THE GLOBAL SPECULATOR

Volume 2, Issue 14, 5 March 2008

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INTRODUCTION

The month of February 08 has been full of gusto for the precious metals markets as the metal continues to power ahead and outperform the stock market hands down. The precious metals shares have also improved with many of the quality companies moving ahead. It continues to be a very volatile environment as the markets adjust to this new landscape. One gets the feeling many investors now recognize gold as a viable alternative. However, they remain apprehensive given the historical highs gold is hitting in nominal terms. The “Wall of Worry” is starting to develop cracks but has still not fallen over. The chart of the gold price below shows that gold has exceeded our conservative price target of US$970 made in early January 08. You would expect some consolidation in the US$900 - $1,060 range before the next intermediate term target of US$1,270 comes into play. The fundamentals for the precious metals sector continue to be very strong with central banks struggling in their attempts to try and hold financial markets together.

Gold Chart ($US)

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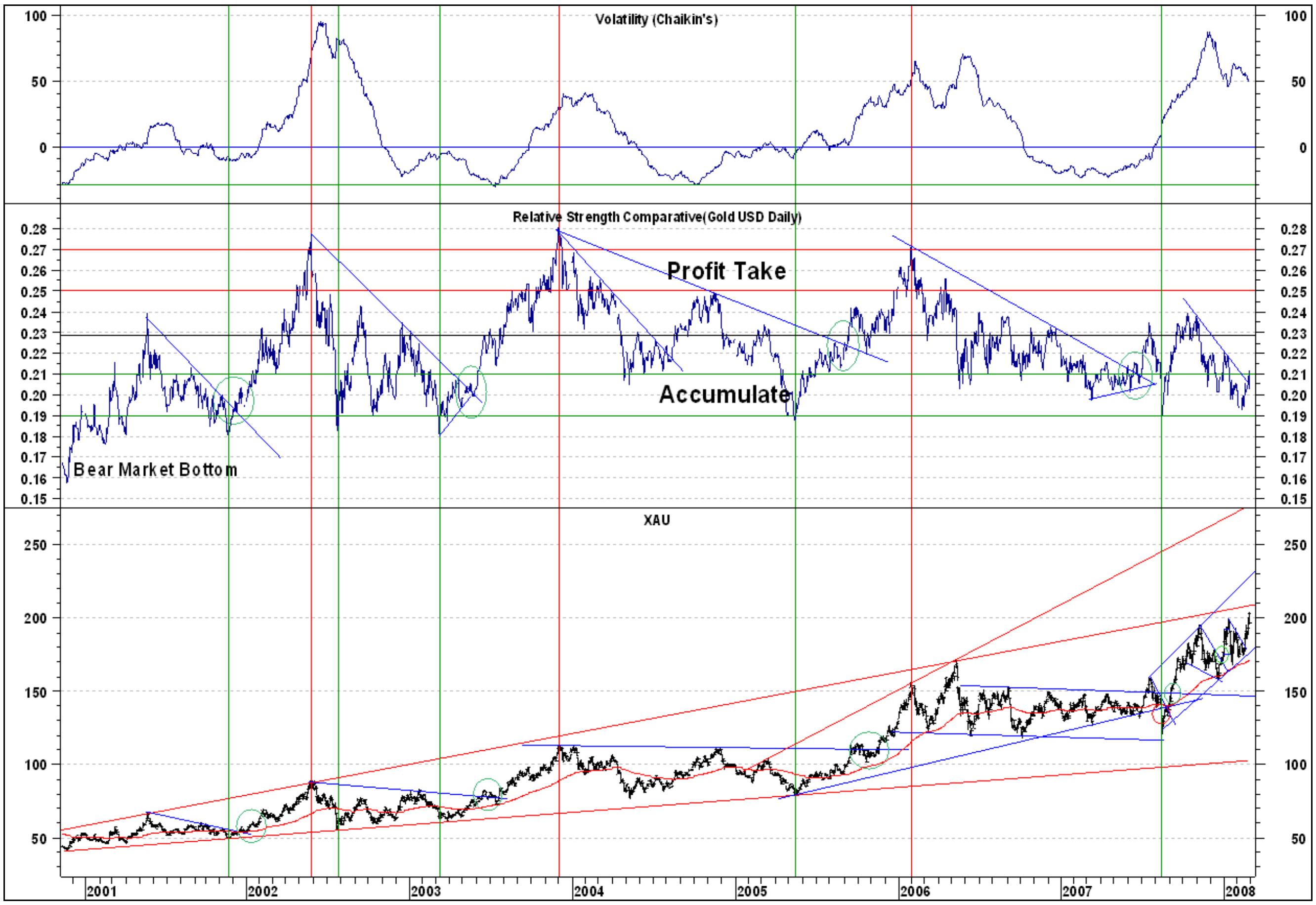
XAU



