Certified Gold Exchange, Inc.

Views and Analysis on the Economy and Precious Metals

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World Liquidity Crisis Emerging

Christopher Laird

With the unraveling of the Yen carry trade; a sequence of events has been set in motion for a world liquidity crisis. Combining this with ongoing pressure from US sub prime deterioration will further harm confidence in US and consequently Asian stock markets.

As of this writing, Asian markets are again down 2 to 3%. I had written last week that confidence in financial markets were dealt a major blow in the first wave of Yen Carry unwinding a week or so ago in the article titled Damage Has Been Done.

This week, we are seeing the second phase of market declines, the US Dow down 230, and as I said Asian markets down 2 to 3% again. To say the least, market sentiment is getting crushed globally.

Now, combine this with still huge Yen carry overhang, and a seriously deteriorating US economy, and we will now see, and are seeing, the emergence of a world liquidity crisis.

Now, many people believe that markets will likely recover, that this present world stock decline is merely a correction. But, I view the market recoveries in the US and Asia last week as a dead cat bounce. I am fairly sure that we are going to see a great world stock crash that will make last years stock declines near this time of year look rather benign. The trouble is, this time, the US is now facing the necessity of lowering interest rates, and that will add further fuel to Yen carry unwinding. Many other factors also will just drain liquidity from financial markets, including housing and commercial real estate… and so on, there are many facets to this emerging liquidity crisis so lets get started….

Interest rates and Yen Carry unwinding

What started in China with stock collapses about two weeks ago, and now again, yesterday, was merely the spark to a great deal of fuel ready to burn off in world financial markets - the huge and highly leveraged Yen carry trade. This money is invested in practically every financial market, and even gold and commodities are infected with Yen carry speculation.

Gold and commodities get hit twice from this scenario, as these have been sources of gain, and gold is a liquid asset that is used to cover margin and trading losses. Thus, after the Chinese and Japanese stock drops, and the strengthening of the Yen, gold is sold off two ways - unwinding speculation and also selling for liquidity.

In fact, the recent gold sell off can be seen as a harbinger of the emerging liquidity crisis in general. As interest rates in the US are likely to be cut soon, particularly in this stock disaster, great pressure

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We Moved!

Certified Gold Exchange, Inc. has moved its corporate headquarters to San Juan, Puerto Rico because we received a special tax grant for the Puerto Rico Economic Development Corporation.

Head of dealer-to-dealer trading, Mr. Miller said, "since we're a large volume discount dealer, the move makes a lot of sense." We were paying over 40% in taxes and lowering that to 7% is going to give us a huge savings advantage over the other national suppliers, this will allow us to pass the savings to clients.

Rest assured that clients will receive the same special attention as before the move.

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The Evolution of Gold or why gold is moving up

Julian D.W. Phillips

This piece is written on the base provided by *GFMS,* as always, a most competent gold survey of what happened in the gold market last year. Their conclusions highlight the evolution of the gold market over the last 7 years, since the Washington Agreement was signed in 1999.

At that time in an environment of a gold market clouded by the constant threat of Central Bank sales, the treatment of the metal as a commodity and the accelerated gold production fuelled by the hedging of future production at prices persistently higher than those achieved when a new mine came into production.

The path of gold since then has been remarkably slow. At first a key change was the announcing of Central Bank sales of gold ahead of the event, which limited sales to 'ceilings'. This removed the fear of unexpected sales.

Then the gold price was at the mercy of hedge and speculative fund dominance making the gold price rise then fall 30% each way.

Jewelry demand, along with other uses for gold grew steadily, while absorbing price rises until it became apparent that the gold price was going far higher, then demand stabilized from this source. This was most noticeable in the West, in particular and in times of volatility in India.

Jewelry decline

But as gold prices rose it moved out of the reach of the small consumer, through the buying of lower caratage gold, so reducing tonnage demand.

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Focus on the disease, not the symptom

Steve Saville

Below is an extract from a commentary originally posted at speculative-investor.com on 11th April 2007.

