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Disclaimer

Contact Details

Email:
troy@globalspeculator.com.au

Internet Address:
www.globalspeculator.com.au



INTRODUCTION

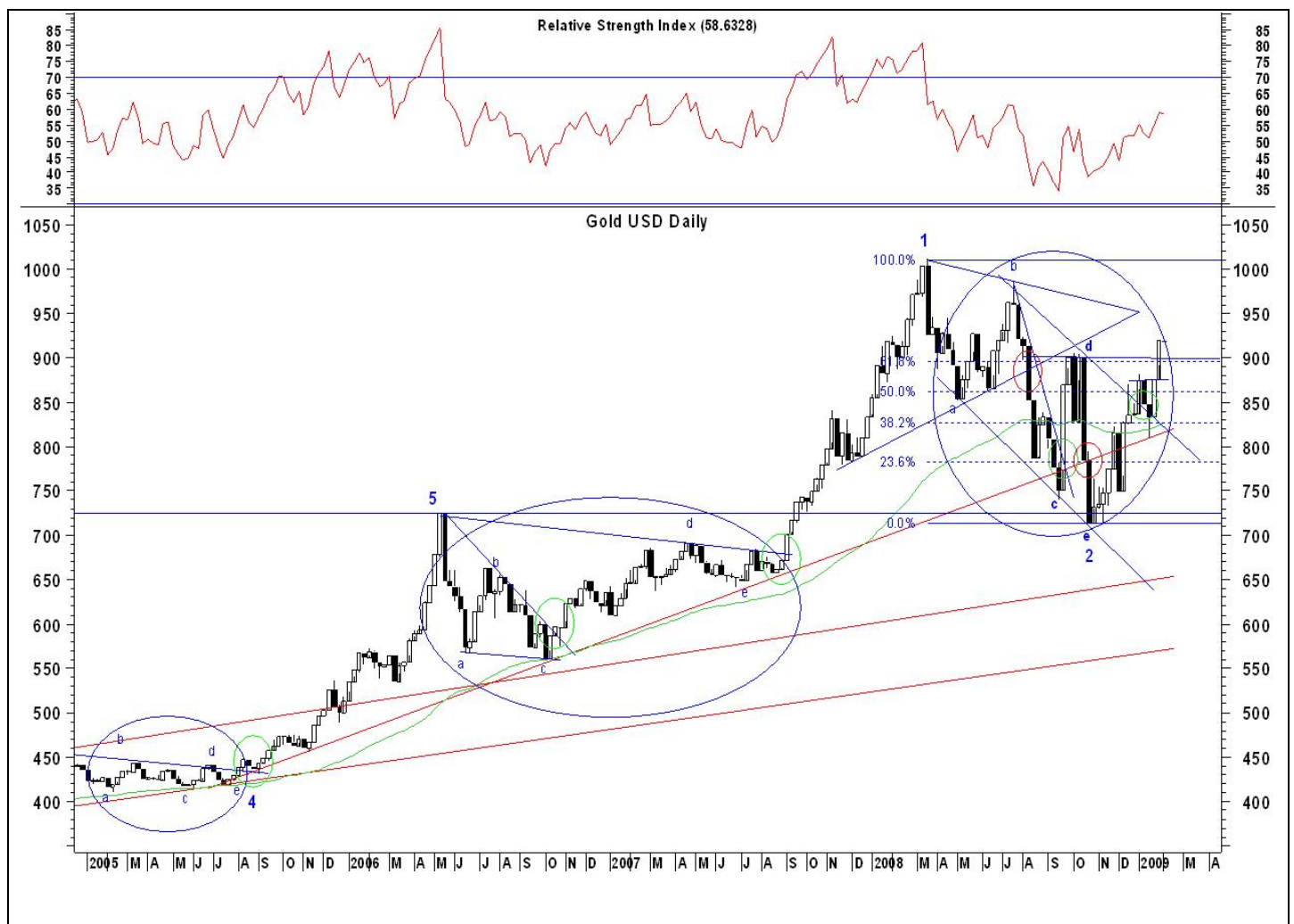
Australia's Prime Minister, Kevin Rudd, has recently delivered an address to the nation providing details on his second stimulus package. Within this briefing, there was a number of sniping remarks about the so called "failure of free markets". This apparent failure has forced the government to step in and clean up the mess. On the back of an announcement a few days before, where Treasury had forecast a tax revenue decline in excess of \$115 billion over 3 years, our government has come up with another \$42 billion stimulus package (effectively unfunded). It seems free markets cannot be trusted to spend money wisely, so it is up to the government to spend our money for us. I want to make a couple of points.

