THE GLOBAL SPECULATOR

Volume 2, Issue 12, 4 January 2008

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INTRODUCTION

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.

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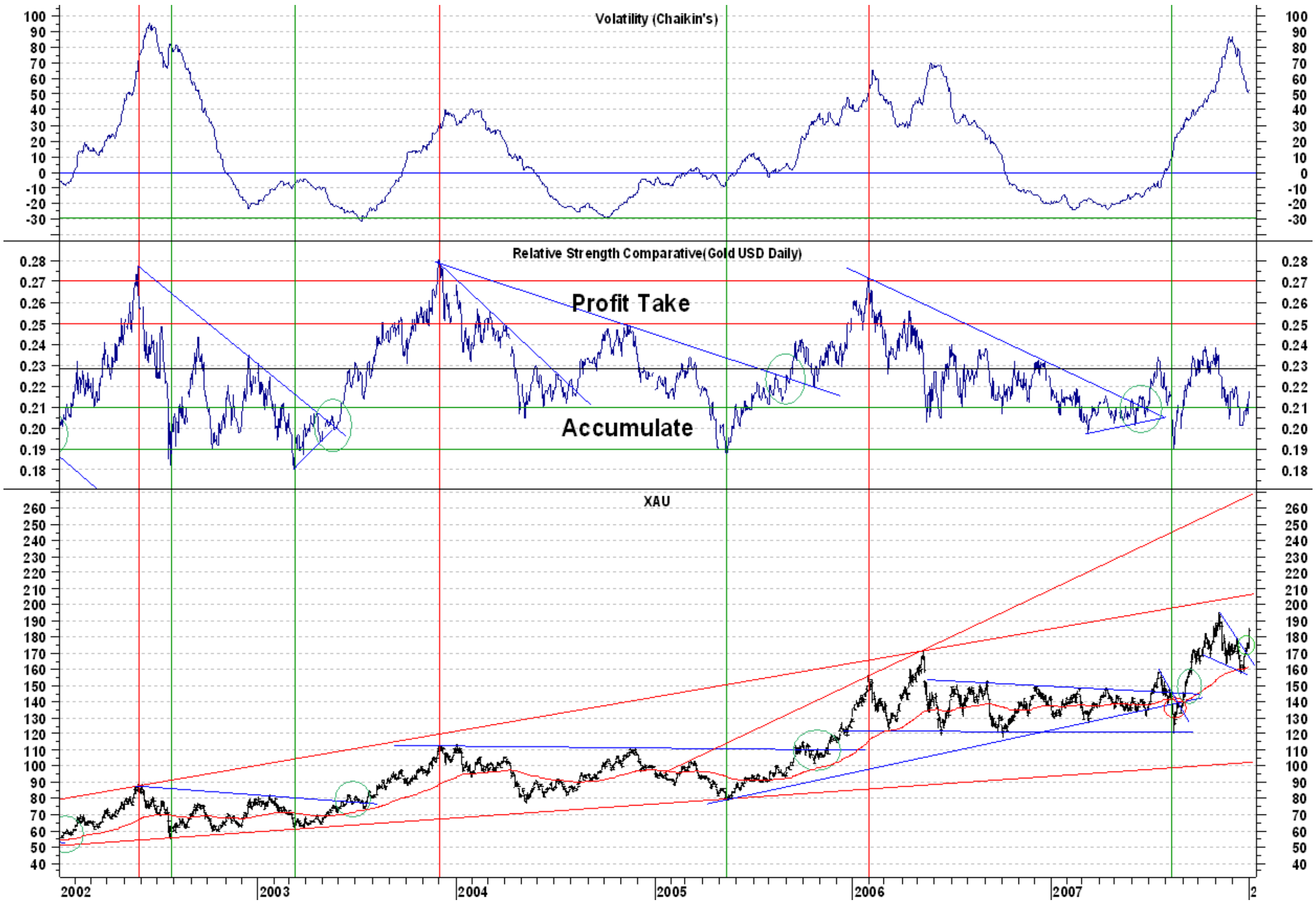
XAU



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%
Current (03/01/08)	**0.22**	**190.35**	**51.08%**	**865.80**	**30.73%**	**20.36%**

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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.