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 (04/03/08)	**0.21**	**202.98**	**61.10%**	**983.50**	**48.50%**	**12.60%**

The XAU for the month of February 08 has risen 10%, from 184.61 to 202.98, as the gold price has risen close to 8.3%, from US$907.90 to US$983.50. This has seen the XAU/Gold ratio rise to 0.21 with the shares still largely underperforming the metal. In the bull market thus far, we have grown accustomed to a 3-1 leverage from gold shares in the periods of out-performance. In this particular phase, which started in August 2007, we have seen an anemic 1.25-1. Although it is difficult to determine how much longer this apathy will last, the answer may well depend on the time it takes mainstream investors to climb the “Wall of Worry” I eluded to earlier. At this stage there is even skepticism from some of the earlier participants in this bull market who have become impatient over the last 18 months and have voted with their feet.

OUTLOOK

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

Scenario 1: I expect the XAU to continue to be range bound with reasonable support now at the 180-190 level and rally potential to 210, depending on the mood of equity markets. Regardless of whether equities fall or rise, I would still expect the precious metals sector to outperform. I support 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. This could result in the XAU falling down to solid support levels at the 165-170 mark. Equity markets remain extremely 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 continues to be 210. Whether we can go on and attempt a move to our intermediate term target of 230-240 in the near term will be largely dependent on just how successful ongoing rate cuts are at stemming market concerns. Given the continued underperformance of precious metals shares, this target seems unlikely with the second half of 2008 looking like a more realistic time horizon.

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NORTH AMERICAN SILVER INDEX (NASI)

The NASI, unlike the XAU, has failed to make new highs despite stronger silver prices. The relative strength comparative with the silver price continues to be bearish in its implications. On the positive side, the silver price in recent weeks has strongly outperformed gold with a decisive break through 0.018 (55 for the Gold/Silver ratio). I consider the 0.02 to 0.0205 mark on the Silver/Gold ratio (50 to 48.75 for the Gold/Silver ratio) to be the necessary next break. A look at the middle section of the silver chart below shows very strong resistance that has been in place since March 2006. A break through this would be extremely bullish. With the RSI close to 80 one gets the feeling silver may be at a temporary peak.

Silver Chart ($US)

OUTLOOK

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

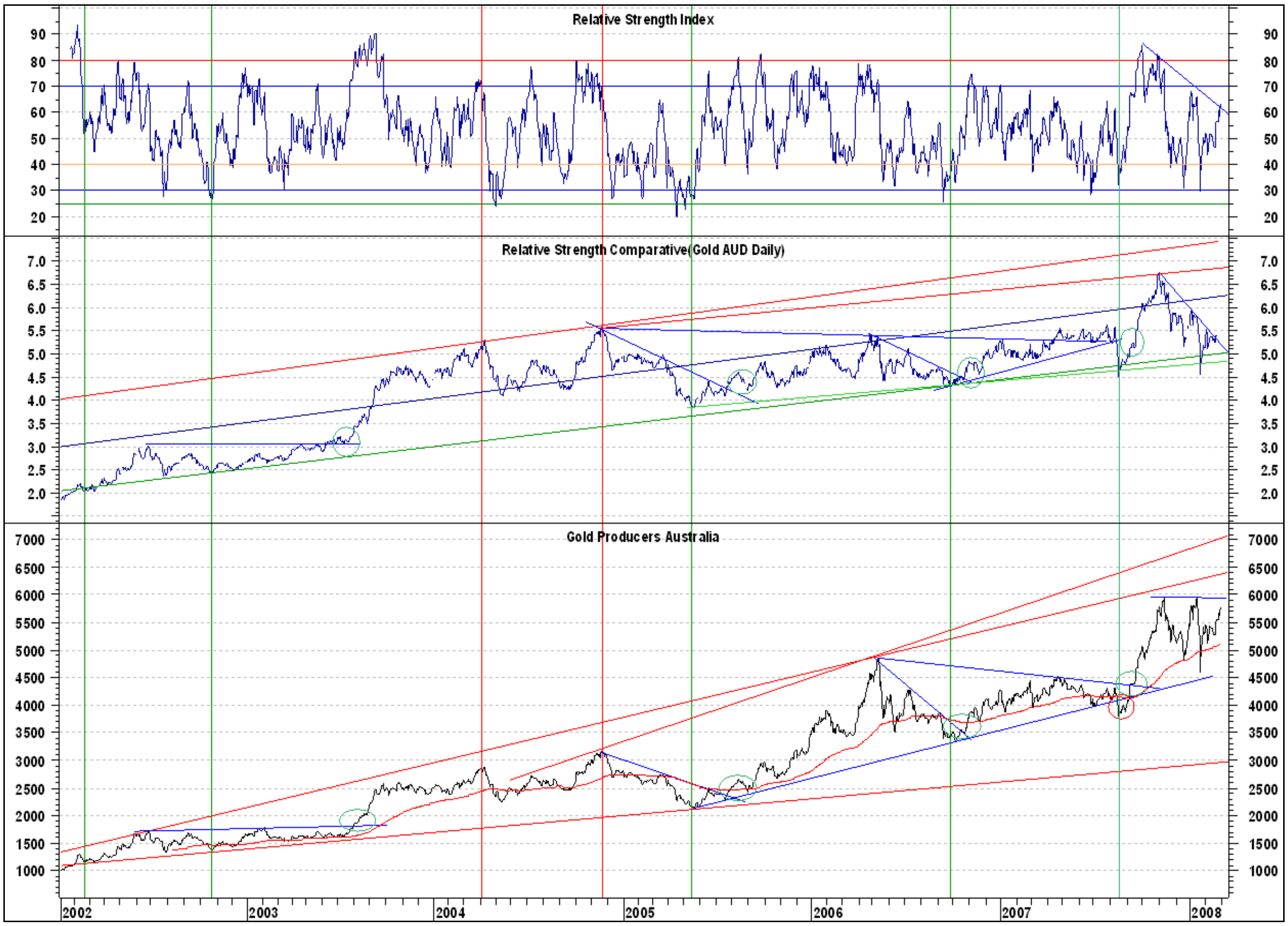
Scenario 1: The NASI will continue to be range bound with strong resistance at 9,400 and good support at 7,300. Despite the Silver/Gold ratio breaking 0.018 (Gold/Silver - 55), a more risk averse investor will continue to see the NASI struggling to breach resistance. I continue to lean towards this scenario.

