

UOBAM'S PHYSICAL GOLD TARGET PRICE UPDATED TO US\$2,300/OZ

Summary

We are updating our 12-month target price for physical gold to US\$2,300/oz. This revised target price is equivalent to the Consumer Price Index(CPI)-adjusted high of US\$850/oz reached in January 1980 and is within the US\$2,000-2,500/oz target range that leading investment banks are currently revising their gold price targets towards.

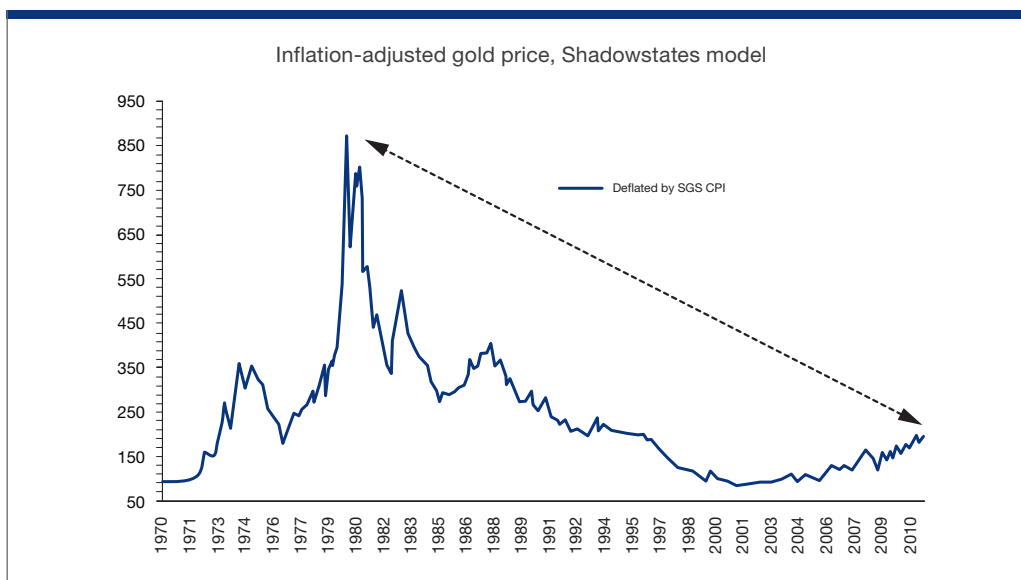
Although the gold price is now technically stretched and due a short-term correction, the main positive support factors remain in place, namely negative real interest rates, central bank buying, currency volatility, growing emerging market retail investment demand, higher institutional portfolio diversification demand and gold being a small asset class sensitive to strong demand inflows.

These factors support a "stronger-for-longer" gold price, and are only helped by peripheral events like Venezuela's recent demand to repatriate its official gold reserves.

Gold equities should report exceptional 2011 third quarter results – they look cheap here relative to the gold price and are starting to outperform relative to the materials sector and the broader markets.

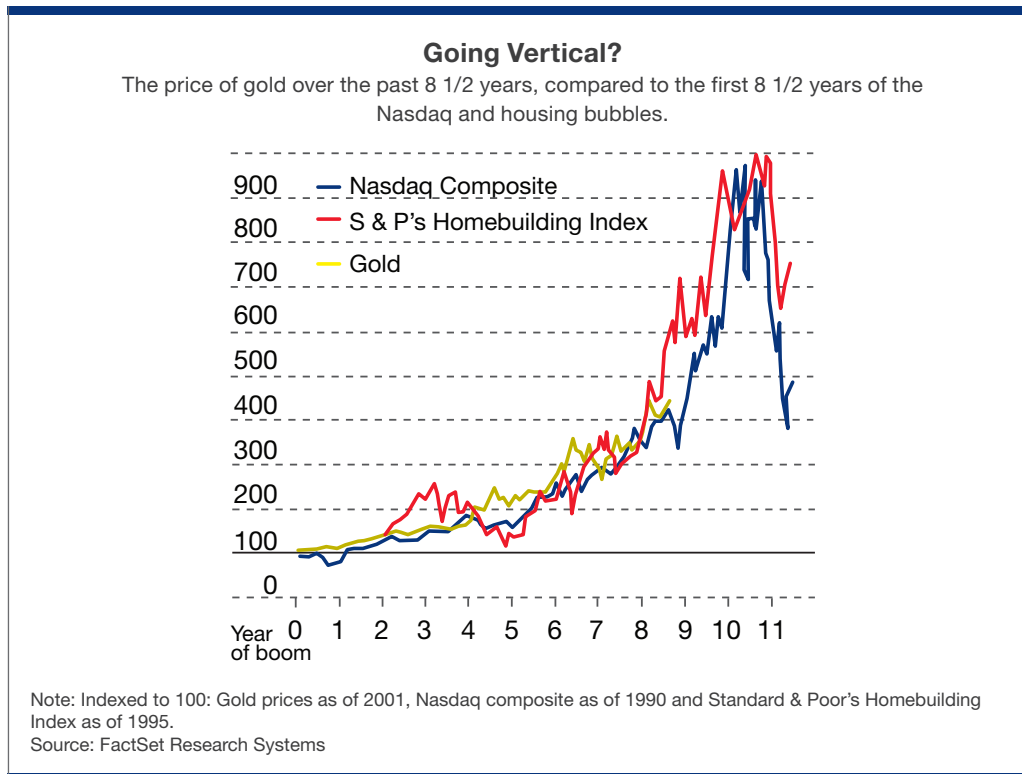
US\$2,300/oz equates to inflation adjusted US\$850/oz

