THE GLOBAL SPECULATOR

Contents

Volume 2, Issue 15, 10 April 2008

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INTRODUCTION

The month of March 08 has seen the gold price rally to all time highs of around US$1,030 an ounce only to come crashing back down to earth in recent weeks to begin a largely anticipated consolidation. The mainstream investment markets continue to make light of the disturbing economic news that is being released on a daily basis. Despite Ben Bernanke now entertaining the idea of a US recession, the markets continue to steadfastly hold key support levels. It is simply a question of when and not if these support levels will eventually break. This ship is simply taking on far too much water for the pumps to manage, but at this stage it is staying afloat.

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 (04/04/08)	**0.20**	**184.68**	**46.58%**	**913.70**	**37.96%**	**12.60%**

The XAU, for the month of March 08, hit our short term target of 210 before falling 12% to 184.68, on a gold price retreat of 11.3% from its peak of just over US$1,030 an ounce. March 08 has seen the XAU/Gold ratio fall as low as 0.19 before recovering to just over 0.20 in recent days, as the shares start to outperform the metal once more. This is bullish in its implications. The XAU has bounced nicely off strong support at around 170 and has performed admirably in the face of weaker metal prices.

OUTLOOK

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

Scenario 1: The XAU will continue to be range bound with support at 170 and resistance at 190 and 210. Regardless of whether equities rise or fall, I would still expect the precious metals sector to outperform the mainstream markets. 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. This could result in the XAU falling down to solid support levels at the 145 - 150 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:

Our next intermediate term target is 270 towards the second half of 2008 or early 2009, on a successful break of strong resistance at 210 - 215.

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NORTH AMERICAN SILVER INDEX (NASI)

The NASI, for the month of March 08, failed to break strong resistance at 9,500 - 10,000, despite the silver price achieving new highs. The index has since held up remarkably well and closed at 8,378, as the silver price has retreated sharply to its present level at $17.81. The relative strength comparative with the silver price (middle section of the above chart) entered the Accumulate region for the first time since April/May 2006, indicating silver equities again represent excellent value relative to metal prices. A look back to the beginning of 2003 shows this level has been hit on three prior occasions (green vertical lines), with each resulting in a fairly strong performance in the silver equities over the ensuing 6-12 months at an average return of 130% (classic buy on the dip indicator).

The chart below shows the silver price encountering stiff resistance at close to US$21 an ounce. The relative strength comparative with gold (middle section of the chart below) also experienced overwhelming resistance at the 0.021 level, signaling the silver price was going to struggle. Silver is presently sitting in no man’s land and has downside risk all the way to US$15.50 - $16.00. Here, it should find strong support in the form of the 150 day moving average and a solid trend line.

