

# NATURAL RESOURCES - TIPPING POINTS

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## Tipping Point...

a point in time where a change or an effect cannot be stopped!

Yes it is an exciting time to be investing in natural resources, and yes we Canadians are fortunate that we are rich in the resources the world is consuming. If Canada's export value to China increases to levels similar to Australia's export value, it would mean greater demand for our natural resources. This would likely be good news for natural resource producing companies, investors and government coffers. But let's not forget that our supply of natural resources is not endless, especially as it pertains to farm land and drinking water. Future generations will judge us on our governance of our depleting resources as the global community demands more of everything from our finite source, and move to or beyond a "tipping point".

### Let's Focus On Gold And Oil

When it comes to discussing tipping points, I would suggest that our emotional attachment to our portfolios and pocket books influence our reaction to the suggestions we have reached peak supply, or a tipping point, for gold and oil. And I will point out that our reaction to the suggestion that gold has reached a tipping point is quite different from our reaction to someone telling us that oil has reached a tipping point.

### Gold At A Tipping Point?

Consider investors' reaction when Barrick Gold's president and chief executive officer Aaron Regent told The Daily Telegraph at the RBC annual gold conference in London, "There is a strong case to be made that we are already at "peak gold". He went on to state, "Production peaked around 2000 and has been in decline ever since, and we forecast that decline to continue. It is increasingly difficult to find ore." That comment helped to keep investors scrambling to buy gold and shares of gold producing companies. Add to this, the news this month that the International Monetary Fund (IMF) sold 200 metric tons to India, 2 metric tons to Mauritius and 10 metric tons to Sri Lanka and you have evidence supporting

reports that even central banks and governments want to increase their supply of this precious metal. Why? There are a number of reasons often cited including tight supply, protection against inflation and fears surrounding the declining U.S. dollar.

What did we do with this latest information? We pushed gold up from just over \$1,000 an ounce to just a few dollars shy of hitting \$1,200 an ounce. If there have been complaints about this price appreciation, it is likely coming from investors who did not have gold or gold stock positions in their portfolio, or not enough to make a difference. No complaints from consumers, at least not yet, as price inflation has been subdued by current difficult economic conditions.

So if gold's price ascent does not hit us in our pocket book and helps our portfolio, does reaching a tipping point matter? Well let's look at oil and then ask ourselves the same question.

### Oil At A Tipping Point?

Scientists and petroleum engineers continue to debate whether we have reached a tipping point with oil. In fact, as far back as 1956, geophysicist M. King Hubbert correctly predicted that U.S. oil production would peak in the early 1970s. By using the same methods that Mr. Hubbert used to make his prediction, Kenneth Deffeyes wrote in his book, "Hubbert's Peak - The Impending World Oil Shortage", that world oil production would peak between 2004 and 2008. There are numerous information sources on this subject, and I suggest the following books and DVD:

- ◆ Twilight in the Desert - The Coming Saudi Oil Shock And The World Economy, written by Matthew R. Simmons.
- ◆ A Thousand Barrels A Second, written by Peter Tertzakian.
- ◆ Why Your World Is About To Get A Whole Lot Smaller, written by Jeff Rubin.
- ◆ A Crude Awakening - The Oil Crash (available in DVD format).

**"Time will eventually tell us when we have reached a tipping point. I would suggest the current global economic recovery will restart the clock"**

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More recently, headlines around the world were buzzing about a report in the U.K.'s Guardian newspaper. The Guardian reported, according to a whistleblower, that the International Energy Agency was deliberately underplaying a looming shortage of oil for fear of triggering panic buying (<http://www.guardian.co.uk/environment/2009/nov/09/peak-oil-international-energy-agency>).

We recently thought about peak oil in the October issue of our Qwest for Returns publication which looked at the imbalance in how much oil can be extracted out of the ground at any one time ([http://www.qwestfunds.com/publications/newsletters\\_pdf/newsletter\\_october\\_2009.pdf](http://www.qwestfunds.com/publications/newsletters_pdf/newsletter_october_2009.pdf)).

But should we accept that we have reached peak oil production, or a tipping point? Well that, I am sure, will continue to be debated. That said, could the price of oil last year be a warning sign of tight supply? When oil came close to \$150 dollars a barrel last year, when the global economy was humming along nicely, many forecasters pointed to fundamental reasons including OPEC's decreasing spare production capacity. And did we complain? Yes, very loudly! Why? Because we consume products made from oil on a daily basis, and so we immediately feel the "taxing impact" in our pocket books as we pay for that tank of gasoline or diesel. Even investors with oil, or oil stocks, in their portfolios were grumbling when gasoline was near a \$1.40 a litre in Canada and \$4.00 a gallon in the U.S.

So with oil's price ascent hitting us in our pocket books but at the same time, helping our portfolios, does reaching a tipping point matter? Each of us will have to answer that question for ourselves.

## What If A Tipping Point In Oil Matters?

As people are optimists by nature, we likely will look to science, alternative energy sources and future energy technology developments to keep a lid on the price of oil. The question is whether those solutions will come before the price for oil doubles and triples. Time will eventually tell us when we have reached a tipping point. I would suggest the current global economic recovery will restart the clock.

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