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Views and Analysis on the Economy and Precious Metals

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Gold: The Emperor Has No Clothes

John Ing

Gold came within a whisker of our oft-repeated target of $850 an ounce last reached in 1980. The main driver is the debasement of the US currency, which is losing value against gold and other commodities. The dollar continued its slide, setting a record low against the euro. The protracted crisis in the credit markets threatens to cripple the US economy. The result has been a crisis of liquidity rather than default. America's tendency to live beyond its means is over. The US greenback is continuing its orderly retreat and every sign (financial, economic, and political) points to further depreciations. American's indebtedness, long its Achille's heel has unwittingly redrawn the economic and political map of the world. In the wake of a loss of trust in the US financial system, gold is a good thing to have and our intermediate target is $1,000 an ounce. Gold is a reasonable proxy for prices, a hedge against investor anxiety, and a store of value particularly compared to stocks and currencies, which are subject to a variety of unpredictable economic factors.

The Center Of Capitalism Is Burning

The main driver behind the collapse in credit are the "weapons of mass destruction" (as Buffett calls them) created by Wall Street. America's prescription was easy credit and to keep interest rates artificially low which was the cause of reckless lending and the subsequent implosion of almost $500 billion of derivatives. This time the big investment banks have been hoisted upon the very paper that they created which has already caused huge losses and the demise of some their leaders. Wall Street is in peril. Wall Street prospered by financial engineering every form of debt into tradable assets to spread risk and of course generate fees. The slicing and dicing of risk created exotic derivatives of structured products. The boom hinged on cheap money and confidence in the quality of these assets. Today, we are in uncharted waters, as no one knows to unwind these newly devised structures of finance.

Banks used to be safe as houses, yet history shows that bank failures are all too common throughout financial history, from the closing of the Herstatt Bank to the collapse of Long Term Capital Management to the S & L debacle in the US. History shows no one is too big to fail. England experienced its first collapse in the millennium. Banks have been forced to increase their writedowns and the Street fears that there is insufficient capital to back these writedowns. Moreover, the newly appointed Emperors of the boom like the hedge funds and private equity players, feasted on the various financial products and became highly dependant on borrowed money and leverage. The credit crunch saw these institutions dump their assets. The emperor was found to have no clothes.

Central Banks Are Part of the Problem

However, what is also at risk is not only the financial institutions but the world's central bankers' credibility. The loss of that credibility is like losing one' virginity, once lost it cannot be restored.

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Fed ups credit auction offering

The US Federal Reserve has increased the amount of money available to banks as it seeks to help financial markets hit by the global lending squeeze.

It said that banks could bid for $60bn worth of credit this month, instead of the $40bn it had earlier promised.

Two auctions late last year each offered $20bn and were heavily oversubscribed, highlighting the demand for cash from financial institutions.

Fortnightly auctions will continue for as long as necessary, the Fed has said.

Observers said that the Fed's increase in the amount available at auction was a sign of the success of the process,

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never before tried by the central bank.

"They are feeling more comfortable with the process and that is why they are increasing the size of the auctions," said chief economist at Economy.com, Mark Zandi.

The announcement followed Labor department data showing US unemployment at a two-year high in December, increasing worries about the possibility of a recession.

Serious consequences

Global financial markets have been severely shaken by a massive credit shortage, prompted by mortgage defaults from US homeowners.

As losses from investments tied to risky sub-prime debt mount, banks are sitting on their cash until a fuller picture of the financial damage emerges.

The Fed, the European Central Bank and the Bank of England have been acting in unison to inject liquidity into the money markets amid fears that a prolonged stasis in lending could have serious consequences for the global economy.

By acting decisively, policymakers hope to force inter-bank lending rates down and make institutions more comfortable about doing business with each other.

On Monday, Treasury Secretary Henry Paulson is due to give an update on how US capital markets are faring.

Article by:
BBC NEWS
January 5, 2008

Markets In Denial

Christopher Laird

The ECB just lent out an astounding half $Trillion worth of money to 390 banks in only one day this week. It was to combat the lending freeze in Europe where banks are refusing to lend to each other over concerns about the mortgage losses this year. The demand was so high it caused alarm.

The question that comes to mind is, 'Hey, we have a first class financial emergency here, when are the stock markets going to react accordingly?'

Consider this comment:

"Commentators joke about banks and financial institutions "going to the confessional," meaning that they admit that a percentage of their assets are mortgage-backed securities that are now near-worthless.