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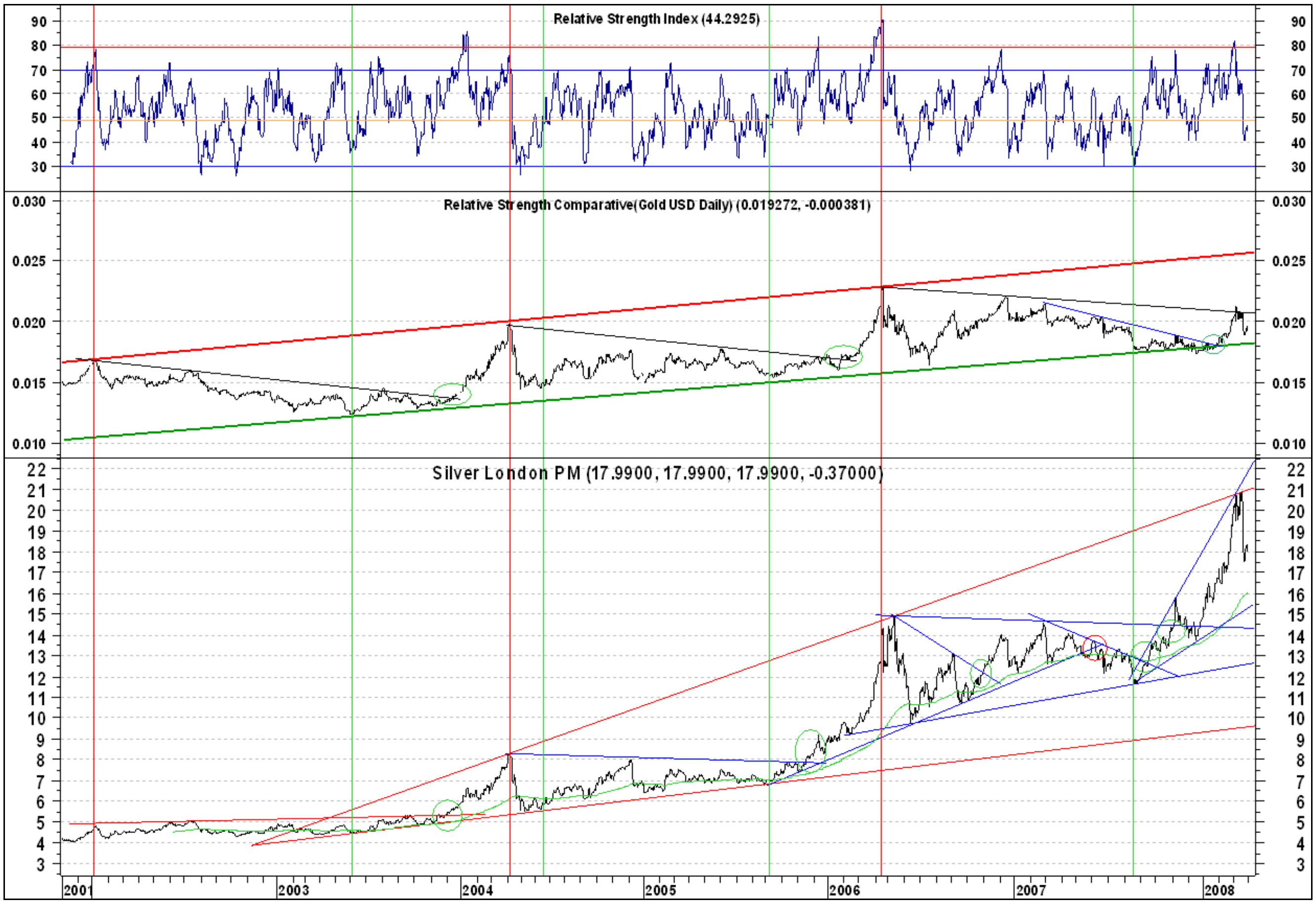
Silver Chart ($US)