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. While 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 remote 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 February 08 the API has rallied back towards resistance at 6,000. A look at the Relative Strength Comparative with gold (middle section) and the RSI (top section) show negative trends with the gold price continuing to outperform the shares and the RSI trending downwards. This is bearish in its implications and indicates a potential pull back in the short to intermediate term. A break of these downward sloping trend lines and a corresponding break of resistance at 6,000 for the API would be very bullish for the index and signal an upside target of about 7,000.

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 4,700. Despite Aussie dollar strength, the gold price in Australian dollars has continued to increase presenting a bullish scenario for the producing companies. Irrespective of improving fundamentals, market sentiment will continue to dictate terms over the immediate future. I still support this scenario.

Scenario 2: We get a bullish breakout of the index above 6,000 with the index realizing its upside target of 7,000. This remains a distinct possibility if the gold price continues to rally strongly. The question mark remains as to how much more upside the gold price has in its present move. The gold shares have outperformed the industrial stocks thanks to the strong performance of the metal. Any weakness in the metal, in conjunction with deteriorating general markets, could very easily see a pullback. This is why I don't support this more bullish scenario at the present time.

Intermediate Term Outlook:

My intermediate term target continues to be 6,500 – 7,000, but the time frame of the March quarter 2008 is looking increasingly unlikely, given the present market conditions. It seems the markets will remain in uncertain territory for at least the bulk of the 1st half of 2008 and for this reason, I have pushed back the timeframe to the 2nd half of 2008. The earnings for Australian gold producers continue to improve which should help to underpin share prices going forward.

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	982.1	1.8037%	0.14%	3,097.88	951.01	30.70%
Jan -08	6.36		987.9	0.5906%	0.14%	3,111.84	1,034.57	33.25%

January 08 has seen a much more sedate increase in M3 of just 0.36%, taking the theoretical price of gold to A$3,112 an ounce. If we look at the first 7 months of this financial year as a guide, we get an annualized growth rate of 22.70%. At the conclusion of January 08, the actual price of gold was 33% of the theoretical value. At current prices (A$1,058 an ounce) the actual is presently over 34% of the theoretical value.

WHY ARE AUSSIE INTEREST RATES RISING?

