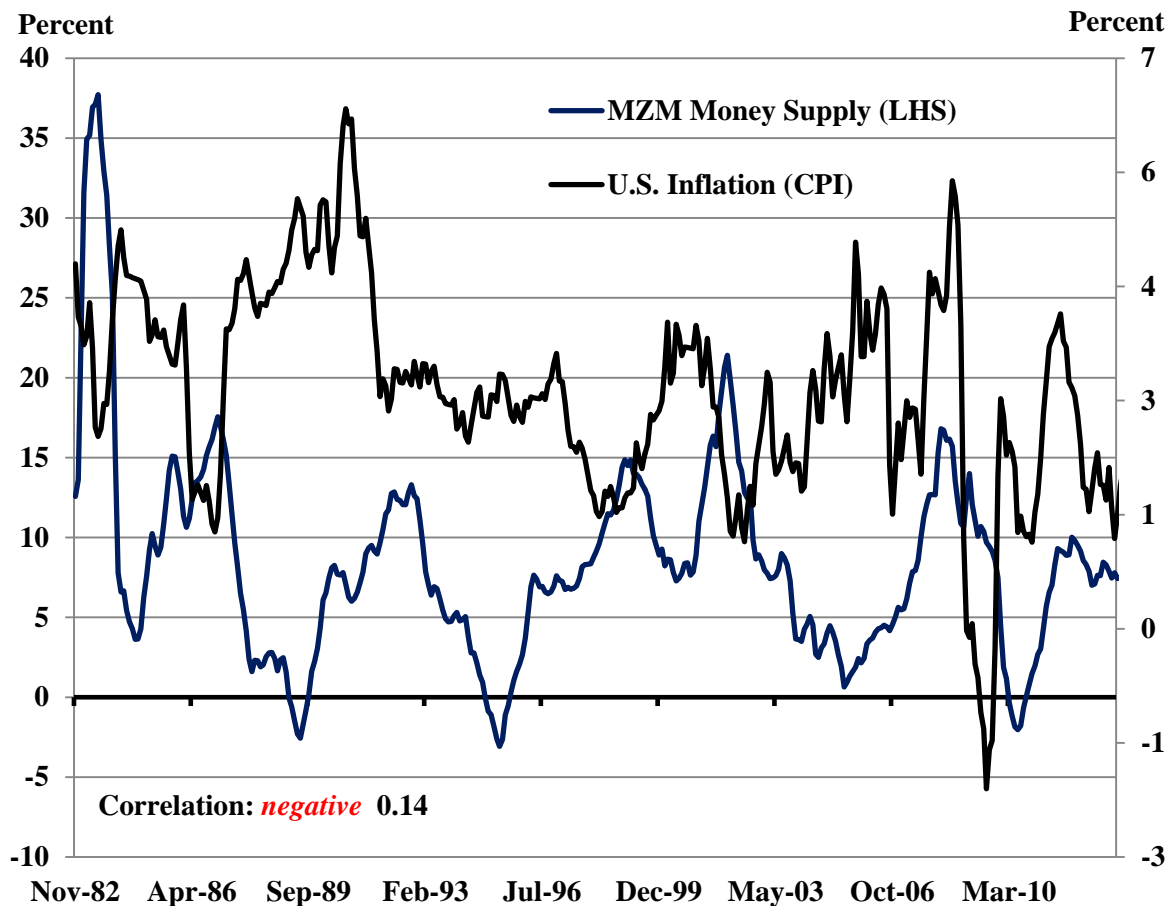
Time Lag	Correlation
No lag	-0.04
One Year Lag	0.10
Two Year Lag	0.24



Excessive Money Supply Does Not Necessarily Lead to Higher Inflation

MZM Money Supply and U.S. Inflation

Monthly Data, through August 2013



Correlation

Time Lag	Correlation
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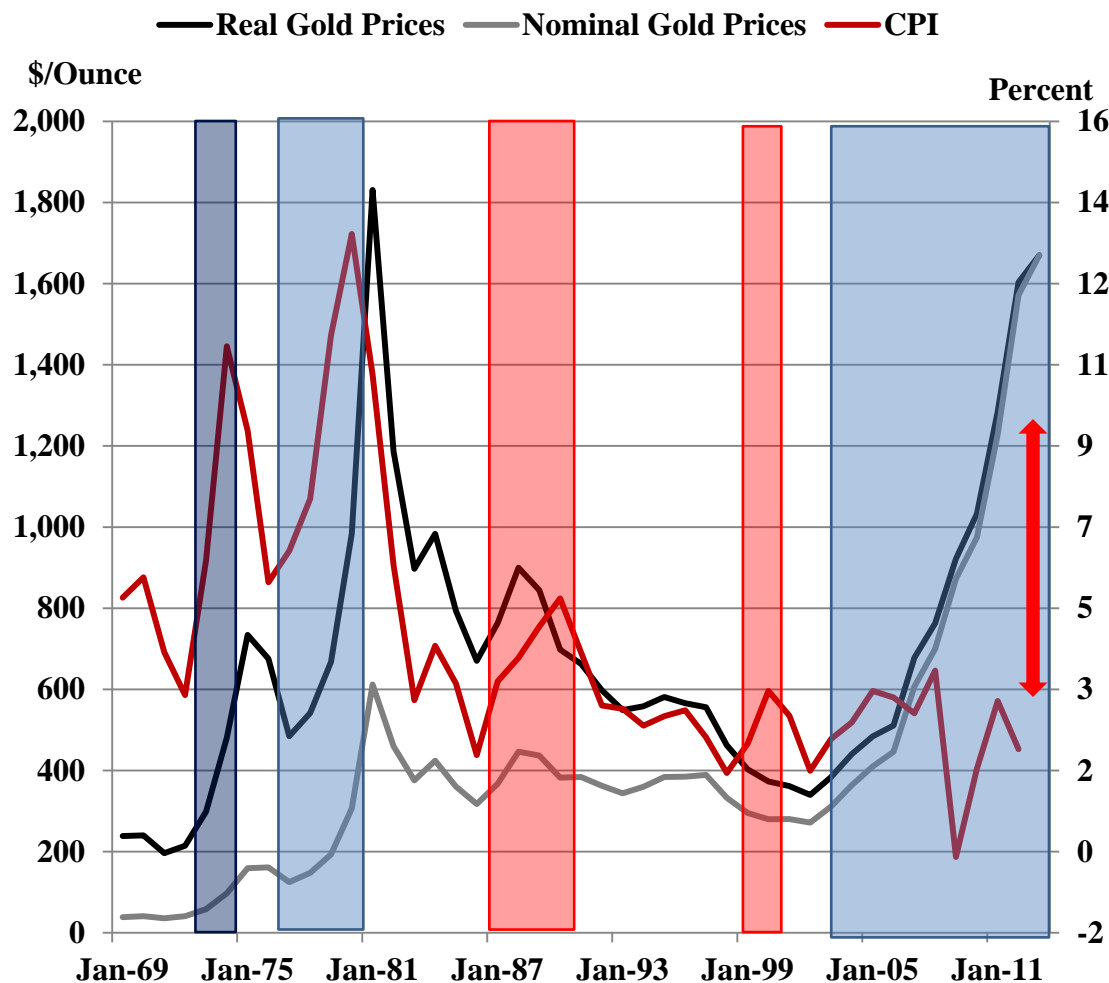
No lag	-0.14
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One Year Lag	-0.12
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Two Year Lag	0.02
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Gold Prices and U.S. Inflation



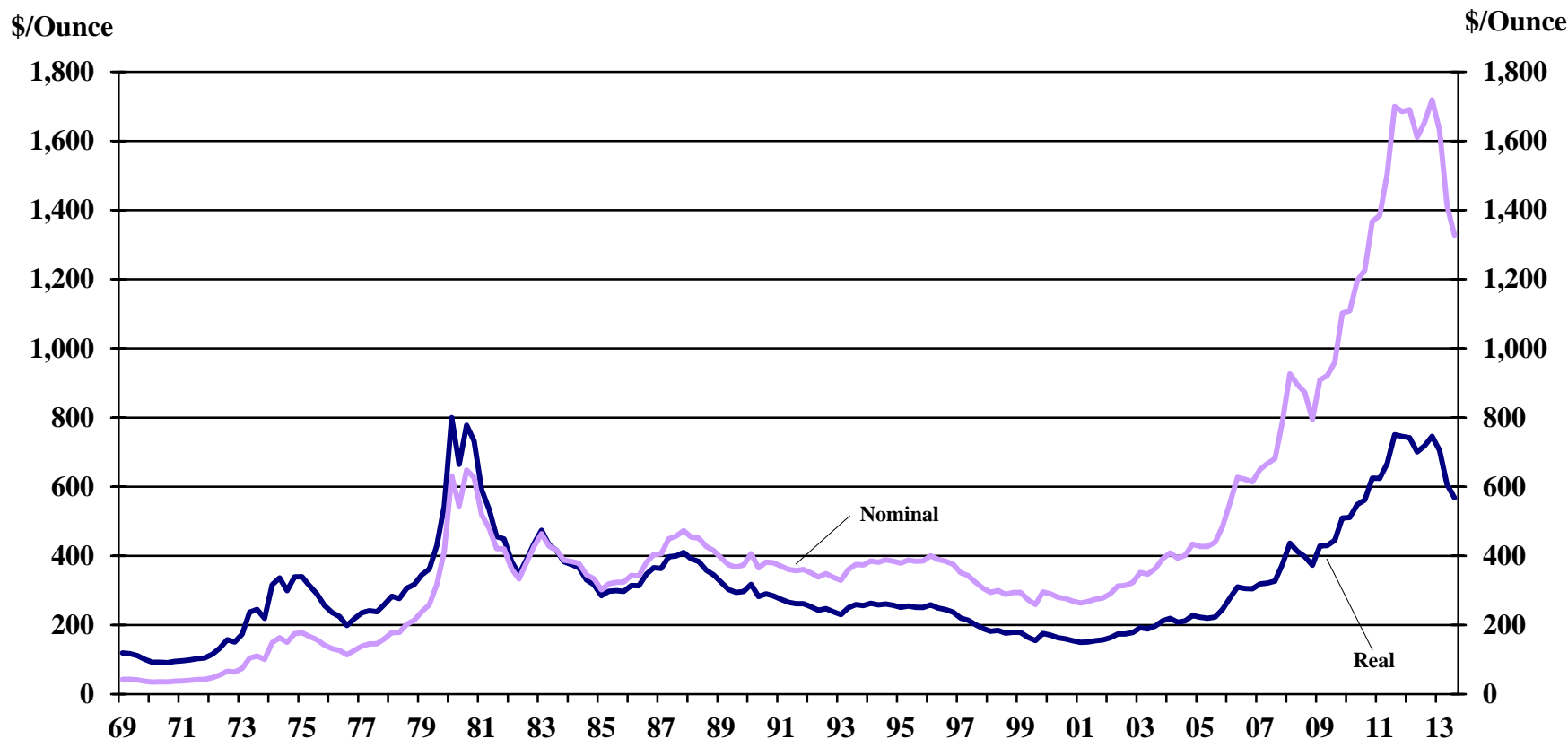
Correlation: Gold with Inflation

Year	Real Gold Prices	Nominal Gold Prices
68-12	0.33	0.43
72-74	0.49	0.70
76-80	0.95	0.96
86-90	-0.73	-0.69
98-00	-0.93	-0.77
02-12	0.24	0.36
68-82	0.40	0.46
84-00	-0.25	-0.15

Gold's Purchasing Power Is Neither Constant Nor Stable

Real and Nominal Gold Prices

Quarterly, Through Third Quarter 2013



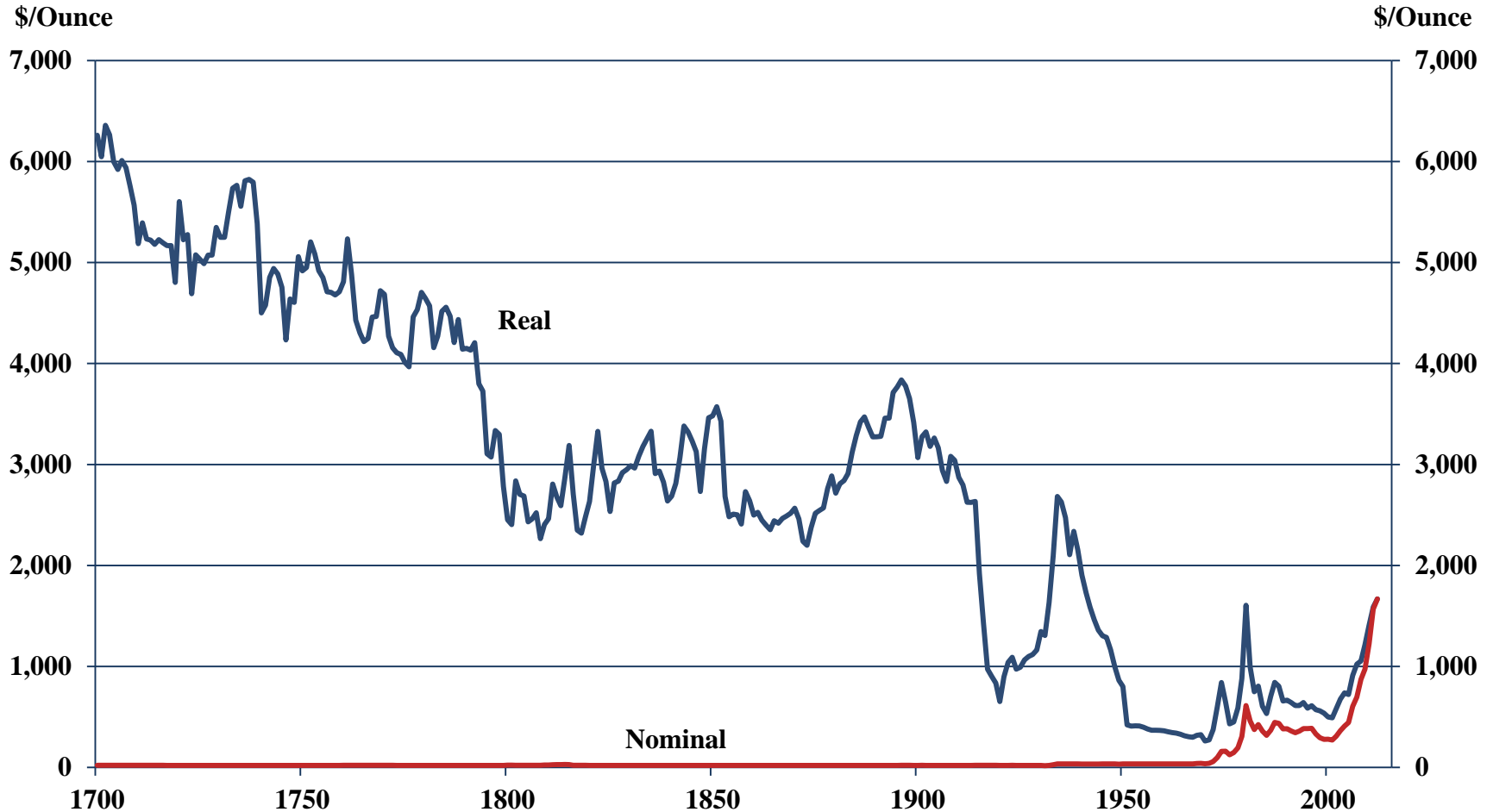
Note: Base years are 1982-84, which are the same base years as reported U.S.CPI.