A writer desiring to paint a bearish picture of US economic prospects and the US$ could choose to highlight the huge US current account deficit, because the word "deficit" has negative connotations. However, the huge current account deficit necessarily goes hand-in-hand with a capital account surplus of equal size; and "surplus" is a word with positive connotations. A writer desiring to paint a rosier picture could therefore choose to highlight the huge US capital account surplus.

Both writers -- the one citing the current account deficit as a problem and the one citing the capital account surplus as a benefit -- would, however, be missing an important point. The point is that neither a deficit nor a surplus on the current account (or the associated capital account) is, in itself, a positive or a negative. It all depends on what caused the deficit/surplus to arise.

To explain what we mean, we'll start with the popular argument that the large US current account deficit is a problem because it involves the US becoming increasingly indebted to the rest of the world. As Morgan Stanley's Stephen Roach -- a high profile worrier about global trade/investment imbalances -- is fond of saying: US$3.5B of foreign capital is needed each and every business day to finance the US current account deficit. According to Mr. Roach, the US will eventually run into the problem of being unable to finance its current account deficit, resulting in a collapse of the dollar's exchange value, a sharp rise in US interest rates and a plunge in US economic growth. From his perspective the trade/capital imbalance must be 'fixed' before it's too late.

But any thesis that begins with the notion that the large US trade/capital imbalance is a problem for which a solution must be found will be hopelessly flawed because the aforementioned imbalance is NOT a problem; rather, it is either the SYMPTOM of a problem or it is not indicative of any problem whatsoever. And in the former case, an economist who focused on reducing the imbalance would be akin to a doctor with a feverish patient who directed his attention toward cooling the patient down without taking into account WHY the patient was unusually warm.

We suspect that a lot of the confusion surrounding this issue stems from thinking about the US as an entity that runs a deficit on the current account and an offsetting surplus on the capital account. In practice, there is no such entity. Instead, what we have are billions of people throughout the world who are trading and investing with each other. When the effects of all these financial transactions are netted-out we find that the subset of the world's population that resides inside the US buys more 'stuff' from outsiders than it sells to outsiders; while the subset of the world's population that resides outside the US invests more money in US assets/debt than the US-based subset invests in foreign assets/debt.

The point is that the so-called trade/capital imbalance is the net effect of millions upon millions of individual decisions made voluntarily by people who believe that they will be better off as a result of their decisions. As such, an entity known as 'the US' does not have to come up with $3.5B of new capital each business day in order to 'finance' a deficit on its current account. Rather, this out-flow on the current account is simply the net result of transactions that could not have occurred in the first place unless there were sufficient external demand for dollars. It is therefore not reasonable to conclude that a large deficit on the current account is a problem, or is indicative of a problem, simply because it happens to exist.

To know if a current account deficit is indicative of a problem you first need to know WHY the deficit exists. In the US case, for instance, you need to know why people inside the US are generally finding

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What Grows $1 Million a Minute? China's Reserves

By William Pesek

April 16 (Bloomberg) -- Economists don't like to admit to being stunned by anything, even in unpredictable Asia. Last week, UBS AG's Jonathan Anderson couldn't seem to help himself.

The cause of the Hong Kong-based economist's dismay: China's currency reserves rose $1 million a minute in the first quarter.

``This is more than just a jump,'' Anderson said in a report released yesterday. ``The magnitude and the abruptness of this acceleration are simply stunning.''

After average reserve growth of about $20 billion a month in 2006, February and March this year had increases of almost $50 billion -- and $136 billion for the quarter. The total is now $1.2 trillion. ``Just when we had convinced ourselves that China's 2007 releases had nothing left to shock us, the first quarter FX reserve numbers came in,'' Anderson said.

While all this raises many questions, three are probably foremost on investors' minds. One, why are reserves increasing so fast? Two, what in the world will China do with that money? Three, can China continue avoiding big gains in the yuan?

