



REVIEW

By Alberto Migliucci
CEO & Founder of PETRA COMMODITIES

Indonesia's savviest claim gold as their next big investment

The yellow metal has clearly turned the corner, becoming flat-out bullish following the extensive and painful correction from August 2011 to year-end 2015. Year-to-date, the US dollar gold price has increased circa 26 percent to US\$1334 / oz. Petra Commodities anticipated back in December last year Forbes Indonesia "GOLDEN OPPORTUNITY" by Alberto Migliucci (<http://forbesindonesia.com/berita-916-golden-opportunity.html>) that gold would turn making the decision of several savvy investors taking big positions in the precious metal a smart investment.

Despite the impressive year-to-date advance in the gold price, Petra Commodities continues to believe this is the start of a larger gold bull run. Positive gold cycles have historically lasted for at least three to five years, and some longer and the current alignment of political and economic factors is unusually compelling argument for holding and accumulating gold.

Golden Indonesia

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.

Indonesian tycoons Peter Sondakh, Edwin Soeryadjaya, Budi and Michael Hartono, and the Panigoro family have all recently established footings in gold assets in the archipelago.

In addition, 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 on the western half of Papua. Currently, Indonesia produces around four percent of global gold production (Indonesia is a top 10 gold producer), half of which originates from the giant Grasberg mine which is believed to contain the world's largest gold reserves (67.4 million ounces).

Indonesia has seen a re-emergence in gold M&A deals with Indonesian tycoons Budi and Michael Hartono and Martua Sitorus teamed up in a consortium led by Australian investment management firm, EMR Capital, alongside with Farallon, for the acquisition of the Martabe Gold Mine located in North Sumatra from HK-listed company G-Resources. The Martabe Mine has a reported resource base of 7.4 million ounces of gold and 70 million ounces of silver, and more than 275,000 ounces of gold and over 2.2 million ounces of silver were produced in 2014.

A further golden opportunity has been seized by IDX-listed energy firm PT Medco Energi Internasional Tbk with the announced acquisition of the Newmont operated Batu Hijau copper and gold mine. Batu Hijau is one of south east Asia's largest mines, primarily producing copper and secondary amounts of gold and silver. Originally discovered in 1990, commercial production began in 2000 by US

gold producer Newmont. The Batu Hijau mine is located in the southwest region of the island of Sumbawa, West Nusa Tenggara Province, Indonesia.

"The transaction will directly provide a strategic added value to MedcoEnergi in view of the world-scale operation of PTNNT. The acquisition will strengthen MedcoEnergi's position as an energy and natural resources top-tier enterprise in Indonesia and emphasizes our commitment to contribute to the national development," Medco's President Director and founder Hilmi Panigoro said in a statement.

Having worked on the Batu Hijau mine previously, Petra Commodities believes the Medco acquisition of Batu Hijau is one of the best in the market. This is the largest gold deal in Indonesia in recent years, and may not be the last.

Petra Commodities is presently working on selected gold projects in the archipelago in view of unlocking maximum value for its investors.

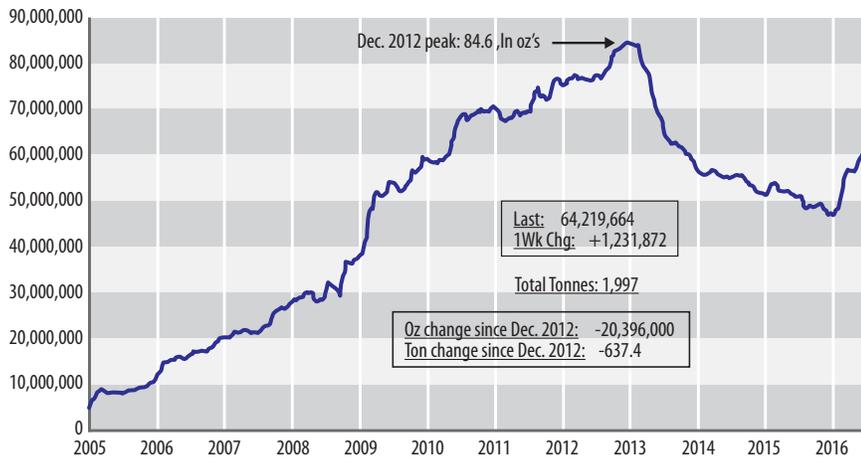
Gold as a "safe haven"

In periods of uncertainty, gold is often one of the few perceived 'safe-haven' assets with liquidity. It is also historically negatively correlated with risk-on assets.