OUTLOOK

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

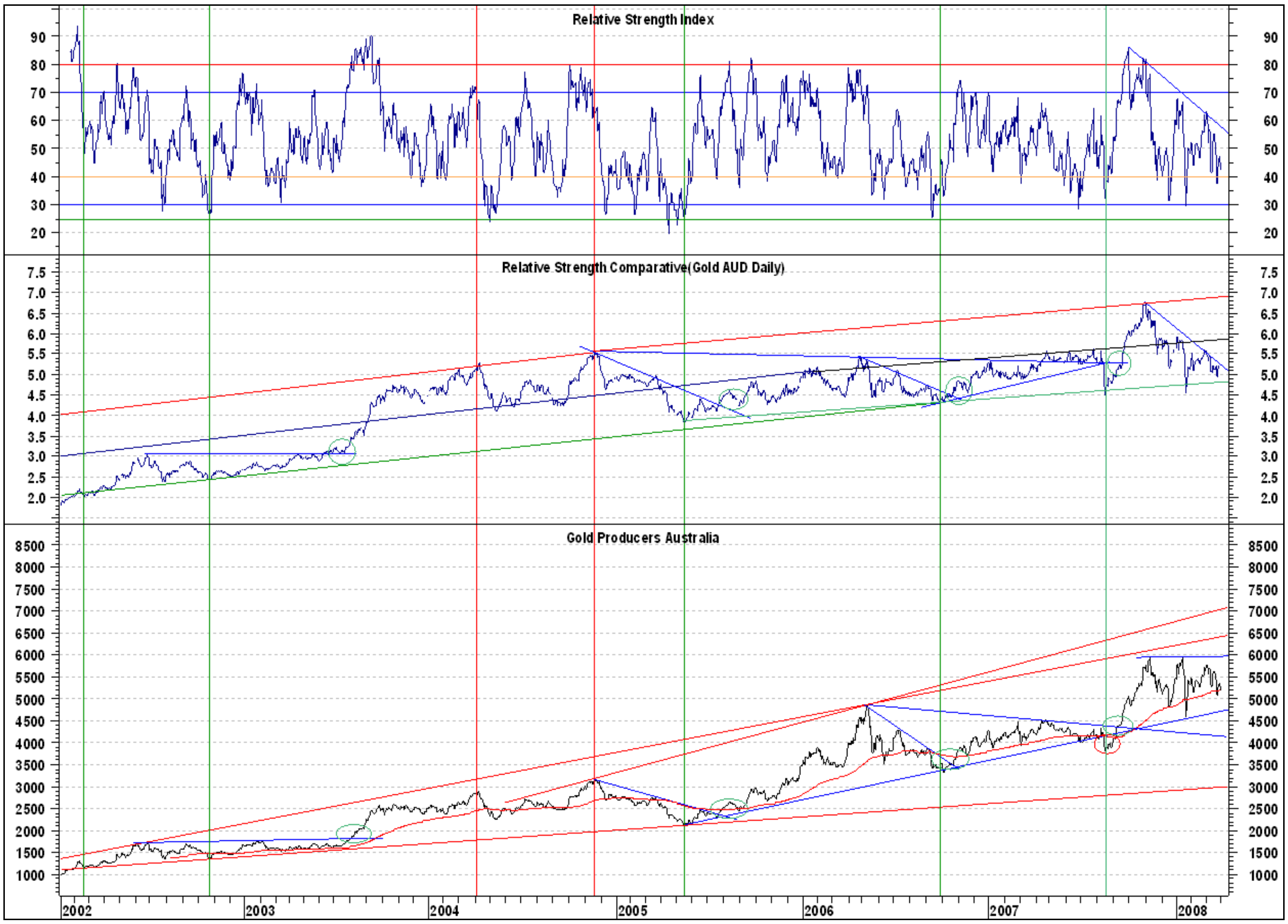
Scenario 1: The NASI will continue to be range bound from 7,500 - 10,000. The silver price will rally in the short term. This may see the NASI tackle strong resistance again, before retreating as the silver price pulls back towards strong support at US$15.50 - $16.00. I lean towards this scenario.

Scenario 2: If there is a sharp fall in the equity markets, we could see a worse case scenario of a pull back in the NASI down to the longer term support level of 5,000 and the silver price down to $13.50 - $14.50. While a distinct possibility given the present market uncertainty, I don't presently support this scenario.

Intermediate Term Outlook:

The next intermediate term target for the NASI is still 10,500 - 11,000, followed by a longer term target of 13,000 - 15,000 towards the second half of 2008 or early 2009. The next intermediate term target for the silver price is $24.50 to $26.50, again towards the second half of 2008 or early 2009.

AUSTRALIAN PRODUCERS INDEX (API)



During the month of March 08 the API has side tracked. A look at the Relative Strength Comparative with gold (middle section) and the RSI (top section) continue to show negative trends, with the gold price outperforming the shares and the RSI trending lower. This indicates more of the same, presenting the potential for a sharp pull back in the short to intermediate term.

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 - 6,500 and reasonable support at around 4,000 and 4,700. I support this scenario.

Scenario 2: We get a severe pull back with another unexpected event (such as the Bear Sterns situation). This could see the index fall to longer term support at 3,000 - 3,500. I don't support this scenario for the time being.