Firstly, free markets work fine. The global problems we have experienced in the credit markets were caused by easy monetary policy. Many argue the cause was a lack of financial sector regulation. The more pertinent question to ask is why does the financial sector need so much regulation in the first place? Why is it that free markets work well in other industries but fail so dismally when it comes to the financial sector? The answer is quite simple. The financial markets are anything but free! We have a government entity called a central bank that essentially sets the price of money. It decides the level of interest rates under the flawed belief that the market is incapable of performing this function on its own. When the US entered a mild recession in 2001, Alan Greenspan lowered interest rates to 1.25% and encouraged US citizens to refinance their mortgages and spend, spend, spend! This fueled the mortgage bubble, which like all bubbles, inevitably burst. There was the usual greed associated with "credit induced" booms but this was a nasty symptom not the cause.

The second point I want to make is governments are incapable of investing money smarter than individuals and companies. By deficit spending, they are drawing funds away from the capital markets and effectively competing with businesses for money. Over the longer term, this will put upward pressure on interest rates exacerbating our economic problems. What Australians should be doing right now is saving and paying down debt. At some point this will inevitably have to happen anyway. By lowering interest rates to historically low levels, the message central banks are sending is don't save, borrow and spend. Governments are releasing stimulus packages encouraging us to spend and "save the economy". You cannot save an economy via consumption. All you are doing is prolonging the agony. Individuals and organizations need to clean up their balance sheets and save. Will there be pain associated with this process? You bet. Will people lose their jobs and struggle for a while? No doubt. Will some businesses go bankrupt? Of course they will. All these things I have described are necessary in order for the economy to purge itself of all the excesses and mal-investment associated with the preceding boom. We

need to replenish capital which will inevitably help fuel a "sustainable" economic recovery. Everything our governments and central banks are presently doing is delaying the inevitable at an astronomical cost to us all.