The fact is that very few institutions have gone to the confessional. Probably 99.9% of even the world's financial institutions are hiding vast amounts of near-worthless securities, and that doesn't even touch upon investments by non-financial companies (such as investment pools in state and local governments like those in Florida and Montana."… Link

"What has become evident is that banks are concerned about the capital position of other banks. They do not know where the losses resulting from the array of derivative financial instruments will finally come to rest, and I think in the last four weeks we've also seen a more disturbing development, which is that the banks themselves are worried that the impact of their reluctance to lend collectively will lead to a sharper downturn in the United States, and perhaps elsewhere, thus generating further losses outside the housing and financial sectors, which will feed back onto balance sheets and reinforce their reluctance to lend, because of the need to generate more capital." Mervyn King, Governor Bank of England "

It is hoped that the EU banks will bring to light the extent of their losses by first quarter 08. If not, the crisis continues unabated. The main problem is that they don't know who is hiding losses.

Another huge market in trouble

Also consider that there is a major crisis building right now in the $2.5 trillion municipal bond market in the US. The bond insurers such as MBIA are at risk of having their AAA ratings pulled (they already are probably not AAA but the rating agencies know if they pull that, the tens of thousands of securities they guarantee will lose their ratings, and result in fire sales, the kind of problem that started the huge credit crisis with Bear Stearns before Summer.)

There were comments several months ago that the 'subprime' credit crisis would blow over. Rather it is mushrooming out of control into other huge credit markets, and leading to new $billions of losses and a collapse of lending and confidence in banks in the EU and US.

Rather than talking about the 'subprime ' crisis, one would do better to now realize this is a pan credit crisis, spreading to other major credit sectors.

The ARM resets are only beginning; they include about half of all mortgages made since 2003, and all levels of credit. We have only seen the beginning of the mortgage problems in 07, not its ending.

Try 08, 09 for prospects. One huge amount of new ARM resets.

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For example, in a bit of Wall Street cronyism, the Fed's helicopters dumped dollars on Wall Street and have not yet reached Main Street. Central banks attention today is exclusively focused on resolving the problems in the banking system, ignoring the inflationary consequences of an open vault monetary policy. That the central banks were willing to bailout the big banks exposes not only the hypocrisy but the dangers to the financial system. Central banks are supposed to be independent and stewards of the financial system, they should not be co-dependent nor conflicted.

Also few notice that the central banks continue to flood the markets with money particularly at the last quarter end. After cutting rates by 25 basis points, the Fed pumped $41 billion into the US financial system, the most since September 2001. The Bank of England has so far extended our $40 billion to Northern Rock. There are still credit logjams from New York to Belgium, yet the monetary aggregates on a global basis remain loose. Central banks are simply printing too much money.

The Fed gave investors what they wanted by lowering short-term rates, which was sort of shock therapy to the credit markets. However, the Fed's action comes at a cost. The reduction in rates removes the sole prop to the US dollar and reinforces the view that the Fed will reflate its way out of America's problems. The rate reduction in essence is the continuation of an overly loose monetary policy that will eventually undermine what is left of the integrity of the dollar. The rate reduction also comes on the heels of the Bank of England's U-turn bailout so soon after pledging it would not underwrite handouts. Financial panic hit the public and the central bankers.

"Made in America" Policy Scrapped

While Wall Street is enjoying the Federal Reserve's 25 basis point rate reduction, noteworthy is that many other central banks have not joined the Americans. For example, the Saudi's central bank matched the Fed's 25 basis point rate cut but ignored the bigger September reduction, raising speculation that Saudi's would follow Kuwait's example and drop the long-held dollar peg. Flush with $500 billion, the Saudi's may revalue the riyal upward and even tighten reserve requirements to quench inflation. Iceland too actually raised rates to a record 13.75 percent to rein in inflation. Australia's central bank raised its interest to 6.75 percent to an 11 year high despite the Aussie dollar at its highest level in 23 years. Few remember that Beijing broke its peg with the US dollar in mid 2005 and while the renminbi has appreciated, China's economy's growth is still among the fastest in the world. Even Ecuador is threatening to ditch the greenback. We believe that the shift by some central banks to decouple from the world's reserve currency is a desire to avoid being dragged down when the currency bubble bursts.

Gold will be a good thing to have as a store of value and medium of exchange.