Our US\$2,300/oz target price is equivalent to the January 1980 high of US\$850/oz. We note this is the adjusted figure based on the official US CPI data, where there have been several changes in the method of calculation over past 30 years. According to Shadowstats, if inflation was calculated using the unchanged definition as of 1980, the "proper" inflation adjusted figure would be US\$7,000/oz.



Is Gold in a bubble territory?

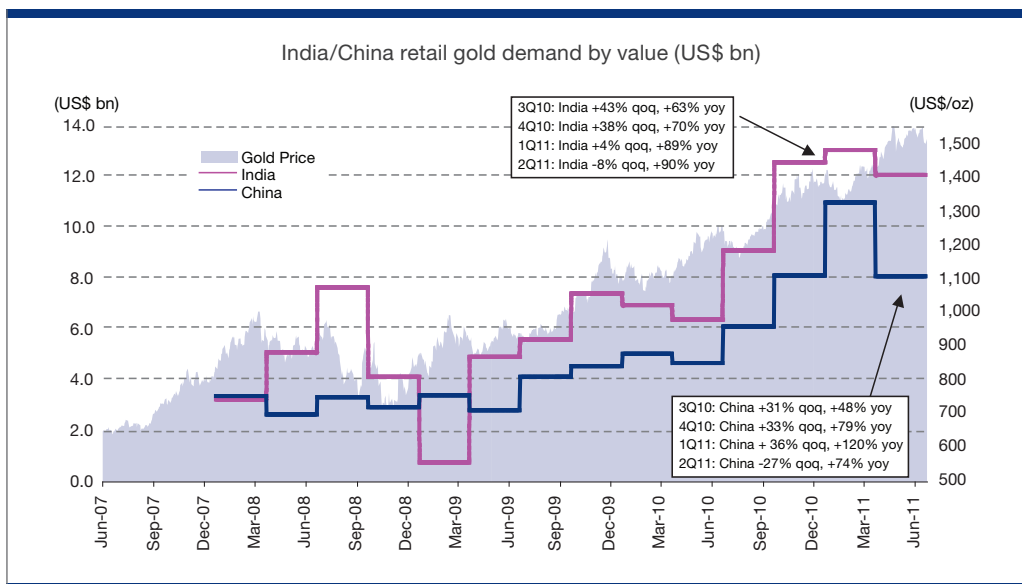
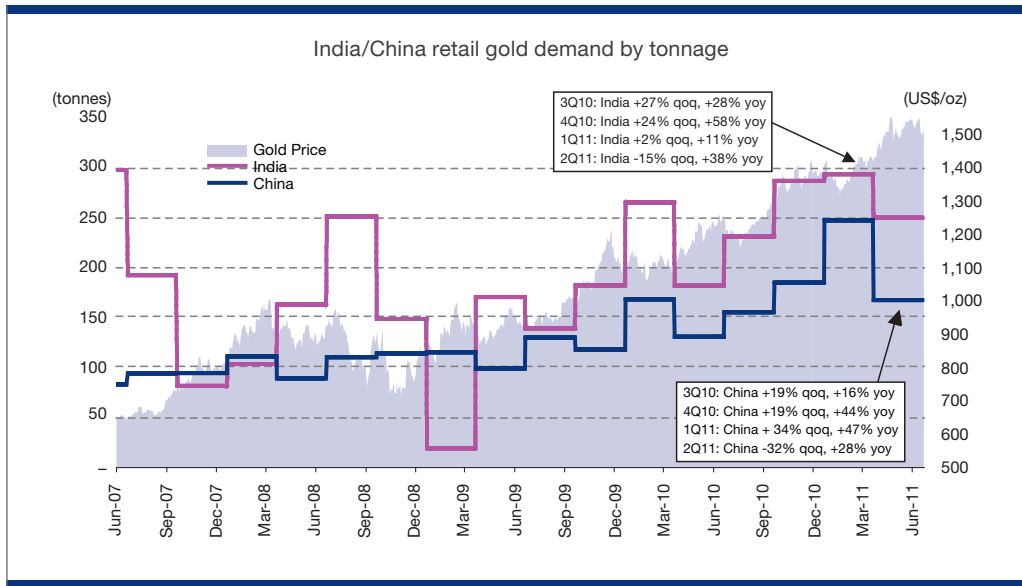
Financial commentators have been calling the top for the gold price since the US\$1,300/oz level. However, the chart below shows that the Internet and US housing bubble saw price increases of approximately 10 times from their lows. The gold price averaged US\$280/oz in 2000 and 2001. Using this simple analogy would put the gold price in bubble territory closer to US\$3,000/oz.



