

THE GLOBAL SPECULATOR

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Volume 2, Issue 13, 4 February 2008

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GOLD NERDS

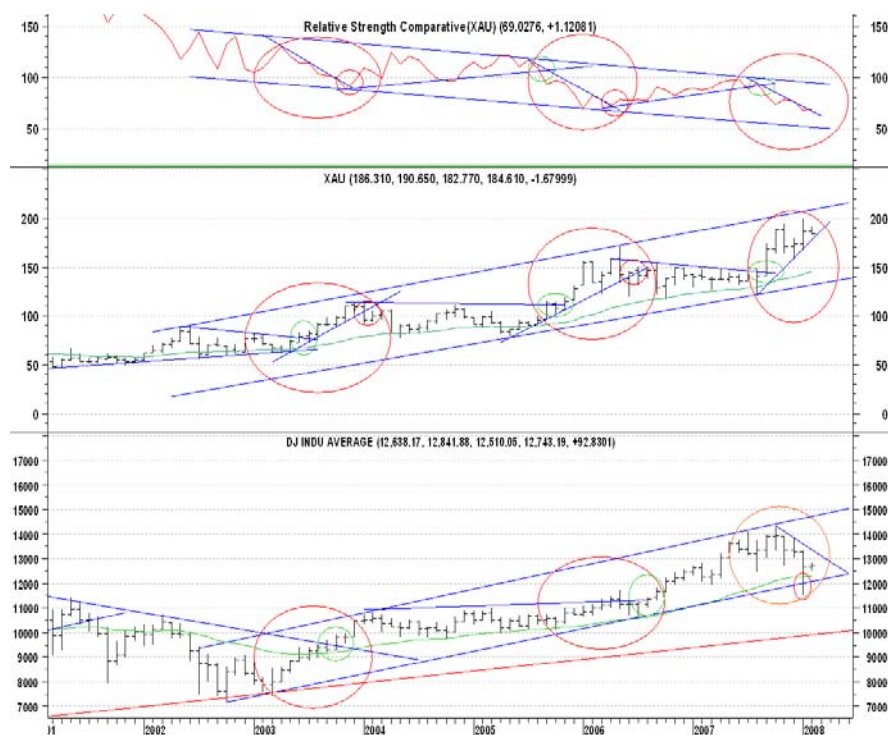
On ASX Gold Investments
...The Nerds have the numbers

INTRODUCTION

What a 4-5 weeks it has been! Since the last issue, the US Federal Reserve has cut interest rates 1.25% in a startling display of bravado. World markets have been jittery to say the least and investment confidence has been shaken. It is this investment confidence the Federal Reserve is desperately trying to restore and the jury is out as to whether they will be successful.

The precious metals sector has been sailing into a monumental headwind as investors have been reluctant to enter despite record gold and silver prices. The fundamentals continue to improve whilst share prices are either falling or flat. This should translate into some pretty impressive profit results over the coming 3-6 months which may help to generate some renewed enthusiasm. If we compare the recent rally in the XAU to that of previous rallies, namely 2003/04 and 2005/06, we can see that the general market sentiment is fairly poor in comparison (as indicated by the falling Dow Jones Industrial Average). Whilst fundamentals are arguably better than ever, it is poor market sentiment that is winning the day. A look at the top section of the chart shows the XAU continues to strongly outperform the Dow Jones. For the time being, it is becoming increasingly evident that aggressive rate cutting is not having the desired effect.