The Australian dollar has recently strengthened on the back of a widening interest rate differential with most of the developed economies. The USA, Canada and England are presently cutting their interest rates. Europe and Japan are standing firm and Australia and New Zealand continue to raise rates. The charts on the following pages show the trends in interest rates, current account balances (% of GDP) and the respective currency performances across all these economies. One question many disgruntled Australians may be presently asking is: **"Why does the Reserve**

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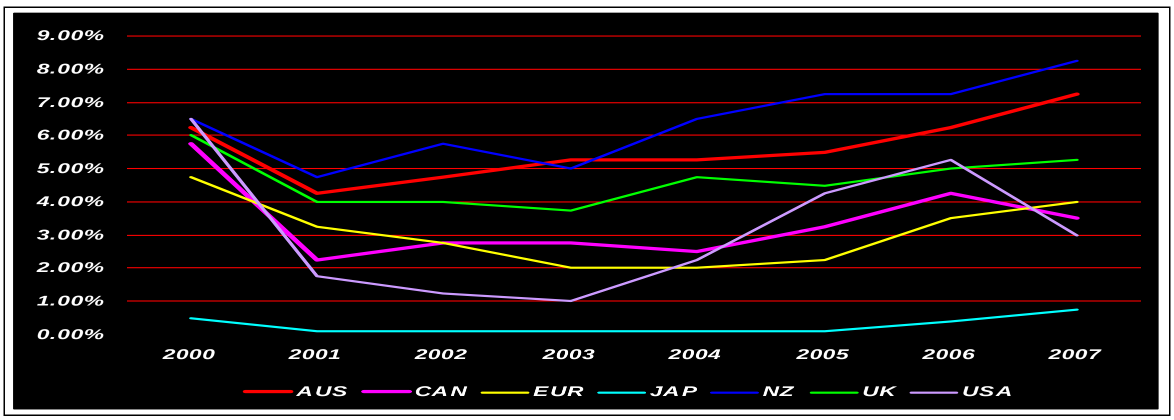
Bank of Australia continue to increase interest rates while the US Federal Reserve, the Bank of Canada and the Bank of England are cutting theirs?"

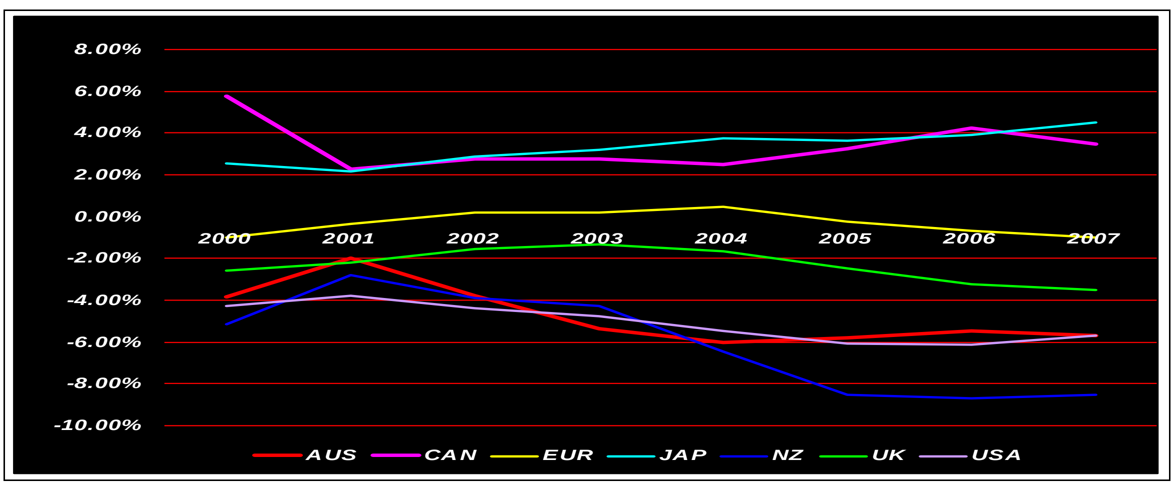
The chart below demonstrates that all these countries, from about 2004/05 onwards, raised interest rates to varying degrees until about the beginning of 2007. The tightening credit markets have adversely impacted on the financial service sector based economies of England and the USA. Canada has also recently dropped rates 50 basis points to cushion their economy from the recessionary fallout from the USA (one of Canada's largest trading partners). This is despite the continued strength their economy is experiencing from the commodities boom. The Australian economy demonstrates persistent resilience but there are certainly signs that business confidence is starting to wane, especially under the pressure of continuous interest rate hikes.

If we look at the interest rate levels of each country and compare these with their respective current account positions (especially up to the beginning of 2007), we start to see a fairly consistent trend. The worse the current account position, the higher the official interest rate. New Zealand and Australia clearly lead the way with the USA and the UK not far behind. Countries that run large CAD's are dependant on foreign investment flows back into the country to ensure liquid credit markets and a stable currency. The interest rate level generally reflects this degree of dependency.

