Speaker Perspectives

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Philip Klapwijk

Thank you, Brian. Good afternoon, ladies and gentlemen. First, I would like to thank the LBMA for inviting me to take part in this panel, which will try to answer the question: is the bull market over. The speed and scale of the decline in the price this year arguably answers that question, and that is before the latest price fall today.

If we compare this new bear market with the two most important ones in the last few decades, the suggestion could be that gold has further to fall before it either rebounds strongly, as in the 74-78 experience, or fails to recover its losses as in the early 1980s bear market. One important reason for pessimism in the short to medium-term at least is that although the price decline has reduced the amount of surplus bullion to be absorbed in the market to roughly 1,500 tonnes plus or minus this year, this surplus remains very large historically.

The implication is that the price needs to fall further to narrow the gap between supply and fabrication demand. This is especially the case because net investment demand from the private sector has slumped. It is just as well that official sector purchases, the bulk of them from China, have been so strong this year. It has established a higher floor for the price.

Net world investment from the private sector in 2013 is set to drop to close to pre-financial crisis levels. Critically, the composition of that investment has changed. The price driving elements, ETF and futures and OTC demand, what we usually term western investment, have all been negative. In contrast, physical bullion demand has been exceptionally strong. The problem is that much of that demand is related to the fall in the price. Like Central Bank purchases, it has helped to establish a higher floor, but it will not on its own drive gold back up on a sustained basis.

I conclude that we are in a bear market, but the depths to which prices can fall will be related to the size of the surplus, and the strength and sources of demand for that surplus. Given likely economic developments that will impact supply of, and especially demand for gold, it could be some time before there is a return to a bull market. In the interim at least, there should be some excellent buying opportunities, thank you.

Dr Brian Lucey

Okay, and bang on time, setting the bar high for everybody else. Andy Smith is one of the people who needs no introduction, so I will let his words and his experience speak for themselves. He has got a presentation, he threatens.

Andy Smith

The answer is no, so you can all go now. In case you want to stay, what do you associate with Rome, since we are here? *Roman Holiday*? Abramovich? I think the clue has been staring you in the face for the last two days in the middle picture. A ruin, of course.

I want to talk about ruin, because the writing is on the wall here for us today. Detroit is another ruin. It is what Disney would have created, the experimental prototype community of tomorrow if he had had the full information. It is bust. One third of its budget is pensions. Detroit's pension problem is not even in the top 10 of US cities. White flight, wealth flight; it has gone to the dogs literally since only dogs roam down town. Four out of five births out of wedlock, and the father to those children is the government. Welcome to the future.

Detroit is a cultural collapse on a truly Roman scale, but without the tourists. Detroit's $20 billion of debt is only $30,000 a head, which is half the US national debt per head, of about $60,000 per head. Detroit is not an outlier.

Rome had totem poles of a kind. Detroit has totem pole dancing. There is a Coliseum in Detroit, in case you think I am making this up. It is a titty bar. In place of the Roman bread and circuses we have cage fighting and pole dancing. In case you still think I am forcing this comparison, believe it or not, I discovered that the headquarters of the Little Caesar Pizza Company is in Detroit too, QED. I think their motto is, 'We came, we saw, we added extra pepperoni.'

The problem with Rome, as all scholars in the audience will know, this is the silver content of the denarius from Emperors, Caesars, beginning with Nero to the very end more-or-less of Rome as we knew it. Those who lived off the treasury outnumbered those who paid into the treasury. Sound familiar? Almost half of Americans do not pay federal income tax, no skin in the game. Three quarters of federal expenditure is transfers, robbing Pietro to pay Paulo. These people who are receiving the benefits are the modern day vandals, and they vote. We call it democracy. Debtors outnumber creditors.

We perpetuate the last culture we have left: dependency. Rome's solution was to debase the currency, to reduce the silver content of the denarius. That must sound familiar. If you look at modern day despots from Nixon to the Emperor Odious – oh, sorry, Obama, you will see that American Presidents have achieved at twice the speed more than twice the devaluation of the US dollar.