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Gold's Purchasing Power Has Deteriorated Over Time

London Gold Prices since 1700, *Base Year = 2012*



Source: The Gold Constant, CPM Group



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Gold Standards Do Not Work

Gold Standards Do Not Work

Most of the monetary systems throughout history have been backed either by gold or silver, or both metals.

All of them have failed, despite their gold or silver backing.

None of them protected against deterioration of currency values.

None of them protected against inflation and economic volatilities.

The only international currency regime that has not failed is the current one.
It too shall pass away at some point.

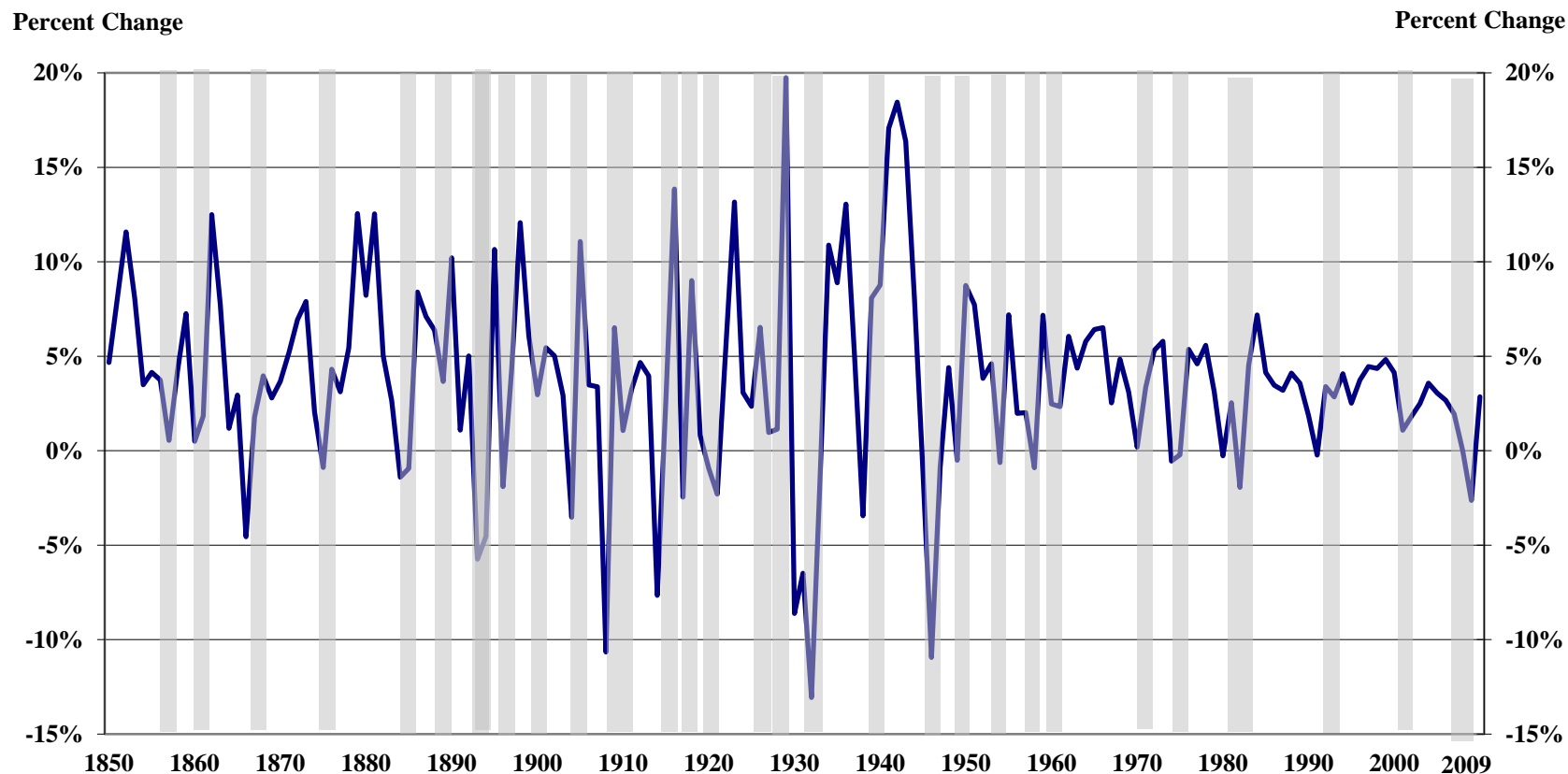
There is no alternative to the *de facto* dollar reserve currency system on the immediate horizon.

Some Chinese theorists are speaking of a dirty floating exchange rate system based on a new global reserve currency, like the IMF's Special Drawing Rights created in the 1970s. **They are calling this new global reserve currency 'paper gold,' but it has no gold backing or relationship to gold in their views.**



The Economy Was More Volatile in the Good Old Days

*U.S. real GDP: 1850 – 1919, 16 recessions, 22 month average length;
1945 – 2009, 11 recessions, 10 months average length*

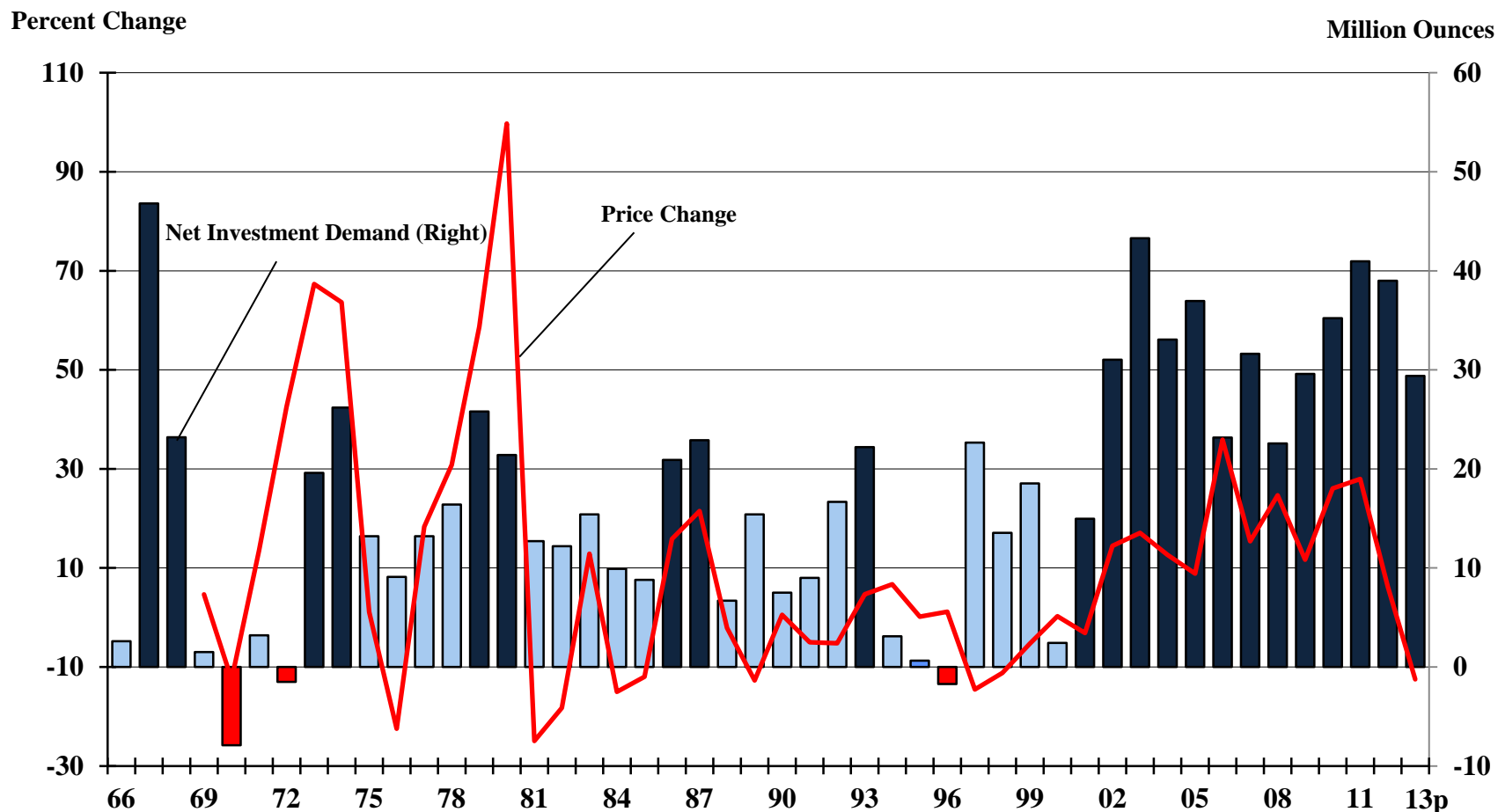


Gold Investment Demand

Investors Physical Gold Purchases Are Sharply Lower

Investment Demand's Effect on Gold Prices

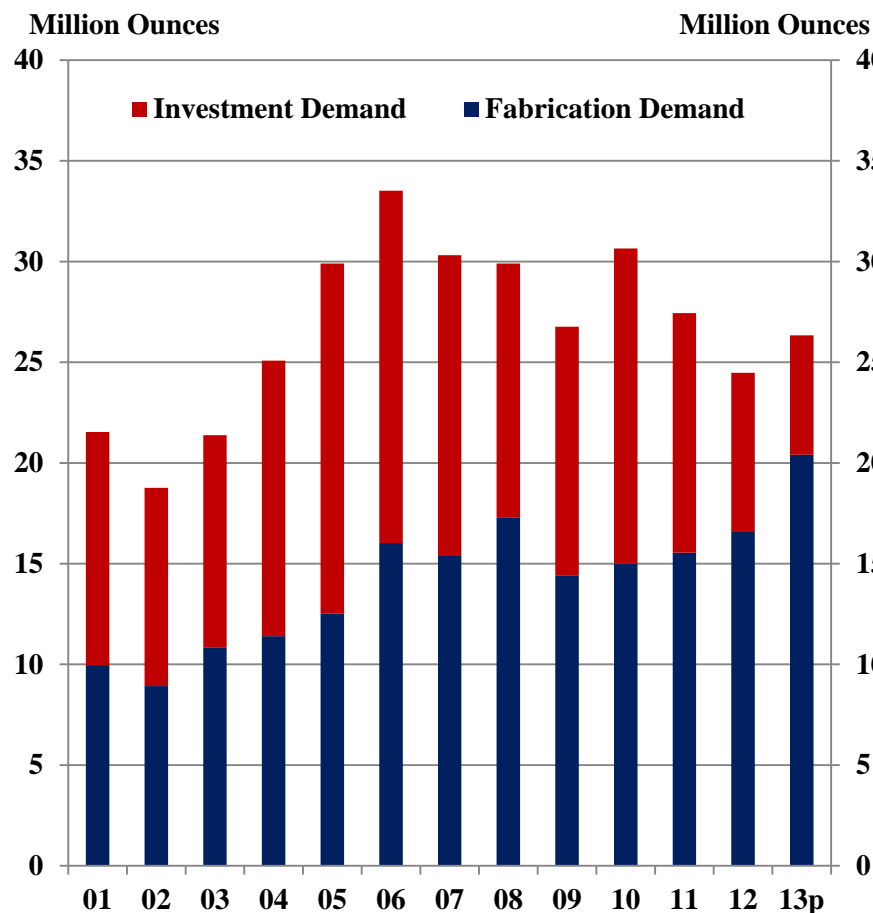
Price Change Through 10 October 2013



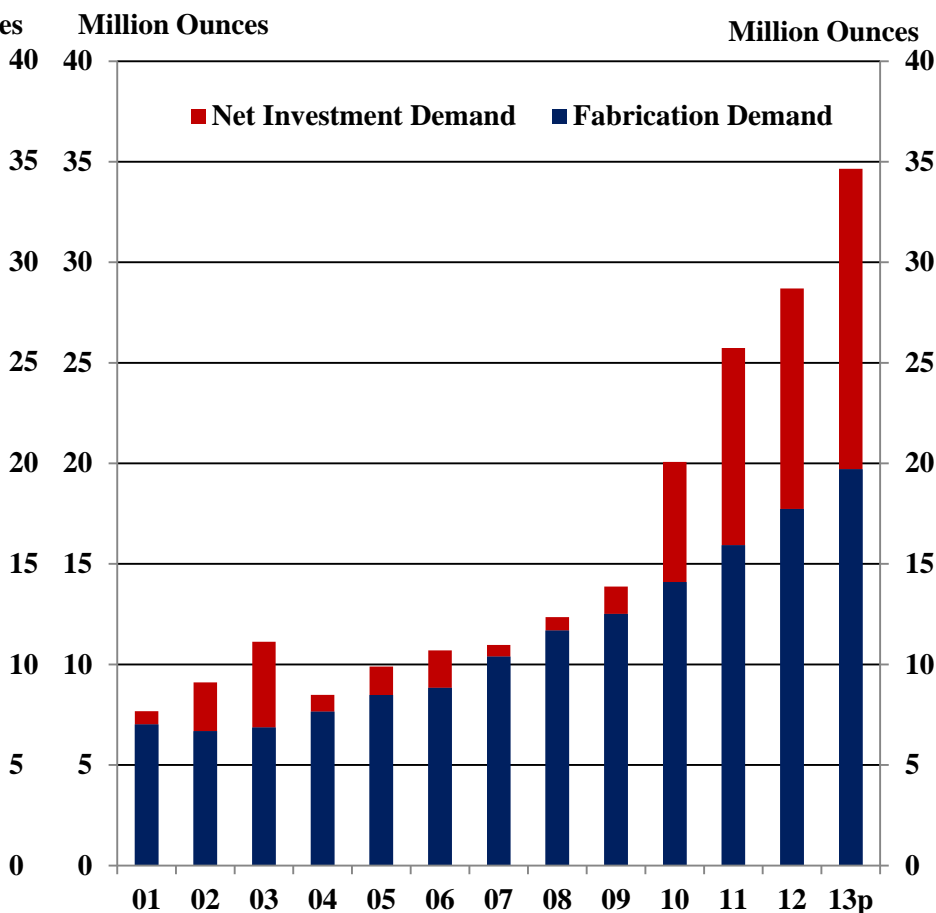
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Gold Demand Is Up In China and Weak In India