Dow Jones v XAU (Monthly)



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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 (01/02/08)	0.20	184.61	58.62%	907.90	37.09%	21.53%

The XAU for the month of January 08 fell marginally from 190.35 to 184.61 as the gold price rose close to 5% from US\$865.80 to \$907.90. This has seen the XAU/Gold ratio fall from 0.22 down to 0.20 as the shares have failed to emulate the performance of the metal thanks to the previously discussed instability in world equity markets. Despite the ratio sitting in the Accumulate Zone, caution must be taken when looking at the short to intermediate term outlook. Having had the opportunity now to see how the market has responded to the aggressive rate cutting exercise by the Fed, one doesn't gain much confidence that rate cutting alone is going to ease market concerns. With economic data coming out showing a deteriorating US economy, investor sentiment is waning. One also gets the feeling that there are many more nasty surprises lurking just beneath the surface which could decimate the markets at any point in time. What does this mean for the precious metals sector? In my opinion the precious metals sector has performed admirably during this period and is clearly outperforming the industrial market as indicated on our earlier chart. Fundamentals remain strong which will translate into improved earnings over the coming months. Unfortunately, in the short to intermediate term, markets are driven predominantly by sentiment not fundamentals which means the precious metals sector will remain somewhat vulnerable to any market instability.

OUTLOOK

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

Scenario 1: I expect the XAU to be range bound with reasonable support around the 170 level with rally potential all the way to 210 depending on the mood of equity markets. Regardless of whether equities fall or rise in general I would expect the precious metals sector to continue to outperform. I am presently leaning to this scenario

Scenario 2: The general equity markets get caught up in a violent downturn taking the precious metals sector **temporarily** with it. An example would be the Dow Jones dropping towards longer term support at 10,000 (see the earlier chart). This could result in the XAU falling through strong support levels at the 165-170 mark and down to longer term support at 145-150. Equity markets remain vulnerable and the risk of this scenario occurring firmly remains. For now I do not support this scenario.

Intermediate Term Outlook:

My next target for the XAU is 208-210 (new highs). Whether we can go on and attempt a move to our intermediate term target of 230-240 in the near term may largely be dependent on just how successful ongoing rate cuts are at stemming market concerns. Given the recent market conditions, this target seems very unlikely with the second half of 2008 looking like a more realistic time horizon.

NORTH AMERICAN SILVER INDEX (NASI)



The NASI, like the XAU, spent most of January 08 sidetracking despite higher silver prices. The relative strength comparative with the silver price has broken support which is short term bearish in its implications. On the positive side, the silver price in recent days has started to outperform gold with a decisive break of the 0.018 mark on the Silver/Gold ratio (55 for the Gold/Silver ratio). Like the gold companies, the fundamentals for the silver companies has improved quite markedly but poor market sentiment has again seen this largely fail to translate into share price appreciation. We can see the strong resistance at 9,400 for the index remains firmly in place, with a breakout in the current climate looking increasingly unlikely despite higher silver prices.

