

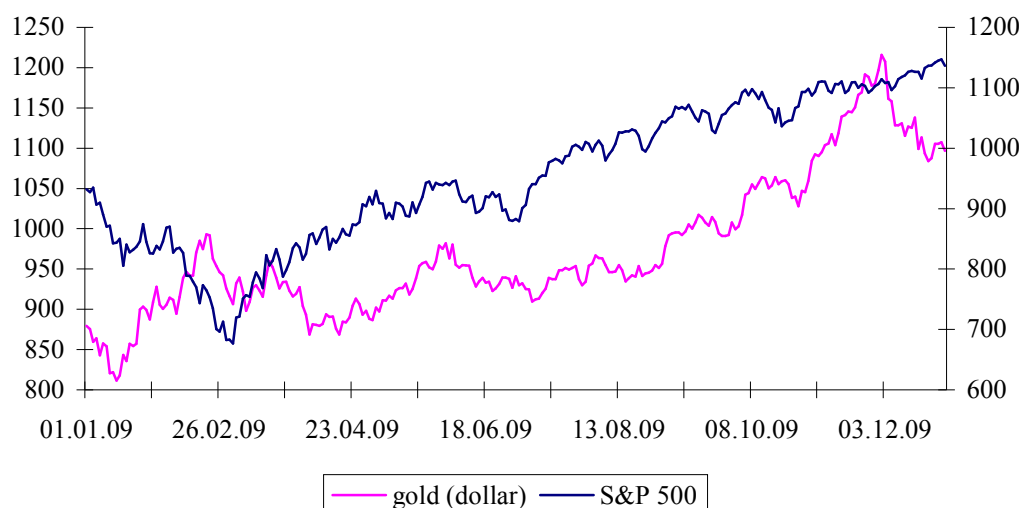
## GOLD DEMAND RISING AS INVESTORS TURN TO THE PRECIOUS METAL

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JANUARY 14, 2010

Gold prices have been on the rise for more than a year, reaching \$1,200 per troy ounce in early December 2009. Unstable markets, weakening paper currencies and inflation risks all drove up demand for the precious metal. Seeking to avoid losses from cheapening instruments traded at financial markets investors turned to physical gold.

Although stock and financial markets began to recover from the second quarter of 2009 (for instance, the S&P 500 index has risen 50% from March 2009), gold prices kept growing (see Figure 1). It means that investors continue to consider gold the best investment option (by the risk/efficiency parameter). Consequently, demand for gold remains high.

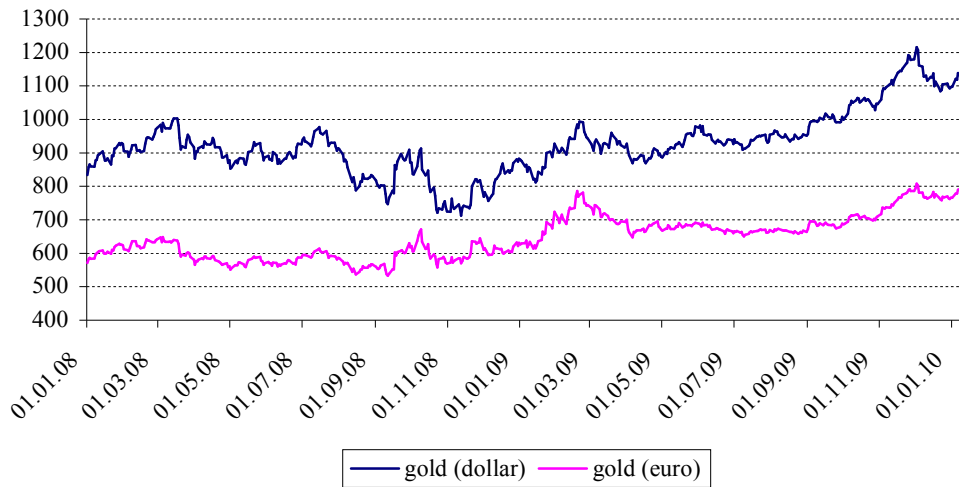
**Figure 1. Gold price (per troy ounce) and S&P 500 index movement**



*Source: Bloomberg*

The dollar exchange rate has been considered the major factor to influence gold prices (this parameter, analysts say, reflects aggregate information about the US economy). Indeed, the correlation of the US currency exchange rate and the gold price has not fallen below 0.8 in the past seven years. Nevertheless, the gold prices in dollars and euros grew equally in the past two years – by 36%, while the exchange rate in mid-January 2010 has been practically equal to that in early 2008 (see Figure 2).

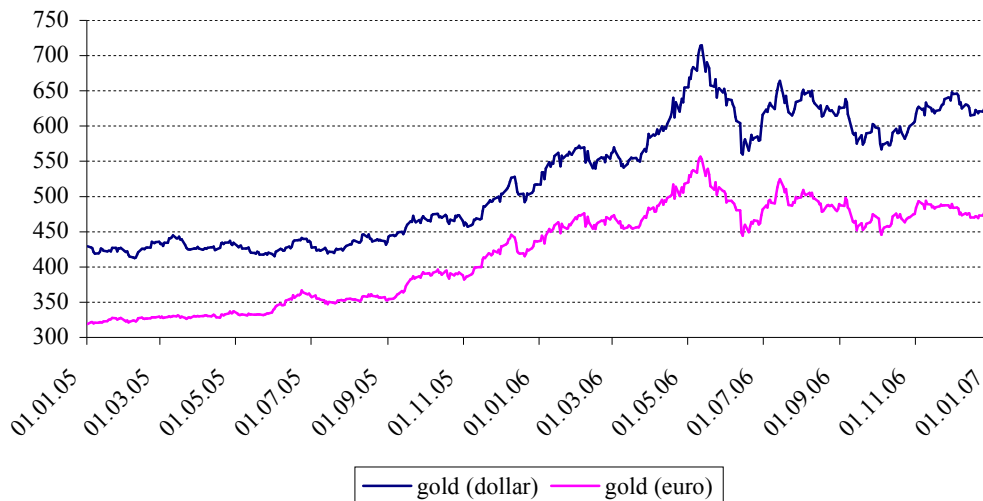
**Figure 2. Movements of gold prices in euros and US dollars (per troy ounce) in 2008-2009**



Source: Bloomberg

Yet more surprising is that in 2005-2006, during an economically favorable period, gold prices surged higher than during the 2008-2009 crisis – by 48% in dollars and by 51% in euros (see Figure 3).

**Figure 3. Movements of gold prices in euros and US dollars (per troy ounce) in 2005-2006**



Source: Bloomberg

Perhaps, investors began to consider gold a good investment option as early as in 2005-2006? Anyway, historical gold price movements show that prices for physical gold do not only depend on fundamental factors and events, but also on more complicated things related to investors' vision of market prospects. Widespread interpretations of the gold market trends through one (usually, the US dollar exchange rate) or several parameters prove unreliable even if treated only cursorily.