We should be so lucky as to have inflation and higher taxes. I think what is coming next is the scary part: more-or-less outright theft of your assets. We have only just begun. This in fact is my red line, my free put for gold, if red lines can be taken seriously now. In the words of that famous Roman, Russell Crowe, to paraphrase, 'Be prepared for hell to be unleashed.' Thank you.

Dr Brian Lucey

Right, well, beat that, Marwan. He did have a presentation but he is obviously scared to show it now.

Marwan Shakarchi

It is difficult to speak after Andy, but luckily he kept it above the belt this time. I will come directly to the point. I was hoping to speak before the break so at least I could take the blame for bringing the market down, but somebody leaked the news beforehand.

I am very bearish on the short-term. I think the problem in the gold market is that for the last five or six years the ETF has been the real driving force. Although there has been a lot of investment demand, many people were actually speculators and saying they were investors. People should buy gold in a similar asset class as real estate or art. Unlike real estate or art, you can open any newspaper or look at any TV channels and you can see the price of gold. If you buy an apartment and it goes up 5%, you do not worry that you cannot sell it immediately, or if it comes down 5% you do not start panicking. With gold, many people say they are investors, but they are purely speculative.

I will wait until the Fed start tampering, and hopefully they will start sooner rather than later. This will clean up what I would call the week-long and the fake investors. Once this has happened, we are in a good position for a new bull market, which will take us to new highs.

The long-term can be one year for some people and 20 years for others, so it is difficult to put a price target or timeframe on this. The world is in a mess though and governments are in a mess. The physical demand is strong. China is still an emerging market, believe it or not, in gold. For the first six months of this year they consumed around 900 tonnes. I do not know whether it will be analysed, it will not be 1,800 but it will be somewhere up there. In two or three years' time, China can easily consume 2,000 tonnes or even more.

On the one hand you have a country like India that has a current account deficit and are doing everything to stop gold imports. On the other hand you have a country like China, which has a current account surplus and is encouraging its people to buy gold. If you look at the per capita income and consumption of gold in China compared to Hong Kong or Taiwan, the numbers are mind-boggling.

Once the tampering happens and we have cleaned out all the week-longs, we are in for another bull market, which will be driven by physical demand. Physical has come back as really the source of dictating the price. It has been out because at certain times structured products or other things have taken the place. However, I feel that the gold market is going on another cycle, going back to its root. As Timothy Green used to say, 'In the long-term it is the people in the suit that will decide the price.' And on the long-term it will be higher. Thank you.

Dr Brian Lucey

I remind you to keep the questions coming forwards. There are some very interesting images and concepts coming forward. Our last speaker to give his perspective is Jeremy East, who is with Standard Chartered, and has 30 years of experience, mostly in the physical and metals markets.

Jeremy East

Thank you very much. I must say my views are quite similar to Marwan here. If you analyse the gold market and look at the reasons for people buying gold over the last decade, there have been multiple reasons. Confidence in the markets, financial crisis, sovereign default, miners closing out their hedge books, and at the same time in terms of market confidence and sovereign default, we have had the advent of the ETFs, so it has been easy for people to get involved in the gold market.

We have seen 10 years of investment in physical gold. I would say this has largely been a western-driven business. If you look at Asia, we are going to see that coming in as largely an investor-driven business. More recently we have seen the market starting to change. Almost on 1 January, confidence suddenly came back to the market. Everyone started looking at the reasons for being on gold. 'Where is the sovereign crisis this year? Where is the dollar going? Where are interest rates going? Are we seeing US interest rates rising?'

I think a lot of peoples' reasons for being on gold have started to disappear. We started to see a liquidation coming into the ETF, and as Marwan said, the ETF has an amazing correlation to the gold price. Whether that is true or not, ultimately we have seen that. The gold price is down 20/25% and the ETF is down a similar amount. Also there are physical holdings that private investors have, which are also lower.