OUTLOOK

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

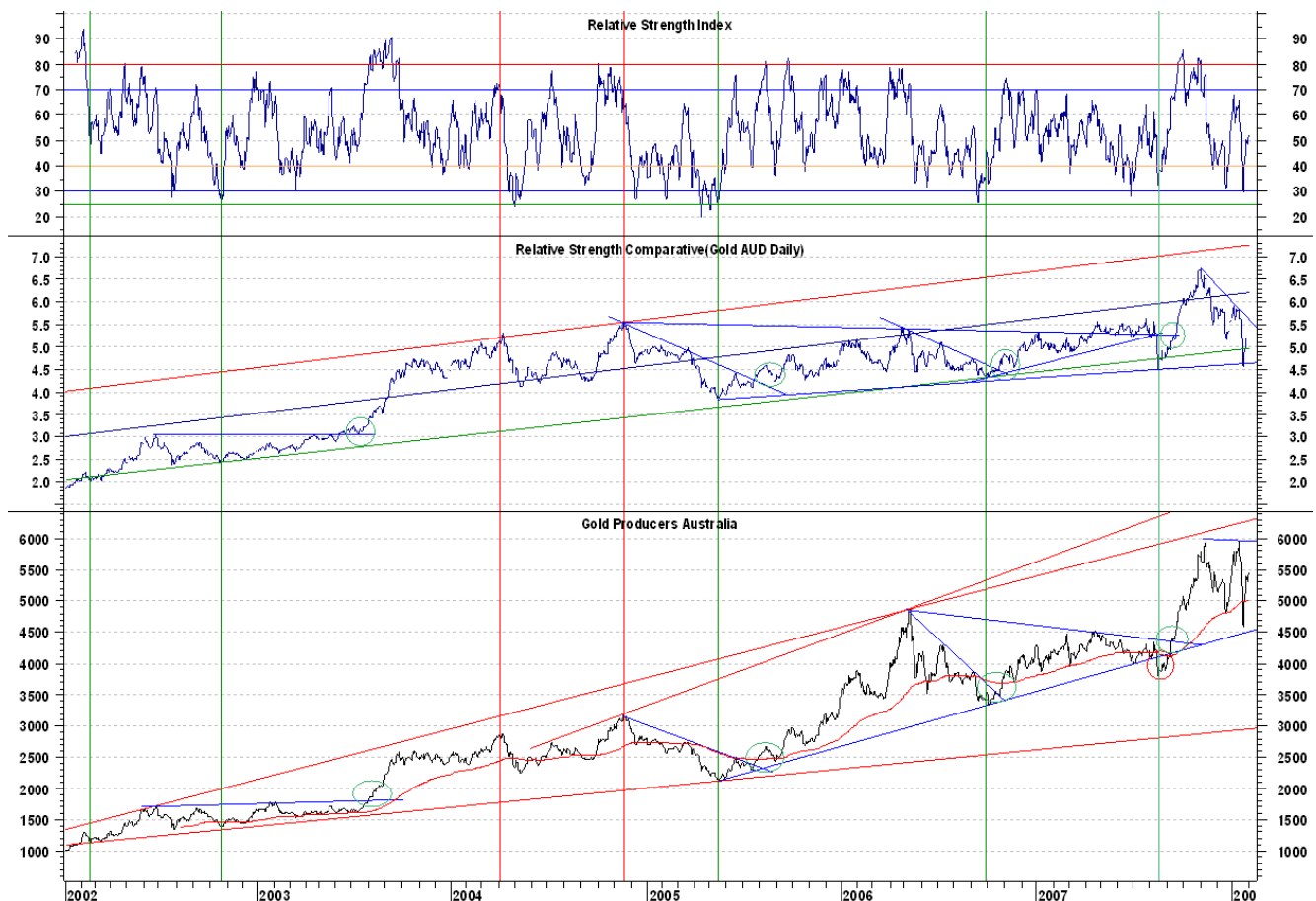
Scenario 1: The NASI will continue to be range bound with strong resistance at 9,400 and good support at 7,000. Despite the Silver/Gold ratio breaking 0.018 (Gold/Silver - 55), a more risk averse investor will see the NASI struggling to breach resistance. I am presently leaning towards this scenario.

Scenario 2: If there is a sharp fall in the equity markets, we could see a worse case scenario of a pull back to the longer term support level of 5,000. Whilst a distinct possibility given the present market uncertainty, I don't presently support this scenario.

Intermediate Term Outlook:

The intermediate term target for the NASI of 11,000 towards March and April 2008 is looking increasingly unlikely given the market's failure to respond to aggressive rate cutting by the Fed. This target assumes, at the very least, a relatively stable and panic free market which seems unlikely for the short to intermediate term. For this reason we have pushed back our target date to the second half of 2008.

AUSTRALIAN PRODUCERS INDEX (API)



During the month of January 08 the API pulled back sharply to briefly breach the 150 day moving average before rallying back again. A clear cut example of market irrationality was demonstrated here in Australia where we recently had one of the worst trading days in decades, which saw many of the reputable gold producers lose on average 20-30% of their value in one day! Whilst this was occurring, the gold price in Australian dollars had pushed higher to over A\$1,040 an ounce. The fundamentals were improving yet these companies were losing as much as a third of their value. By the very next trading day many of these companies made back largely what they had lost!