OFFICIAL INTEREST RATES



CURRENT ACCOUNT POSITION



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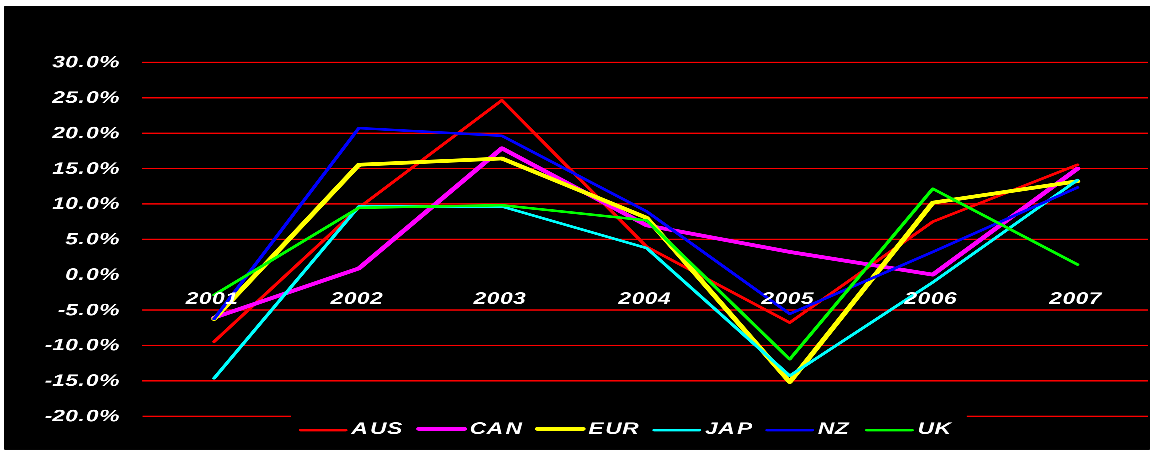
The USA, like Australia, runs a large current account deficit (CAD) of about 5.7% of GDP. England runs a CAD of 3.5% of GDP which has been deteriorating steadily for the last 4 years. Alternatively, Canada, thanks largely to the commodities boom, runs a current account surplus of close to 2% of GDP. Cutting rates obviously has a negative impact on the respective country's exchange rate, the extent of which is largely determined by the country's terms of trade. If we look at the chart below we can obviously see that the US dollar has been a big looser against most currencies as foreign investment has been drying up. A look at the interest rate chart above shows US rates have nearly halved in the space of 12 months while the CAD remains close to 6% of GDP. If we look at the performance of the British Pound versus the US dollar we can see it has also performed poorly over the last 12 months. Against the cross rates it has been incredibly weak. The reason for the poor performance is the weak terms of trade and the deteriorating levels of compensation being offered to foreign investors. In contrast to the British Pound, the Canadian dollar has performed admirably despite the recent rate cut, as their terms of trade are much more favorable and their dependence on foreign investment is significantly less.

CURRENCY PERFORMANCE AGAINST THE US DOLLAR



In conclusion, we can see that the Australian dollar is potentially very vulnerable. Tightening credit markets have forced the RBA to raise rates in an attempt to keep up with rising market rates (commercial banks are very often raising rates more than the RBA). With a CAD of 5.7% of GDP, Australia's dependence on foreign capital is at critical levels. The rising interest rates simply reflect this risk. In order to retain much of the foreign capital flowing into Australia, foreign investors need to be compensated. Our strong dollar is obviously the present beneficiary. A major problem will occur when the interest rate increases start to negatively impact on the Australian economy (the signs are already there). If the RBA decides to hold rates steady or ease rates at that point, the fallout for the Australian dollar could be immense. Unlike Canada, Australia has been unable to generate trade surpluses from the recent commodities boom and does not have the luxury of rate cuts having a benign impact on the currency. The strong Aussie dollar has played a critical role in the fight against rising consumer prices. If these benefits were to cease, the consequences for Australia's largely consumer based economy will be severe. The Australian dollar gold price will be the major beneficiary from any future fallout.

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AUSTRALIAN GOLD PRICE

CLOSING COMMENTS

The precious metals markets continue to perform admirably in the face of a poor investment climate. The metals themselves have proven to be the most reliable performers with some outstanding returns over the last 8 months. As mentioned earlier, this bull market is well entrenched in the "Wall of Worry" phase. This is where the mainstream investment public is starting to recognize the stronger gold and silver prices, but still look at the sector with a very healthy degree of skepticism. In all honesty, I am not exactly sure how long this phase will last. I think strong reported earnings for the producing gold mining companies may go a long way towards alleviating some of this uncertainty. I would expect to see this transpire over the next 6-9 months. Stick with it!

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