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Intermediate Term Outlook:

My intermediate term target continues to be 6,500, with a longer term target of 7,500 towards the second half of 2008 and early 2009.

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%
Feb -08	6.21		991.0	0.3138%	0.14%	3,117.25	1,038.59	33.31%

February 08 has continued to see a much more sedate increase in M3 of just 0.31%, as credit growth starts to slow, taking the theoretical price of gold to A$3,117 an ounce. If we look at the first 8 months of this financial year as a guide, we get an annualized growth rate of 20%. At the conclusion of February 08, the actual price of gold remained just over 33% of the theoretical value.

DETERIORATING TERMS OF TRADE AND THE AUSSIE DOLLAR

The recent release of the trade deficit for February 08 has seen a new record set of B$3.289, primarily driven by a 4% decline in exports. As Australia's current account deficit continues to worsen, it is worth taking a closer look at Australia's deteriorating terms of trade while considering the future implications for the Aussie dollar. In our review we will take a look at the following aspects:

1. Australia's foreign debt.
2. The Reserve Bank of Australia's (RBA) foreign exchange reserves.
3. Australia's current account deficit (CAD)
4. Australia's exchange rate on a trade weighted basis.

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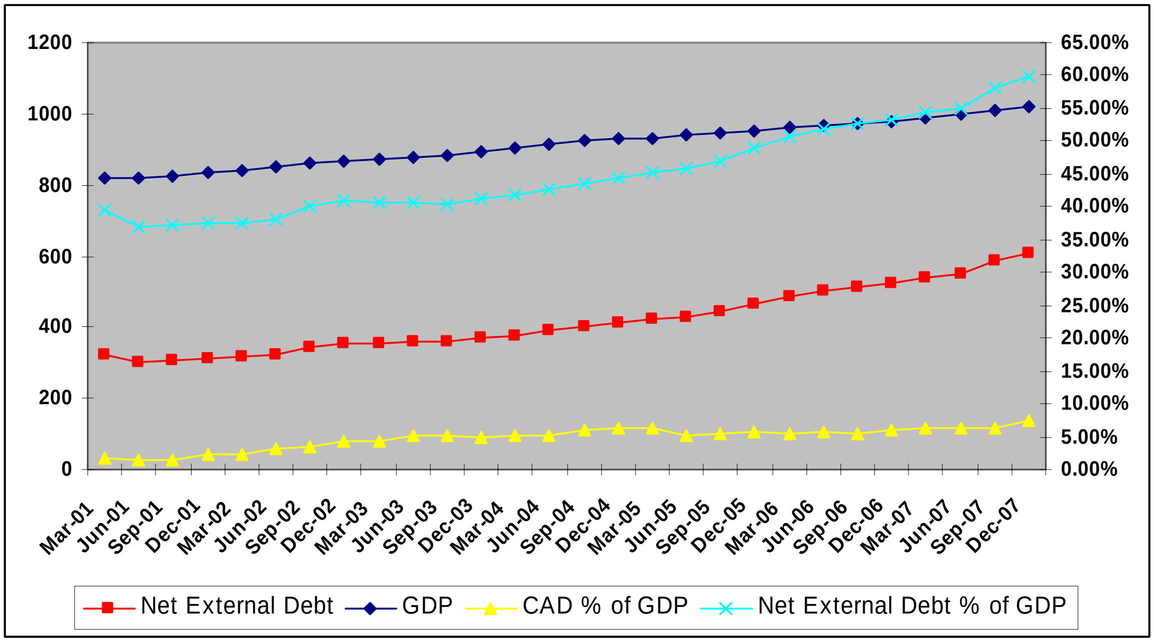
Net Foreign Debt versus GDP



The chart above looks at:

- **Australia's net external (foreign) debt (in red) versus GDP (in blue) in billions of dollars on the left axis with a look at the proportion of net external debt to GDP on the right axis (in sky blue)**.
- **The current account deficit (CAD) as a % of GDP (in yellow).**

