



Written by [Steven J. DuBord](#) on December 5, 2009

Rosenberg Sees China Causing Gold to Hit \$2,600

Gold has recently topped the \$1,200 per ounce mark, but analyst David Rosenberg sees it going as high as \$2,623 per ounce in the not-to-distant future if Communist China follows through on its plans to begin stockpiling the precious metal.

The Business Insider reported this bold prediction on December 1, referring to Gluskin Sheff's analyst newsletter *Breakfast With Dave*. In this newsletter, Rosenberg noted that gold "just capped off its best month in a year — up 14% in November and 34% so far in 2009." The S&P 500 couldn't compete with that kind of growth. Driving these gains is "news out of the China Gold Association that the country's gold demand is on pace this year to exceed 450 metric tonnes, a 14% increase over the 395.6 tonnes in 2008."



China, "which recently surpassed South Africa as the world's largest producer, is on its way to 310 tons of newly mined output this year, or more than 30% below its level of demand." But China's appetite for gold is growing. Rosenberg mentioned that jewelry sales are up double-digits in China this year, and China's central bank is showing signs that it is about to significantly increase its reserves.

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Rosenberg referred to a Bloomberg News article quoting Ji Xiaonan, the chief official at China's state-owned central bank known as the Assets Supervision and Administration Commission, as declaring "we recommend China increase its gold reserves to 6,000 metric tons within three-to-five years and possibly to 10,000 tons in eight to 10 years." China's reserves now equal 1,054 tons, already reflecting a "76% buildup since 2003," but a further increase of six to 10 times the current amount would represent "some pretty heaving buying in coming years."

Rosenberg predicted that if China were to achieve a gold reserve of "5,000 tonnes, which is equivalent to about two years of global production, that shift in demand would boost the gold price by \$800/oz to around \$2,000 (\$1,978)." He then also speculated: "If China moves towards 10,000 tonnes, well, that would end up taking the gold price to \$2,623/ounce if our calculations are in the ball-park."

"Make no mistake, we are gold bulls," Rosenberg declared. "Central banks have deep pockets and production of gold is stagnant so the demand-supply backdrop for bullion is bullish." He pointed out though that the market for precious metals is overextended, saying, "The net speculative long position has swelled to a record 273,552 contracts (100 ounces each) on the COMEX. Open interest has never been higher, at 693,661 contracts. So this is one crowded trade — as is the short-trade on the USD against all the major currencies, especially the commodity-based units."



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He left the door open for “a meaningful gold correction” to occur “at any time,” but still sees the correction as occurring in the midst of a bull market. Rosenberg noted “we could get as much as a 20% pullback and no fundamental trendline would be violated.”

In conclusion, Rosenberg said: “We remain long-term gold bulls, and our commentary remains fundamentally bullish, but anything that could spark a countertrend rally in the U.S. dollar, which is our principal near-term concern, would put gold at a much better price point for investors than the peak we are at today.”

So Rosenberg leaves some room for hope, though the U.S. federal government’s policy of financing deficit spending through massive foreign debt pretty much puts the dollar at the mercy of countries like China. If China decides, unsurprisingly, that gold is a better investment than U.S. Treasury securities, the dollar will suffer.



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