DUNDEE PRECIOUS METALS INC.

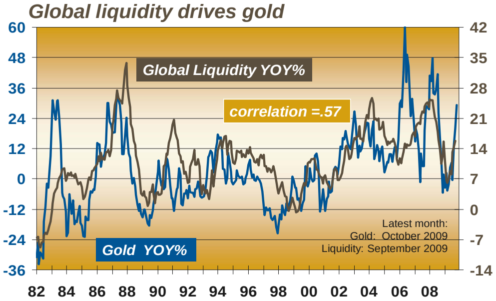
THE GOLD PRICE OUTLOOK THROUGH 2010

October 2009

Gold prices recently broke US$1,000, which raises the question of how much further gold prices can rise. According to Dr. Martin Murenbeeld, the Chief Economist of DundeeWealth Inc., the arguments favouring high gold prices are many and should continue to dominate the few bearish arguments in the years ahead.

(1) Global Reflation

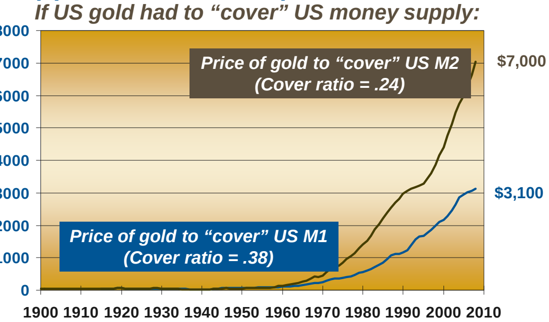
Global liquidity drives gold



Global Liquidity: FX Reserves + US MBase
Source: IMF, Federal Reserve

(5) Gold is still "cheap"

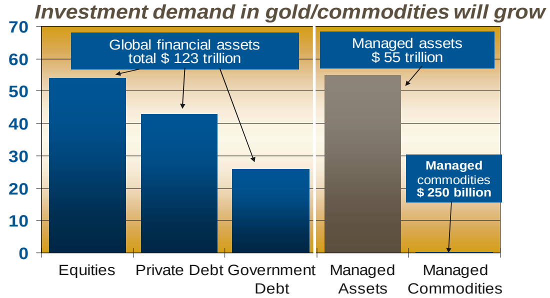
If US gold had to "cover" US money supply:



"cover ratio" as determined in 1934 when gold was revalued to $35

(7) Investment Demand

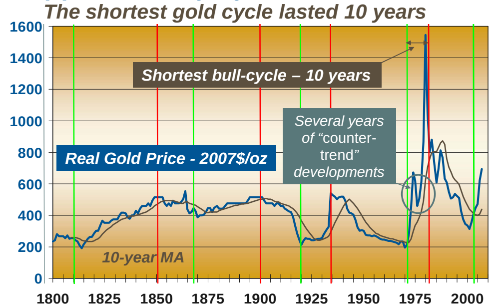
Investment demand in gold/commodities will grow



Source: McKinsey & Company, IMF, Barclays

(8) Commodity Cycle

The shortest gold cycle lasted 10 years



(1) Fiscal and monetary reflation will remain necessary for years to come. As long as recession and deflation threatens, global policies will remain "loose". Once the recession has been stabilized, which is not a given at the time of writing, baby boomers will commence retiring –on government pensions and government paid-for health benefits. Accordingly, government deficits will be stressed again. This raises the probability that central banks will have to buy government debt – i.e. print money.

(2) Global imbalances mean the US dollar will remain suspect. Global imbalances have come down recently, but the decline is cyclical -not structural. The dollar needs to decline against the Asian currencies in general and the Chinese RMB specifically. Such a decline is important for gold not only because gold is quoted in US dollars, but also because the largest "consumers" of gold are in Asia.

(3) Dollar reserves are excessive; diversification out of dollars is likely. Some emerging economies have proposed a new SDR composition, which will include gold. Any diversification into such a new SDR would see the dollar go down against the composite currencies and gold.

(4) Central bank attitudes towards gold are changing.
Some central banks have quietly been adding gold to their reserves again, and the IMF is first offering gold it has been cleared to sell to the central bank community. Also, central banks are rediscovering that gold is not the monetary liability of another central bank.

(5) Gold is cheap in the event it takes on an official "monetary role" again. For example, were the US to re-back its M1 money supply with its domestic gold reserves, at the ratio it chose to do so in 1934, it would require a price of gold well above US$3,000. While the US is highly unlikely to go back to some sort of gold standard, most such comparisons of gold with monetary measures (even with the S&P500) put the price of gold well above US$3,000 today.

(6) ***Global mine supply is very unlikely to expand much.*** Only recently have margins in the mining industry begun to widen. (Costs in the industry have in the past tended to rise faster than inflation!) Central bank supply is largely limited by the Central Bank Gold Agreement, the limit on which was recently lowered to 400 tonnes per annum but sales have actually been less than that in recent years.

(7) Investment demand will continue to grow for years to come. Fears of inflation and currency debasement will see to that however gold and commodities more generally have become portfolio asset classes, attracting pension fund managers and others to the space. Portfolios become more "efficient" when some gold is included, according to many portfolio analysts. Gold market deregulation in Asia further encourages investment demand in gold.

(8) The bullish price cycle in gold has never been shorter than 10 years. The shortest up-cycle in the inflation-adjusted price of gold since 1800 was the cycle from 1970 to 1980. In other commodity markets the shortest up-cycle was longer. Gold is now in its eighth year of the up-cycle which started in 2001. The growth of the BRIC economies should see this cycle outlast earlier ones however a price setback in any one year cannot be ruled out, as such is quite typical.

(9) The geopolitical environment should continue to favour gold for years. This is not an attractive reason, but unfortunately true. The peak in the gold price in 1980 came on the back of a geopolitical crisis involving Iran and Afghanistan. Wherever one looks around the world today, there are serious geopolitical problems, and Iran lies at the center of a number of them.

DPM thanks Dr. Martin Murenbeeld, DundeeWealth Economist.