I think what we are seeing now is a reallocation in the market. We are seeing a move from the west to the east. As Marwan mentioned, China is accelerating its purchases of gold. It is not just accelerating its purchases, but also becoming a much more important price setter for the international market. Historically, prices have been set in the west, so COMEX and London have been the places where the gold price has been set. Now the gold prices are being set out in Asia.

Through our own business out in Asia, we see that our turnover has doubled in the Asian time zone in the last year. There is more silver traded in Shanghai than on COMEX. These are the markets that are going to be driving the future. As Marwan said, these are largely physical markets, but they are now developing new over the counter products, new forward products. Soon we will be trading options in Shanghai, so if you are looking at the drivers for the market, we should be looking out to Asia.

In terms of price prediction, I think next year we will see China continue its demand and we will see India coming back. In the short-term it is under pressure, but long and medium-term I think we will see higher prices.

Discussion

Dr Brian Lucey

I make that two bullish in the medium-term, Andy mildly bearish, and Philip, a little bit of uncertainty there as to short-term versus long-term perspective from you. Most of the questions that are coming in are actually around one particular constellation of issues, which is the nature of this market. Is it truly a financial market or is actually a political and geopolitically driven market? Clearly, Andy, your perspective is that the coming crisis is going to be sufficiently devastating as to make, as one person says, 2008 look like a picnic.

The question that arises: is this market primarily being driven by economic or political in the small 'p' perspectives around debt, the US Government shutdown, the over-leveraging of the west and even around the issue of whether or not China is going to ride to the rescue of the world economy, which is ultimately about the political direction that China takes. If we can bundle those together into that question, is it economic or political fundamentals that you think will drive this market in the next five years?

Andy Smith

I think the first 5,000 years for gold have been very interesting. If we come back in 5,000 years you could still ask that question: what is driving the gold price. We would still not really have a clear answer. I think it is a psychological market more than physical demand and supply and macro politics at the moment. It is deeply psychological. I think David Madge has got closest to the gold psychology in this event. The most sensitive people are the retail people who seem to be yards if not years ahead of the pointy headed academics who can see no further than their spread sheet, who are looking for an algorithm to get out of a $4 trillion bond position that the federal reserve has built up. Show me that algorithm.

My thesis, just to diverge, is what will be the trigger for gold going up? The first act that Ms Yellen will do is to write off all the bonds that the Fed has bought. We will then be a huge step closer, one giant leap to Weimar, and it will be called one arm of government forgiving the other. You have seen what happens when they even hint about reducing the pace of buying. Can you imagine them ever selling?

The answer is obviously no. In those circumstances we will be much nearer to the 20s in Germany than you would care to ponder really. Not pleasant. All assets will have a sugar rush, but gold will be the last one standing after that huge development. Mark in your diary when Ms Yellen takes over at the Fed, I think.

Dr Brian Lucey

Okay. Marwan?

Marwan Shakarchi

I am always mesmerised after Andy. In a sense, I agree that Ms Yellen will come in. I see the bullish people in America were very happy that Larry Summers did not come in as a Treasury Secretary. However, Ms Yellen will continue the same policy. America will continue to try to keep rates as long as they can, but sooner or later they have to start raising the rate. This will create a big washout in the gold market.

Dr Brian Lucey

Jeremy? Philip? Would anybody like to elaborate?

Philip Klapwijk

I think in terms of what Andy was talking about, the reason why people buy gold, and confidence is obviously key. You mentioned China. The government came out a couple of years ago and basically said that they were advising the people of China to buy gold, and they did. There is no reason for them to stop buying gold. The amount of gold that each Chinese person owns is significantly lower than other people in Hong Kong and globally.

If you look at the upside there, it is huge. It is definitely a political decision to do that. I would say confidence is obviously a key factor, and confidence can evaporate overnight. If Andy is right, it can be pretty serious. The markets are fickle though, and I think at the moment the markets are feeling pretty strong and confident that the European and US economies are picking up and things are better, so maybe you should not be long gold.

