



## Gold May Top \$1,000 in 3 Years, Morgan Stanley Says (Update2)

By Glenys Sim and Liza Lin



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Nov. 13 (Bloomberg) -- Gold may climb above \$1,000 an ounce in 2011 as global mine output drops, mining costs rise and demand increases, **Morgan Stanley** said.

"Mining production actually peaked in 2001 and has since been declining," the bank's commodity analyst

**Hussein Allidina** said in an interview with Bloomberg television in Singapore. "When I look at the demand side, as income growth accelerates, the consumption of gold for jewelry purposes increases."

Gold more than doubled in the past six years and reached a record \$1,032.70 an ounce March 17 as the dollar slumped and oil advanced, increasing concern inflation would accelerate. In the past eight months, the precious metal plunged 31 percent as the dollar rallied, oil collapsed and the global credit crisis pushed the world toward a recession.

"The issue moving forward" now is deflation, said Allidina. "If you've got concerns about deflation you've lost that luster that gold has." Gold for immediate delivery traded at \$714.45 an ounce at 3:22 p.m. Singapore time today.

Agriculture commodities will be the least affected by slowing global growth compared with industrial metals and energy, and corn and soybeans are ``oversold by far," he said.

``When you think about it from a layman's perspective, if your income is curtailed maybe you forego the purchase of a condominium or a car, you don't really change your food consumption," Allidina said. ``You still have population growth and that always works in the favor of corn and soybeans."

### Price Spikes

Corn has plunged 54 percent from a record \$7.9925 June 27, and traded at \$3.6675 a bushel at 3:23 p.m. Singapore time. Soybeans have tumbled 46 percent from their peak July 3 and traded at \$8.8725 a bushel.

Allidina said while he is cautious on base metals, ``you don't necessarily want to short any of these" as supply disruptions would probably cause a rally in prices.

``Inventory levels with the exception of aluminum are relatively tight," he said. ``They've improved over the last six to 12 months but if you pull back 10 years, inventories are much lower today than they were in other cycles."

China announced a 4 trillion yuan (\$586 billion) stimulus package Nov. 9 for spending on low-rent housing, infrastructure in rural areas, as well as roads, railways and airports.

``The plan is net positive but I don't know if it'll necessarily prevent a slowdown," said Allidina.

``Granted a lot of the copper used in China is in government-sponsored infrastructure, so that should continue, but the rest of the space is such a mess -- auto sales, housing, it's all down."

### Cash Costs

Most metals have fallen below their marginal cost of production and some are trading near their cash cost, which should limit the downside.

“If you look back historically for a full year you never average below the cash cost of production,” he said. “This time we’ll probably spend even less time below the cash cost because who’s going to loan you money if you’re cash negative.”

“Definitely capital expenditure for the future is being reduced,” he said. “That’s why I’m very concerned about what happens three years from now, because the same time that growth starts to recover is the time you don’t have the supply that we should be investing in today.”

Oil is different from other commodities because of the issue of depletion.

“Next year it’s going to be a weaker scenario,” Allidina said. “I don’t believe we will go down to \$30 or \$40. You could see prices fall below \$50 in the short term on a day to day basis, but I don’t think you will average in that range.”

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*Last Updated: November 13, 2008 02:47 EST*