UBS claims the sustained argument for a gold rally is straightforward and gold has likely entered the early stages of the next bull-run. Key drivers include:

- 1) low/negative real rates,
- 2) the view that the dollar has peaked against

Total worldwide gold ETF ounces held



Source: Bloomberg

Developed Market currencies; and
3) lingering macro risks.

There is a growing belief that fiscal and monetary policies in developed countries has reached an impasse, and is all but bust. Governments will never repay their ever-increasing debt, infact may not be able to pay even interest on that debt, which explains the rising amount of negative-interest government bonds. Investors are beginning to look to gold, fearing that the purchasing power of all paper currency – including the US dollar – is vanishing. The three-decade low in the pound sterling following the Brexit vote is a warning that the practice of central-bank-managed currency exchange rates is unravelling.

The UK's vote to leave the EU further underpins gold's macro narrative, reinforcing the themes of further dovish shifts in monetary policies, consequently lower yields, and heightened uncertainty.

These factors justify strategic gold allocations across different types of investors. In such a world, investors will look to gold and silver. At such a moment it would be counterproductive for investors to dwell upon issues of market timing. Gold is extremely under-owned, and therefore likely to react dynamically to even modest inflows.

ETFs are back

It is reported that global gold holdings of ETFs have risen greater than 25%, or c.380 tonnes to over 2,000 tonnes in 2016 year to date. This is estimated to have added c.30% to normal monthly global gold demand in year to date 2016. To put this increase in perspective, the pace of buying in 2016 year to date is equal to about 1000 tonnes of gold on annualized basis. This would be a record annual total. Furthermore, holdings in bullion-backed exchange-traded funds rose to tons recently. That's larger than gold reserves held by China, the biggest consumer and a consistent central-bank buyer in recent months. The latest increase followed the biggest one-day gain since 2009 in the SPDR Gold Shares, the largest gold ETF.

Global assets in the funds have surged 37 percent this year and prices are near a two-year high as slowing growth, negative rates in Europe and Japan, and the likelihood that the Federal Reserve won't hike further combined to boost demand. The U.K.'s vote last month to quit the European Union has added further impetus to that pro-bullion mix. Gold has likely entered the early stages of the next bull run, according to UBS Group AG, while ABN Amro Group NV says prices may hit \$1,425 this quarter.

A symbol of wealth and prosperity, it has been a value for explorers and adventurers and a lure for conquerors and tycoons, but the real appeal of gold for any producer, large or small, is that if you mine it, people will buy it. It can be sold on the spot, the market is deep and global. The owners of the gold assets have unmined gold which is effectively gold in an in-situ gold bank. It has value even before it is mined and that gold can be used to finance development.

About Petra Commodities

Petra Commodities, is a boutique investment and advisory firm dedicated to sourcing, investing in and executing the best natural resources deals in Asia-Pacific, with offices in Singapore, Jakarta and Sydney.

Petra Commodities was founded by Alberto Migliucci, an experienced investment banker and qualified geologist with more than 25 years' experience in the mining, oil and gas and investment banking sectors. Migliucci was a senior investment banker, Managing Director, Head of Mining & Metals and Energy for Credit Suisse Asia amongst others. He also practiced as a geologist for Renison Goldfields and other mining and energy companies in the Asia-Pacific region. Petra Commodities combines financial advisory, geological and technical expertise, and is able to provide a full suite of investment advisory and banking services across the life cycle of natural resource projects and capital investment.

Migliucci is a regular contributor to Indonesia's CoalAsia magazine and FORBES Indonesia.

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