Jeremy East

I would add that currency debasement and inflation is most likely to happen in the medium to long-term simply because of demographics and the level of debt that already exists. I would agree that that is going to be the force that propels gold higher in the longer run. The problem is that investors at the moment, and it has been pointed out already on the panel, are not focused on the longer run, with the exception of some who perhaps in the long run will be proved to very wise, investors in physical metal at the moment.

Yes, it will be politically the easier way out to push for higher rates of inflation, debt forgiveness and essentially a set of policies that are going to lead to a very much more pro-gold environment in the longer run. However, I would moderate that somewhat by saying that there are a lot of savers out there who are already making a noise about the fact that they continue to face a zero real interest rate environment, and that their wealth is indeed being debased.

Dr Brian Lucey

A number of questions have come in, in relation to the inflation issue. The eurozone core inflation is 1.1%, so even with the, by some accounts, tepid enough interventions of the ECB, who have done just enough at the last possible moment to stave off until the next crisis, the extent to which inflationary fears seem to be being realised is very low. When do you see inflationary pressures picking up, which will of course translate into the real interest rate equation versus gold, depending on how quickly nominal interest rates change, we being towards the bottom of the cycle.

Andy Smith

I do not think higher inflation is either necessary or sufficient to get gold higher. My point about psychology is that we have had the first phase of the bull market, where governments have so far been benign and have tried to create inflation. They have succeeded in various asset markets, equities and some commodities, but not in consumer price inflation, which is just one measure of inflation.

The next stage, having failed to create inflation, which is the traditional way of undermining the real value of debt, is asset theft. It is always the next step governments resort to. They will call it something else; they will call it fairness, redistribution or levelling. They will find a way, they will spin it. They have people to help them do this. There are more debtors than creditors who vote. We call it democracy, so I cannot see a way out.

Nobody is going to take a hard choice when most people who vote are debtors or dependent on Government. The only ways out are nasty and underhand ways, which may or may not involve inflation, but will involve investors and savers thinking about counterparty risk, and return of capital, not on capital; the good, old-fashioned reasons that 19th Century Europeans bought coins short of a war. That could be arranged in the eurozone I am sure pretty soon if you want that though. It therefore does not require all of the boxes to be ticked for gold to start motoring.

Marwan Shakarchi

I think inflation will come. It is only a matter of time, and it will come much quicker than we think. Many people have been betting and saying, 'It will come in the second quarter, third quarter,' but we do not know when it will come. It will come, and it will come abruptly.

There are some people, for example in New York, who are well-to-do and have their children in a private school. In certain places in the US there is inflation, but that is not really the point. Inflation is going to come. We are living in a different world since the crisis of 2008. Every market has been extremely sensitive to news, not just precious metals. We stay calm, calm, calm. Some news comes out and we move a few percentage points.

I cannot put a time on it, but I feel a lot of inflation is coming. It will come, and then gold will be the ultimate hedge against inflation, and maybe the only hedge.

Jeremy East

I am not 100% sure about the correlation between gold and inflation. As we have seen in countries like India, and we know in countries like Vietnam, they buy gold, which is a hedge against inflation, but that inflation is coming through because of currency devaluation.

If you are looking at the western side of inflation, you are talking about the US, Europe, higher prices, the Fed pumping trillions of dollars into the economy, and feeling that it wants to try and encourage inflation. I think they feel pretty confident that if inflation comes through they can nip it in the bud pretty quickly using their established instruments. Will people buy gold on the back of that? I think they will probably by gold on the back of the fact that the economy is performing more strongly, they have more disposable income and they will buy more jewellery rather than buying because of inflation.

Philip Klapwijk

As an antidote to the view that we are on the verge of hyperinflation, I would recall the 1970s. Things got to such a pretty pass in countries like the UK and others, which were very tolerant of high inflation and weird ways of financing government budget deficits, that once you reach 27% inflation in the UK in 1975 the political consensus starts to change. People start to say, 'Well, actually this is making us a lot worse off, and maybe it is time to think about some tough love and some rather bitter medicine.'