In the last 7 years Australia's CAD has grown steadily from 1.75% of GDP in 2001 to a staggering 7.5% of GDP by 2007 (on a quarterly basis). This presently represents an outflow of capital to the tune of more than $A60B a year. In order to counter this, Australian commercial banks have been borrowing internationally. This has resulted in Australia's net foreign debt climbing steadily, from just 40% of GDP, up to 60% by the end of 2007 (sky blue line). Many economists would argue that this in itself is not that much of a problem provided Australia's access to foreign capital remains uninterrupted. If you ask these same individuals whether rising interest rates will pose a problem for the Australian economy, you have no problem getting them to agree. As I have written in previous articles, the higher the level of Australia's foreign debt, the more Australia is at the mercy of tightening international credit markets. This was clearly demonstrated back in the middle of 2007, when the RBA was forced to intervene in its open market activities to alleviate selling pressure on the Australian dollar. This was facilitated through extensive reversal of its currency swaps. The second chart below clearly demonstrates the drop in foreign exchange reserves (red line), as the RBA swapped foreign currency for Australian dollars.

This chart below looks at

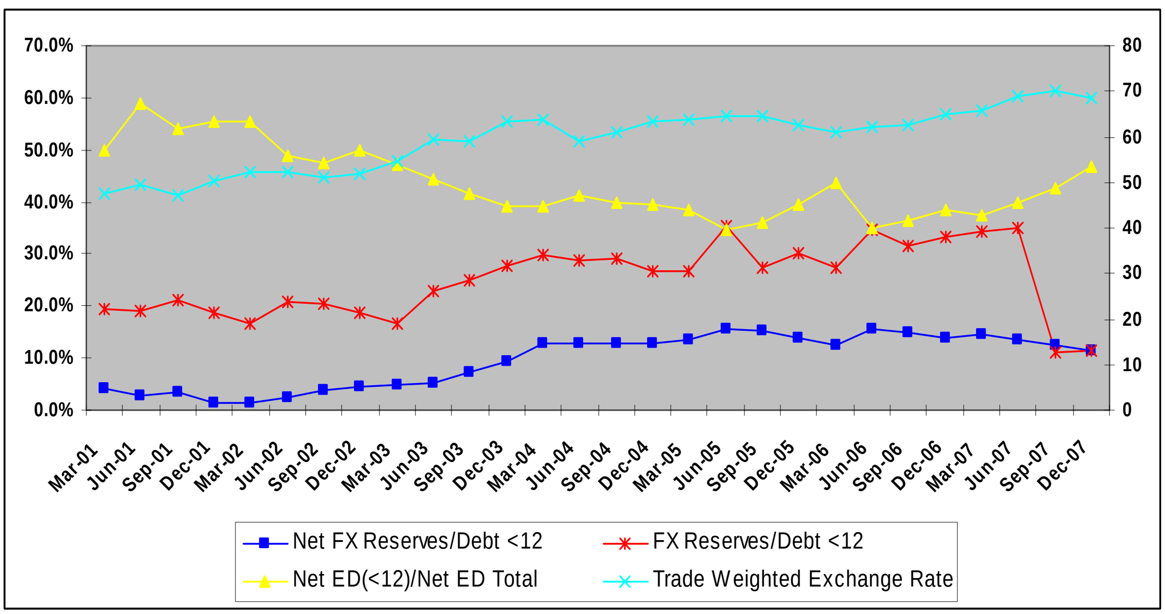
- **Net foreign exchange reserves as a proportion of short term external debt obligations (blue line).** That is**,** foreign debt obligations due within the next 12 months. Since international reserve holdings have been found to be a theoretically and statistically significant determinant of creditworthiness, this ratio of reserves to short term foreign debt obligations is a useful indicator.

- **Foreign exchange reserves as a proportion of short term external debt (red line).** This represents foreign exchange reserves on hand including the funds associated with currency swaps. Currency swaps get netted out when looking at the net foreign exchange reserve figure, because at some point these positions will be reversed as we saw in the September quarter of 2007. The difference between the red and blue lines accounts for these forward commitments.