OUTLOOK

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

Scenario 1: The API will be range bound with continued resistance around 6,000 and reasonable support at around 4,500. The Gold price in Australian dollars has continued to strengthen despite a sharp pull back in recent days with renewed speculation the RBA will lift interest rates in the coming week. Despite improving fundamentals, market sentiment will continue to dictate terms over the short term. I support this scenario.

Scenario 2: We get a severe fall out in general equity markets which could see a **temporary** pull back to longer term support now at around 3,000. Whilst a valid risk, I do not support this scenario at the present stage.

Intermediate Term Outlook:

My intermediate term target continues to be 6,500, but the time frame of the March quarter 2008 is looking increasingly unlikely given the present market conditions. It seems the markets will be in uncertain territory at least for the bulk of the 1st half of 2008 and for this reason I have pushed back the time frame to the 2nd half of 2008. The earnings for Australian gold producers continue to improve which should help to underpin share prices going forward (see the following section for a closer look).

AUSTRALIAN THEORETICAL PRICE OF GOLD UPDATE

Date	10 Year BB Interest Rates	Headline 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%
Dec-07	6.33	3.00	984.4	2.0421%	0.14%	3,105.03	951.01	30.63%

December 07 has seen monetary aggregates continuing to grow at 2.04%, taking the theoretical price of gold to over A\$3,100 an ounce. If we look at the first half of this financial year as a guide, we get an annualized growth rate of 25.48%. As at the conclusion of December 07, the actual price of gold remains about 30% of the theoretical value. At current prices (A\$1,005 an ounce) the actual is presently over 32% of this theoretical value.

The last few weeks has seen the release of quarterly results for many of Australia's gold miners. Australia's leading domestic producers have seen a 25% improvement in their operating profitability in the last 12 months. These improvements have been largely attributable to a rising Australian dollar gold price which has exceeded the inflationary cost pressures of the booming mining industry. Whilst costs continued to rise 5.7%, the average realized gold price improved by 11%. The price of gold in Australian dollars presently exceeds A\$1,000 an ounce. This is 23% higher than

the average realized price for the December 07 quarter. Expect this to translate into ongoing improvements to operating profitability during the March quarter 08.