Total Indian Demand

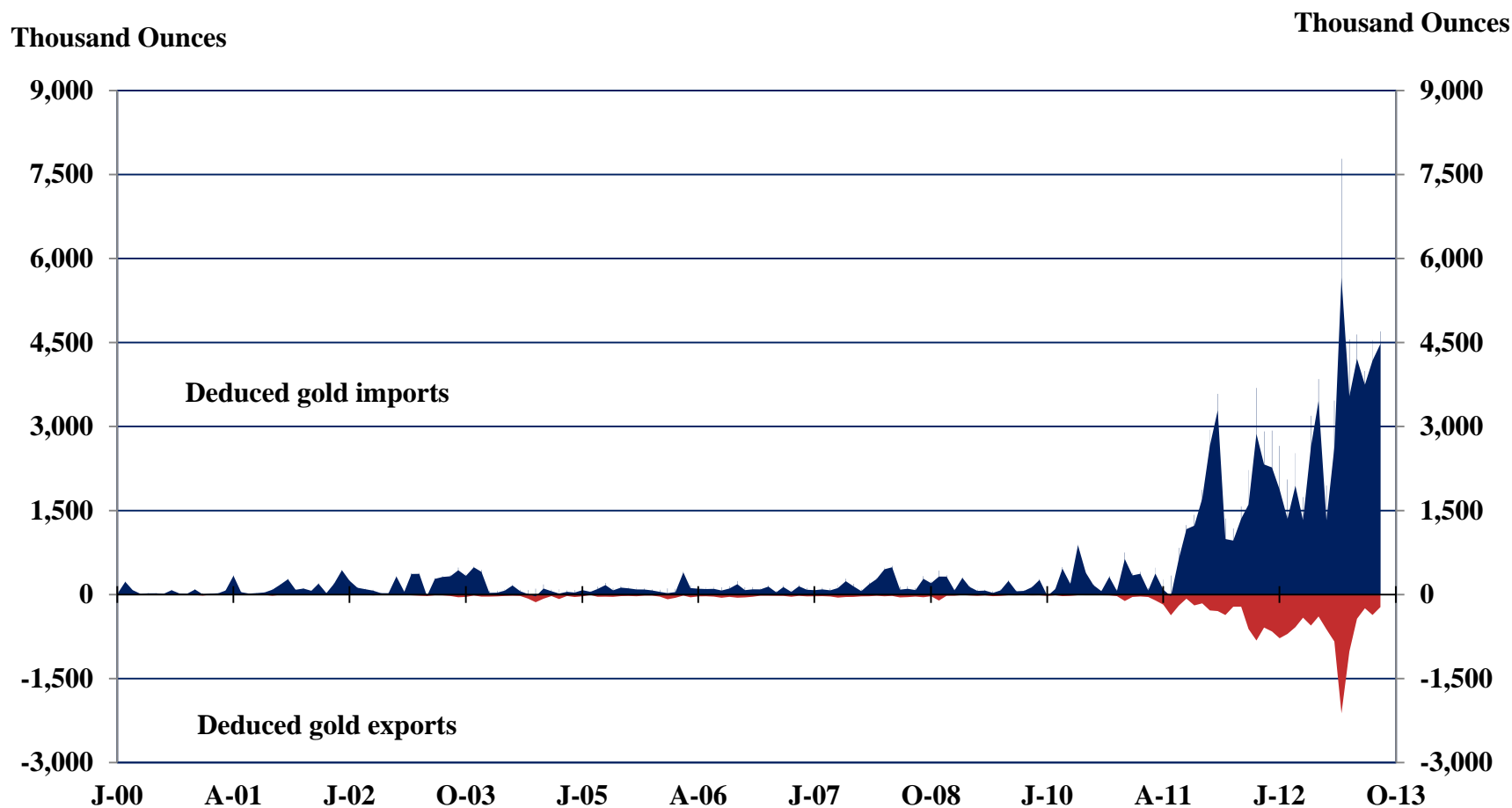


Total Chinese Demand



Deduced Chinese Gold Imports and Exports

Monthly Data, Through August 2013

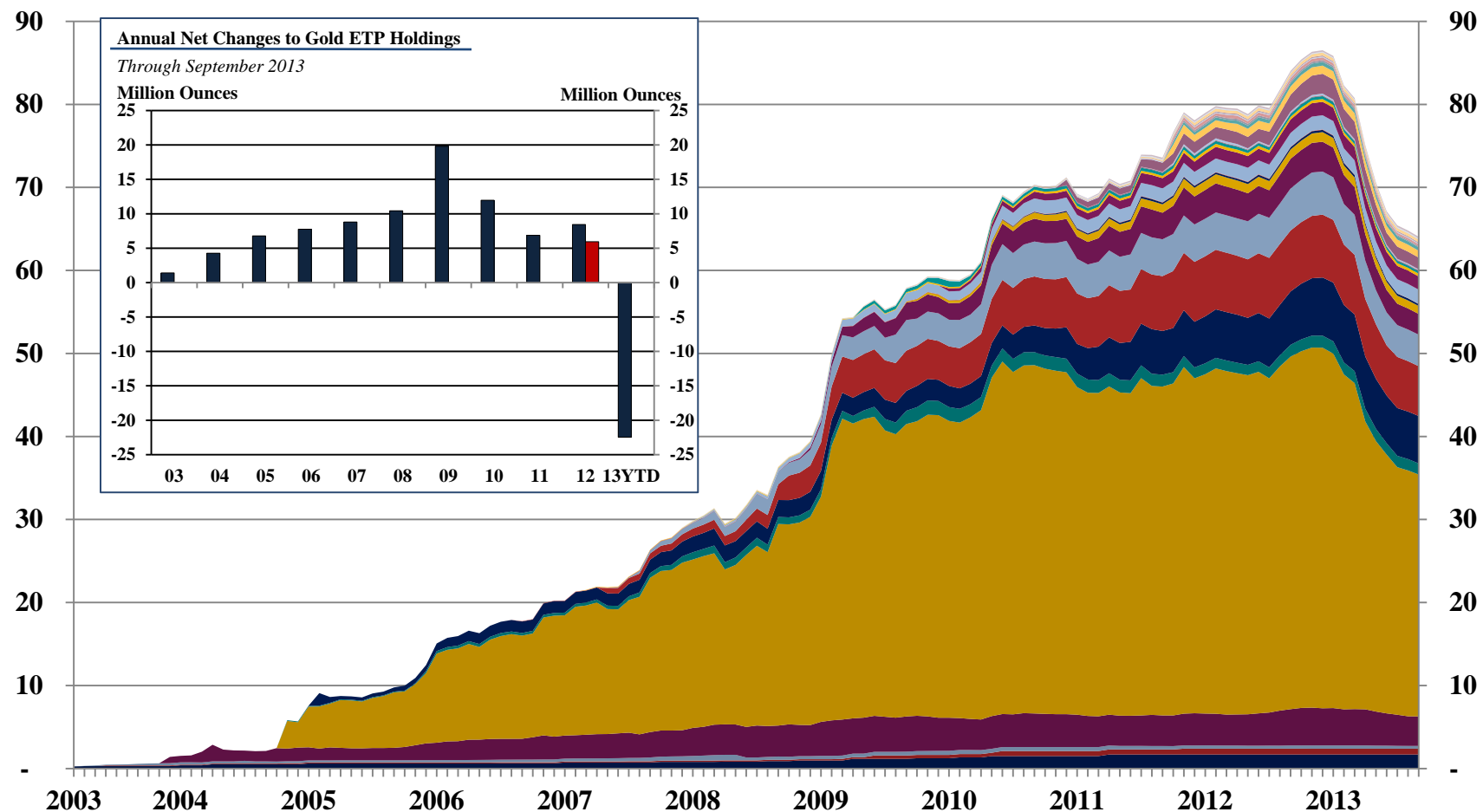


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Gold ETFs: Easy To Buy, Easy To Sell

ETF Gold Holdings Through 30 September 2013

Million Ounces

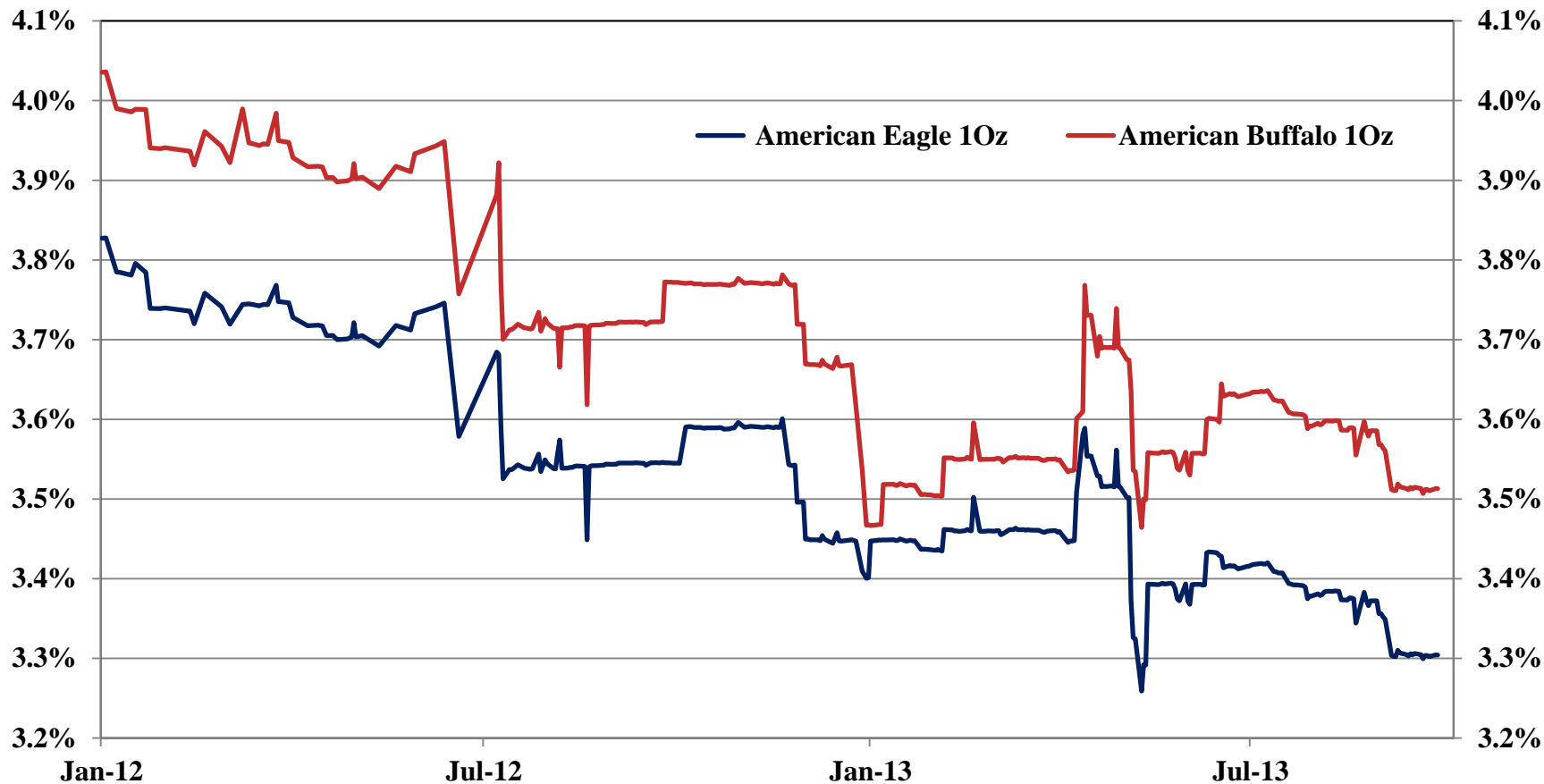


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Weak Premia on U.S. Mint Gold Coins

