

## THIS IS JUST THE BEGINNING

The following is an extract from the December 07 Issue of **The Global Speculator** sent to subscribers on the 4<sup>th</sup> of January 2008.

As many of you are already aware the Gold price in US dollars has hit an all time high in recent days with an impressive burst through the US\$850 an ounce mark. Precious metals equities in the major producing companies have responded favorably and as usual have rewarded those with the courage of their convictions and patience. A look at the chart of the Gold price below shows a decisive breakout from the recent pennant formation which on measurement provides a conservative price target of US\$970 over the next 6-12 months. Last month we touched on the inflationary concerns that are materializing internationally and the provision by central banks of liquidity injections to make up for the shortfalls caused by the reluctance of international banks to lend to each other. Many in the mainstream financial media recognize the cause of inflation as an increase in prices (not an increase in the supply of money). This is akin to recognizing the cause of a cold/flu via symptoms such as a sore throat and/or a runny nose, not the bacterial or viral infection responsible. Regardless of this oversight we have now entered a stage in this economic cycle where it matters very little what your definition of inflation is. If the 1970's were a guide, it is this stage that yields the fastest increases in precious metals prices as the masses are no longer able to ignore the detrimental price effects of rampant monetary inflation.



# THE GLOBAL SPECULATOR

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## XAU



## XAU GOLD RATIO

| Key Dates                 | XAU/Gold    | XAU           | XAU Performance | Gold Price    | Gold Performance | Net Position  |
|---------------------------|-------------|---------------|-----------------|---------------|------------------|---------------|
| 19/11/2001                | 0.18        | 49.46         |                 | 272.90        |                  |               |
| 28/05/2002                | 0.27        | 88.65         | 79.24%          | 325.50        | 19.27%           | 59.96%        |
| 26/07/2002                | 0.18        | 55.73         | -37.13%         | 303.30        | -6.82%           | -30.31%       |
| 08/12/2003                | 0.28        | 112.21        | 101.35%         | 406.60        | 34.06%           | 67.29%        |
| 13/05/2005                | 0.19        | 78.99         | -29.61%         | 420.70        | 3.47%            | -33.07%       |
| 31/01/2006                | 0.27        | 154.19        | 95.20%          | 570.70        | 35.65%           | 59.55%        |
| 16/08/2007                | 0.19        | 125.99        | -18.29%         | 662.25        | 16.04%           | -34.33%       |
| <b>Current (03/01/08)</b> | <b>0.22</b> | <b>190.35</b> | <b>51.08%</b>   | <b>865.80</b> | <b>30.73%</b>    | <b>20.36%</b> |

The XAU for the month of December trended mostly lower as it, like the Gold price, continued to consolidate after the market reacted unfavorably to a 25 basis point interest rate cut by the Federal Reserve (Expectations were for a 50 basis point cut). Despite this disappointment, the XAU has since rallied to break the consolidation pattern and buck the overall downward trend in general equity markets. A look at the volatility levels (Top section of chart) show levels you would expect to see at a market top preceding a sharp correction lower. The interesting thing is when we look at the XAU/Gold ratio we can see we are closer to the Buying Zone rather than the Selling Zone (Something we have not witnessed during the bull market thus far). Increased volatility is generally associated with big and fast movements. Precious metals equities tend to fall much faster than they rise, due primarily to these increased volatility levels at market tops. It is my belief what we are seeing right now is this same phenomena but in a **bullish** context, rather than a bearish one. This seems to be supported by the recent surge we have been seeing by the major precious metals companies (10%+ increases in 1 day have not been uncommon). With a XAU/Gold ratio at just 0.22 this would indicate that we have some ways to go before the major Gold shares will start to look expensive relative to the Gold price. At present Gold prices we should start to see some impressive profit reports over the next 3-6 months which should translate into further increases.

## OUTLOOK

The two short term scenarios as I see it over the coming weeks and months:

**Scenario 1:** I expect to see this rally continue with the 200 level being taken out before too long. Expect some possible resistance at 195 as the previous high gets tested and the precious metals shares become temporarily overbought. From there I would expect to see a surge through 200 and up towards the intermediate term target of 230 – 240. I am leaning towards this bullish scenario.

**Scenario 2:** The general equity markets get caught up in a violent downturn taking the precious metals sector **temporarily** with it. This could result in the XAU falling to strong support levels at the 165 – 170 mark. The markets continue to look shaky and the risk of this scenario firmly remains. We have seen some encouraging evidence over the last day or two that provided the Gold price can move higher, the precious metals sector has the ability to move inversely to the general equity markets on any given day. For now I do not support this overall scenario.

### Intermediate Term Outlook:

My next target for the XAU is 195 – 200 (Previous high). Whether we can go on and attempt a move to my intermediate term target of 230 – 240 in the near term may largely be dependent on just how successful ongoing rate cuts are at injecting some semblance of stability into the equity markets. Regardless of what transpires in the near term, these

targets represent a bare minimum over the longer term.

## Intermediate Term Outlook:

My next target for the XAU is 195 – 200 (Previous high). Whether we can go on and attempt a move to my intermediate term target of 230 – 240 will largely be dependent on just how successful these rate cuts are at injecting some life into the equity markets. Regardless of what transpires in the near term, these targets represent a bare minimum over the longer term.

## NORTH AMERICAN SILVER INDEX (NASI)



The NASI for the month of December 07 moved back towards the 150 day moving average before finishing the month strongly and testing solid intermediate term resistance at around the 9,400 level in recent days. The relative strength comparative with the Silver price is also attempting to break resistance at the 600 mark. The Silver price has continued

to under perform Gold in recent weeks and I am still awaiting a decisive break of the 0.018 mark on the Silver/Gold ratio (55 for the Gold/Silver ratio) to indicate a positive shift in this trend.

## OUTLOOK

The two potential short term scenarios as I see it over the coming weeks and months:

**Scenario 1:** The Silver index will continue to rally higher breaking strong resistance at 9,400 before pushing towards my intermediate term target of 11,000. Expect this process to accelerate if the Silver/Gold ratio can break 0.018 (Gold/Silver – 55) in the near term. I am presently leaning towards this scenario

**Scenario 2:** If the gold and silver price were to get caught up in a sharp fall in the equity markets, we could see a worse case scenario of yet another retrace back to the previous resistance which should now act as support at 7,800 – 8,000. I don't presently support this scenario.

### Intermediate Term Outlook:

Over the intermediate term my next target for the NASI is around the 11,000 mark towards March and April 2008 assuming at the very least a relatively stable and panic free period in the equity markets leading up to then.

## CLOSING COMMENTS

December 07 started off as a pretty disappointing month with market fall out from a smaller than expected 25 basis point rate cut from the Federal Reserve. We have since seen some strong improvement into late December and early January 2008 with the gold price making record all time highs and the major precious metals stocks rallying sharply higher. For those of you that hung in there and took advantage of last month's opportunity, I congratulate you. For those of you that lost your nerve and exited your precious metals positions, all is definitely not lost. The junior side of the market is starting to show some signs of life and still offers some exceptional value. We are entering some very interesting and turbulent times and I want to take this opportunity to wish all of you and your families a safe and prosperous 2008. For anyone interested I write a free newsletter on the precious metals market which you can sign up for at the website below. Past issues of the newsletter may also be accessed at the website below.

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