What the World Gold Council 2Q11 data shows

We had been hoping that the 2011 second quarter data released by the World Gold Council (WGC) would show very strong Chinese and Indian retail demand. However, the data released last week was mixed, with the year-on-year (“y-o-y”) tonnage growth strong (India +38%, China +28%) but the quarter-on-quarter (“q-o-q”) data showing a decline (India -15%, China -32%).

Historically, seasonal factors have been important with the February-July period being the weakest period of demand, and festival buying picking up from August onwards. We note that, in value terms, the numbers look much better. We also note that the WGC has a consistent record of under-reporting demand, only to revise figures upwards in later quarters. Our 2011 second quarter comparisons are against the revised 2010 second quarter numbers.



WGC India/China investment demand data prone to consistent upward revisions

DEMAND	Initial (tonnes)	Revised (tonnes)	Revision (%)	DEMAND	Initial (tonnes)	Revised (tonnes)	Revision (%)
INDIA				CHINA			
1 Q09	17.7	24.2	37%	1 Q09	113.8	114.7	1%
2 Q09	109.0	164.2	51%	2 Q09	97.6	120.0	23%
3 Q09	137.6	179.6	31%	3 Q09	128.6	132.3	3%
4 Q09	180.7	207.9	15%	4 Q09	116.3	127.1	9%
1 Q10	193.5	263.4	36%	1 Q10	139.7	166.8	19%
2 Q10	164.5	180.4	10%	2 Q10	120.0	129.3	8%
Average revision			30%	Average revision			11%

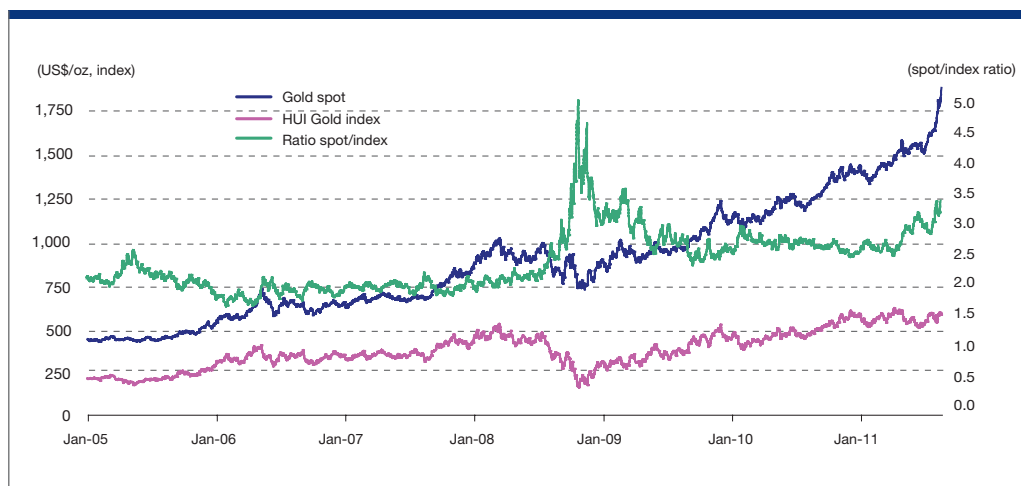
Venezuela asks for physical repatriation of its official gold reserves.