Premia on U.S. Mint Gold Coins

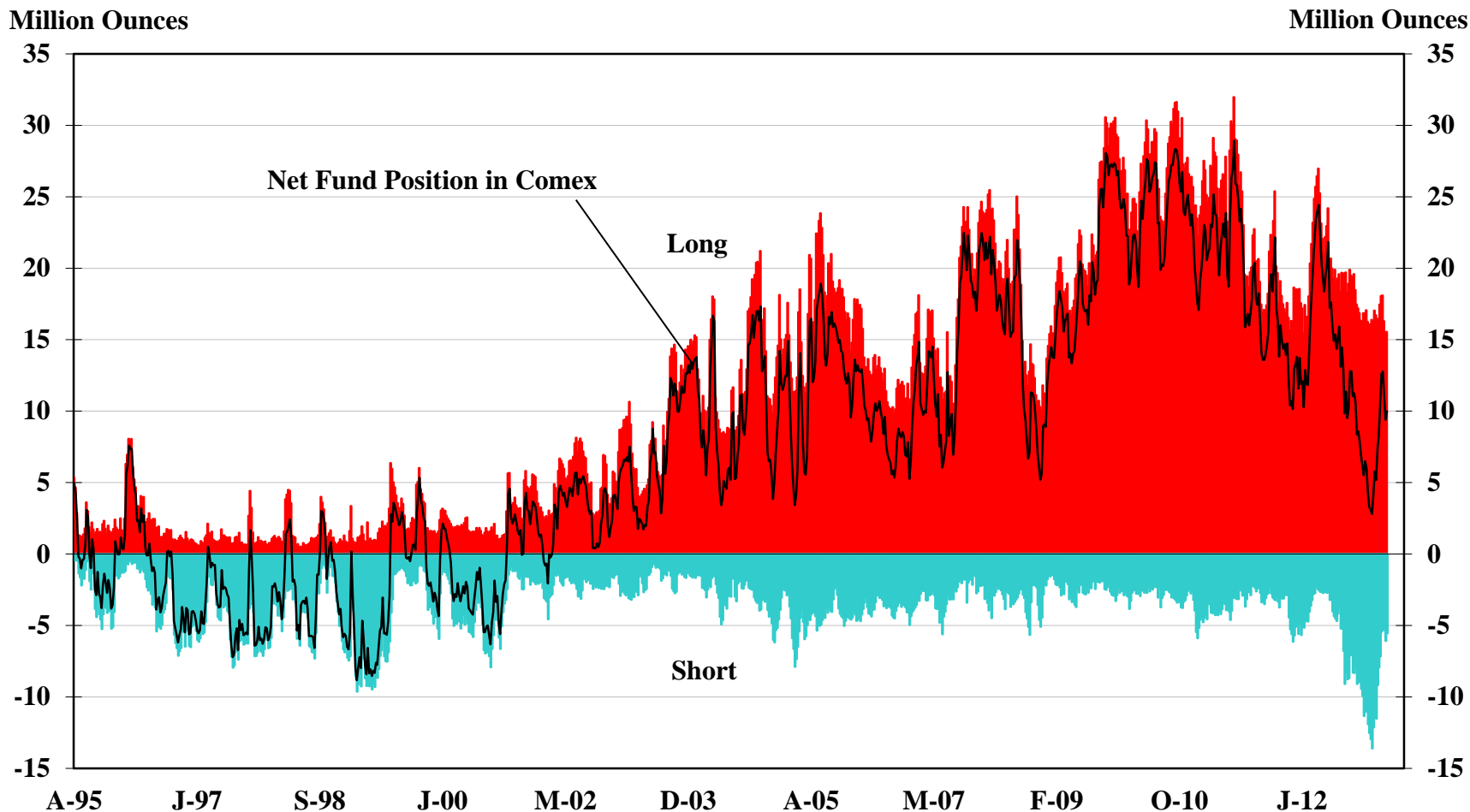
Daily data through 8 October 2013



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Record Investor Short Positions on Comex Earlier in 2013

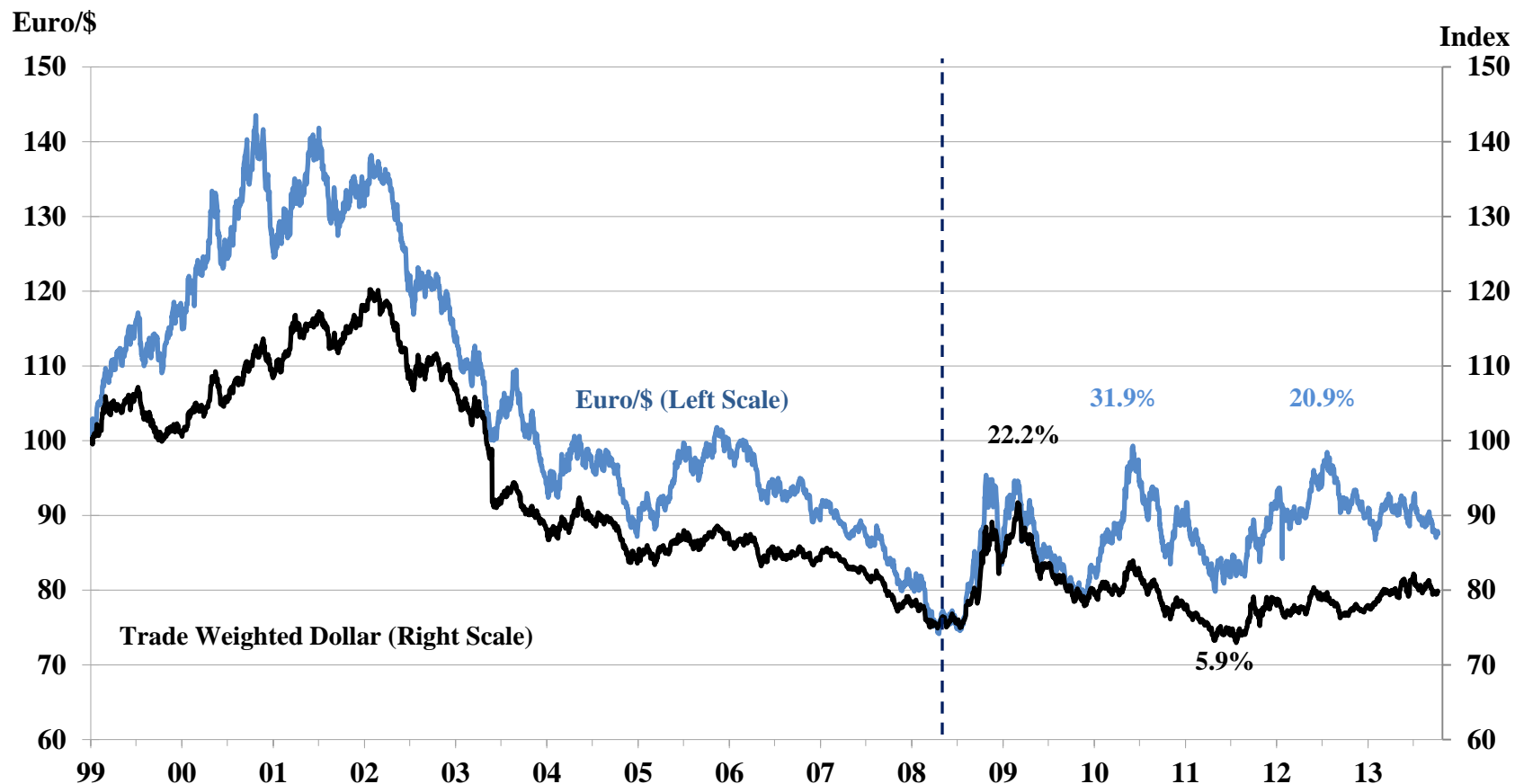
Non-Commerical Positions in Comex Gold Futures & Options. Weekly Data, through 24 September 2013



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The U.S. Dollar Is Not Imploding

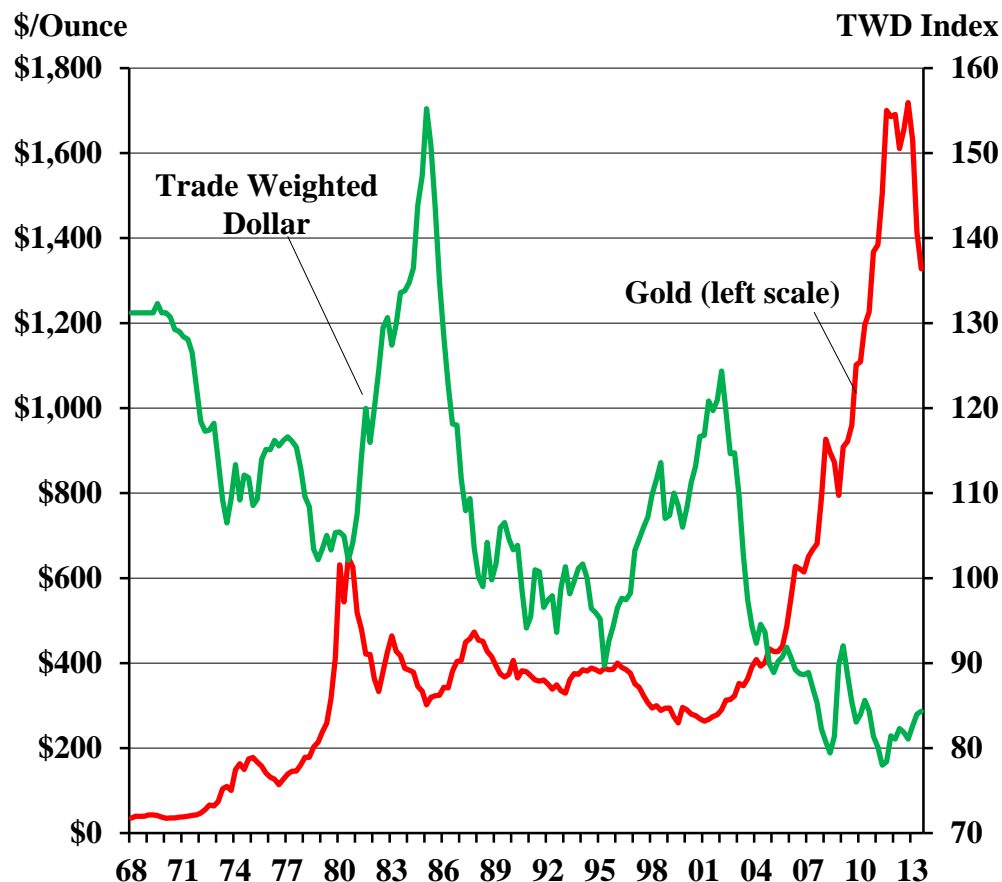
Euro/ U.S. Dollar and J.P. Morgan Trade Weighted U.S. Dollar
Daily, Through 10 October 2013



Longer Term The Dollar Is Falling... Which Means Little To Gold

Gold and the U.S. Dollar

Quarterly, Through Third Quarter 2013



Correlation Of The Trade Weighted U.S. Dollar To Gold

Q1 1968 – Q3 2013 -0.32

Q4 1976 – Q3 1977 0.96 Both Rising

Q3 1982 – Q1 1983 0.98 Both Rising

Q1 1986 - Q4 1990 -0.47

Q1 1998 - Q4 2000 -0.52

Q1 2002- Q3 2013 -0.40

Q1 2005 - Q4 2005 0.54 Both Rising



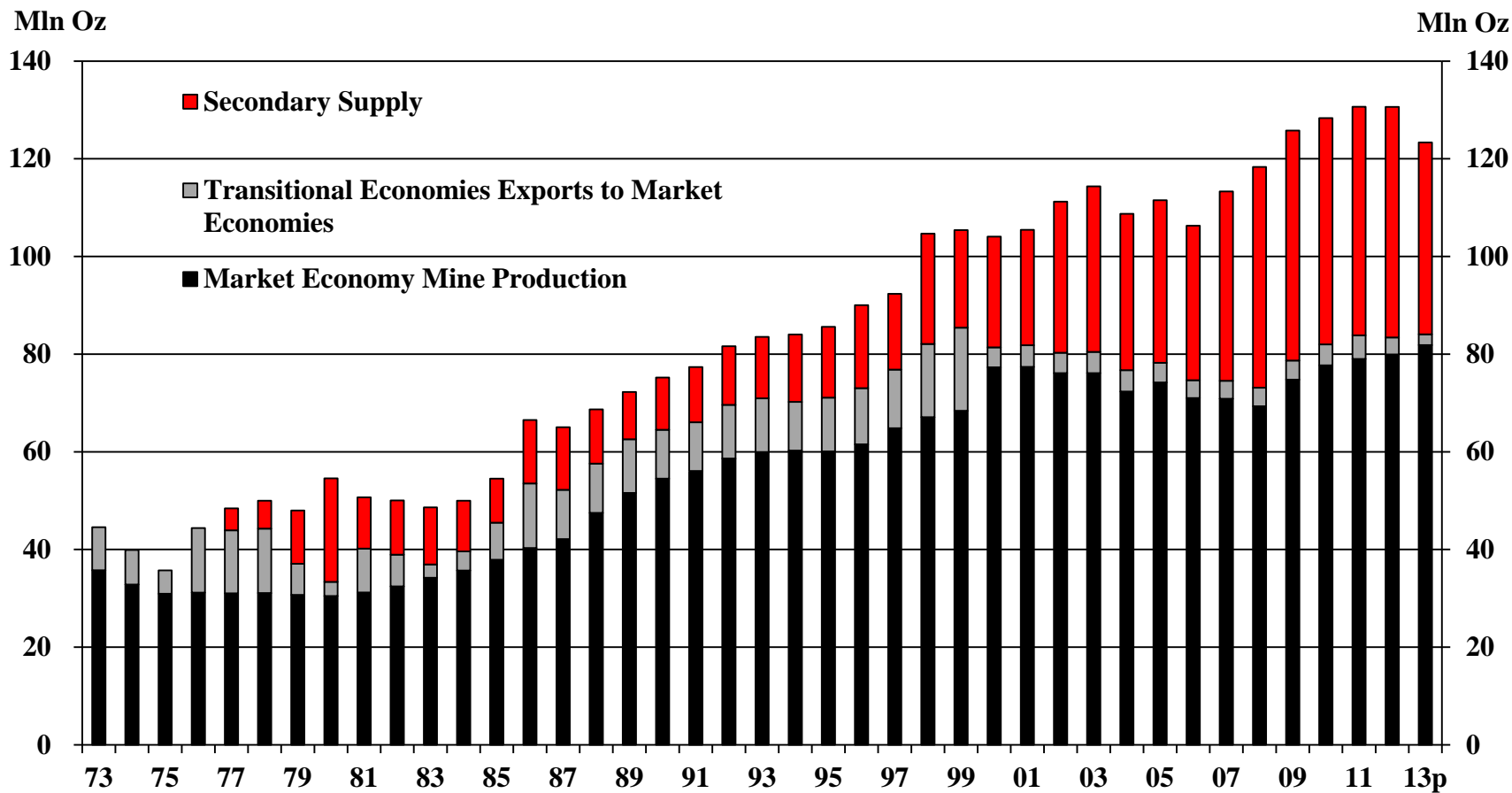
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Gold Supply