- **Net external short term debt (due within 12 months) as a proportion of total net external debt (yellow line)**. The higher this percentage, the more vulnerable a country is to short term credit market shocks as a larger proportion of debt has to be refinanced more frequently. The tighter the credit market conditions, the higher the rates of interest that will be charged assuming foreign banks continue their willingness to lend. If they become reluctant, an increasing portion of these funds may have to be financed domestically which will put severe upward pressure on domestic interest rates.

- **Trade weighted exchange rate (sky blue line).** In order for foreign banks to be willing to continue lending to Australian banks, a stable exchange rate becomes imperative. If or when the Australian dollar starts to come under selling pressure (as it did briefly in the middle of 2007 before RBA intervention), there will be a reluctance to lend in Australian dollars and more loans will be domiciled in more stable foreign currencies (such as the Euro). When this occurs, Australian banks will not only face the risk of higher interest rates but will also have to deal with the costs associated with a falling exchange rate.

Foreign Exchange Reserves versus Short Term Foreign Debt Obligations

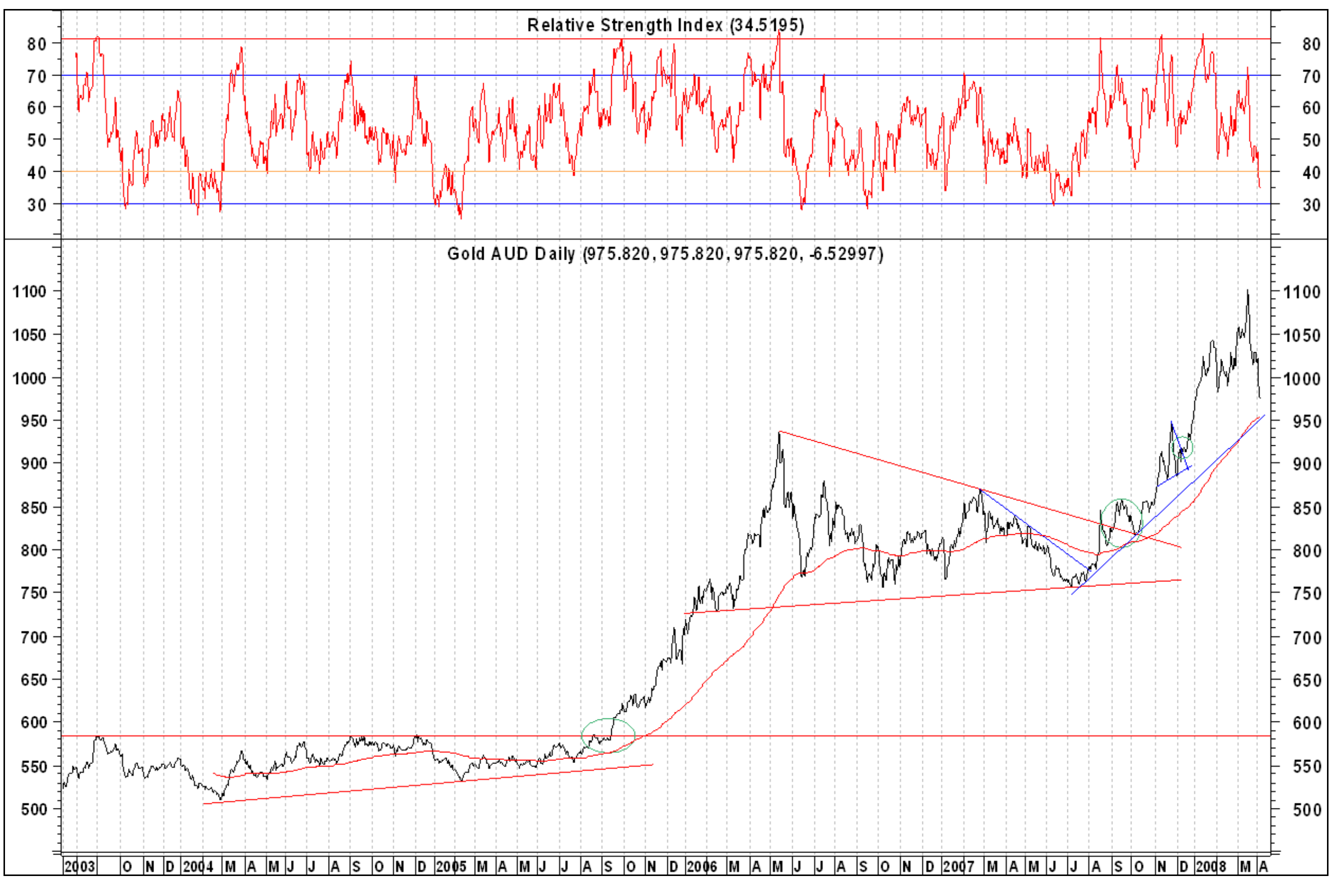


The trade weighted exchange rate (sky blue) has been rising steadily from its lows below 50 in 2001 to the present highs of around 70. As Australia's terms of trade improved in 2000/2001 (CAD just 1.75% of GDP), our ability to borrow internationally on favorable terms became easier. The proportion of short term external debt to the total (yellow line) was 60% in 2001 and by 2005 this percentage had fallen to just 35%, which was indicative of these favorable terms. Another thing to look at is the net foreign exchange reserves as a proportion of short term external debt (blue line). In late 2001 this was just 1.5%. By 2005 this had significantly improved to 15.5%, as a result of increasing foreign exchange reserves and a smaller proportion of short term foreign debt. A look at the gross foreign exchange reserves as a proportion of short term foreign debt (in red) also demonstrates a similar favorable trend.