Subprime, the First Domino

In domino-like fashion, the sub-prime mortgage problem was only the first of many to fall as the result of the huge global imbalance that has emerged over the past ten years. What began as a subprime mortgage crunch, turned into a credit crunch and now a dollar crunch. In addition to the bailouts, investment bankers have created ever-fancier securities or super-tranches of linked collateralized debt obligations of asset-backed securities. However, investor appetite for these synthetic collateralized debt obligations has disappeared. Wall Street just doesn't get it. Bernanke's bailout only served to mask the real consequences of their earlier banking conduct. Nothing has changed. The second domino has fallen. Coventree, Northern Rock and Countrywide were unheard names five years ago. These financial institutions seemingly grew from nowhere financed by easy credit as they financed long-term liabilities with short term paper. Now, they have now been caught offside. Unfortunately this is not the end of the contagion.

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U.S. Stocks Drop on Economic Concern;

Citigroup, Merrill Fall

Elizabeth Stanton

Dec. 27 (Bloomberg) -- U.S. stocks fell the most in a week after government reports on durable goods and unemployment heightened concern growth is slowing and an analyst predicted Citigroup Inc. will cut its dividend by 40 percent.

Hewlett-Packard Co., General Motors Corp., and Caterpillar Inc. dropped after orders for durable goods rose less than forecast. Citigroup, the biggest U.S. bank, fell to a five-year low after Goldman Sachs Group Inc. analyst William F. Tanona said it will cut its 54-cent dividend to preserve capital as the value of its assets declines.

The Standard & Poor's 500 Index lost 21.39, or 1.4 percent, to 1,476.27, pushed lower by the assassination of Pakistani opposition leader Benazir Bhutto. The Dow Jones Industrial Average decreased 192.08, or 1.4 percent, to 13,359.61. The Nasdaq Composite Index retreated 47.62, or 1.8 percent, to 2,676.79. About seven stocks fell for every one that gained on the New York Stock Exchange.

``The economy is definitely weak, and we all know financials are still in the box,'' said John Kornitzer, who manages $6 billion at Kornitzer Capital Management in Shawnee Mission, Kansas. ``It's going to be a tough year.''

Financial companies were today's worst performing industry in the S&P 500, followed by materials producers including Monsanto Co. and Freeport-McMoRan Copper & Gold Inc. Orders for durable goods rose 0.1 percent in November,

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What US rate freeze plan?

Oh and that US mortgage freeze plan? I estimate it's only going to affect about 4% of the problem mortgages, as the criteria to qualify are quite restrictive. That plan was mere window dressing. No real effort was made to avoid the nasty wave of pending resets coming in 08 and beyond. Of course the US and other stock markets rallied when the news came out on that so-called mortgage rate freeze plan.

A whole LOT of CB money

Then the US Fed and ECB and other central banks got together last week to discuss a plan to infuse a lot of money into credit markets. The stock markets rallied. Then, come this week the ECB has to loan out an astounding $500 billion worth of money because banks won't lend to each other. The Stock markets yawned that off.

I read an interesting quote where a hedge fund manager said, if someone would take him out of all his positions right now, he would gladly go to 100% cash. He is only a reluctant participant.

I have a feeling that kind of thinking is one reason the markets are not reacting as of yet to this incredible credit crisis. But how long can that last? The stock markets are clearly in denial, they are down, but are not even closely reflecting the severity of this world financial market.

One thing is sure; world economic activity will contract due to very difficult credit markets. That will affect profits in 08 in the US, EU and other major economies. Then we will see a significant reaction to this

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THE ECONOMY'S LAST HURRAH BEFORE THAT BIG SUCKING SOUND

Richard Benson

As 2007 wounds down, it's time to reflect on how bogus government statistics along with Wall Street media hype have impacted the psychology and perception in the financial markets. Sheer disappointment is one way to describe what the financial markets will experience as the existing belief in a Goldilocks economy is challenged by sobering facts and a hard landing, yet to come.

Christmas is meant to be a festive and happy time of year spent with family and friends, but there is a dark side to this year's holiday. The picture of the father, mother, son, or daughter pulling out the only credit card left that's not maxed out in order to buy that special gift for a loved one, is not the face you'll see portrayed in the media. The TV and newspapers show only affluent-looking preppy-faced Americans wearing pricey Italian shoes and sunglasses, shopping the malls and luxury stores for 50-inch flat screen TV's, cashmere sweaters, Tiffany diamond rings and fancy chocolates. The media will avoid at all costs the large percentage of Americans on the brink of bankruptcy and foreclosure, living paycheck to paycheck, because there's nothing Christmassy about that picture.