On 17 August 2011, the Central Bank of Venezuela asked that the 211 tonnes of its 366 tonnes official reserves held abroad be transferred to Venezuela's central bank vaults. Press reports state that c90 tonnes is held with the Bank of England, with the remainder housed at various US, Canadian, and UK banks. While it was reported that Venezuela has lost faith in the US Dollar, the request could also be viewed as a counter-move ahead of arbitration cases that might freeze Venezuela's international assets. Venezuela's request follows last month's release of the Bank of International Settlement's annual report which showed that central bank deposits had declined by a massive 635 tonnes. Reasons suggested for that decline were that central banks now preferred to house their gold at home, rather than with another central bank.

Venezuela's request opens up the possibility that: 1) Venezuela gets its gold quickly. However, other countries may also start to ask for official gold reserve repatriations; or 2) Venezuela does not get its gold (arbitration issues being the reason given), resulting in President Chavez accusing the UK and various banks of not having adequate reserves.

Gold equities inexpensive, due for a re-rate

Gold equities are now at historically low valuations, with Tier 1 gold companies trading at greater than 8.0x FY12 Enterprise Value/Earnings Before Interest, Tax, Depreciation and Amortisation ("EV/EBITDA") and greater than US\$450 EV/reserve ounce. The physical gold/gold equity ratio has increased to 3.3x, the highest level since October 2008 – March 2009. However, aggregate 2011 first and second quarter EBITDA margins were greater than 50% (with 2011 third quarter margins likely to be the highest ever) compared to EBITDA margins of less than 30% in 2008. We continue to argue that gold equities should see a significant re-rate relative to the gold price, with the catalysts being: 1) analysts continuing to increase their gold price forecasts and equity target prices; and 2) continued strength in the gold price, leading to blowout 2011 third quarter results.



Contact Details

Address 80 Raffles Place UOB Plaza 2 Level 3 Singapore 048624

24-hour Hotline 1800 222 2228 (Local) • (65) 6222 2228 (International)

Fax (65) 6532 3868

Email uobam@uobgroup.com

Website uobam.com.sg

Business Offices

Singapore

Institutional Business

Dennis Siew

Senior Director

Retail Business

Norman Wu

Senior Director

New Strategic Markets & Private Banks

Rachel Ong

Director

Structured Investments

Chong Jiun Yeh

Executive Director

Brunei

Kamal Muhd

General Manager

Japan

Masashi Ohmatsu

Chief Executive Officer

Malaysia

Lim Suet Ling

Chief Executive Officer

Greater China/Taiwan

William Wang

Chief Executive Officer

Thailand

Vana Bulbon

Chief Executive Officer

Important Notice & Disclaimers

This publication shall not be copied or disseminated, or relied upon by any person for whatever purpose. The information herein is given on a general basis without obligation and is strictly for information only. This publication is not an offer, solicitation, recommendation or advice to buy or sell any investment product, including any collective investment schemes or shares of companies mentioned within. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, UOB Asset Management Ltd and its employees shall not be held liable for any error, inaccuracy and/or omission, howsoever caused, or for any decision or action taken based on views expressed or information in this publication. The information contained in this publication, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of this publication, all of which are subject to change at any time without notice. UOB Asset Management Ltd (“UOBAM”) does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any error, inaccuracy or omission. Any opinion, projection and other forward-looking statement regarding future events or performance of, including but not limited to, countries, markets or companies is not necessarily indicative of, and may differ from actual events or results. Nothing in this publication constitutes accounting, legal, regulatory, tax or other advice. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. **You may wish to seek advice from a professional or an independent financial adviser about the issues discussed herein or before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider carefully whether the investment or insurance product in question is suitable for you.**

UOB Asset Management Ltd Co. Reg. No. 198600120Z