Now let us fast forward to 2007. If we look at these same indicators we start to see some disturbing trends emerging. Firstly, the level of foreign exchange reserves on hand as a proportion of short term external debt (in red) has plummeted as a result of the RBA's open market activities in the September Quarter of 2007. Foreign exchange reserves effectively give the RBA ammunition to intervene in the foreign exchange markets to ensure stability is maintained during periods of increasing uncertainty. 2007 saw the RBA burn through more than half of its foreign exchange reserves. The other striking trend change is the proportion of short term net external debt obligations to total net external debt (yellow line) has started trending higher (now over 50%), indicating less foreign willingness to fund Australia's debt on a longer term basis. This is also reflected in the net foreign exchange reserve proportion of short term net external debt (blue line), which has started to trend lower to 11%. The only trend that remains firmly intact is the trade weighted exchange rate. I want to reiterate my view that I do not expect this to be sustainable going forward. A strong dollar is completely at odds with improving Australia's deteriorating terms of trade, which is a large contributing factor to rising pressure on interest rates. If this massive imbalance is to be corrected the dollar needs to fall, plain and simple. The big challenge for the RBA going forward, will be to ensure that this occurs in an orderly manner. With little in the way of foreign exchange reserves available, this will prove to be difficult.

Any fallout in the Aussie dollar going forward benefits Australians that own gold related investments. To my way of thinking, taking advantage of the present dollar strength to buy gold remains a very prudent strategy for as long as the opportunity remains.

AUSTRALIAN GOLD PRICE



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CLOSING COMMENTS

If you are still reading this newsletter to its conclusion, I can only assume you are fully on board with this bull market in precious metals. Given the disappointing performance of many of the equities, investor resolve continues to be tested. When I started investing in this market back in 2002, I often read articles about bull markets and how they are renowned for throwing off a large majority of investors along the way. At the time, I didn't really appreciate what these authors meant. 6 years later it is safe to say I am getting a better appreciation! The only reason I remain firmly in the saddle is because I have made the effort to understand as much as I can about why I am 100% invested in this sector. Once you have done these hard yards, you remain mentally immune to what the market has to throw at you. I sincerely applaud and encourage you all to keep reading and keep learning.

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