UBS goes bullish on gold, says story more compelling "than ever"

"The gold macro story is more compelling that ever." Than ever? And that's not one of your gold bug sites talking; no, that's the Zurich-based global financial services giant UBS (and its London-based strategist Joni Teves to be more precise) speaking.

The average price for the first half of 2016 was $1,222/oz. Teves is figuring on $1,340 for a second half average with a short-term target of $1,400. That forecast is not all that brave considering it's sitting at about $1,360 today, but UBS's conversion to the gold story is enough to make news in itself, never mind the actual price forecast.

Eleven months ago when, through Amazon, I published my book *Gold Always Wins*, I did have second thoughts that perhaps my timing was a bit off. After all, the gold scene was looking a little fragile.

Not now. Fortunately, my title has been proved right again.

And what a time to be in the gold business with rising prices for the metal, industry projections of falling gold production in coming years, and the majors scouring the world to replace their mined reserves. Gold discovery numbers have been declining to a worrying concern, and high-grade ones even more so. This is all coming together when the world's economy is under pressure: in the past week alone we have seen six large British property funds freeze redemptions and a German bank come under pressure from its loan books to the depressed shipping industry. And the Italian banking system seems in serious trouble.

And, with good timing, InvestorIntel membership by gold companies is now growing. These companies, all worth watching, are:

Chesapeake Gold Corp. (TSXV: CKG | OTCQX: CHPGF) whose major project is its 100% owned Metates gold deposit located in Durango state, Mexico. Metates is one of the largest undeveloped gold and silver projects in the world. The project has proven and probable reserves of 18.5 million ounces of gold, 526 million ounces of silver and 4.2 billion pounds of zinc.

TerraX Minerals Inc. (TSXV: TXR | FRANKFURT: TX0 | OTC PINK: TRXXF) controls one of the six major high-grade gold camps in Canada. Its Yellowknife City project consists of 118 sq km of land immediately north and south Yellowknife, the capital of the Northwest Territories in Canada.

Harte Gold Corp. (TSX: HRT) is developing the Sugar Zone property, White River, Ontario. It is a high grade deposit open at depth and on strike. There's an indicated resource of 980,900 tonnes, grading 10.13 grams/tonne for 319,280 ounces of contained gold (uncapped) and an inferred resource of 580,500 tonnes, grading 8.36 g/t Au for 155,960 ounces of contained gold.

Otis Gold Corp. (TSXV: OOO | OTC: OGLDF) is a Canadian-based mineral exploration company with a portfolio of quality precious metals projects located in Idaho. The company is currently focused on exploring its flagship Kilgore gold project, located in Clark County, Idaho, approximately 60 miles north of Idaho Falls. The Kilgore gold project has a resource of 520,000 ounces of drill-indicated gold and 300,000 ounces of inferred gold.

Alkane Resources (ASX: ALK | OTCQX: ANLKY) is mining the Tomingley deposit in New South Wales. While Alkane is best known for its Dubbo zirconia project, it has long had an interest in staying in the gold business – and probably feels vindicated as the metal's price starts a new bull run.

Uragold Bay (TSXV: UBR) owns the Beauce gold project; the company sees Beauce as being the first new gold mine in southern Quebec in 50 years.

West Red Lake Gold Mines Inc. (CSE: RLG | FWB: HYK | OTC: HYLKF) is a Toronto based company focused on gold exploration and development in the prolific Red Lake gold district of northwestern Ontario, Canada. The Red Lake Gold District is host to some of the richest gold deposits in the world and has produced over 30 million ounces of gold from high grade zones.

I won't go through the UBS analysis of where gold stands. I think we all know about that. But what is worth recounting a page of what Teves calls "pivotal questions".

Q: Has gold entered a new bull run?

A: "We think so", she says. Negative interest rates, worries about the dollar and lingering macro risks justify strategic gold allocations.

Q: Is the gold trade overly crowded?

A: "No, we think there is still room for more." Individual positions are not at the moment unusually large and, even while currently strong, inflows to gold exchange-traded funds are still some distance away from record highs.

Q: Are the risks to the base case symmetric?

A: "No, we think risks are skewed to the upside." There could be a stronger move if the wealth community buys more gold, or the central banks opt for "helicopter money" and inflation follows. On the downside there could be a violent gold sell-off, says Teves (but I would be astonished if that happened; and this whole view of gold does not allow for some geopolitical shock coming on top of all the financial woes of the world).

Gold thrives when everyone is worried. And here’s the latest worry according to a headline Thursday in London’s *The Daily Telegraph*: “World faces deflation shock as China devalues at accelerating pace”.

Here’s what I had to say about such a situation in my book, *Gold Always Wins*: “For one thing, deflation as well as inflation can cause conditions in which gold is an attractive acquisition. The inflation case is clear: gold, rather than paper money, maintains its value. But, anyway, let’s daydream for just a few moments about a world where gold is the one trusted store of wealth (as it was during the Great Depression and back in the year 1932). Gold’s role in deflation was amply demonstrated by Homestake Mining which saw its shares rise each year between 1929 and 1935 and so, too, its dividends to shareholders. During the six years of the Great Depression, Homestake Mining paid out $128 per share in dividends. If you bought Homestake Mining shares from your Wall Street broker in October 1929 they cost $80, but by 1935 Homestake stock was worth $495 per share.”

Official buying

Capital Economics of London expects central bank gold buying to increase as those institutions diversify away from the dollar. “Gold’s appeal as a reserve asset also continues to be bolstered by interest rates and bond yields having turned negative in most of Europe and Japan,” write Capital analyst Simona Gambarini.

Official buying has slowed in the first half as the gold price rose by 28% in US dollar terms and central banks may be waiting for better opportunities to buy (although the figures have been skewed by Venezuela’s large sales to try and keep the economy from imploding).

“That said, high gold prices haven’t prevented the official sector from increasing their gold reserves in the past," says Gambarini. According to Fitch Ratings, the level of negative-yielding global debt has risen to almost $12 trillion (yes, trillion) in July, a 12.5% increase since the end of May. "With rates having turned negative in most of Europe and Japan and likely to remain so for some time on 'Brexit' woes, the opportunity cost of holding gold has almost disappeared," she adds.