You can see this at the moment in Europe. It is not as if everybody is saying austerity is bad and it is only the technocrats at the European Commission and the Germans who want us to tighten our belts. This is a simplification of complex arguments. I think, yes, the current course is probably to tolerate more inflation, but that would probably lead to inflation getting beyond the realms that Central Banks can control it or think that they can benefit from it. Then there will be a counter-reaction to that. It does not mean that we are destined for Weimar.

Dr Brian Lucey

I have a question here; fundamentally all the panellists seem to be long-term bulls, but clearly the markets disagree with you. Why is that? I do not think Andy is a long-term bull.

Marwan Shakarchi

I disagree, because I am bearish in the short-term. I think gold could go to $1,050. I choose that figure because that is the price that I believe the Reserve Bank of India bought their last 200 tonnes from the IMF. I think that was the real start of the bull rally. It happened during an LBMA Conference in Edinburgh.

I would like to see this price, if we can clear out all the week-longs that have bought until then. In the short-term, if it goes to $1,050, we have nearly another $200/250 on the way down. From there I believe the bull market will start.

Dr Brian Lucey

So you would see that as a floor? That was another question; where do you think the floor is to start the next run?

Marwan Shakarchi

Yes, I think technically this was a good sign. I bring this matter up because not only is it technically a break-up point. Knowing India, for the Indian Central Bank to stick its neck out and have bought 200 tonnes of gold, I am sure they would have analysed every scenario imaginable before the technocrats went and did it. That is why I think that is the floor.

Jeremy East

Yes, actually quite a good call, I think. If you are looking at the markets, from my experience, when investors start to unwind positions, and we are already seeing ETF being unwound, they tend to continue with that. I would expect that to continue. We have seen Polson and some of the large investors liquidating their positions in the ETF, and I would expect that to continue.

I would say that it will not continue down to zero. Fundamentally gold is now established as an alternative investment class. Index funds will still have money invested in gold, so whereas 10 years ago we pretty much had nothing, the investors had very little investment in gold, now it is an established norm to have a small percentage in gold. It is not going to go to zero, and it is still going to be an important investment vehicle. However, I would expect there to be more liquidation in the short-term from the ETF and we will see gold prices come lower.

Philip Klapwijk

If I could add to what Jeremy has just said. ETF holdings globally are still around 2,000 tonnes at the moment. They have come down not too far short of 700 tonnes a year to date.

However, if we look at where ETF holding stood when Lehman Brothers went under, these were just under 1,000 tonnes. Now, I do not think we are going to see anything like 1,000 tonnes of liquidations, but I think it is quite feasible that we could see 200/300/400 tonnes more of liquidations.

At the end of 2009, for example, we had just over 1,800 tonnes of ETF holdings. Plus or minus that number could be in view over the next 12 months.

Dr Brian Lucey

A couple of questions have come in asking why we are not paying a lot of attention to India, and Marwan has opened up the debate on it. One question is what if the Reserve Bank sold; capitulation. What do people think about the potential for the Indian market, which may count for up to 25% of world demand and so on?

Marwan Shakarchi

I think people make a big deal about India, and maybe they should swap or sell their gold. People buy gold in such cases as are happening in India. An investor buys gold as insurance, just as you would buy car or house insurance. The Reserve Bank of India bought 200 tonnes as insurance, so now the insurance company should pay up.

It is a negative sign in the short-term, but gold would have played its role. That is what gold is all about, if the RBI sells gold. India will always buy gold. Before the 1980s, it was unofficial in India, and India was already consuming gold, so people will find ways to bring gold into India. Once you can convince the Indian housewives not to buy gold, I think they will buy more gold because they think something is wrong with their husband and they will run to put all their savings into gold. We are in a blip, and it can last for three, six or nine month, but ultimately India will go back to buying gold.

I would like to state another thing about India. They have done it right. If you look throughout history, the Indian individual has been buying gold. They only buy gold. They do not sell gold. In times of need, the household pawn their gold before they sell it. If they are really bad, then they have to sell their gold. Ultimately though, there is so much wealth that has been created in India because they did not accumulate their gold above 1,000. Most probably the average they hold in gold is maybe $300 or $400, so you can imagine the wealth effect that is hidden in India, and that is the role of gold.