The answer that Wang Qing, an economist at Bank of America Corp. in Hong Kong, offers for the first question is capital inflows averaging $25 billion per month during the first quarter. They may have been related to so-called forward currency swaps that were carried out last year. Also, he wonders if there was some easing in controls allowing Chinese banks to repatriate offshore assets in order to extend credit domestically.

What to Do?

The second question -- what to do with the money -- is a more important one and impossible to answer. The 37 percent surge in reserves over the last year coincides with China's move last month to set up a fund that may invest in companies in a similar manner to Singapore's Temasek Holdings Pte. It's part of efforts to better manage its rapidly growing reserves.

The trend also means the People's Bank of China will have to work harder.

``This set of numbers will continue to put pressure on the central bank to tighten monetary policies further,'' says Ma Jun, an economist at Deutsche Bank AG in Hong Kong.

Ma says China needs to ``come up with more rate hikes, more reserve-requirement increases, more foreign-exchange swaps, more central-bank bills and more window guidance to mop up liquidity.'' In other words, whatever officials have done to date to slow the growth of China's money supply, it's not working.

No Precedent

The third question -- what this means for the yuan -- is the touchiest of all. The kinds of inflows China is experiencing are curious. They suggest that much of the so-called hot money that exited China in 2006 suddenly rushed back in record amounts in the first three months of 2007.

``There's no precedent for this in China's own history,'' Anderson said. ``And the only time we saw

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is put on the Yen carry. The whole motivation for Yen carry is to profit for on the huge interest rate spread of the US - 5.25% vs the Yen -.5%. People borrow that and either pocket the interest rate differential, or, worse, speculate with ultra cheap borrowed yen.

As long as the Yen does not strengthen, and the US interest rate differential is maintained, all those hundreds of billions of dollars worth of Yen stay in their respective markets. The trouble is, we now have both the Yen strengthening, and a relative certainty of a US interest rate cut. The Yen carry is very much now set up for a vicious cycle of unwindings:

First, stock/financial losses cause selling/liquidation. Yen carry is then paid off, further strengthening the Yen, creating further pressure to unwind more borrowed Yen - causing further selling in financial markets, an another round of stock drops follows, and we get a vicious cycle of market drops.

Then, the US cuts interest rates to combat these, and the Yen carry has further reason to unwind, and another vicious cycle is now in play to cause stock drops.

All of this financial unwinding causes great losses in every market the Yen carry inhabits. This causes currencies to strengthen, and losses of capital for both investors and brokers who have bet/borrowed on low Yen. Losses of capital by these means loss of market liquidity. It does not help that investment banks like Goldman have huge positions in sub prime mortgages, and this market is collapsing.

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it advantageous to buy more stuff from foreigners than they sell to foreigners, and why foreigners are generally finding it advantageous to do the opposite.

As discussed in previous TSI commentaries, our view is that the US's trade/capital imbalance has grown to such a tremendous size due to the relatively rapid rate at which its currency supply has expanded over the past ten years. In other words, we view the deficit on the current account as a SYMPTOM of an inflation problem (inflation is the cause, the huge current account deficit is one of the effects).

Inflation, we believe, has resulted in misdirected investment, reduced productivity and higher production costs within the US. At the same time, the normal effects on the prices of everyday items of a prolonged period of inflation have been masked by the massive increase in labour productivity within the emerging economies of the world (China and India, in particular). And the upward pressures on interest rates that would normally result from years of relatively high inflation have been largely absent due to a) the aforementioned masking of price increases, b) the large-scale purchasing of US debt securities by foreign central banks, and c) arbitrage related to Japan's near-zero interest rates. Lastly, high money supply growth combined with hardly any of the most visible NEGATIVE effects of inflation has helped maintain the illusion that the US economy is structurally sound, thus boosting foreign private-sector demand for the US dollar.