Gold Wave Analysis Update



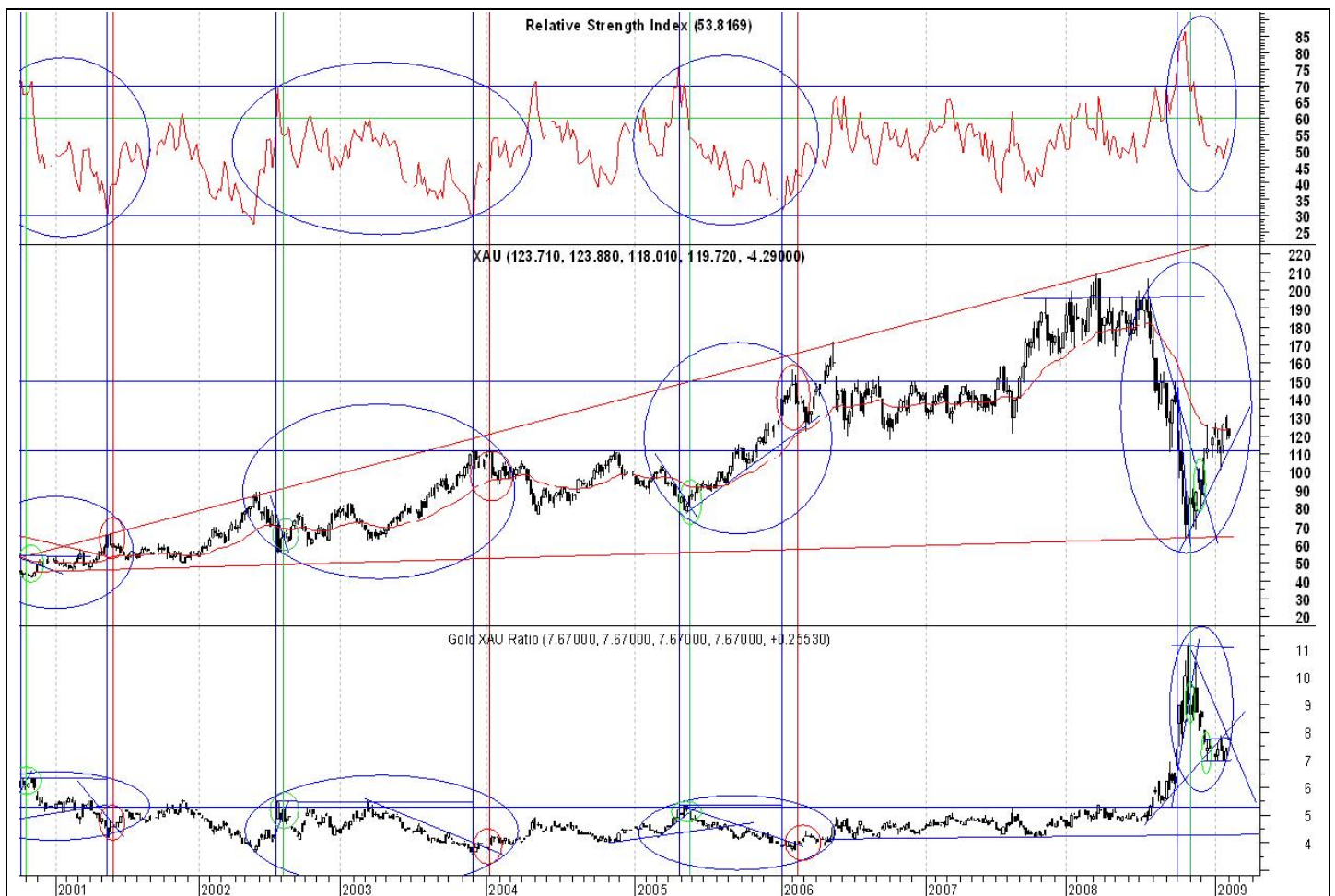
COMMENTARY

The wave 3 rally has progressed nicely during the month up to US\$900/oz, which is the last point of heavy resistance before we potentially make a bigger move up to the previous highs of around US\$1,000/oz. The gold shares are performing strongly, indicating that this rally continues to have legs (see review of the XAU and API below).

XAU

The chart below highlights key points in time when the XAU is overbought (RSI 30) and oversold (RSI 70), relative to gold. Once the respective indicators trigger (blue vertical lines), it then becomes a task of following trends in the ratio looking for definitive breaks to signify entry (green vertical lines) and exit (red vertical lines) points. The gold price wave analysis above helps us get our bearings. Right now, with the commencement of a Wave 3 rally, we should expect to see precious metals equities outperform the gold price signaling further strength in the metal.

GOLD/XAU LONG TERM PICTURE



GOLD XAU RATIO

Extreme Key Dates	Gold/XAU	XAU	XAU Performance	Gold Price	Gold Performance	Net Position
3/11/2000	6.07	44		265		
25/05/2001	4.56	58	33%	276	4%	29%
02/08/2002	4.82	63	9%	305	11%	-2%
09/01/2004	3.83	111	75%	423	39%	36%
27/05/2005	4.84	84	-26%	418	-1%	-25%
17/02/2006	3.97	139	64%	552	32%	32%
7/11/2008	8.63	85	-39%	735	33%	-72%
Current (06/02/09)	7.00	130	53%	912	24%	29%

