

GOLD AND SILVER ANALYSIS

CREDIT SUISSE 'GOLD NOTE'

Supply/demand dynamics may trigger quantum upward change in the gold price

Credit Suisse believes a change in the dynamics surrounding gold supply and demand may trigger 'a quantum upward change in the gold price.'

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RENO, NV -

Credit Suisse suggests that, while the U.S. dollar will continue to underpin the gold price, supply and demand factors will make their presence felt to such an extent that they "could trigger a quantum upward change in the gold price, enough to sustain a new gold price/US\$ equilibrium.

In a recent "Gold Note," Credit Suisse Research Analyst David Davis said, "Our studies indicate that the dynamics surrounding the gold supply and demand has begun to change inexorably towards a diminishing supply of gold and increasing investment demand, which will ultimately impact the gold price."

"Our studies indicate in the long term global gold production will begin to decline as the diminishing number of new reserves fail to compensate for dying mines," according to Davis. "The decline in global gold production will likely be accelerated, should the gold mining industry continue to incur significant year-on-year inflation rates which are not offset by similar or significantly higher gold price increases year-on-year."

When Credit Suisse strips out the secondary supply of gold, coming from central banks and producer hedging, "we find that over the last 18 years, apart from three occasions, the supply of gold has been in deficit."


Davis asserted that "central banks sales will likely wither going forward and the banks could become net buyers of gold. Producer de-hedging, which has the effect of removing the gold supply from the market, has accelerated in recent months. This transition, together with increased investment demand (ETFs), jewellery consumption and diminishing mine supply in our opinion has already begun."

"Under these circumstances, the supply-demand imbalance will begin to accelerate at an ever-increasing pace into a net deficit, which in turn, will likely put significant upward pressure on the gold price," he added.

Credit Suisse feels that its forecast decline in global production will be aggravated by cost increases, "which will impact on the marginal mines forcing premature closure." Davis explained that these high-cost gold mines "are substantially more sensitive to annual inflation rates and gold price change."

Therefore, Credit Suisse asserts that the significant cost increase will change the current supply dynamics, triggering upward pressure on the gold price.

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