Total Supply Declining, But Mine Production Is Rising

Total Gold Supply

Annual, Projected Through 2013



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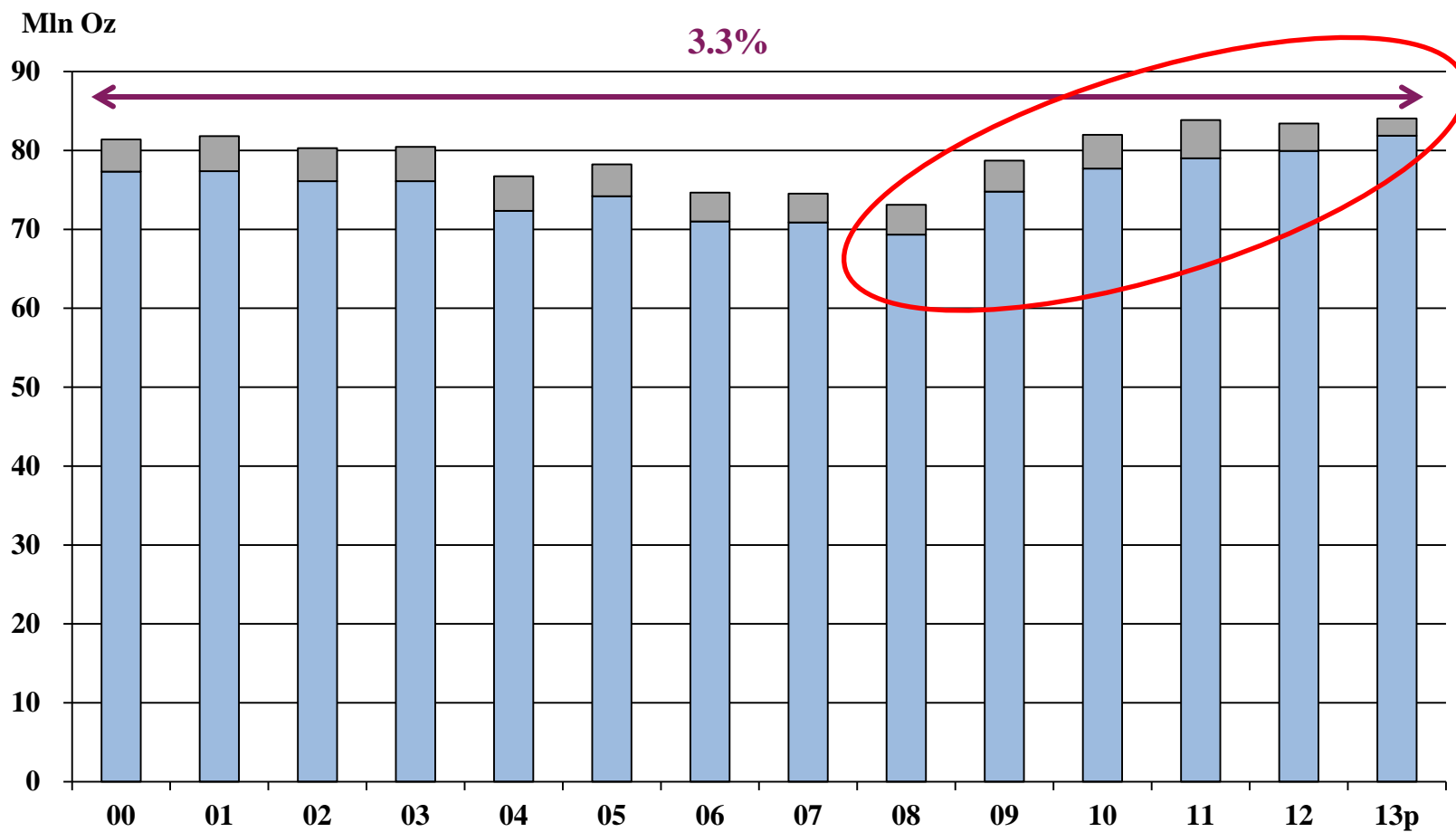
Gold Mine Supply In Fact Was Flat Between 2000 and 2012

Total Gold Mine Supply

Annual, Projected Through 2013

■ Transitional Economies Exports to Market Economies

■ Market Economy Mine Production

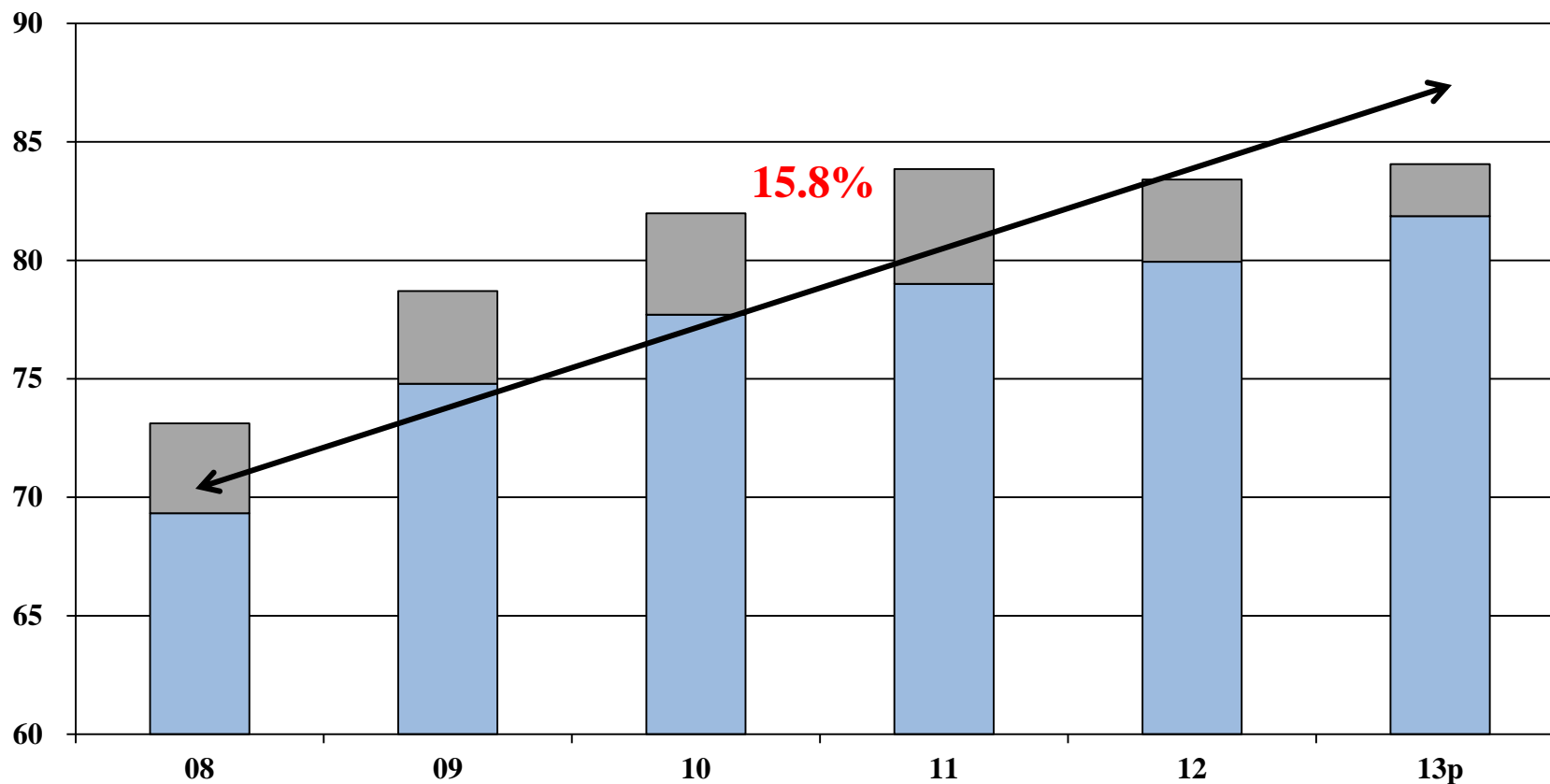


It Has Risen More Than 11 Million Ounces Since 2008

Total Gold Mine Supply
Annual, Projected Through 2013

Mln Oz

■ Transitional Economies Exports to Market Economies
■ Market Economy Mine Production