Dr Brian Lucey

Anybody else want to chip in?

Jeremy East

Obviously we are going through quite a sharp impact from the Indian gold market. We were talking just before the session and trying to figure out where the gold price would be if China had not come and mopped up the difference. The Indian gold market stopped in June, and if we had not seen China come in, in a big way, sopping up the market, I would not be surprised to see gold back testing its big support level at $1,050.

Andy Smith

Can I just flip it a little bit?

Dr Brian Lucey

For a change.

Andy Smith

Basically, the Indian model in gold is something we should look at very closely, because we are moving towards it. It makes eminent sense for your average Indian to buy gold when he does not trust government, regulated out of existence and does not trust counterparties or banks – does this sound familiar, by the way – when only his extended family constitutes his circle of trust. The social security system hardly exists there; ours just happens to be bust.

I think we are moving towards an Indian type scenario in the west, where gold has a huge role in personal savings, untapped and unheard of since the Napoleonic Wars. It seems to me India is a role model for us. We always used to pooh-pooh it as 'How could they buy gold? They know so little, they are not sophisticated.' Of course they are sophisticated. We will learn very fast how sophisticated the Indians have been under the pressures they have had to sustain for the last 200 or 300 years. Welcome to India.

Philip Klapwijk

I think that entirely depends upon whether we return to a real interest rate environment. I think the same comment could be partly true in terms of the Indian market if Indian savers are given substantially real interest rates on the rupee. It will both reward them for holding bank deposits, and secondly it will most probably lead to a reversal in the currency depreciation that the country has suffered.

The problem is the country would have to make some hard choices in terms of its spending and its revenue in order to tighten monetary policy in the way that is required.

Dr Brian Lucey

A question has just come in, in relation to silver, and I guess we could extend it out to the platinum group metals. Do the panellists think that silver and these other metals are going to follow gold, or is there going to be a bit of a decoupling?

Marwan Shakarchi

The volatility we see in silver always reminds me of going to the casino. Yes, it will follow gold, but compared to the gold ETF, the silver ETF is held much more on retail. It is more sticky or whatever you want. I do not see people getting out of silver.

Unfortunately for people holding silver, is gold is going down, silver is going to go down, and most probably in percentage terms much more because it is a much more volatile metal. Also, we made new highs in gold in 1900, but we did not make new highs in silver. In our group we find quite a lot of people buying one ounce coins and completely forgetting them. They are somewhere in a safe and I will not see them taking them out of the safe except if silver is maybe at $200 or $300.

Jeremy East

Yes, I mean obviously precious metals, as a group, tend to move together and fundamentally that is probably wrong. When people invest in an underlying asset class, gold would probably be the number one in terms of liquidity, and so gold would get the lion's share. The amount of the money that comes into silver would mean that now it has an outsized influence on the silver price due to liquidity.

However, if you look at the fundamentals, especially of the platinum market, I would be much friendlier to the platinum price rather than the gold price. With the fundamentals in production, what is going on in South Africa, the mining industry, at the moment we are seeing a short-term oversupply maybe in the auto sector, but I think that is now being mopped. The auto sector is coming back, especially in the US, and I think we will see the platinum price performing better than the gold price.

Philip Klapwijk

If Marwan is correct, and I fear he probably will be, and that we see 1,050 as a low for gold, it is very unlikely that silver can escape a trip below $17, and it could get close to $15 if the ratio widens out. The only thing that could perhaps lead to silver having a brighter future than gold in a bear market would be if at the same time we have particularly strong industrial demand, perhaps, for silver, which would mop up some of the surplus bullion in that market and make it a little tighter.

Andy Smith

My feeling about silver is it needs a sponsor. We had the Hunt brothers 1978 to 1980, and Warren Buffett 1997/1998, and we are overdue another big name for people to follow. Unless we have that, I do not see silver breaking away from gold. In fact the logic of my Jeremiah thesis is that gold will outperform silver by miles. The gold/silver ratio will soar above 100. Anything useful, in my future world, will not perform.