GOLD/XAU INTERMEDIATE TERM



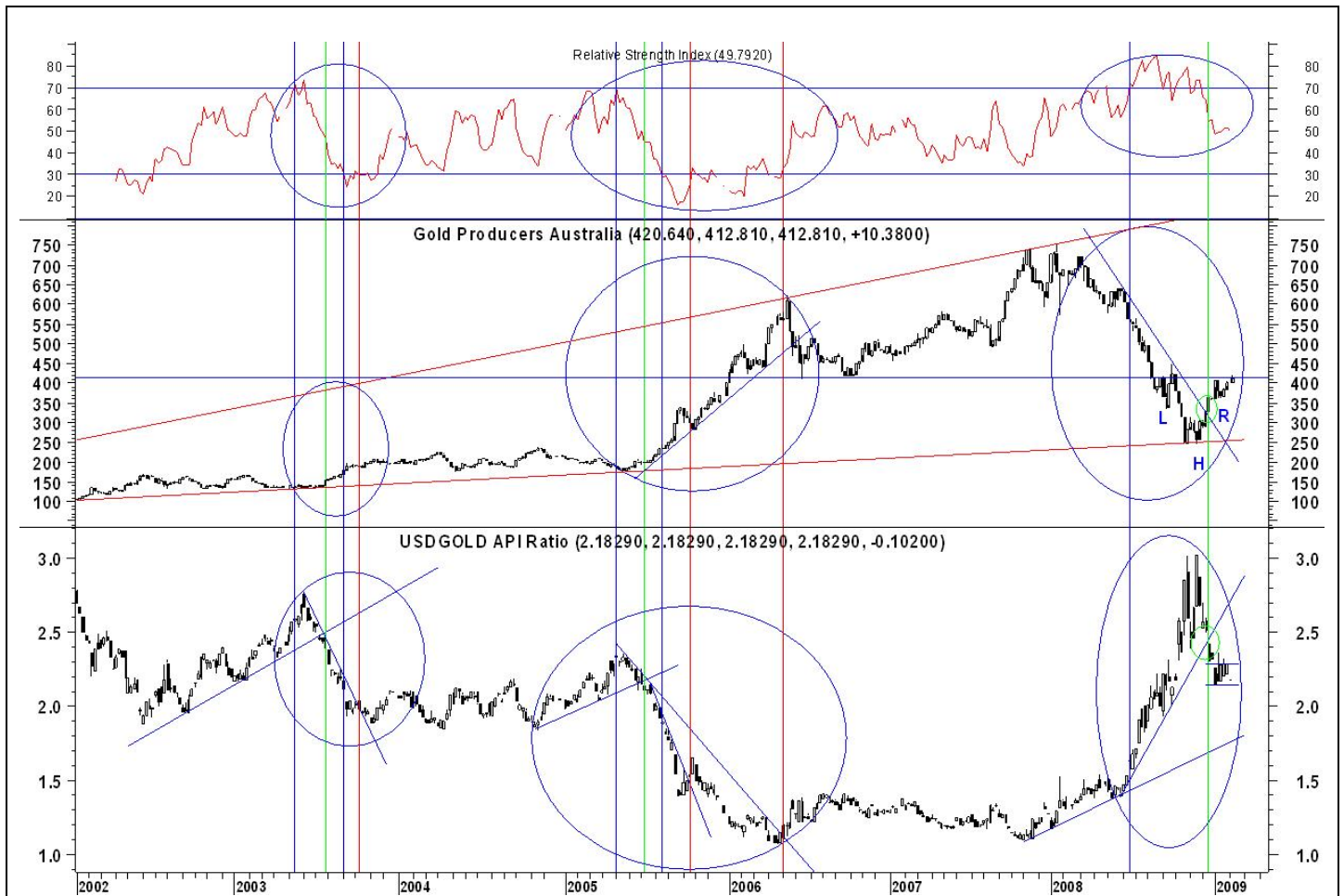
COMMENTARY

Gold shares have continued to outperform the gold price this month, as the XAU gained another 11% versus a gain in the gold price of close to 7%. This continues to reinforce the Wave 3 gold price rally and strengthens the odds of a move higher towards US\$1,000/oz over the coming weeks and months. The Gold/XAU ratio, in the bottom section of the above chart, has been consolidating in a nice range between 6.95 and 7.90. A clear break of the support at 6.95 would signal a move higher in the gold price towards the US\$1,000 mark. A break the other way, through 7.90 - 8.00, would be a strong signal that the rally we have experienced is topping out and some profit taking may be the order of the day.

AUSTRALIAN PRODUCERS INDEX (API)

The Australian Gold Producers Index has a consistent format to that of the XAU. The relative strength comparison is with a USD gold price instead of an Australian dollar gold price. This is because Australian gold shares tend to be influenced more by the USD gold price.