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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:

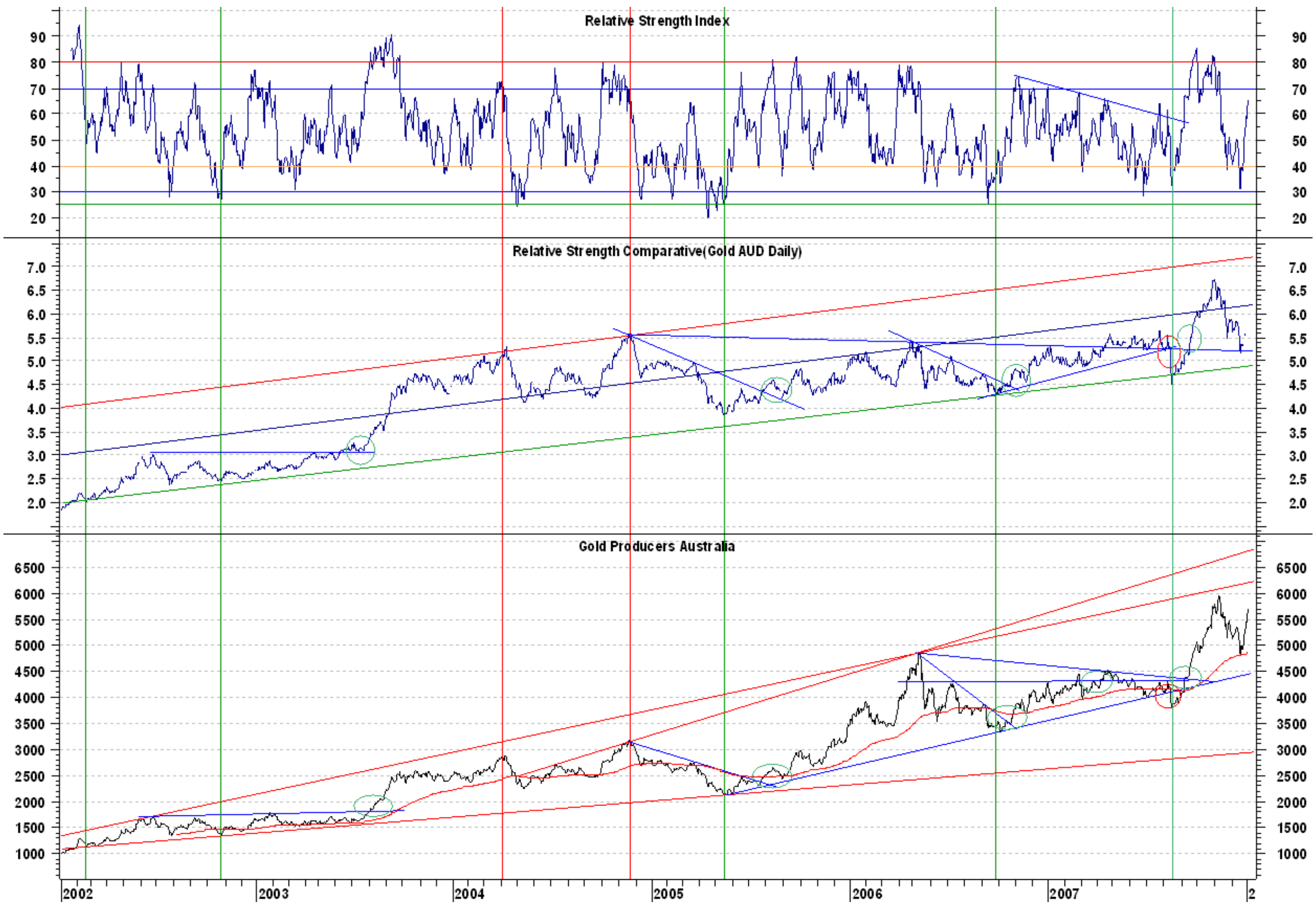
Scenario 1: The Silver index will continue to rally higher breaking strong resistance at 9,400 before pushing towards my intermediate term target of 11,000. Expect this process to accelerate if the Silver/Gold ratio can break 0.018 (Gold/Silver – 55) in the near term. I am presently leaning towards this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

AUSTRALIAN PRODUCERS INDEX (API)



During the month of December 07 the API pulled back to test the 150 day moving average at around 4,800 before rallying sharply higher in recent days back up towards the 6,000 level. With the Australian dollar weakening and the Gold price in Australian dollars consequently strengthening, this has seen a sharp pull back in the relative strength comparative back to intermediate term support (previous resistance) at 5.3. As I type this, the Gold price in Australian dollars is also at an all time high at just over AUD$980 an ounce. At these prices even the higher cost Australian producers (Cash Cost - A$500 - A$700 an ounce) will be making reasonable profits.

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OUTLOOK

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

Scenario 1: The API will rally higher towards our intermediate term target of 6,500. The Gold price in Australian dollars continues to gather momentum assisted by the tiring Aussie dollar (See Australian Theoretical Gold price section). We are seeing this translate into higher share prices for the major Gold producers like Newcrest and Lihir as well as some of the middle tier producers such as Equigold and St Barbara Mines. Many more companies will participate over the coming weeks and months. I presently support this scenario.