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The Evolution of Gold or why gold is moving up

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After all, they wanted something they could afford and looked like gold, so price was very important to them. Jewelry making is a key source of demand for gold even now. Offtake in the sector fell sharply in 2006 by 428 tonnes to 2,280 tonnes, marking a 15-year low. Gold imports into the Middle East, which were cut by half last year, could be reduced again this year if price volatility remains in place. Turkey, Saudi Arabia and Egypt accounted for 80% of the decline in imports, which were affected by increased scrap supplies and less jewelry production. Scrap jewelry volumes leapt 34% or 112 tonnes. The outlook for this year is not much brighter if prices continue to rise, which would mean jewelry demand could contract even further, but the pull back is unlikely to be as steep as in 2006. The lost jewelry demand has to be replaced with investment demand or prices will fall to a level where jewelry demand returns.

But in the Indian sub continent gold demand grew as it held true to it's promise of financial security and reliability in a country where the 'alternative gold world' provided a money out of the sight of a corrupt officialdom, satisfying privacy requirements as well as fulfilling their religious and social requirements.

The shift to Investment

But as the gold price rose, there had to be a falling away of the price conscious buyer, eventually bringing in the wealthy individual and institutions who looked to gold for long-term investment. 2005 & 6 in particular saw a gear-shift in the attitude to gold as an investment rather than as a commodity or even simply jewelry. But investment dropped in 2006 compared to the previous year, as the market adjusted to a more active buy and sell activity, rather than just buying. Implied net investment fell 20% in 2006 to just under 400 tonnes. But *GFMS* stated, "Continued weakness in the U.S.$, ongoing geopolitical tensions and strong commodity prices, coupled with fundamental support appearing on price dips, continue to make the investment case for gold strong". We agree completely, but would like to add that it will be increasingly be on the back of falling global confidence in paper money and uncertainty over the stability and prospects for the global economy.

Central Bank's changing attitudes

It also coincided with a change in attitude of the Central Banks towards gold, fully aware of the dangers facing the $ as well as other paper currencies. We saw the transition from the gold overhang of 1999 to some Central Banks buying the metal, wanting to lower their exposure to the $. But the most important move by the Central Banks like Germany and Italy was the refusal to sell their gold, saying that gold was a "useful counter to the $". This stated its monetary value as an integral art of their reserves. Central bank gold sales slowed sharply in 2006, declining 51% to 328 tonnes as signatories to the Central Bank Gold Agreement (CBGA) recorded lower sales and some other banks starting to buy gold.

On the one hand, Agreement signatories seems set to continue to sell below their annual quota, and on the other, the appetite for certain central banks to diversify away from U.S. $ and into gold is likely to generate further purchases, although the volumes of the latter are expected to be constrained, at least for the short to medium term. There is even a possibility that the announced gold sales of the Central Bank Gold Agreement will be virtually exhausted by the 26th of September, the end of the C.B.G.A. year.

Central Banks are faced with a gold market in which a Central Bank finds it difficult to buy gold in volume, without setting the gold price shooting up, and the need for them to propagate their own

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That causes further loss of financial liquidity - basically a wave of stock and financial losses are sweeping the markets, leading to further selling.

Stock losses lead to more stock losses and liquidity drains

As of this point, we can say there is several trillion dollar value of losses in stock markets. This loss means there is less money, and then combine that with a change of sentiment to fearful. The drop in portfolio values is a net loss in money, and is highly deflationary. This is such a drain on banks and investors that, as this value literally vaporizes, bank and market liquidity dry up. The stage is set for a real panic sell off in all financial markets, except quality bonds.

US sub prime losses and liquidity drain

As more news of sub prime losses comes out, the market literally dries up. Banks and institutions hold all manner of positions on these, to include the huge mortgage derivative and securitization and credit insurance. Banks and others now find they cannot sell these positions, and have to take huge losses. Goldman Sachs is a prime example. It is said the major investment banks have about 15% of their capital in these. The end result is these investment banks and everyone else holding sub prime investment products are now getting hammered and no one wants to buy, so these markets continue their death spiral. Here is a quote from an article Jim Willie just put out showing just how scary this market is deteriorating:

CIGA Rusty Bayonet is quoted to say regarding the last week of February,"I know for a fact that there was not a single buyer of subprime mortgages last week. I have a buddy who trades them and said he could not find a bidder down to 93... Essentially the subprime industry ceased to exist last week." This is the stuff of bank crises, from liquidity seizures, which to date have been minimized and fully denied. The next phase will center on negative amortization mortgages.

