



**Gold** High : \$760 Low : \$520.75 Average 2006 : \$618

Quarterly Averages =

Q1 2006 \$555

Q2 2006 \$575

Q3 2006 \$640

Q4 2006 \$685

Average 2007 \$730

2006 - Arguably the toughest gold price forecast to make in a generation. Disconcertingly the market appears to have migrated from something that one could readily measure and weigh according to a reliable set of supply/demand statistics. External factors are likely to remain positive for gold – **US dollar weakness, inflation, geopolitical tension (Iran), fewer US rate rises, US trade deficits, avian flu, the (non) performance of other competing asset classes and a favourable tide across the commodity complex – particularly oil.** Internal factors look equally compelling – stagnating mine production, demand rising through the opening of new bullion exchanges and increased the availability of gold through structured products and other investment vehicles. In short – more of the same. After annual price rises of 23%, 25%, 5% and 20% over the last 4 years we believe gold is in for another bumper year – just like the others – that is slow in the first half but accelerating in the second half of 2006. We do not expect the word “gold bubble” to be in regular use – that comes in 2007.

**Silver** High : \$12.50 Low : \$8.83 Average 2006 : \$9.77

Quarterly Averages =

Q1 2006 \$8.95

Q2 2006 \$9.56

Q3 2006 \$10.50

Q4 2006 \$12.45

Average 2007 = \$11.25

After a stellar performance in 2004 and 2005 when silver notched up gains of 28% and 38% respectively, the scene looks set for a further rally in 2006 but perhaps on a slightly more modest basis. Ongoing investor appeal is supported by solid demand across the commodity complex – in particular gold and oil. Silver's fundamentals remain a little less compelling than most of the other metals sharing the same stable but that seems not to have mattered so far. Mine output is creeping higher and demand in some key sectors such as photographic applications seems to be flagging. That should not however spoil the party as investors are showing a high propensity to buy and hold – so higher but with some caution. We expect a successful breach of the \$10 in 2006 but not the highs around \$14 seen in 1983 yet.

**Platinum** : High : \$1250 Low : \$982 Average 2006 : \$1085

Quarterly Averages =

Q1 2006 \$1010

Q2 2006 \$1030

Q3 2006 \$1105

Q4 2006 \$1220

Average 2007 = \$1175

With platinum closing its supply deficit and prices nudging 26 year highs at the opening of the year, it would be tempting to suggest that prices can have little upside before jewellery demand collapses altogether and carmakers go into open revolt. Perhaps not. The gap left by departing industrial and retail clients seem to be more than compensated for by incoming investor clients. Not the healthiest development for the long-term development of this important market but you cannot stand in the way of free markets. Fears of a price bubble may in part be eased by concerns of economic stagnation in 2006/2007 but new applications from the electronics and the glass sector seem also to be in part compensating for a decline from the auto sector.

**Palladium** : High : \$480 Low : \$253 Average 2006 : \$355

Quarterly Averages =

Q1 2006 \$285

Q2 2006 \$315

Q3 2006 \$440

Q4 2006 \$460

Average 2007 = \$540

Palladium forecasting is one of those futile exercises that is guaranteed to make a monkey out of you. Just when you think you understand what drives the market - it does the opposite. Palladium seems - by general consensus - to have now paid its penance for bad behaviour in 2001 when it rallied to \$1200 and is now back in play. The market was supported on the downside by some clever option play and is now migrating higher in the company of other strongly performing commodities, making up for lost time. Unfettered and looking cheap compared to platinum, palladium is gaining favour with speculators, jewellers and car-makers alike – a lethal combination. Let us hope that palladium does not find itself back in the doghouse again this year. Notwithstanding a 40% gain in 2005, it is still looking like the bookies choice for 2006 and we expect palladium to see the best returns amongst the group.

Ross Norman  
Director  
TheBullionDesk.com

+44 (0) 1799 516956