Scenario 2: If the gold and silver prices get caught up in a sharp fall with the general equity markets, we could see a **temporary** pull back to the moving average now at about 5,500. Whilst a very valid risk, I do not support this scenario at the present stage.

Intermediate Term Outlook:

My intermediate term target continues to be 6,500 in the first quarter of 2008, contingent on general market stability and/or continued strength in the Gold price.

AUSTRALIAN THEORETICAL PRICE OF GOLD UPDATE

Date	10 Year BB Interest Rates	Official CPI	M3 Aggregate Money Supply	Rate of Australian M3 Change	Gold Production Av Annual Increase (1.73%)	Australian Theoretical Gold Price	Actual Australian Gold Price	Actual as a % of Theoretical
Jun-07	6.26	2.10	867.9	3.3460%	0.14%	2,760.86	766.64	27.77%
Jul-07	6.03		874.6	0.7720%	0.14%	2,778.20	774.60	27.88%
Aug-07	5.92		895.8	2.4240%	0.14%	2,841.53	826.01	29.07%
Sep-07	6.16	1.90	911.9	1.7973%	0.14%	2,888.51	839.60	29.07%
Oct-07	6.18		939.1	2.9828%	0.14%	2,970.50	851.90	28.68%
Nov-07	6.00		964.7	2.7260%	0.14%	3,047.19	885.91	29.07%

As far as rampant money supply growth goes, the month of November 07 hasn't disappointed with monetary aggregates continuing to grow at a blistering 2.73%, taking the Theoretical price of Gold to over AUD$3,000 an ounce for the first time. If we look at the first 5 months of this financial year as a guide, we get an annualized growth rate of 25.68%. If I look back over the past 45 years of Australian M3 data, there has only been two financial years where 25% plus growth has ever been achieved. Those years were 1973 (25.67%) and 1989 (27.92%). What followed on both occasions were two very deep recessions. As at the conclusion of November 07, the actual price of Gold remains below 30% of the theoretical value. At current prices (AUD$980 an ounce) the actual is presently over 32% of the theoretical.

Over the new years break I read a very interesting article in the Australian Financial Review with regards to Australia's Current Account Deficit (CAD) and the potential ramifications of the ongoing credit crises on the Australian dollar. The key points I picked up on were as follows:

- Bank borrowing offshore is the key to the unusual structure of Australia's Balance of Payments. Australia runs a large and growing CAD. In most quarters Imports largely exceed Exports. This is the Trade Deficit and makes up one component of the CAD. Australia also pays interest and dividends on AUD$659B in Net Foreign Liabilities which is the accumulated result of past CAD's. Together these two deficits make up the CAD. In the Sept Qtr 07 the CAD came in at a record AUD$17.5B.

- To be able to run a CAD on an ongoing basis Australia needs to match this by an equivalent **Foreign Capital Inflow**. The inflow in fact needs to exceed this deficit due to increased globalization by Australian businesses (Net Foreign Investment). Over the past decade additional offshore borrowing by Australian banks has supplied most of this capital inflow. In the decade to June 07, total Net Foreign Liabilities increased by AUD$372B (Accumulation of CAD's). Over this same period, the net foreign debt of Australian financial institutions increased AUD$343B, providing more than 90% of the CAD financing.

- In the September Quarter 07 financial borrowing abroad came to a dramatic halt. Australian banks actually reduced foreign debt by AUD$4B. For their part, non-financial businesses increased their offshore borrowing by a net of AUD$5.9B. The total increase in private business borrowing was therefore just under AUD$2B against a required debt inflow of AUD$29.9B (17.5 for the CAD plus 12.4 for Net Foreign Investment). Which begs the question, where did the missing AUD$28B shortfall come from?

- Enter the Reserve Bank of Australia (RBA). The RBA supplied the required capital. The ABS numbers show the foreign exchange reserves fell sharply in August and September and have continued to fall since. At just AUD$32.7B in November, the RBA foreign Reserves were less than half the level of July 07.

- If Australian banks remain reluctant to borrow offshore in 2008, something has to eventually give. The RBA will be reluctant to use its modest remaining foreign exchange reserves to support the currency or finance the CAD. If the banks do not borrow to match it and there is not a big turnaround in equity flows, the Australian dollar will take a tumble. It would have to fall enough to persuade offshore buyers that Australian assets were cheap. Interest rates would rise because banks would more than likely borrow domestically, increasing the demand for domestic borrowing.

