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## **Opalesque Exclusive: Managers are optimistic on gold, base metals**

Gold is a hot topic among hedge funds in the present days of falling dollar and inflation - a situation when the yellow metal becomes all the more attractive as it is generally perceived as a hedge against monetary and economic calamity.

Gold futures touched \$1,042 an ounce after a report showed the U.S. economy expanded for the first time in a year, reported Market Watch yesterday. Gold for December delivery rose \$11.50, or 1.1%, to \$1,042 an ounce on Thursday. On Comex, it went up \$0.30 at \$1,047.40 this morning. Silver for December delivery rose 39 cents, or 2.4%, to \$16.63 an ounce on Thursday.

### **Tundra: Buy gold stocks, buy silver**

Gold is the ultimate currency, claimed Jean-Francois Ruel, president of Montreal-based firm Tundra Finance at Wednesday's Jetfin conference on commodities and energy in Geneva. And another hard fact about gold is that it is inversely correlated to the dollar.

Since 2001, gold has been up and should continue going up not only because the dollar is going down but also because there is a big appetite for gold. Indeed, the metal has outperformed equities since 1999, he said.

People are very surprised when realising how small the gold market is - smaller than the market cap of Microsoft or Exxon Mobil, for example, and the oil and gas industry is five times bigger.

Ruel recommends investors buy big and mid-size gold company stocks, which produce earnings and value for shareholders. They should also look at silver, which is up 50% YTD (compared to gold which is up around 18% YTD). Another thing to remember is that metals have seasonal patterns too (not just apples): they tend to perform better during the last quarter of each year.

Needless to say, Ruel is bullish on gold. His fund, the Tundra Gold Fund, a Luxembourg Specialized Investment Fund (SIF), has returned 23.31% since its Feb-09 inception.

### **Ebullio: Supply crunches in base metals looming ahead**

"The price performance for base metals has been nothing short of spectacular, and the price moves were even more exceptional in the middle of the recession."

— **David Sutcliffe, Partner at the London offices of commodity hedge fund house Ebullio Capital**

He explained that the four factors that support price growth in 2009 are global liquidity; mine supply cut-backs; commodity stock-piling; and short covering. But he expects these factors to be temporary, and that real consumption of base metals will disappoint early next year.

Supply in industrial metals is the most compelling part of the equation: for example, there is the prospect of a supply crunch in copper in the next 3 years, and future mine projects for lead will struggle to meet with trend demand growth.

So, he concludes, the current base metal prices are currently disconnected from real demand; consumption growth will not return to trend before H2-10; and as long term supply problems are a persistent feature for most industrial metals, supply crunches loom ahead in 2012 - leading to opportunities.

**Sprott: Inflation a great opportunity for gold**

“We are not gold bugs, we like gold but we’re not crazy.”  
— **David Baker, of Canadian fund house Sprott Asset Management.**

Sprott’s flagship fund (which is up about 15% YTD) is now 45% invested in precious metals, including gold; it has never been so exposed to them as now.

The production of gold has declined since its production peak in 2001 during the past decade, he noted.

“Central banks, this century, have become net buyers of gold,” he said. As indeed, “official buyers” represents the US Federal Reserve and world central banks, raising the question, when purchases end in 2010: who will replace demand?

“We believe inflation is a monetary phenomenon, and as the U.S. Fed “is” now the main market for U.S. debt... we think this is a great opportunity for gold,” he concluded.