I have to wonder, though, if Americans are really shopping (i.e., spending money), or just looking for bargains at the major department stores that began running fire sales as early as October. Foreigners will undoubtedly be the luckiest group this season as they take full advantage of the declining dollar. Contrary to what you may have read in the American financial press about the declining dollar being good for America, you'll read a different viewpoint in the foreign press, as many people overseas think America is getting what it deserves: a real comeuppance, as the dollar and our empire literally go down the tubes.

The US Economy is in terrible shape! Our government has been psychologically manipulating the American people every time they publish blatantly false data on employment and income that makes our economy look stronger than it really is. If the average American realized how bad things were, they might try to save more. But spending would collapse if they did, so the goal of the current Administration seems to be to hide any signs of a recession as long as possible.

If you don't see it, it must not be there

For those familiar with the government releases, the Bureau of Labor Statistics ("BLS") just posted a benchmark data revision that showed the total number of workers employed on the payroll survey was 300,000 less than originally estimated for March 2007 (900,000 versus the 1,200,000 that was reported). By the time the dust settles, and later benchmark revisions come in for the whole year, it is likely that all of the jobs added by the BLS Birth/Death Model in 2007 will be fictitious. This could mean there hasn't been any job growth at all! Without the fiction of job growth, you can imagine how much worse it will be for consumer income, spending, and sentiment not to mention business investment plans.

> **The reason employment is weak is because at least 40 percent of all job growth was tied directly or indirectly to housing. With housing in free fall, the solid job growth reported by the BLS Payroll Survey simply does not make sense.**

The Department of Commerce keeps statistical estimates such as Personal Income, which is based on the estimated number of workers in the BLS Payroll Survey. So now, based on the revisions to the BLS Payroll Survey for March (and other data), revised Personal Income (wages, salaries, interest income, etc.) grew at an annual rate of only 1.6 percent in the second quarter of 2007, not the 4.5

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Undermining the trust among banks, many banks have stopped dealing with one and other. In the UK that helped trigger a funding squeeze for Northern Rock which is now for sale. In Canada, Coventree triggered a collapse of the $50 billion Asset Backed Commercial Paper (ABCP) market. Today the banks are no longer willing to finance the structured products like ABCP conduits or SIVs. There are an estimated $350 billion and $400 billion of SIVs outstanding. But like ABCPs, the financial engineers failed in their attempt to unload risk unto others, and the investment banks are caught again.

Rather than bite the bullet and markdown assets to reasonable levels as they did during the S&L debacle of the late 1980s, Citicorp, Bank of America, and JP Morgan with the help of Treasury Secretary Paulson are stalled in the creation of a new superfund, the Master Liquidity Enhancement Conduit (MLEC) to avoid a fire sale of assets. The banks are throwing good money after bad money and are simply creating yet another derivative to paper over the sins of the last derivative. MLECs are to purchase assets from the same bank affiliated structures that could not find financing in an extinct commercial paper market. The MLECs only perpetuate and prop up that other weak paper like ABCP, SIVs etc. It won't cause the asset sales at realistic prices. It won't buff up balance sheets. It won't work. The dominoes keep toppling.

America's financial problem is that assets with inflated values back so much debt that fire sales would drive prices down even further, putting pressure on the big investment banks' fragile capital base. Next year, an estimated 2 million homeowners will lose their homes, destroying $100 billion or more of value. With the mortgage market seized up and the home equity disappearing, an over-leverage consumer will have trouble keeping up with the payments. But where are those losses? The problem with America's credit woes is that this paper was built on loose sand. As long as the credit markets remain paralyzed, the big banks' balance sheets will weaken further as they are forced to take on their ever larger amounts of commercial paper and leveraged loans. All in all, this won't solve the liquidity problems. The banks reported their worst quarter since 2001 but the carnage keeps on mounting. Writeoffs on mortgage-linked assets have surpassed $60 billion but the losses could exceed 5 times that. UBS recorded a loss of $3.4 billion, Citibank would face $10 billion of writedowns, Merrill Lynch's losses stood at $8 billion. Deutsche Bank revealed losses topping $3 billion. If the damage widens, it will wreak havoc on an over-leveraged economy much.

