

Gold to break out past the 1000 dollar mark this summer.

Gold bugs are rejoicing with the price of gold having some healthy gains these past couple of weeks. With the spot price at 985 USD/oz it makes you ask “is this another sucker rally in gold, or are we really going somewhere this time?” I think that the answer to this is fairly clear. The statistics speak for themselves. If we use the most recent data from Q1 of this year and compare it to Q1 of 2008, we can see a very striking case for gold to move significantly higher near term.

The stats:

The average price of gold during Q1 2009 was 908.41 USD, this is actually down 2% from Q1 2008. It is not often that the price of gold is down year over year. This would indicate an average price of 926 last year for Q1. Intuitively, one could argue that the demand of gold should have gone down by a similar amount, 2%. Not true, gold demand in Q1 was actually up 38%.

*–“The biggest source of growth in demand for gold was investment. Identifiable investment demand reached 595.9 tonnes in Q1, up 248% from 171.3 tonnes in Q1 2008. Taking into account inferred investment, which in the first quarter largely reflected investor flows into bullion accounts, total investment off-take reached 711.2 tonnes, up 173% on the levels of a year earlier.”* –World Gold Council

So the verdict is in then, gold prices will have to rise markedly in order to reflect the supply and demand situation in the market. The price would have to rise to 1273 USD/oz just to reflect the supply and demand situation that is presented to us at the World Gold Council. From the current price of 960, that is a 313 dollar rally!

The big question becomes why the gold price has not kept up with economics. There could be several explanations for this. The first is GATA’s explanation: manipulation of the declared gold holdings by the US and other countries to artificially keep the price down and the economy up. This is quite an elaborate scheme, possible, but I will leave that to the GATA guys to discuss. The second is market conditions. When the equities markets are doing well gold generally doesn’t. Well this spring has been an exceptional time for equities with a rally that is 40% strong. My suspicion is that 40% rally and 38% differential between the current price of gold and what supply and demand says it should be. That right there should be a part of the explanation.

We are set up for what is happening now. Now that the rally in the markets has taken a breather, the price of gold has been given a chance to recover. The longer the market rally stalls, the closer the price of gold will get to that 1273 dollar mark. Many of you who have been reading my letter had seen that I have been looking for gold to be between 12-1300 dollars by later this year. These conditions are precisely what is needed to create

that move up. We will see more of what is going on now, a slow and inconspicuous rise of the price of gold. As it reaches the 12-1300 dollar mark, the price swings will become more violent and have a much larger magnitude...SO GET THE TUMS READY AND PUT THEM BY THE COMPUTER!

What this means for investors is that we are going to finally see a strong rally in junior gold stocks. I don't expect this bear market rally to peter out just yet, so the rising gold prices and steady financial markets are the perfect receipt for junior gold companies to finally get the rally everyone has been waiting for.

Gold bullion is not a bad idea at this point, but I would go gang-busters over it. I would add to an existing position but in moderation as I believe that the junior gold companies will give the best bang for your buck.