Growth rates are going to be decimated. The only exception would be things with a very, very risky supply story, perhaps like platinum, which might just survive on that, but basically if you reduce your demand growth forecast for most base metals and useful precious metals like silver by half or three quarters, it is very hard to see those metals outperforming gold.

Just to be flippant for a moment, all my studies of the gold/silver ratio revealed one thing. The best predictor of the gold/silver ratio is global shark attacks. I have the data, I have the algorithm. Believe me, it is true, so I would not waste too much academic energy trying to understand it. Go with your gut about whether useful things are going to be more useful or less useful, and whether gold's premium as a store of wealth out of the prying eyes and sticky hands of government is going to be more or less valuable.

Philip Klapwijk

I would just like to add to Andy, that obviously there has been a big focus on shark fin soup in Asia, so obviously fishing for sharks in soup has been coming down dramatically. This will have an impact…

Andy Smith

There is a research in you trying to get out.

Philip Klapwijk

Obviously this is going to have an impact on the silver price.

Dr Brian Lucey

There is of course the emergent meme in very bad science fiction movies of sharks on planes, *Sharknado*s and *Two-Headed Shark Attack*s, which if you have not seen you must certainly try to see if you are a fan of very bad movies.

Moving on from the sharks and going back to the bulls and bears, and of course the other animal in the market, the donkeys that we sometimes forget, a question came in earlier, which was why do people think that the shutdown has not been bullish for the gold market. I guess this is an assumption that today's price drops are related to that.

Marwan Shakarchi

With markets, I think people get ready and they build up the position before expecting they are going to shut down, so all the longs have bought their gold beforehand. It is simply there is no follow through and no reason for it to be followed through. It is not the first time we have a shutdown and I do not think it will be the last, so it is irrelevant.

Belgium survived two years without government, and I think they were doing better without the government, so maybe the same will apply for the States. Who cares?

Andy Smith

I was just going to agree with you. This is hellish good news if you close governments. That would be my first recommendation. We would not miss them. Belgium squared; enjoy. Goodness gracious though, come back in a week and it might all change.

Basically we still have the choice as investors, if you like, between the States and Europe, which is between a lame duck and a dead duck.

Dr Brian Lucey

Okay, so we have shark fin soup and ducks for dinner. A couple of questions have come in, in relation to the mining industry and where you see the mining industry going in terms of mining supply in a declining market, and to what extent that is going to impact on your long run perspectives.

Philip Klapwijk

It is probably not my top topic, however in my experience we have seen the gold price move up from $400 all the way to $1,900. Interestingly, as the gold price rallied, the cost of production rallied, obviously coincidentally. I think the lower gold prices will force the mining industry to react. We have seen a few presentations here over the last few days about focus on costs.

It may lead to people starting to talk about hedging again. We have seen the cost of production for gold move up. Obviously now we will see it move down again, but the flat price of gold moves much faster than the cost of production, so I think this is going to raise a lot of questions for investors. We have already seen how a lot of mining companies have closed out their hedge books on the expectation that investors like to have blue sky in their investment in the mining industry. That results in lower prices for mining stocks, so there are a lot of questions there.

Jeremy East

I think the thing is that it is the proverbial super tanker turning round again. The problem is that the mining industries' cash costs are not high enough for emergency shutdowns of mine when you have gold trading at $1,300 with first half total cash costs according to Thomson Reuters at $782. You can see why, in the short run at least, we are actually still seeing mine production increase. Not a lot, it is forecast to increase, I believe, by about 1.8% this year by the same organisation.

In the long run thought, it is the total all in cost measure that is probably the most relevant one, which is $1,250, so I think the expectation is that mine production will eventually start to taper very significantly. I think that will contribute handsomely to the rebound in gold prices that will take place down the track because it will help to reduce substantially in time that surplus that we can see in the market, which if we do see Marwan's $1,050, is going to result in significantly less scrap, and eventually a lot less mine production. I think that will set the scene for a very substantial rally in gold prices.