Link

The guy Willie quoted is aptly named Rusty Bayonet.

The outfall of sub prime losses cannot be underestimated. These comprise about 20% of all mortgages, and is just a huge dead weight on financial markets in all kinds of ways. These include:

- Huge losses to holders of all manner of investment products based on this collapsing sub prime market - Example - Goldman
- Cutbacks in credit from banks/institutions to stem losses - this kind of thing is a direct cause of a classic liquidity crisis in economies.
- Rising lending standards that make it more difficult for borrowers to buy new 'anythings', or refinance, leading to a vicious cycle of further credit deterioration, and banking losses. Home foreclosures, for example, are at ever higher levels.
- A general reduction in all types of credit - to financial markets that were recently built primarily on this type of liquidity.

Economy falling into recession and that causes further market pressure

The last thing markets need with all this liquidation pressure and collapsing liquidity is further reason for selling. That is coming now from an emerging recession in the US.

We keep hearing the US consumer is still alive and well, but that is rapidly changing. In fact, consumer sentiment on some indexes dropped 10% just after these recent stock crashes.

What is more important, people clearly do not understand how rapidly the US and western economy can spiral into a crisis level economic collapse. To refresh your memory, remember how many waves of layoffs there were after the Tech crash?, and when 911 happened, things just got worse. The US, the EU, Japan, and China all were fearing deflation. That memory has receded from memory, but I clearly remember how fast the layoffs piled up in the US, and how bad the US consumer pulled back, as well as how fast companies pulled back from capital investment.

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No More Legs To Stand On

Peter Schiff

As investors and market strategists sift through every new economic tea leaf for clues about the health of the U.S. economy, I am reminded of a group of railroad engineers discussing the structural qualities of the track bed while an overloaded fright train careens around a sharp turn. For those not lost in the inconsequential minutia, a severe recession is an outright certainty, regardless of what current statistics might indicate on a day-to-day basis.

Since the bursting of the dot.com bubble, the U.S. economy has been fueled by an enormous consumer spending spree. This largess has been artificially propped up by the largest real estate bubble in U.S. history. In fact, housing has acted as a three-legged stool upon which American consumers have been precariously perched. Those legs are: 1) home equity extractions; 2) adjustable rate mortgages; 3) the wealth effect.

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Focus on the disease, not the symptom

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Obviously, if the US current account deficit is the result of an inflation problem then the only viable solution is to reduce the rate of inflation.

However, it seems that everyone wants to focus on the symptom and no one wants to deal with the disease.

Article by:
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16 April 2007
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World Liquidity Crisis Emerging

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Do you see the ingredients in the wind for a real depression this time?

Pushing on a string

I keep hearing about how central banks only have to turn on liquidity spigots to full blast and everything will be ok. That is not correct, this time. Before I address why, if you insist on staying in stocks and such believing markets will recover and this is merely a correction, like last year, then you are gambling that the central banks (the only remaining market bull left soon) can keep markets elevated or even rising. I don't think they can this time.

I mean, think about it. One thing that has kept world consumers going is credit. A lot of this has/had to do with the Yen carry trade that Japan tried to engineer to both stimulate their economy (low consumer credit) and elevate their stock markets. Well, after their stock and real estate collapses in the early 90's, the Nikkei fell from about 45000 to where it is now, around 16000! That whole reflation effort ultimately failed, and left Japan with the worst indebtedness in the West!

Japan constantly has battled deflation since, and is still flirting with it. Just wait till the Nikkei finally collapses way below 10000 this time!

Basically, what the BOJ found out is that, by offering money for virtually zero interest, they were trying to push on a string. Japanese consumer sentiment was very low, and they refused to borrow. When the US consumer falls into the 'pushing on a string' category, the world will tremble economically. We are just seeing that begin, and the present world stock drops are both anticipating this and causing/initiating it. It all had to happen.