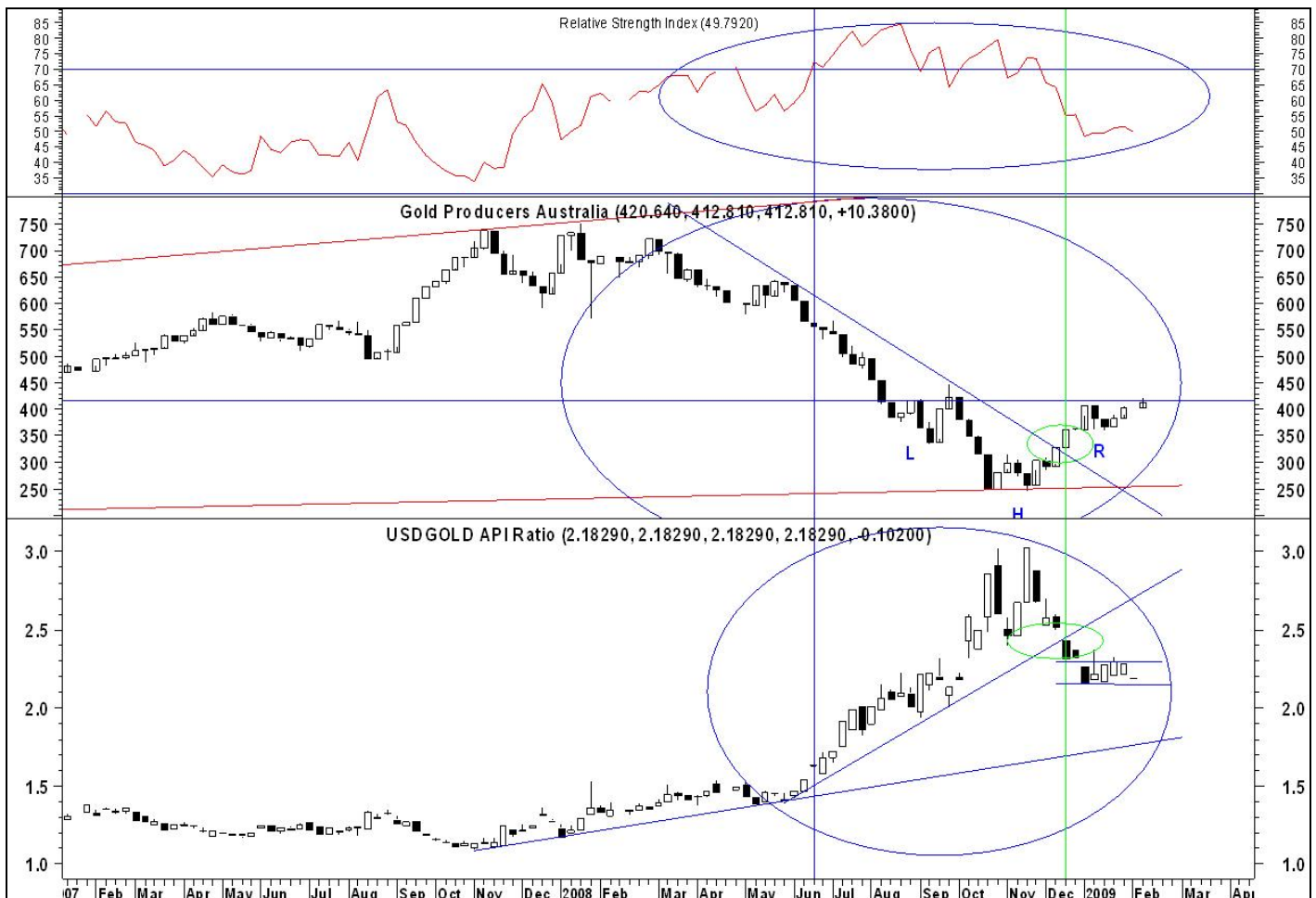
GOLD (USD)/API LONG TERM PICTURE



GOLD (USD) API RATIO

Extreme Key Dates	Gold/API	API	API Performance	Gold Price	Gold Performance	Net Position
25/07/2003	2.39	152		363		
10/10/2003	1.98	188	24%	372	9%	15%
08/07/2005	2.14	198	5%	424	14%	-9%
05/05/2006	1.20	564	185%	678	60%	125%
19/12/2008	2.30	363	-36%	836	23%	-59%
Current (02/02/09)	2.23	412	13%	918	10%	3%

GOLD (USD)/API INTERMEDIATE TERM



COMMENTARY

When we look at the Gold/API ratio (bottom section), we see a consolidation building soon after our buy signal was triggered the previous month (green vertical line). These consolidation patterns, from a technical perspective, generally signal a half way point of the preceding trend. The preceding trend has been down. This signals gold shares outperforming the gold price going forward, once this consolidation pattern breaks on the down side. When we look at the API index itself (middle section), we see the bullish Reverse Head and Shoulder pattern we highlighted last month completing the right shoulder, with the neck line at 410 now being challenged. To repeat last month's commentary, a clean break of 410 is what we want to see, coupled with a downside break of the consolidating Gold/API ratio. Both charts appear technically consistent. A look at the RSI (top section) of the Gold/API ratio sees it at around the 50 mark, which also confirms this intermediate term outperformance of the gold shares still has legs. Our first intermediate warning sign will be when the RSI breaks 30.