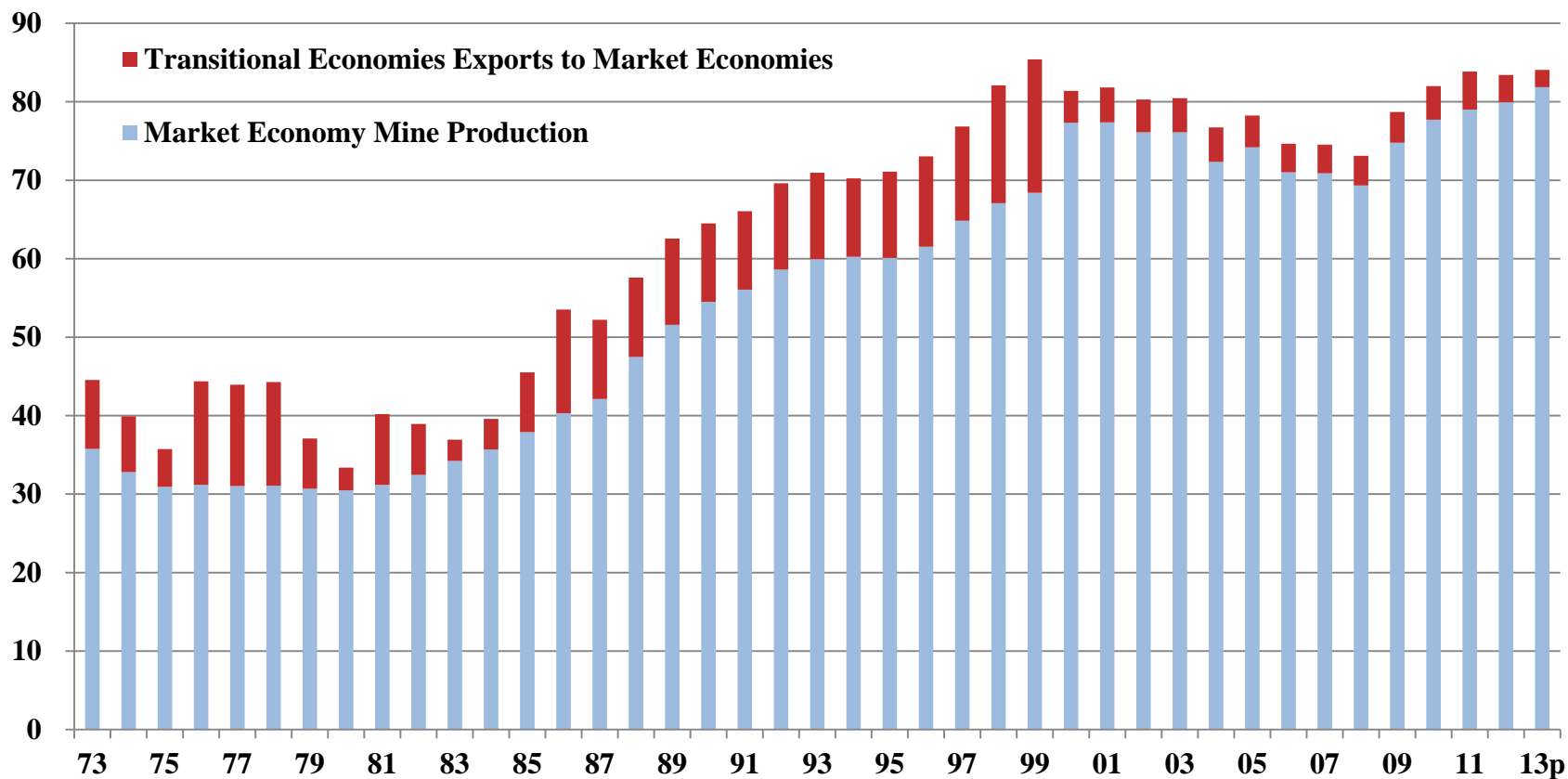


Mine Supply Is Forecast To Be The Second Highest On Record in 2013

Total Gold Supply

Annual, Projected Through 2013

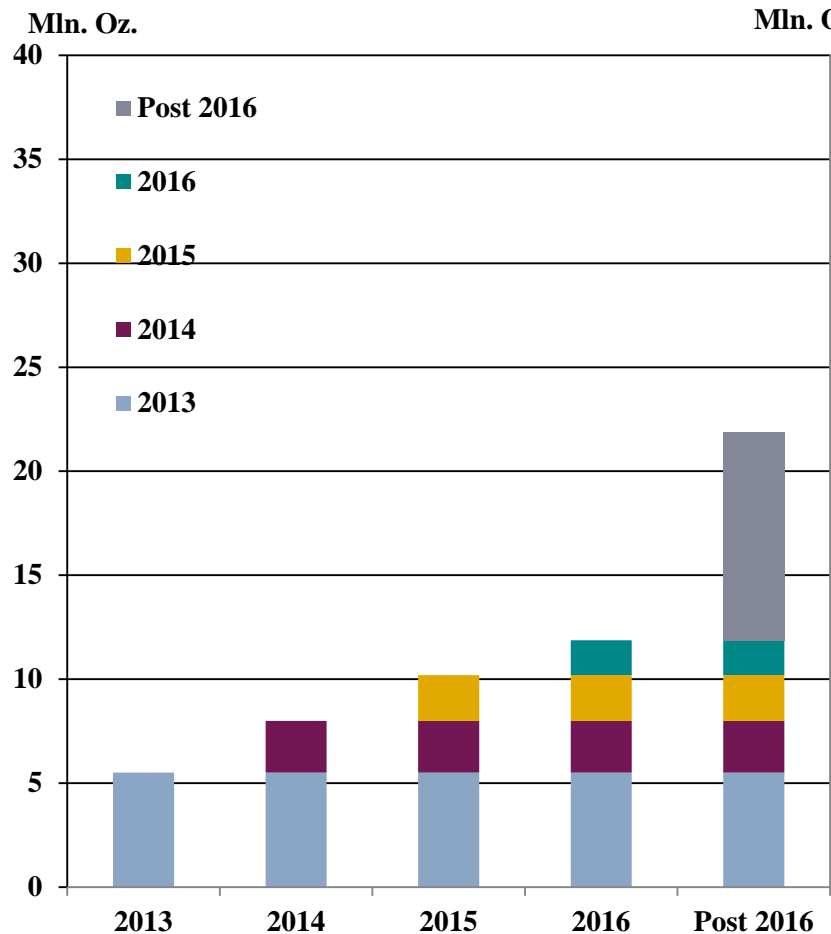
Mln Oz



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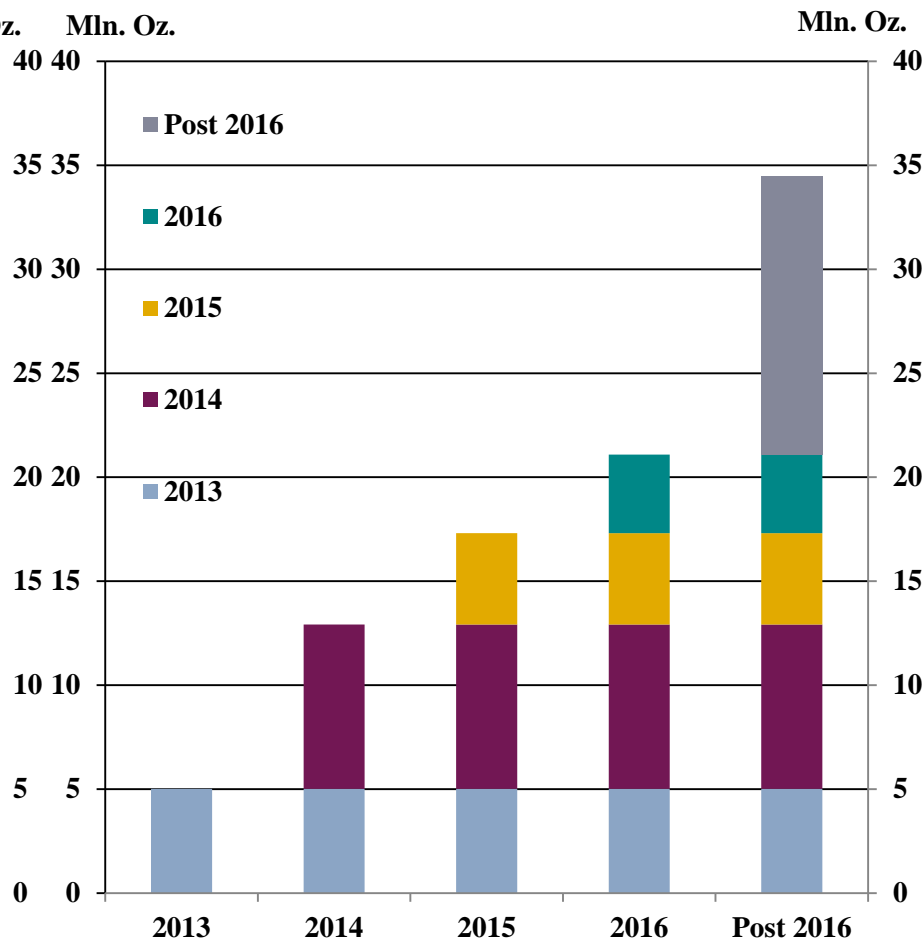
Lower Gold Prices Have Slashed Estimated Gross Additions to Gold Mine Production Capacity Almost By Half

September 2013



Note: Post 2016 data refers to 2017 through 2022.

January 2013

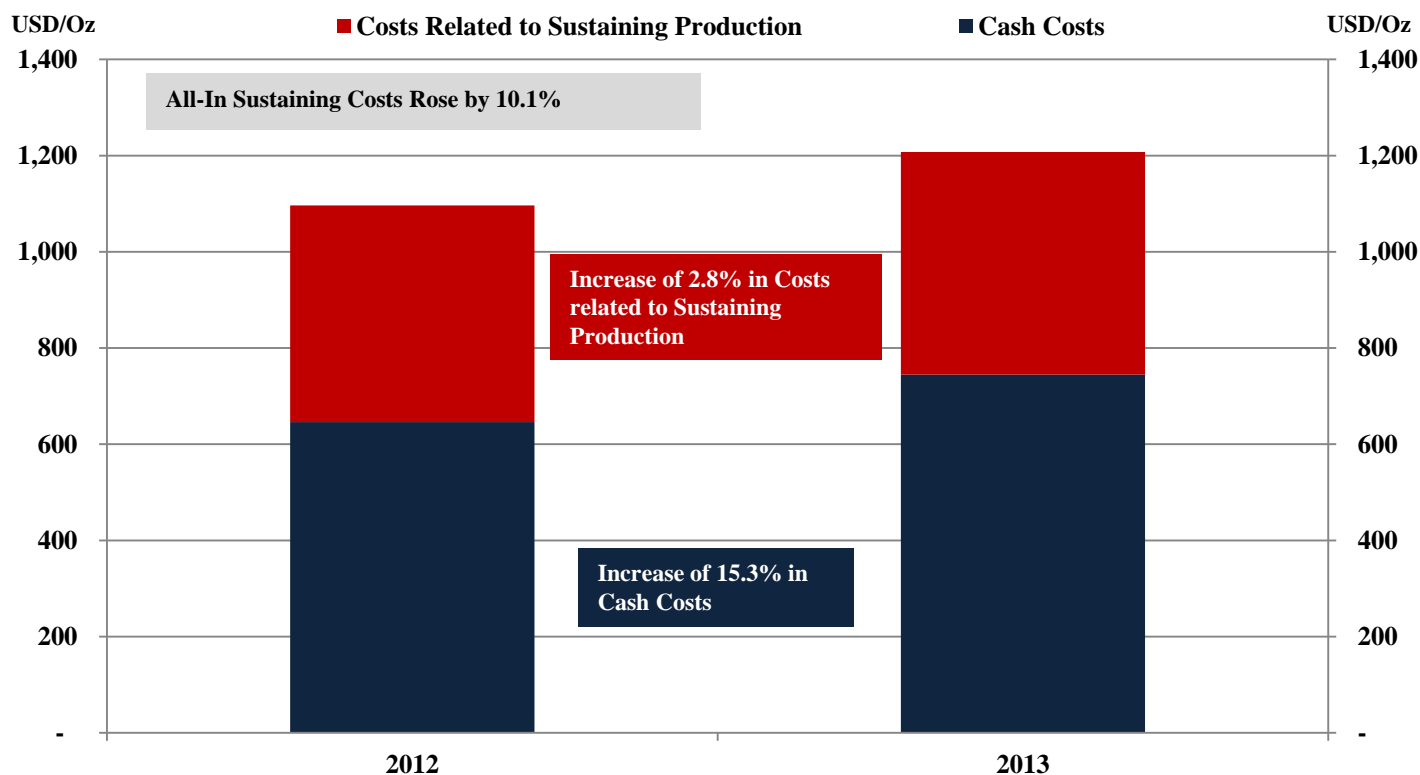


Note: Post 2016 data refers to 2017 through 2022.

Cost Reductions Are On The Way

The market will be pleasantly surprised by producers ability to reduce costs relatively quickly, starting with capital costs but later also operating costs.

Production-Weighted All-In Sustaining Cost For Select Gold Mining Companies (Accounting for 43% of Production)



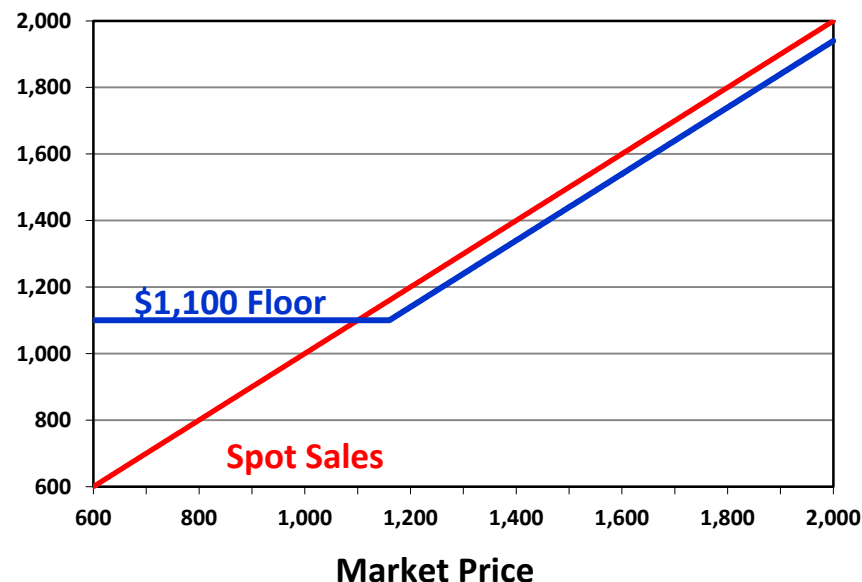
Effective Hedging Is Needed, But Faces The Same Old Obstacles

Producers this month could lock in a guaranteed floor of \$1,110 per ounce and given up only \$60 of any upside.

Gold HedgeFor Dec 2014

Indicatively priced on 10 October 2013

US\$ / Ounce - Sales Price



Obstacles To Effective Hedging

- Mining companies often lack financial expertise to evaluate, counter-bid, and effectively manage hedging programs.
- Banks offer less than ideal hedges to mining companies, which lack the internal capacity to evaluate proposed hedges and counter-bid.
- Conflicts of interest and obstacles from the 1990s still exist in the market.