Commodities

Commodities are going to get hit badly. These have been infected with speculation, and Yen carry is involved. They are and will be selling off in months to come as stocks drop. There is also the economic rationale for them to drop as economies slow and demand slackens. Obviously, gold and oil will feel this pressure. Gold will ultimately detach from downward commodity pressure, however. As in any market, as commodities unwind, there will be further pressure to unwind. Commodities will likely fall to their historic norms at the minimum.

Markets and economies can slow fast and drastically

You will be amazed at how fast the economies slow, and how soon the big layoff notices start popping up. Soon, the economy will be in a vicious consumer led recession that could even lead to a world depression and deflation. I really don't believe the central banks will be able to stem things this time from a cycle of economic slowing leading to falling consumer confidence and consequent deflationary pressures in the US and Japan. Ultimately China will follow, and soon too, because China definitely is set up for a deflation for its own reasons (massive mal investment -10% of their businesses are making money, did you know that? Massive hidden banking losses, massive local speculation in stocks and real estate that are presently getting wiped out)

The only way central banks even have a hope of temporarily stemming a stock led decline into a depression, if things get bad enough, is through literally monetizing the entire world stock markets! Who knows, the US and Japanese plunge protection teams may try it….

March 14, 2007
Christopher Laird
www.PrudentSquirrel.com

No More Legs To Stand On

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First, rising real estate prices allowed Americans to routinely borrow against home equity and repeatedly refinance loans of any stripe (be they mortgage, credit card or automobile) at lower rates. If the home equity was turned into cash, or used to pay off other debts, the result was additional spending beyond what consumers could have afforded based solely on their incomes.

Second, adjustable rate mortgages, especially the "negative amortization" or the "interest only" varieties, allowed Americans to enjoy temporarily low mortgage payments despite accumulating bigger mortgages. The difference between those temporarily low rates and the normal rates, to which these loans would ultimately reset, was available to be spent by homeowners.

Third, as real estate prices rose, homeowners felt wealthier, which has been shown to be a stimulant to spending. In addition, the pervasive belief that home prices would continue to rise indefinitely led many Americans to make false assumptions regarding their financial circumstances and their need to save to meet future obligations and retirement goals. As a result, money that would have typically been applied to savings was spent.

These three factors combined to encourage consumer spending on an unprecedented scale relative to incomes, and allowed debt to rise to levels that would have been impossible had mortgage payments been fully amortized and real estate prices remained at historically reasonable levels. Of course, many economists confused this spending binge with legitimate economic growth, just as they confused rising home prices with increased savings. However, as with the dot.com bubble, the truth only becomes apparent to the inebriated when the punch bowl runs dry.

Now that ARMs are being reset to market rates, home prices are falling, and the wealth effect is working in reverse, consumers will be forced to atone for a prolonged period of conspicuous consumption by enduring an even longer one of frugality.

Excess spending will be replaced by excess savings. On the mortgage front, higher payments on ARMs mean less money available for discretionary spending. On the cash-out side, lower real estate prices mean houses will no longer act like ATM machines. Finally, as homeowners have to adjust their financial expectations to the new reality, saving will have to become the new national pastime, as millions of homeowners desperately try to make up for lost time.

However, it is important to point out that as a collapse in consumer spending ushers in a recession, the Fed will not have the luxury of lowering interest rates to cushion the fall. Despite surging unemployment, "inflation" will only accelerate, as extreme dollar weakness abroad translates into higher consumer prices at home. In addition, long-term interest rates will be headed higher as well, as foreign savers look to be compensated for this loss of purchasing power.

Higher interest rates and substantial increases in the cost of living will only exacerbate the housing downturn and the recession, turning what would normally have been simply a severe recession into something far worse.

Although this may sound like a sobering scenario, it is definitely not the worst case. The real doomsday would only come as a result of Fed-created hyper-inflation which could be used to pump up all varieties of falling asset prices. Let's hope the boys at the Fed decide not to go there.