US Greenback Death Spiral

When Bush took office in January 2001, the national debt stock at less than $6 trillion. Today after tax cuts, war spending and a credit boom, the debt stands at $9 trillion. One of the biggest causalities is the US dollar, which has finally begun its overdue correction as the credit crisis unfolds. However, we believe the dollar's decline is just a prelude to a much more substantial fall given the need to shrink the $750 billion current account gap, which runs almost 6 percent of GDP. The US manufacturing sector has dwindled to less than 20 percent of GDP, worsening America's trade gap to grow. In 1988, the US trade gap stood at $247 billion (when the euro averaged $0.88). Today, the greenback has fallen 40 percent against the euro, but the trade gap has worsened (the euro is close to $1.50). America's trade deficit must be financed by $2 billion of capital a day from the rest of the world. Since foreign investors are no longer buying significant amounts of US stocks or even their paper in the wake of mortgage crisis, the trade deficit must somehow be financed. Former Fed Chairmen Greenspan said the dollar decline may reflect foreigner's reluctance to buy US securities and that, "there is a limit to the extent the obligations to foreigners can reach". We have reached that limit.

At a time when the US requires more than $2 billion a day to finance its bloated current account deficit, the depreciating dollar acts as a disincentive to foreign investors for additional investments in US securities, particularly when they reduce rates. To no surprise, foreign investors dumped their holdings of US securities by a record amount, according to the latest US Treasury figures. To be sure, the dollar has lost its safe haven status as the credit crisis unfolds. In August, total oversea holdings of US bonds, notes and equities fell a net $69.3 billion after a revised increase of $19.2 billion in July. The August outflow surpassed the previous record of $21.2 billion in March 1990.

The United States continues to spend more than it produces. The chronic twin deficits are bloated by war spending and America's insatiable appetite for oil, which has caused the trade deficit to explode to almost 6 percent of GDP.

Over the last ten years, the consumer accounted for 70 percent of American spending, driven largely by the housing boom and the doubling in property prices. That has ended and now price inflation not asset inflation will plague consumers in light of rising energy, food and higher financing costs.

Ironically the credit crunch started a new bubble. Newly created money is fuelling the boom in global commodities. Currencies are losing value against commodities and gold due to open market operations that sees everyone absorbing excess dollars with newly created currencies.

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mushrooming credit disaster. So far, massive central bank interventions have done just about zero to lower credit spreads in the troubled 3-month short-term money.

Monetization when?

The only thing central banks have been able to do is basically loan 'unlimited' amounts of money out for collateral of all types. The central banks don't want to appear to be monetizing the mess, but they may eventually have to do that. Gold would go out of sight.

Right now, central banks are not just 'printing' money and throwing it around, they are taking collateral against that. But, if the collateral turns sour, central banks will have to face the choice of taking those losses off financial institutions books, or else face this crisis for years.

Just taking the bad assets as collateral does not take losses off bank's books. That is the status quo now.

Banks are nursing big losses, and have no way to get out of them, without fire sales.

There has been no meaningful movement on the credit situation, and it is rapidly spiraling out of control.

So far, stock markets have been in denial for the most part. That has to change for the worse. Eventually, the mushrooming damage from the collapsing credit markets will cause a world stock detonation.

The central banks have few options and are not sure what to do. Worse, it appears that the only thing that could

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percent originally reported. That's three percent less in Personal Income. These imaginary workers with no Personal Income will not be shopping this December or anytime soon, so we can expect to see lower retail sales and corporate profits. Income never made, can't be spent.

As these pretend workers turn out to be a myth, they will eventually show up in the government statistics. When that happens, corporate sales will suffer and the financial markets will take notice.

This is also a reminder that for statistics, the government's game is to report the false glowing numbers to the financial markets in the full light of day, and then report the corrections and horrible truth in the dead of night, and hope no one notices.

The big reason the economy is going over the cliff is not the direct result of the sub-prime mortgage debacle and the hundreds of billions in investor dollars that have been lost, although this is a major contributing factor. The reason, we focus on, is that the economy is already in recession as a direct result of homeowners having had that ATM ripped out of their house. Stories like the homeowner who purchased a home for $100,000 years ago but got carried away in the frenzy of the last decade by doing 4 cash out REFI's, running their mortgage balance up to $625,000 while living large, are last year's stories. That $800 billion a year in Mortgage Equity Withdrawal ("MEW") has come to a sudden end and with the average homeowner no longer living large off the house, the economy is left with that "big sucking sound".

