Gold Market Update from Van Eck Global as of April 16, 2013

As many of you know, gold has sold off dramatically over the last several days. Since gold's peak at around $1,900 per ounce in September 2011, we feel that aggressive Central Bank easing has led investors to believe that financial risks are under control. Given this perceived path to normalization, we did envision the risk that the gold market could exhibit weakness in the first half of 2013, with a positive trend emerging in the second half of 2013.

However, despite knowing the risk, this selloff is bigger than we anticipated. While sentiment has been negative for gold, as markets assume the Fed is about to withdraw its liquidity measures, the selloff through $1525/ounce was technically driven, in our opinion. The fundamentals for gold as a safe haven have not changed and we still believe that there are risks to the financial system that the market is currently ignoring, such as fiscal deficits that continue to raise debt levels, trillions in banking liquidity that could ignite an inflationary cycle, the massive U.S. entitlement burden, a possible bond bubble, the weak banking system and a recession in Europe and Japanese monetary policies creating imbalances globally.

This kind of capitulation in the gold markets has been seen before and it will take a little while for the dust to settle. We believe that a new technical support level should be established this week, and gold could consolidate for a while with the potential for another down draft before we see a positive trend develop into the fall. Further, high cost gold companies could begin to cut capital and curtail operations at $1400 per ounce, which could, fundamentally, also help establish a floor.

Despite the magnitude of this sell-off, we believe it does not necessarily signal the end of a longer bullish market. We tend to look at this as a mid-cycle correction, analogous to the one from around 1975 – 1977: different drivers but the same sentiment towards gold. At that time, markets thought inflation was whipped, only to have it come back with a vengeance.

Related specifically to gold shares, some companies will struggle to sustain production at some of their existing operations at the current gold price. However, we estimate the average cost of producing an ounce of gold is about $1,050 per ounce during 2013 for senior and intermediate producers. This estimate includes mining, processing and sustaining capital costs and is based on a basket of 20 gold companies with median market cap of about $5.7B and annual production of at least 300,000 ounces. We estimate an average cost of $920 per ounce for the seniors and intermediates in our gold portfolios.

Gold has worked during all previous rounds of quantitative easing and periods of balance sheet expansion. We believe that the current expansion is even more widespread and encompassing. This time, however, markets appear to ***believe in*** normalization. Given this, we will need to wait to see how fiscal and monetary policy – and economic growth and health – unfold globally.

Best regards,

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