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 Gold Price (AUD)	Actual as a % of Theoretical
Jun-08	6.45	4.50	1,032.9	2.79%	0.14%	3,231.06	969.36	30.00%
Jul-08	6.23		1,051.0	1.75%	0.14%	3,283.16	976.02	29.73%
Aug-08	5.75		1,065.9	1.42%	0.14%	3,325.10	967.25	29.09%
Sep-08	5.40	5.00	1,090.1	2.27%	0.14%	3,395.94	1,111.11	32.72%
Oct-08	5.18		1,107.0	1.55%	0.14%	3,443.83	1,107.62	32.18%
Nov-08	4.58		1,124.9	1.67%	0.14%	3,496.52	1,250.77	35.77%
Dec-08	3.99	3.70	1,130.0	0.45%	0.14%	3,507.48	1,247.49	35.56%

5 Year Performance Snapshot

	2008/09*	2007/08	2006/07	2005/06	2004/05
Actual Gold	29%	26%	16%	18%	8%
Theoretical Gold	8.5%	17%	14%	16%	6%
M3 Growth	9%	19%	16%	17%	8%
CPI	3.7%	4.5%	2%	4%	2.5%

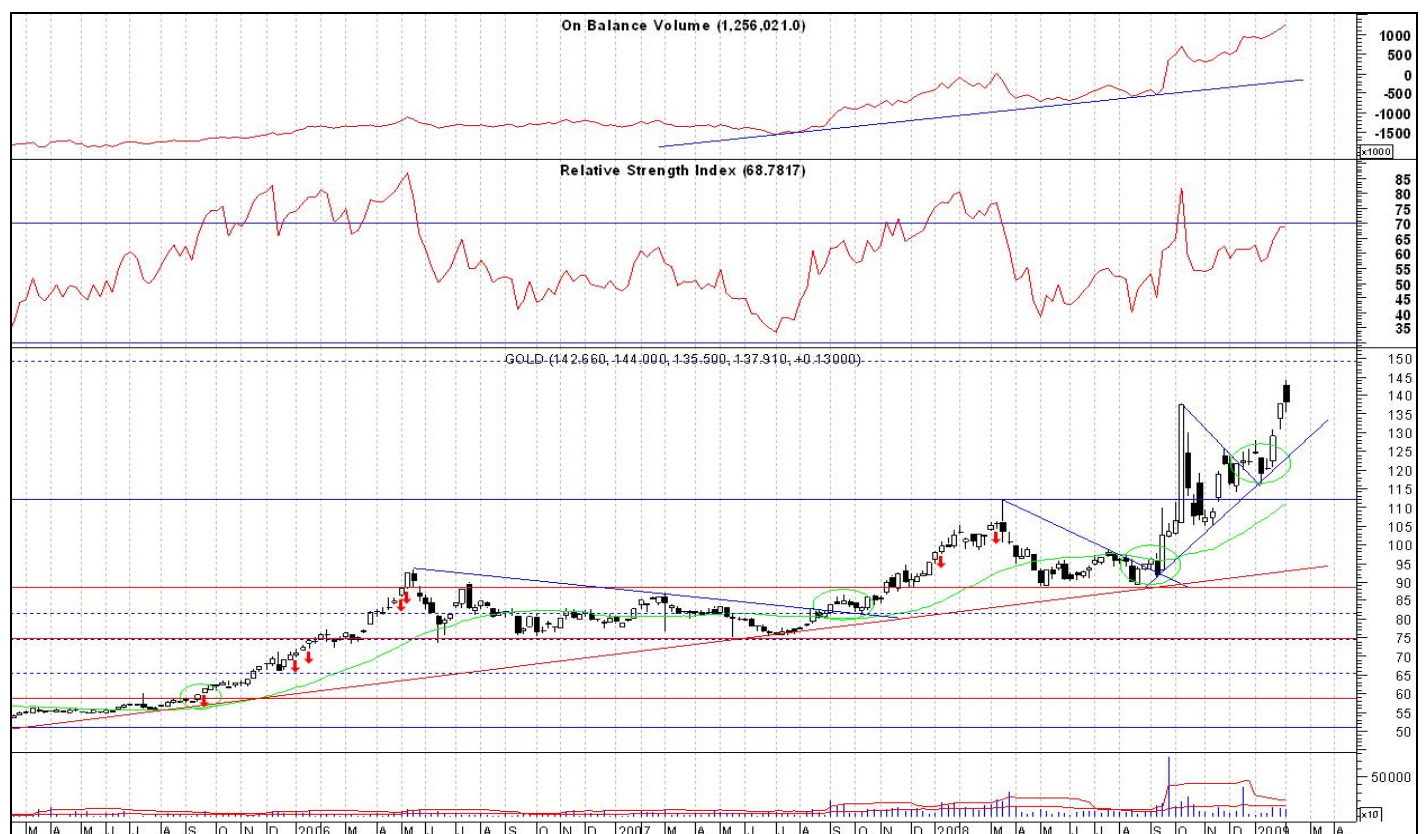
* This financial year so far.