> **With home prices falling, there frequently is no equity to take out! Potential borrowers don't have verifiable income to actually pay back a loan unless home prices are rising rapidly, so they can no longer buy or refinance. Meanwhile, with lenders asking for down payments, housing prices will just keep heading down for another year.**

The US economy is continuing to weaken in many areas: The US Treasury has received lower income tax receipts forcing state and local governments to cut back because they're coming up short; capital gains on home sales are falling as home prices fall; property tax receipts are also declining as assessed values go down; weak retail sales mean lower sales tax receipts; corporate profits are down, along with corporate taxes paid; and, many self-employed workers may be employed, but they're not making anything or only half of what they used to.

Moreover, America is not the only country with an economic problem. The housing bubble is turning out to be worldwide, with a major impact on England and much of Europe. The biggest economic losers include the emerging markets, especially China. Don't believe for one second those Wall Street touts selling the notion that the emerging markets have "decoupled" from the US economy and their growth will lead the world forward without the American consumer. That's hogwash. Where do you think their trade surpluses and big sales gains (driving investment in plants and equipment) came from anyway? From the American consumer and MEW! Take $800 billion of easy spending away from the American consumer and you're going to see a lot of blow back in lost sales by the emerging market countries, including China.

As the recession takes hold, I see this holiday shopping hype as the Economy's Last Hurrah, but it's not just the American economy that's going to hear that "big sucking sound" in the New Year!

Article by:
Richard Benson
www.sfgroup.org
December 10, 2007

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The printing presses are on full steam. Global monetary policies are excessively stimulate as a result of the demise of the greenback, ensuring our intermediate target of $1,000 an ounce.

Reflationary forces to end the credit crunch has caused a dollar crunch and investors are looking to hard assets to keep their value. To be sure, the dollar has lost its status as the world's reserve currency.

China booms amid financial woes

The US is no longer the sole engine of global growth. While America is being buffeted by the housing downturn, credit woes and weak US dollar, China has replaced America as the rise of their consumer class, means their rapidly growing economy is no longer as dependent on exports. Today, three of the five most valuable companies in the world are now Chinese ahead of Exxon and General Electric. Japan too, continues to grow and surprisingly these countries have been able to withstand high oil prices - something that the Americans have not been able to achieve. More importantly, is that the central banks have pursued an independent monetary policy by the not following America's reduction in interest rates.

The turmoil in the global credit markets has so far left Asia, particularly China relatively unscathed. Asia's strong economic growth and massive foreign reserves have enabled Asia to withstand the slowdown in the US and Europe. Asia has decoupled from the US due in part to the robust economic growth and huge foreign reserves. Asian stock markets continue their rise. Unlike ten years ago, when Asia was the centre of a global financial storm, Asia has learned its lessons by decoupling from the North American train.

But perhaps no country has revelled in its independence than China, which has pursued an independent monetary policy and avoided a major revaluation. Like elsewhere, interest rates did not drop after the US Federal Reserve rate cut. A revaluation would reduce China's income as well the value of foreign assets of more than $1 trillion since most of those reserves are in US dollar denominated investments. In addition, inflation would not be addressed by an upward revaluation.

Price rises in China are mainly domestically generated and a revaluation would not help reduce these costs. If inflation were mainly imported, a revaluation would make sense. Moreover, at a time when currency uncertainty was prevalent, China finds itself competing for capital. A revaluation would increase the country's purchasing power and imports but make it more expensive for foreigners to invest. The US bilateral trade with China has gone from $6.2 billion in 1989 to a current estimated $250 billion this year. The government is slowly opening its capital markets to foreign investors, so a revaluation would also make it more costly.

Today, the world has become less US-centric and more Asia-centric where growth opportunities are more attractive. In addition, we believe China's surplus will be deployed strategically with some $16.1 billion of foreign assets purchased last year, up 34 percent from $12 billion from the previous year.

China's $200 billion investment fund is a fraction of the wall of money destined and there will be stiff competition for foreign assets ranging from resources to Wall Street to automakers. Thanks to the capitalist stock market, the Shanghai stock market has climbed by a third since yearend. Yet the market is not even a source of funding for corporations. China's behemoths are largely state-backed and the balance sheets are state-backed. Fears of overheating are misplaced.