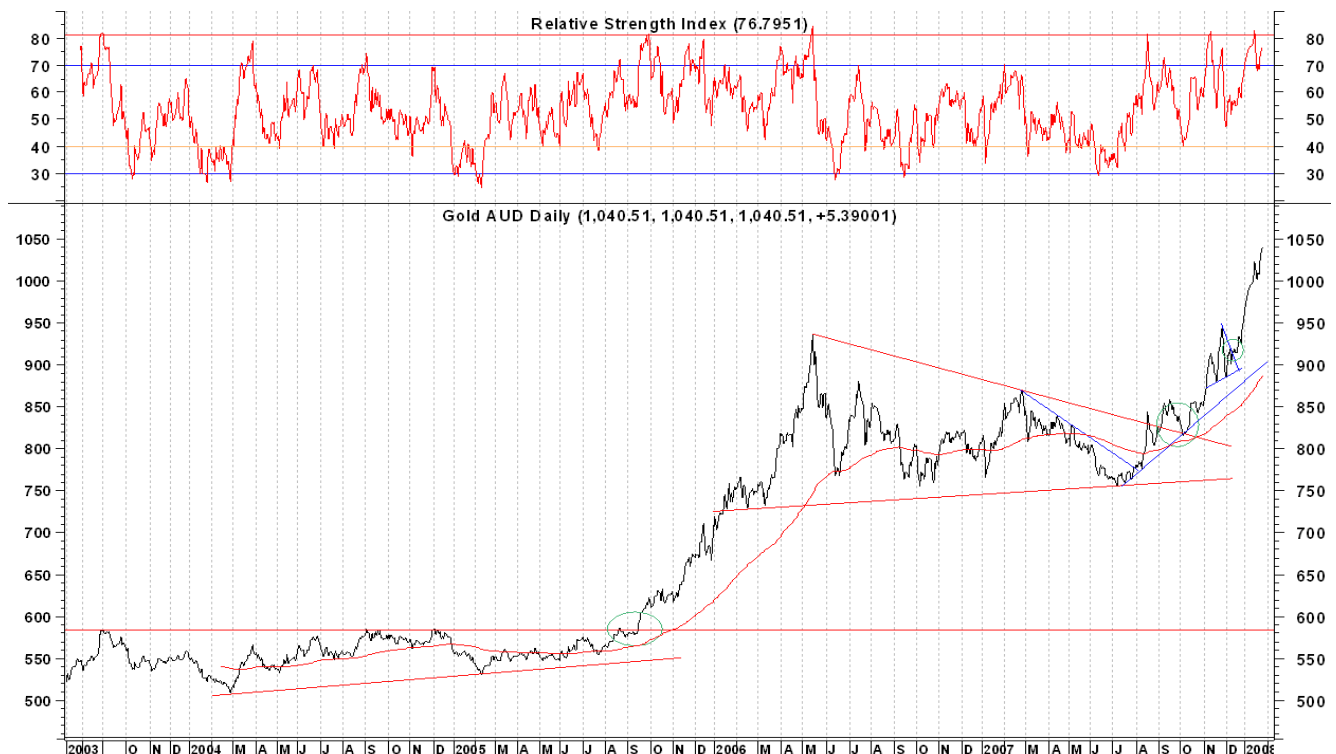
Australia's Major Domestic Producers

Company	Dec Qtr 06			Dec Qtr 07		
	Cash Cost (A\$)	Realized Price (A\$)	Cash Margin	Cash Cost (A\$)	Realized Price (A\$)	Cash Margin
Newcrest Mining	384	704	83%	314	870	177%
Perseverance	458	780	70%	587	869	48%
St Barbara	474	785	66%	518	867	67%
Equigold	383	691	80%	381	754	98%
Dominion Mining	335	734	119%	351	822	134%
Resolute Mining *	756	689	-9%	798	677	-15%
Average	465	731	68%	491.5	810	85%

* Ravenswood (Australian Operation)

The few exceptions to this will be the companies that have maintained their hedging commitments where forward sales agreements have locked in lower future gold prices. By hedging, these companies have effectively negated many of the inflationary protection benefits offered by higher gold prices. Newcrest Mining in 2007 made the tough decision to close out their hedge book which involved a large capital raising in excess of A\$2 billion. Many other domestic gold producers have followed a similar path and are now reaping the benefits.

AUSTRALIAN GOLD PRICE



CLOSING COMMENTS

January 08 started off strongly but tapered off towards the end of the month as uncertainty started to take hold. Despite aggressive rate cuts in the USA, the markets are looking anything but stable. Regardless of this, the precious metals sector has continued to largely outperform the Dow Jones Industrial Average. As hard as it is to practice, investors need to concentrate on improving fundamentals and take advantage of any irrational selling that occurs. This begs the obvious question: What happens if you have been buying "the dips" for the last 2 years and are fully invested and all out of ammunition! I can empathize with you. There is nothing more frustrating than being advised repeatedly to buy the dips as if you have this bottomless pit of investment capital! Despite this, it is still important to keep your cool and monitor the market for opportunities. If a good opportunity presents itself, you may very well want to sell an existing position and put the proceeds into better prospects. As long as you are selling and buying in a down market, the losses you make on one position can more than be offset by new positions once the sector rebounds. The present market conditions are perfect for this type of housekeeping. For example there are many producing companies that have performed very poorly in the recent weeks and months. If you hold some inactive junior explorers which may be years away from producing (If ever), you may want to consider selling these positions in favor of buying depressed producers. These companies offer the security of improved earnings and are more likely to recover faster in the weeks and months ahead (less risky).

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