Fabrication Demand

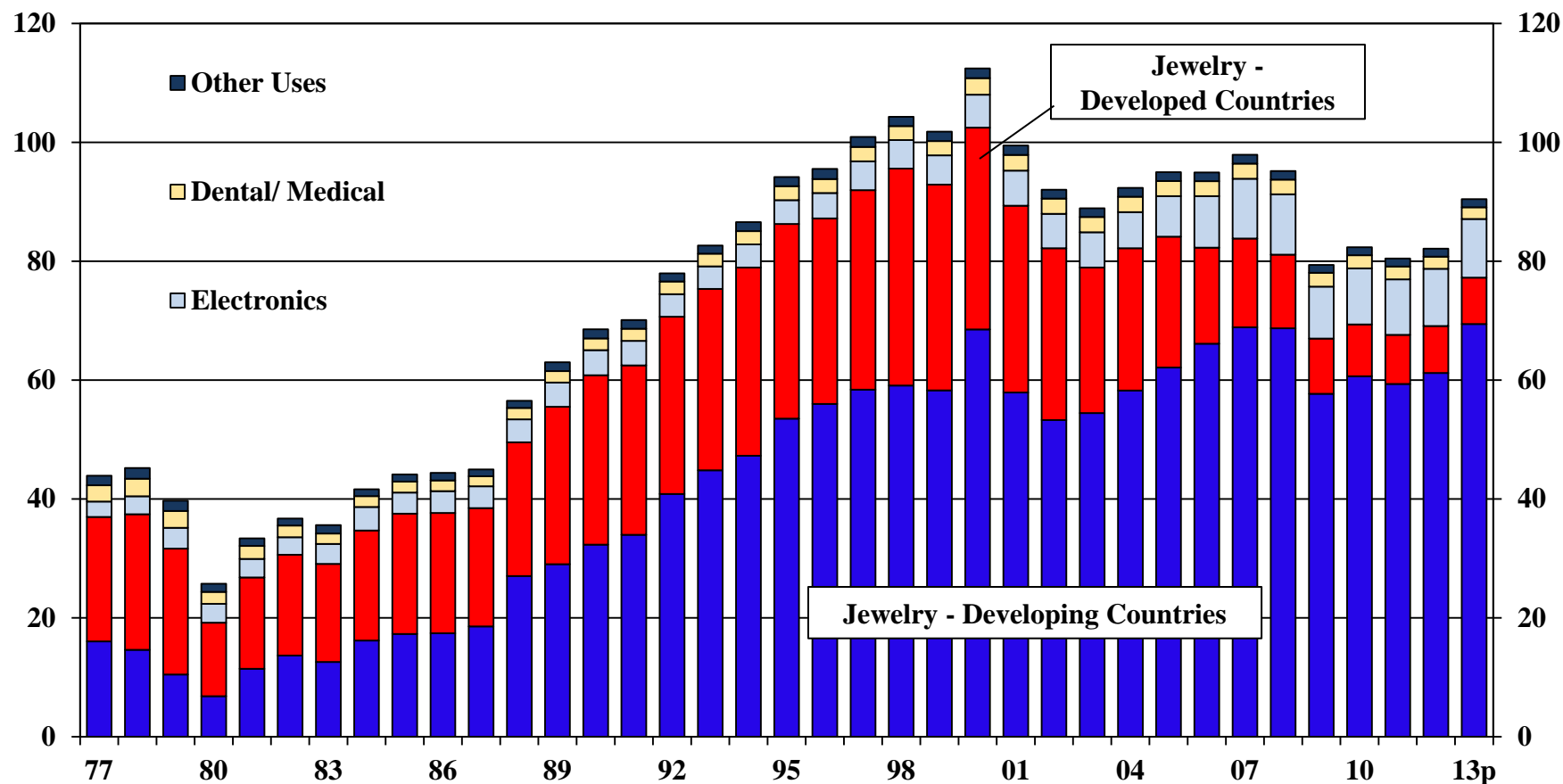
Gold Fabrication Demand

Gold Fabrication Demand

Projected Through 2013

Million Ounces

Million Ounces



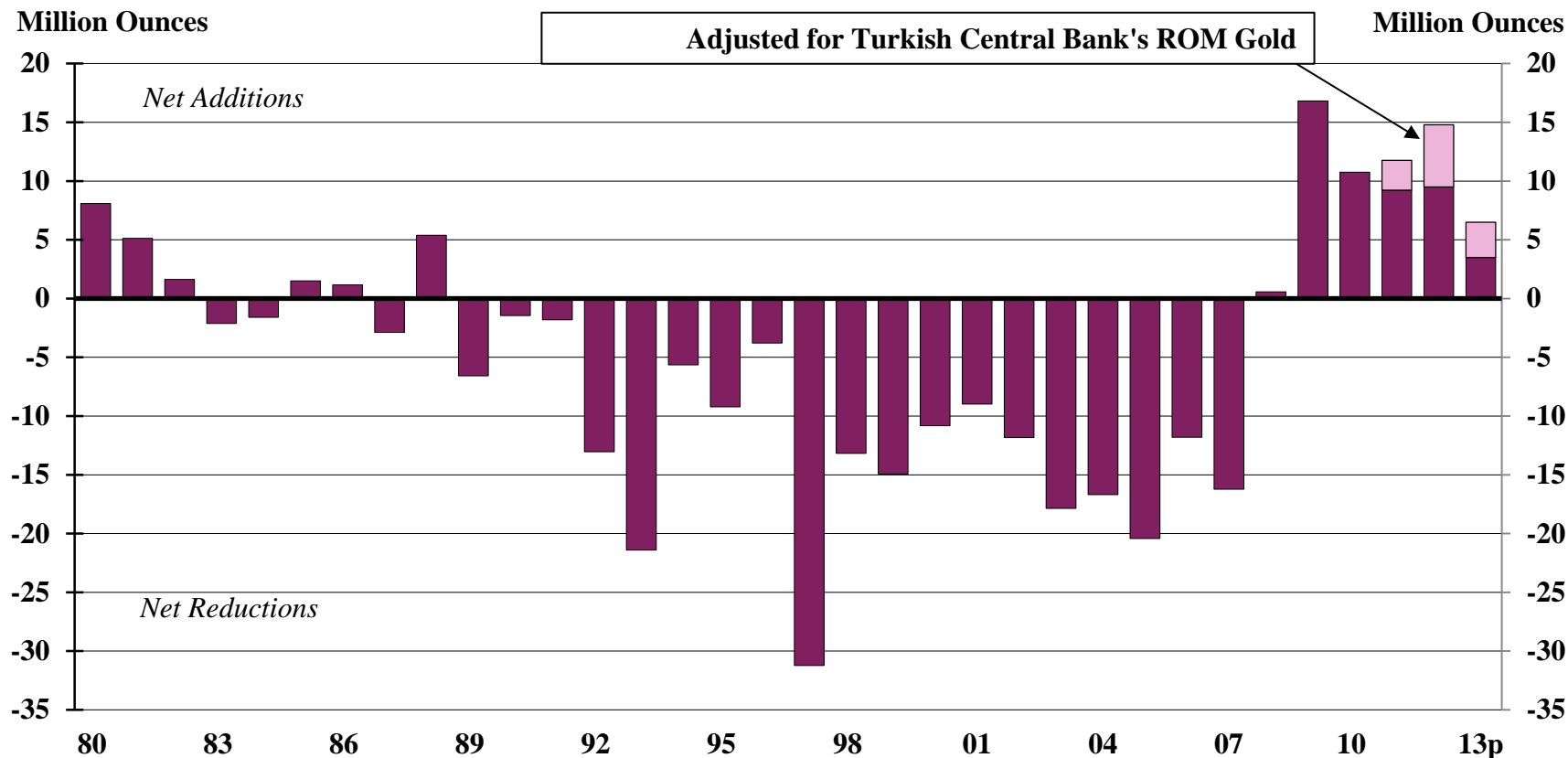
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Official Transactions

Official Transactions, Adjusted for Turkish Central Bank Additions

Official Transactions

Annual Data, Projected through 2013



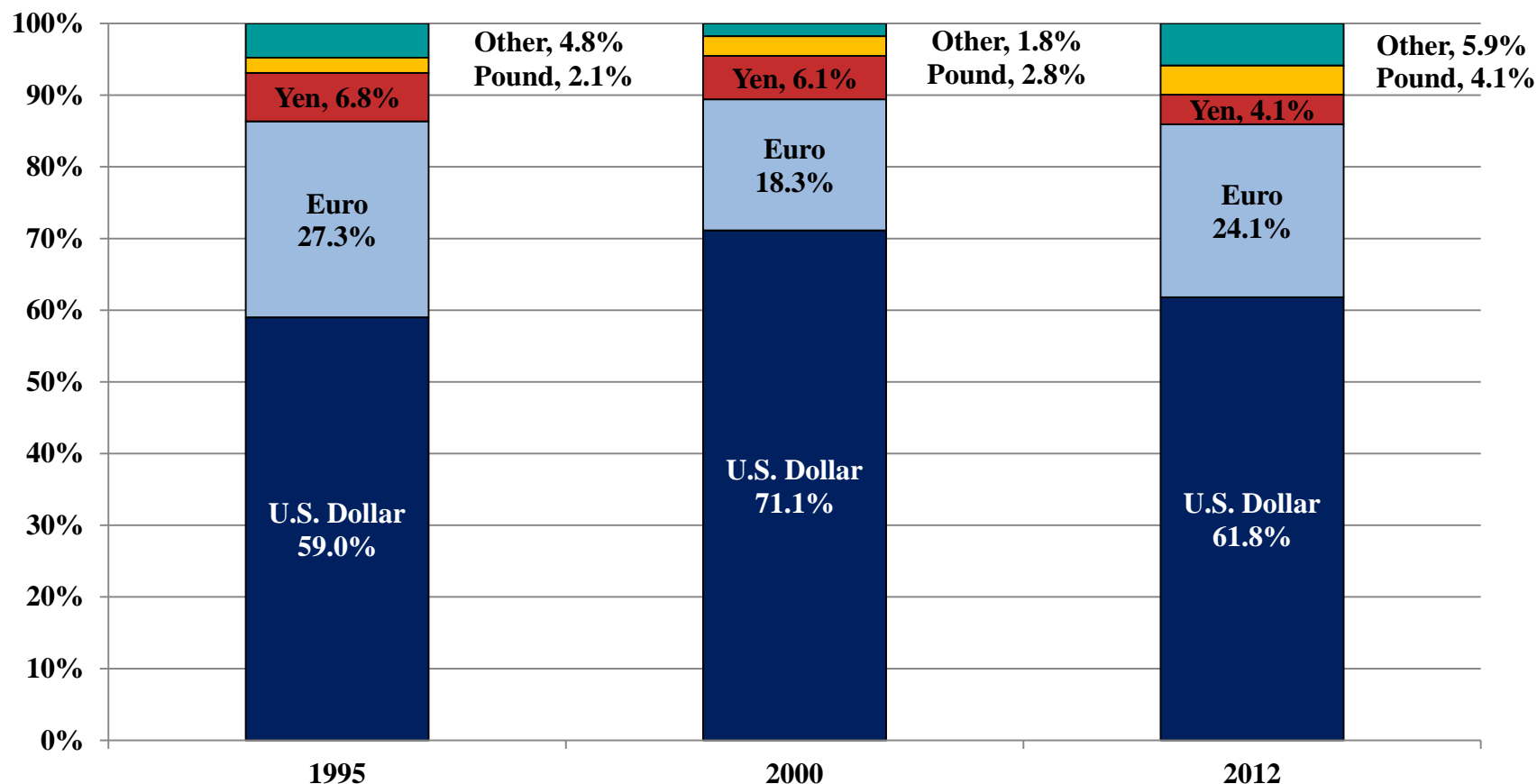
Note: Turkey introduced a policy in 2011 that allowed commercial banks to use gold to meet a portion of their reserve requirements. The bank included this gold in its monetary reserves. Because these additions were not outright central bank purchases and no ownership has been transferred from the actual owner to the central bank, annual official transactions have been adjusted to exclude Turkish central bank gold additions since 2011.



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Why are Central Banks Adding Gold to their Monetary Reserves?

Currency Composition of Official Foreign Exchange Reserves



Note: 1995 Claims in Euros refers to the sum of claims in Deutschemarks, French francs, Netherland guilders, and the European Currency Unit. 2012 data is end-September. Other years is year-end data.

Source: IMF Statistics Department COFER database and International Financial Statistics.



A Few Final Points

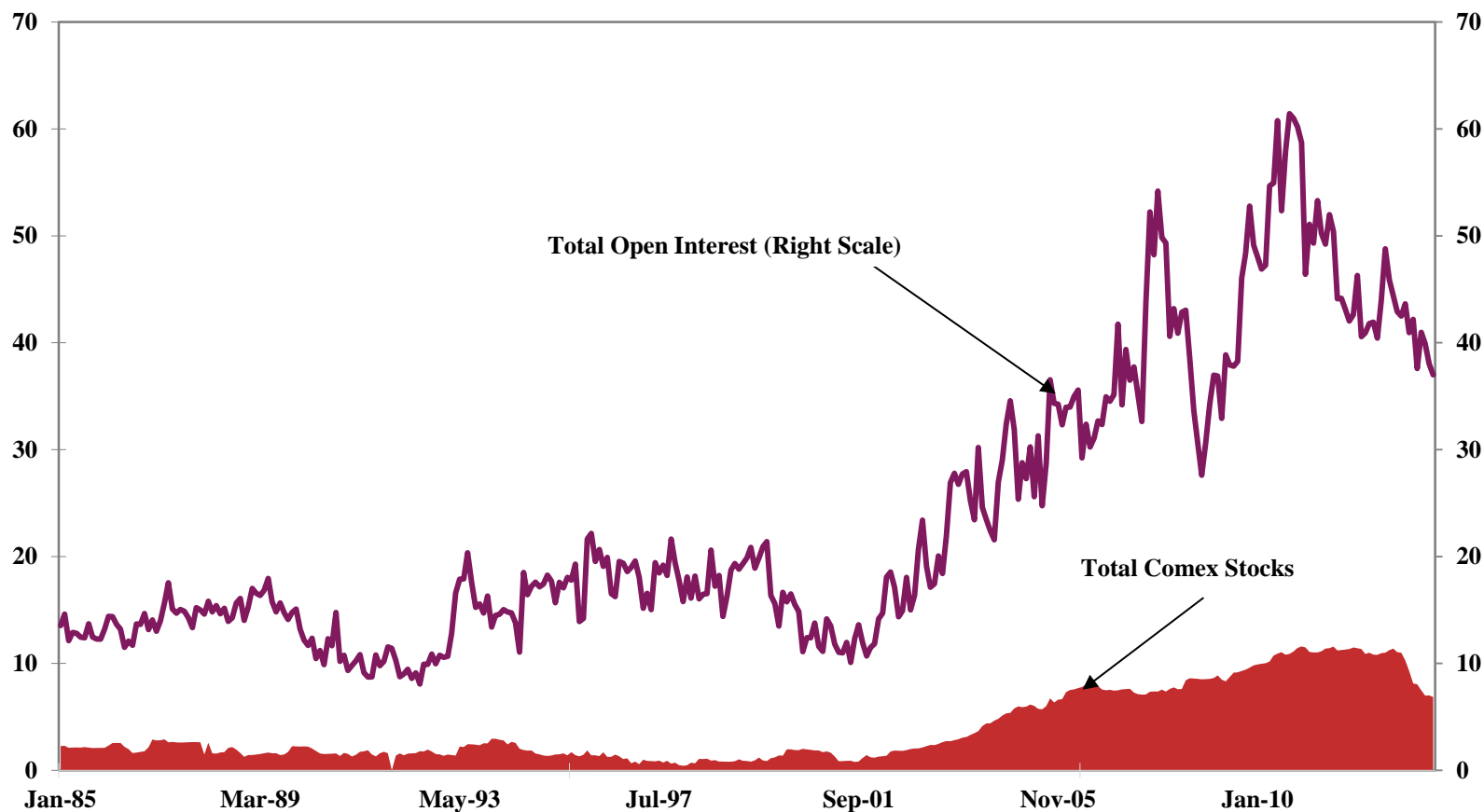
Comex Gold Inventories Always Have Been Low Relative To Open Interest

