

Commodity Report

Gold

Testing times for gold investors

At a glance

- Gold prices dropped below USD 800 for the first time in nearly six months.
- A stronger USD and lower crude oil prices weakened the metal.
- With less inflation fears in the short run and a stronger USD, we expect price dips to USD 725.
- A structurally higher inflation in most countries and rising wages in Asia should push prices again above USD 900.

Momentum: A broad-based USD rally along with lower crude oil prices and risk aversion in equity markets led to a sharp fall of more than 20% in gold prices from July highs. As we expect inflation fears to level off in the short term and the USD to strengthen further, prices should temporarily continue to go down. Flow analysis suggests a sharp drop in net long positions by speculative accounts in recent days. Therefore, we expect price dips to USD 725 in one to three months.

Fundamentals: On a 9-12 months' basis, we still expect gold prices to trade above USD 900. We think the market will not be misguided by year-on-year base effects on headline inflation. With the current tightened global monetary policy environment, pipeline pressure for second-round effects and higher consumer prices remain in place. In addition, we expect wealth creation in Asia to continue together with appreciating Asian currencies in real terms versus the USD. These factors and the ongoing structural supply side issues in South Africa should favor physical demand. However, the recent stronger USD recovery versus G10 currencies has led to an adjustment in our 9-12 months' target from USD 1,000 to USD 910.

Dominic Schnider, analyst, UBS AG

Performance & Volatility	Gold			
	-1 m*	-3 m*	-6 m*	- 12 m*
Return	-15.2	-10.5	-12.7	23.1
Volatility	25.9	24.1	23.9	20.8

* in %; Source: Bloomberg, UBS WMR

Price Outlook (USD/oz)	Gold			
Spot	3 m Future	2006 Average	2007 Average	2008 WMR Forecast*
810	817.5	604	697	865

* UBS WMR annual average price Forecast; Source: Bloomberg, UBS WMR

Precious Metals

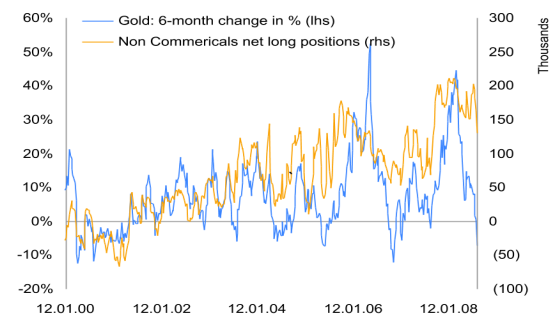
Gold

	Spot	-3 m*	- 12 m*	YTD
Gold	810	-10.5	23.1	-2.9
Silver	13.1	-22.7	12	-11.4
Platinum	1356.5	-37	10.2	-11.1
Palladium	286	-35.9	-13.1	-22.4
DJ AIG ER PM Index	121.8	-14.8	14.7	-7.7
DJ AIG ER Index	189.2	-11.8	15.3	2.3

* in %; Source: Bloomberg, UBS WMR

Speculative accounts with sizable long positions

Lhs values represent number of contracts



Source: CFTC, Bloomberg, UBS WMR

Gold Facts

Gold is a precious metal and a common commercial medium of exchange. Asia (especially India and the Middle East) is the largest consumer of jewelry. India contributes 30% of world gold demand. The largest producers are China, South Africa, the US, Canada and Australia. In times of crisis (financial and political) and inflation, gold is viewed as a safe investment. Gold has a negative correlation with the USD.

Appendix

Terms and Abbreviations			
Abbreviation	Description	Abbreviation	Description
COMEX	Commodities Exchange (New York)	NYMEX	New York Mercantile Exchange
CR Coil	Cold Rolled Coil	WTI Crude Oil	West Texas Intermediate Crude Oil
CRB Index	Commodities Research Bureau	Y/MT	Yen (in 000s) per Metric Tone
DJPM Index	Dow Jones Previous Metal Index	USD/BBL	USD per Barrel
ECIM Index	Economist Commodity Industrial/Metals Index	USD/MMBtu	USD per 1 million British Thermal Unit
E/MT	Euro per Metric Tone	USD/MT	USD per Metric Tone
GSC Index	Goldman Sachs Commodity Index	USD/oz	USD per oz, (1 oz = 31.10 grams)
HR Coil	Hot Rolled Coil	nsa	non-seasonally adjusted
LME	London Metal Exchange	mom	month-on-month
MGMI Index	Metallgesellschaft Metals Index	wow	week-on-week
Natural Gas HB	Natural Gas Henry Hub		

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