The bubble will eventually burst but China's entities' will escape unscathed. China has excess

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compared with a median forecast of 2 percent in a Bloomberg survey of economists, as companies cut spending on capital goods.

Yearly Gains
The S&P 500 has gained 4.1 percent for the year, while the Dow average has climbed 7.2 percent and the Nasdaq has advanced 11 percent.

General Motors slipped 46 cents to $26.06. Hewlett-Packard lost $1.16 to $51.61. Caterpillar retreated 96 cents to $72.73.

``The economy is slowing,'' said Michael Nasto, senior trader at U.S. Global Investors Inc., which manages about $6 billion in San Antonio. ``It's one more point for those people who think we might be headed for a recession in the New Year.''

Citigroup fell the second-most in the Dow average, losing 89 cents, or 2.9 percent, to $29.56. Goldman's Tanona said the New York-based bank may write off $18.7 billion in debt securities, more than the analyst's Nov. 4 estimate of as much as $11 billion.

American Express Co. posted the steepest decline in the Dow average, losing $1.80, or 3.4 percent, to $51.10.

JPMorgan Chase & Co. fell $1.30 to $43.64. Tanona said the third-largest U.S. bank by assets may write off $3.4 billion in fixed-income securities, double Goldman's previous estimate, because of the collapse of the subprime mortgage market. Merrill Lynch & Co. may write off $11.5 billion, compared with an earlier estimate of $6 billion. Merrill, the world's largest brokerage, fell $1.34 to $53.20.

Article by:
Elizabeth Stanton
estanton@bloomberg.net
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work to free the banks it to take those losing assets off their books, which would effectively be monetization of all the losses.

So far, those losses are estimated to be up to $1 trillion worth. It could easily end up being perhaps 5 or more $Trillion.

And now, with other huge and important markets in trouble ($2.5 trillion Muni bond markets) unless a solution is found soon, we will be looking at a tumultuous 08 in all markets.

If that happens, gold would be pulled in different directions. First, gold would want to sell off due to liquidity problems, second, gold would want to rise due to flight to financial safety.

But just about everything else other than precious metals will get killed next year if the markets ever do react to the collapsing credit markets

Article by:
Christopher Laird
Editor in Chief
www.PrudentSquirrel.com
December 2007

The Outstanding Public Debt
National Debt:
9,202,124,588,864,19
The estimated population of the United States is **304,018,967**
US citizen's share of this debt is
$30,268.26
The National Debt has continued to increase an average of
$1.50 billion per day
Business, Government and Financial Debt exceeds
$45 Trillion

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savings and they are still at the nascent stage in building experience in international investing. However, they have shown a propensity to learn fast. We believe China will shift more and more of its $1.4 trillion currency hoard to other assets, particularly gold. China has less than 2% or only 600 tonnes of gold in reserves, a small fraction relative to other major industrialized countries. That compares with over 8,100 tonnes for the Americans and 3,422 tonnes for the Germans, the two biggest holders of the metal. China will produce almost 260 tonnes, displacing the United States and Canada.

South Africa, the world's largest producer, produced 275 tonnes, it's lowest in 85 years. China will want to be self-sufficient so we see the industry benefiting form privatization and the usage of western technology. China is an excellent gold province and relatively under explored. We expect China to increase consumption of gold as its people become more prosperous and expect its central bank to boost its reserve position more in line with Europe that has a 15% weighting of gold behind the euro. Gold in particularly is something China does not have enough of yet. That will change.

The Chinese are now looking into buying stakes in companies such as KKR and private equity Carlyle following the acquisition of a stake in Bear Stearns. The National Council for Social Security Fund was set up as part of the pension plan policies for China and the security fund has joined a number of other large Chinese state institutions investing overseas.

Recently Industrial and Commercial Bank of China, China's largest lender, struck a deal to buy 20 percent of Standard Bank in South Africa. In addition, the Chinese entities, through the mandates of their securities regulator, have approved QDIIs and QFIIs using large entities to make investments overseas. In addition, so many of the major Chinese Institutions have secured stock market listings, raising cash that they are now looking around for targets, particularly merger and acquisition vehicles.

Because the one common challenge facing Chinese institutions is the lack of capital market knowledge, China is expected to seed many of the Chinese institutions in order that they make other acquisitions so they won't run into the high profile difficulties of earlier aborted deals like Minmetal's bid for Noranda.

Article by:
John R. Ing
jing@maisonplacements.com
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