Comex Gold Inventories & Total Open Interest

Monthly, Through September 2013

Million Ounces

Million Ounces

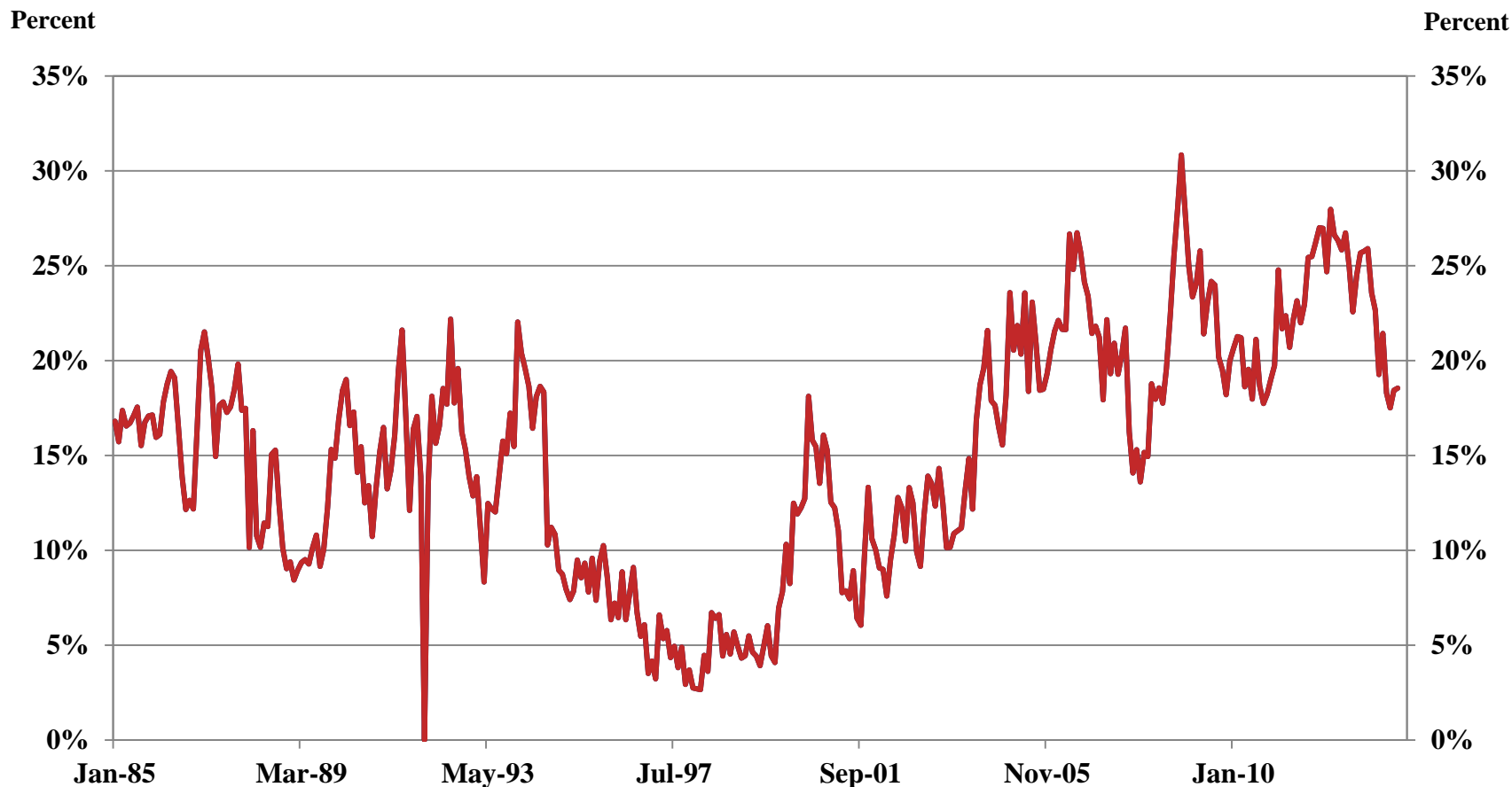


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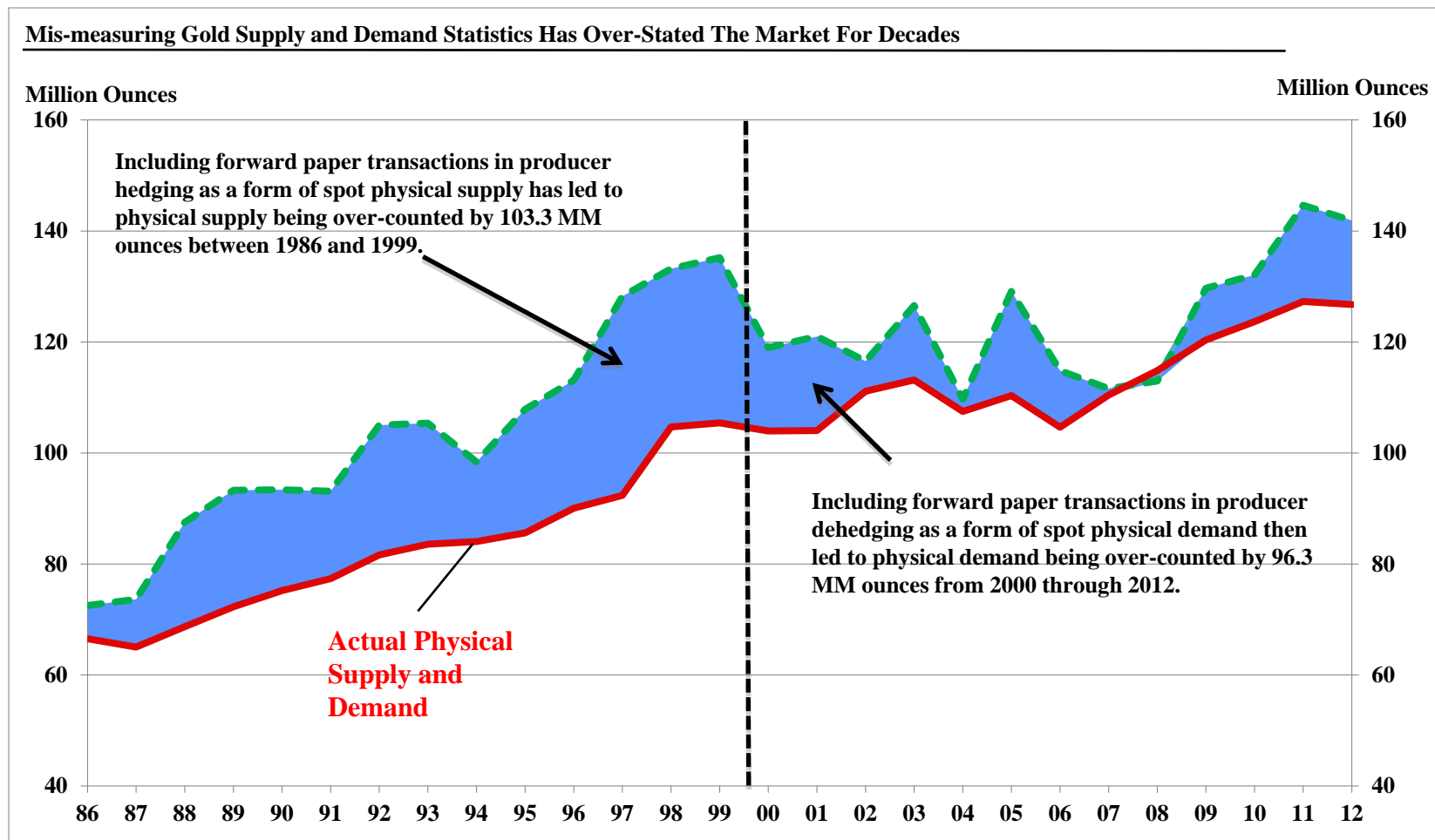
Gold Inventories Actually Are Historically High Compared To Open Interest

Percent of Comex Gold Open Interest Backed by Stocks

Monthly, Through September 2013



Forwards Do Not Involve Spot Physical Metal



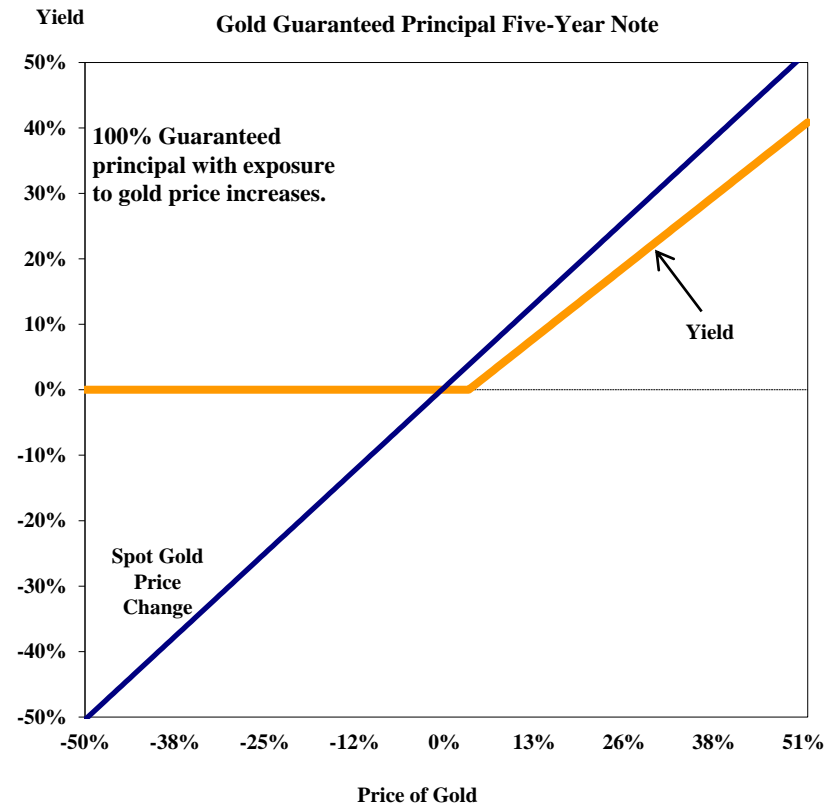
Note: Actual supply and demand are CPM total data; the over-counting is not adjusted for other statistical discrepancies.

The Next Big Thing For Gold Investors

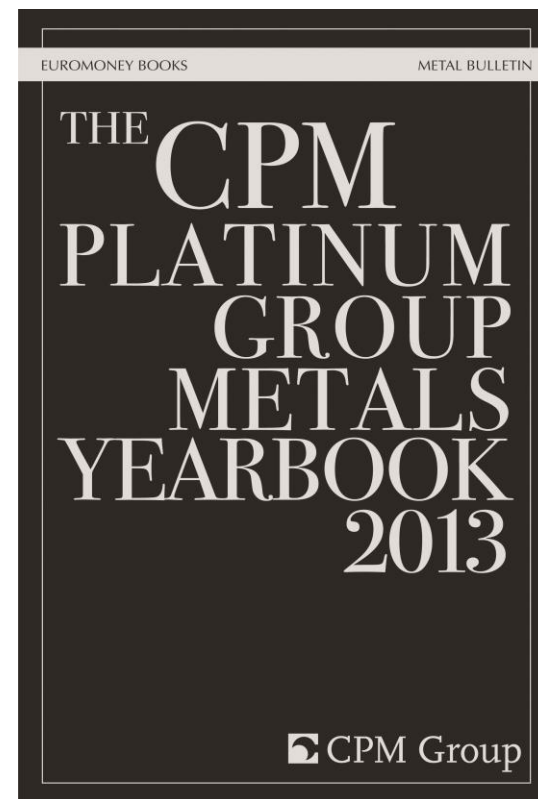
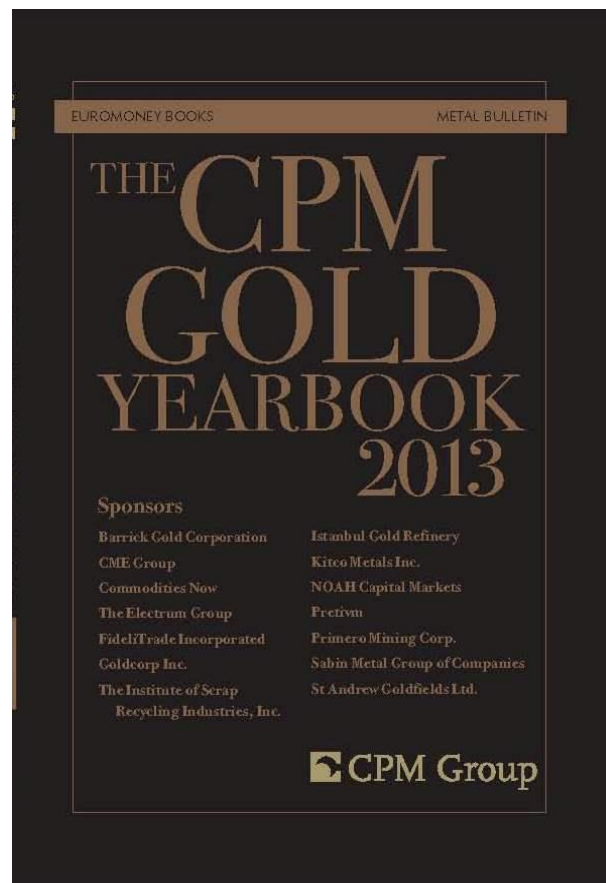
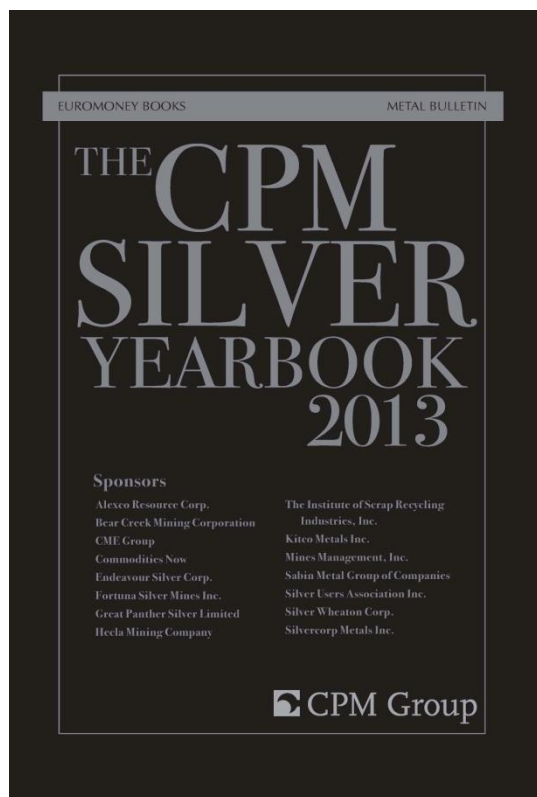
In 1998, when CPM Group first suggested to the World Gold Council and gold producers that they should focus on stimulating investment demand instead of jewelry demand if they want higher gold prices, our suggestion was a fund-like gold investment product that would allow investors to buy physical gold as easily as equities.

We warned that investors would like a gold ETF only in a bull market, and that redemptions could add to the pain in a down market.

We suggested a guaranteed principal gold fund.



CPM Group Precious Metals Yearbooks & Other Reports





Presentation Download:
www.denvergold.org/events