COMMENTARY

M3 growth for 2008/09 moderated during Dec 08. The annualized rate remains a very healthy 17%, down from 21% last month. The theoretical gold price nudged over the A\$3,500 mark, with the actual at the end of Dec 08 35.5% of the theoretical. If we were to use the current gold price of A\$1,350 (7 Feb 09) we would be up at 38.5%. The CPI was released for the Dec 08 quarter and declined from 5% down to 3.7%. It is amazing to think our politicians were setting their budgets not that long ago to ensure they didn't exacerbate inflation. Since then they have been spending with

reckless abandon and the RBA has been cutting rates aggressively. Why isn't the RBA worried about inflation anymore? The answer to that question is they were never worried about inflation in the first place. They are the ones that fuel inflation via setting the price of money (interest rates) persistently below the rates that would prevail in the market place had they not interfered. Their job is to manage inflationary expectations, something they do quite effectively via the CPI. Australia's CPI fell to 3.7% in the December 08 quarter. The Australian dollar over that same period has fallen on a trade weighted basis from 63.5 to 55.6 or 12.5%. Inflation by definition is the loss of the purchasing power of money. That is money buys less than it did before. Here in Australia we import much of what we need and use. Make no mistake the cost of imports is on the rise. Recently the December Quarter 08 producer price index (PPI) showed prices in the final stage of production grew 1.3% after accelerating by a record 2.0 % in the September 08 quarter. Import prices surged 14.8%. What are the government and the RBA doing to do to preserve the purchasing power of the Australian dollar? The government is deficit spending and thereby competing with business for a depleted level of available capital domestically. A situation made worse by nervous international banks pulling the plug on Australian lending, which is something we have grown dependent on in recent years. The RBA is cutting rates to the bone undermining our dollar and making investment in Australia increasingly less attractive. In addition, there is the Current Account Deficit (CAD) which is draining Australia's financial system of A\$50-60 billion a year. What does all this mean? If we continue down this path the Australian dollar at some point will free fall. Interest rates as a result will rise dramatically and send our debt burdened Australian economy into a heavy recession. Could this have been avoided? No. The recession was inevitable given the vast amounts of inefficient capital investment made over the last 10-15 years as a result of low interest rates set by our central banks. This recession, however, could have been made a lot less severe and more tolerable had we endured it back in 2000/01 when central banks last went on a rate cutting escapade. Government and central bank interference is the reason why we are staring down the barrel of one of the worst and deepest recessions since possibly the Great Depression. "Free market failure" our Prime Minister cries. Does what I have just described sound remotely like a free market to you?

AUSTRALIAN GOLD PRICE (EFT: ASX:GOLD)



CLOSING COMMENTS

Looking at the technical indicators this month gives me confidence things are shaping up very nicely for gold and even more so gold equities. The gold price in Australian dollar terms hit an all time record high in January 09 but has since settled back. Local gold producers are enjoying falling costs and increasing prices for the gold they sell. It's becoming the best of both worlds. The falling costs however should probably not be taken for granted. Many of our politicians are enjoying the attention as they attempt to justify their own actions and convince us they are doing the right thing. Unfortunately, while they predominantly have our best interests at heart and many of them believe they are making a positive difference, the reality is they are simply making matters worse. It is ultimately government interference that got us into this mess and let me assure you government interference sure as hell isn't going to get us out of it. The Great Depression is an excellent example of how government interference needlessly prolonged an economic malaise. Please look after yourselves and protect the purchasing power of your wealth.

Troy Schwensen

Research Analyst

www.goldnerds.com.au

Editor

www.globalspeculator.com.au

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