COLUMN BY ALBERTO MIGLIUCCI

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GOLDEN OPPORTUNITY

Some of Indonesia's savviest rich listers see gold as the next big investment.

Is gold about to glitter again? Some savvy investors are betting on it. Indonesian tycoons Peter Sondakh and Edwin Soeryadjaya have recently established footings in gold assets in the archipelago. U.S. billionaire and legendary hedge fund manager Stanley Druckenmiller of Duquesne Capital just made a huge bet on gold, going $300 million long on the yellow stuff. He also took big new positions in Freeport-McMoRan, the U.S. miner that operates Grasberg, the world's largest gold mine in Papua. Billionaires John Paulson, one of the world's most influential gold investors, David Einhorn and Ray Dalio have all lately bet big on gold.

Gold "unexpectedly" looks like a good place to be. After 10 plus consecutive years of gold price rises, we are now heading for a third year of declines and 40% below the record high of $1,920 an ounce reached on Sept. 6, 2011. Gold equities have been hammered as a result. But while this looks ominous, it's worth noting that gold has stabilized around $1,050 to $1,300 for much of the last two years. While a period of low volatility doesn't by itself indicate a rally (or a collapse) is imminent, it does show that the strong selling of 2013 is history.

Indonesia is well positioned to benefit from any upswing in the price of gold, as it is well endowed with world-class gold projects spanning from Aceh to Papua. The geology in Papua is extraordinary, as the whole Papuan arc holds some of the world's most promising areas for exploration.

It's not always easy to see the opportunity. In the late '80s, I worked as a geologist for the large South African gold producer Gold Fields. I worked at a mine in Australia's outback expecting to see plenty of gold, yet I didn't see one speck—it was so fine, that it had to be extracted through chemical means. Yet at the end of every month, I saw the glowing molten gold being poured out of the furnace as Doré bars, the product of our mine, which the company then refined to produce pure bullion.

Many years later as a senior investment banker, I realized that you may not instantly understand a commodity's value, but it will become apparent at some point, and when it does you need to follow that trend. History tells us that gold's performance in up-cycles can yield unparalleled alpha.

While short-term factors and news events can always shift gold, over time the price tends to be driven by the big picture. Gold was pushed to its record in 2011 by an unusual combination of events, that many mistakenly believed would persist for a considerable period. The likelihood

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of rising U.S. interest rates tends to draw money into fixed interest products and away from bullion. However, the much-anticipated move by the Federal Reserve has been priced into gold for some time now, and it's also likely that the tightening cycle will be long and slow, and therefore not that bearish for gold.

Meanwhile the trend of developing nations wishing to diversify their foreign reserves is likely to continue, especially if China and Russia keep buying gold. There is also a strong physical demand from India and China from a rising middle class and unprecedented buying from central banks, particularly those in the developing world. Thus, there is a rebalancing of investment demand for gold, often seen as a protection against "paper" money—bankers and governments issue paper. In 2008, gold buying was also driven by fear of a monetary meltdown in the wake of the global recession.

While the meltdown fear has subsided, the China and India stories are coming back and central bank demand remains solid. Against this backdrop China and India account for just under half of physical gold demand and here the medium-term outlook is positive. China's sluggish second quarter demand this year ended with a sharp rebound in the third, with 196 tonnes representing a 3% year-on-year increase. The collapse of Shanghai's equity market is a reminder of gold's use as a store of value, and if the precious metal can continue even a mild uptrend, it will encourage China's consumers to buy both jewellery and bars.

India's jewellery consumption also roared back in the third quarter, rising 5% year-on-year to 193 tonnes, the highest quarterly total in seven

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years. It was recently reported that India's biggest jewellery maker, billionaire Rajesh Mehta, wants to deepen his relationship with Australia's gold industry by buying stakes in Australian mines and potentially opening retail jewellery stores in the country

With a rising middle class, brighter economic outlook and a cultural affinity toward gold, it's easy to see positive demand growth in India over the medium term. Central bank buying is also holding up strongly, with net purchases of 132 tonnes in the third quarter this year, a 13% gain over the same period in 2014.

Global mine supply will have a slower pace of growth in 2016 and 2017. Older, more expensive mines may be closing at a faster rate than new output is arriving, with Thomson Reuters GFMS estimating total mine supply will decline slightly this year, to 3,125 tonnes, before dropping again in 2016 and 2017. There have been only a handful of viable new discoveries this past cycle and these are simply replacing old mine depletion.

Overall, the positive drivers for higher gold prices are gaining ground, while the negative factors appear to be losing influence. While there isn't enough to suggest a strong rally soon, there are compelling reasons to believe that gold will gradually appreciate in the medium term. Gold's luster should return, as nothing can compare to this precious metal. F

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