Article by:
Peter Schiff
April 5, 2007

The Evolution of Gold or why gold is moving up

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national currencies, but unhappy with holding huge amounts of those currencies, now set to fall in value.

The effect of higher prices

The gold market will continue to evolve, we believe, into an investment market for Central Banks, institutions and wealthy individuals with gold prices rising to a level that makes gold most gold jewelry just too expensive. Indeed we expect the commodity side of gold to diminish, where replacement metals are an alternative. At some point in the future we would expect, because gold prices will be high enough, for institutional demand to provide sufficient liquidity for major Central Bank transactions as in the past. Sound too rich? Just take a look at the weekly of the E.C.B. for the week before last, in which the sales of gold from their members was, yet again, overshadowed by the quarterly revaluation of their reserves. **The revaluation of total gold reserves, after the sales of the week, was the equivalent of buying nearly 250 tonnes of gold.** However, this point seems to be lost on those still fearful of more Central Bank sales and on those Central Banks still selling gold.

Is it any wonder that wealthy individuals and institutions want to follow Germany and Italy holding gold?

De-hedging confirms rising prices

The very act of de-hedging is a statement by gold producers that they believe in a rising gold price and don't want to lose profits by selling their gold ahead of production. So last year continued the strong trend of producer de-hedging, buying back 373 tonnes last year. The de-hedging will continue in 2007, with a total of between 210 tonnes and 300 tonnes for the full year.

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The total outstanding forward sales, loans and the delta hedge against option positions stood at 1,364 tonnes at the end of 2006 giving producers an ongoing nightmare. Every time a producer reports that he sold for between $350 and $430, when he could have got $675 if he had waited, he does so with head hung low. Isn't it better to take that lost opportunity by buying back the hedge now and get the continuing price rises from now on, rather than watch the position steadily worsen?

Mining production to rise

On the supply side, the picture looks brighter for 2007 after global mine output fell by 79 tonnes last year to a 10-year low, led by Asia, Africa and North America. Cash costs rose by $45/oz, double the increase in 2005. New mines, ramp ups and less of a swing at some of the world's larger operations that dampened the impact of new production in 2006 should support production level to above 2,500 tonnes. But don't expect that to rise to the point where the present levels of demand will be satisfied.

Article by:
Julian D.W. Phillips

What Grows $1 Million a Minute? China's Reserves

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anything remotely close to this in Asian practice was during the 1997 crisis, one of the biggest financial cataclysms we had ever seen in this region.''

The most obvious remedy, of course, is a big yuan revaluation. So far, there haven't even been hints that it's possible. Gains in China's currency will be a political decision, one made not on the economics, but in spite of them. For China's leaders, job creation is still the most important goal and that means a competitive exchange rate to support exporters.

Yet negative side effects from that strategy keep popping up. In March, China's money supply grew by more than the central bank's target for a second month. M2, which includes cash and all deposits, increased 17.3 percent from a year earlier, above the central bank's target of 16 percent.

Stock Bubble

It's not that the central bank has lost control; it has done a yeoman's job keeping inflation under control even as booming exports flood the economy with cash. Yet policy makers' past performance offers few clues about whether they can continue to keep China from going off the rails.

A clear signal that could happen is the stock market. It would appear China's stock investors have found a way to defeat the laws of gravity for now.

As stock prices soar, China's currency is defying global conventional wisdom that it's undervalued. So far, China has been able to avoid big gains in the yuan by amassing more and more currency reserves. One wonders how much longer that approach will work.

``If those reserve numbers continue to grow at $50 billion per month for the rest of the year, then it becomes much more likely that we have a very significant inflows problem on our hands,'' Anderson said. ``As always, stay tuned.''

Article by:
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April 16, 2007
Bloomberg News columnist

The Outstanding Public Debt
National Debt:
8,845,388,304,420.50
The estimated population of the United States is **301,663,572**
US citizen's share of this debt is
$29,322.03
The National Debt has continued to increase an average of
$1.67 billion per day
Business, Government and Financial Debt exceeds
$45 Trillion

ORE-VISION

Views and Analysis on the economy and Precious Metals

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