Marwan Shakarchi

I am not a specialist on mining, but the worst thing that the mining companies did was the ETF. Previously, if people wanted to invest in gold they would buy their mining shares. Since the ETF came in they had an alternative where you do not worry about management, hedging or anything else. The price of gold slowly went up since the creation of the ETF and mining shares have been coming down. At least if they had owned the ETF they would maybe have made some profit on it.

Also, miners should hedge. Throughout history, some mining companies exist because they had the guts to hedge. They should not hedge 100% of their production 20 years forward, but a certain percentage of your production is a kind of insurance. I think mines should hedge; unfortunately now there is no guarantee on the price, so the incentives are even less, but at least they would have some security. I would like to see the first miners starting to hedge because it will be good for their shares.

Most people will disagree with me, but at least these are mining companies that at least can readapt, reinvent themselves. With the circumstances now, hedging should be come back into the picture.

Dr Brian Lucey

That leads onto another question. One audience member has suggested that presumably when the mines start hedging that will mark the low. There have been a couple of questions on what panel members would think of us marking the low. What do you think is the price point or the event that you will say, 'Okay, the bear market is now flattening or turning'?

Marwan Shakarchi

I have given my number.

Dr Brian Lucey

Does anyone dissent from that?

Jeremy East

I think that is fair. We were all there at Edinburgh, and the market reaction to what the Indians bought was astounding. I agree with Marwan, that they are not likely to have been taking this decision lightly, and they know something about gold after all.

Dr Brian Lucey

So $1,050 is the floor price on consensus?

Marwan Shakarchi

Yes, I think if we break $1,050 seriously and go below $1,000, then the bull market is over.

Philip Klapwijk

If the producers follow Marwan's advice though, we might see $900 gold, of course.

Dr Brian Lucey

They hedged for over a decade the last time. The EFTs took many by surprise as a new source of investors. Does anybody see first signs of any fresh, untapped source of investors out there that would reignite the price?

Marwan Shakarchi

It comes back to China, where there are 1.2 billion people. I am sure there has only been 100 or 200 million that own gold, so there are another billion Chinese who are ready to buy gold.

Jeremy East

I think one of the largest Chinese banks launched a gold product, and on day one they had a million investors in it. I do not think we fully understand the size and the appetite of the China market, and what effect that can have on the global price.

Philip Klapwijk

We should also bear in mind that there is also the role of the official sector in China, which is probably advised to diversify its foreign reserve portfolio away from an extremely vulnerable position in the US, government bonds, and I think one can expect Chinese gold reserves will at some future point be announced at a much higher level than the $1,050 for which they have apparently maintained for some years now.

Dr Brian Lucey

There have been a number of questions in relation to the Chinese official market, so if we could hear the panel members on that.

Andy Smith

Can I do a more general point first before we lose the thread? It seems to me not all ounces are created equal. An ETF taken out of the shop window is the most, most people see about gold investment. We have anecdotes, stories and market intelligence here on my left and right about what is happening to other sources of physical investment, but we do not see it real time. It is not Bloomberg; it is not in the face of the investors that move the price day-to-day.

We need more transparency on physical premiums that do react pretty damn quick because again, the logic of what I am saying is the next stage of gold buying will be precisely to hide wealth. You will not see conveniently stacked bars in a warehouse, 'That is the new gold demand'. You will not, it will be hidden, so we need indirect measures, for example premiums on various gold products in various regions to be more transparent so that worldwide investors can see this and react to it.

Dr Brian Lucey

There are some questions from the audience. No? Okay. That is fine, we are just right on time anyway, and our toys are being taken away from us.

Let us just get straight to the audience question. Can we just get the rating question? Can you take this opportunity to rate this session, please? It should be real time.

First of all, do people think the gold bull market is over; yes or no? Please vote.

[Voting process]

Right, that is an interesting split. Okay. Right, let us now rate the session, please.

[Voting process]

Dr Brian Lucey

People, if you could stay please for a moment as we have the last part of the conference, where we have some final remarks and then a wrap up. There is no break now, so if you could just stay in the room.