Jay's Views on Gold for 2006 on ROBTv

Your editor was honored to appear on the ROBTv's "The Trading Desk with Pat Bolland" On December 29, 2005 to talk about gold in 2005 and then a look forward to 2006. To watch this archived interview go to: http://www.robtv.com/servlet/HTMLTemplate/!robVideo/robtv0726.20051229.00035000-00035646-clip1/h/220asf///

For those of you who may not have access to web television or who may have dial up connection which make watching these programs more difficult, here is a written transcript of my discussion with Michael Hainsworth, who sat in for Pat Bolland on December 29th.

RobTv: 2005 was certainly a golden year for investors. The metal everyone seems to love lately has been hitting new highs and that $10.4 billion takeover bid from Barrick Gold from Placer certainly has everyone talking too. What will the gold sector look like in 2006? We put that question to Jay Taylor, Editor of J Taylor's Gold & Technology Newslette. He is in New York. Thank you for joining us.

J Taylor: Thank you. Thank you for having me.

RobTv: How would you characterize 2005 for gold? Unusual or more of the same?

J Taylor: Well, I think we are in the very early stages of a long term bull market for gold and so I expect prices are going to go much higher in the future but I would say that 2005 was characterized for the mining companies was characterized by rising costs that rose faster than the price of gold. So as good as the gold price was for mining companies, those that were producing gold found their energy costs and other costs going up faster so to a certain extent the mining companies saw their profits squeezed during 2005. Recently of course we have seen the energy costs leveling off, but we have seen the price of gold rise above $500. And so I think the outlook is very good for 2006.

RobTv: Well, before we get into that did you think that rising costs were the biggest surprise in 2005? The fact that despite the higher prices for bullion, the bullion diggers were not benefiting as much?

J Taylor: Yes, that was something I had not expected for sure. Generally I expect we are going to see a leverage play (on gold). The mining companies profits should go up faster than the price of gold. That wasn't the case this year. But I think it could be a turning point next year.

RobTv: How so because the prices we are seeing for oil for example are expected to remain at pretty much these levels at least for the firs half of 2006.

J Taylor: Well, that's right. But again gold prices have been a lot stronger in the last few weeks than energy prices have. And so I'm quite bullish on gold. I think gold is in the early stages of a multi-year bull market and I think what we are seeing recently is a very, very bullish picture technically for gold. It should correct. But it doesn't seem to want to. There seems to be a tremendous demand for gold—for monetary gold that we haven't seen in quite some time. And I think the key is that central banks are possibly buyers of gold now where as they were sellers and dishorders. And that really is what kept the price of gold subdued during the 1990's. Central banks were more than making up for a shortage of gold production from the gold mines. We had a shortage of gold production all during the 90's to meet the demand. But the central banks were aggressively selling their gold and that really suppressed the price of gold. That is changing now—the other way around. Countries like Russia, Argentina and others are taking a very aggressive pro-gold view. So I think it is very, very bullish.

RobTv: Russia, Argentina, South Africa. You talk about those. We have been hearing a lot about China and the possibility of them quadrupling their buy back of gold. How important is that in relation to Russia? To South Africa?

J Taylor: Yeh, well Russia is, well China is absolutely huge as long as the global economy remains on track and as long as there is growth—that is the one concern and one caveat I have for the commodities and energy—not so much for gold, I would say, though however because if we have a substantial decline in economic growth in 2006, there is so much debt in the global economy that I think it would be very destabilizing and gold should fare very well in that environment. But I would be concerned about commodities in a recession.

RobTv: You have said we are in a multi-year bull market right now. So let me get your take for 2006. Crystalball it for me. Where does gold go next year? But also how long is this bull market that you are predicting?

J Taylor: Well, you know, it is just really hard to predict where gold could go in 2006 but I –you know—because it really depends on psychology to such a great extent. If there is a loss of confidence in the dollar or in the global monetary system on a major scale, then we could exceed $600 very easy. How long is this gold bull market going to go? I think we could be in a 10 year bull market—you know it started two or three years ago. So ultimately I think we are going to see gold quoted in 4 digits not three. I just don't know what the first number is going to be in that 4-digit number.

RobTv: You are not talking gold $1,000 any time soon though?

J Taylor: Well, I don't know about the "soon" part. It depends on the psychology. You know, really gold rises when there is a loss of confidence in currency and the monetary system. So if you can tell me—you know I believe that is going to occur in the next 5, 10 years. The question is how soon. You know how soon is the confidence lost in the global monetary system? But I see huge amounts of indebtedness in the United States and this—frankly has Ben Bernanke frightened of a deflationary scare—I think is real. I think it is real—because debt is growing exponentially while GDP is growing in a linear fashion—you know two, three percent, four percent a year. But debt is up to $43 trillion (in the U.S.) and growing straight up because every time there was a threat of a deflationary collapse—you know there was Long Term Capital Management, Asia, Russia, the Y2K scare—all of these were met by increasing the money supply by Alan Greenspan's Fed. And really, debt is the raw material from which fiat money is created. And so every time the solution was to increase the money supply, we increased the debt. And that "solved" the problem for the time being. But it created a longer term problem in my view that is going to come back to haunt us—big time down the road. So that's—and I think that the markets are sensing this problem because we are seeing enormous amounts of money being created out of thin air, not just by the Federal Reserve but by banks around the world. And so what we are doing is debasing the currency—we are cheapening the unit of currency so people are going out and buying stuff—gold, real estate and commodities.

RobTv: Before we let you go, as you say it depends so much on psychology and if as some suggest 60% of the trading is speculators, doesn't this make gold a very volatile commodity or the potential to be so?

J Taylor: Well, I don't believe 60% of the—there may be traders that are in and out of the market on a regular basis. But what we are seeing here really is a firm demand for gold—to hold gold as a reserve currency. And that's really what happens when people lose confidence in paper money. So I think it's a matter of—you know central banks don't trade gold. They buy it and hold it as a reserve currency. But wealthy individuals are doing that. And this is a very bullish time for gold, I think.

RobTv: Jay, we appreciate your insight. All the best for the New Year, sir.

J Taylor: Thank you and same to you.

RobTv: Jay Taylor, Editor of J Taylor's Gold & Technology Stocks newsletter from the NASDAQ. Next on the trading desk its Suzan Prince on Industrial Alliance's bid for Clearington Financial.