The long and the short of it is the Australian dollar contains much inherent risk right now. The gold price in Australian dollars as we can see with our theoretical gold price analysis will be the major beneficiary of any future fall out in the Aussie dollar. I have had many conversations with various people about the fantastic value Gold presently offers. The looks I get in response are ones of dismay and disbelief as Gold in **nominal** terms is at an all time high (Funnily enough these were the same looks I got when Gold was at bear market lows). I want to reiterate that unless you understand **why** the gold price has much more upside, chances are you will never invest in Gold and precious metals related investments (And that is probably a wise thing). The problem is history indicates that many people will more than likely enter the precious metals market at a much later date when the downside risks are substantially higher. That's human nature for you. The point I am trying to make is that you need to understand **why** you are investing in Gold. **"Because it is going up in price"**, will not suffice unless you are a trader playing this game by a defined set of rules.

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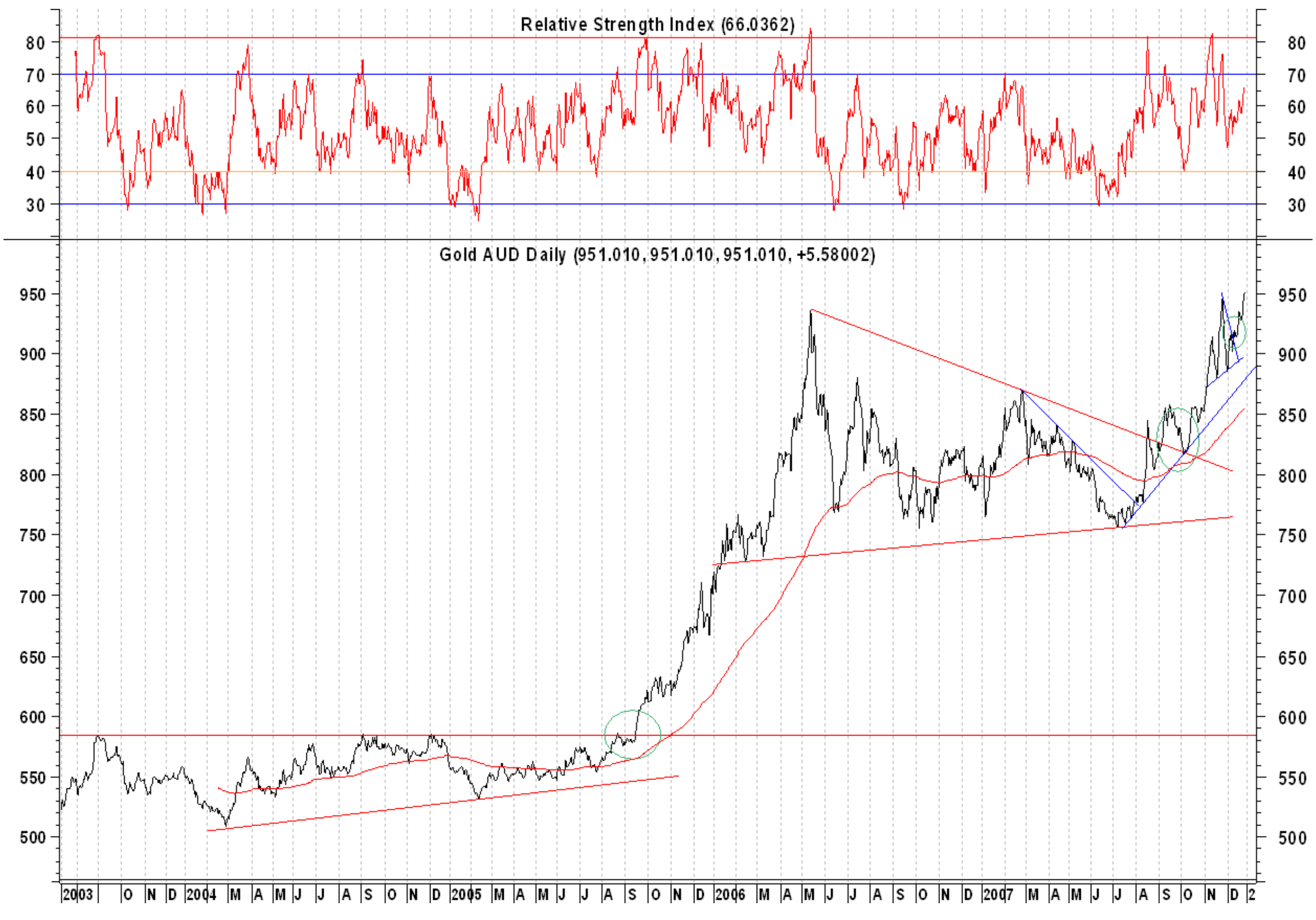
AUSTRALIAN GOLD PRICE



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.

Troy Schwensen

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