

Today's Notes:

1. Deflationary Expectations
2. Senesco : Social Satisfaction

1. DEFLATIONARY EXPECTATIONS: SPREADING

This AM gold is soaring again while the US dollar strengthens against every major currency expect the Brazilian Riel. Gold is trading up at this early time by more than 1%.

Bid/Ask	1246.60	-	1247.60
Low/High	1233.10	-	1250.40
Change	+14.00		+1.14%
30daychg	+91.80		+7.95%
1yearchg	+320.90		+34.67%

Silver has outperformed gold in the past year as we expected. It is trading up to \$19.61 less than 1%. Platinum, Palladium and rhodium are all down - significantly

Bid/Ask	19.59		19.61
Low/High	19.40		19.75
Change	+0.16		+0.82%
30DayChg	+1.17		+6.35%
1YearChg	+5.54		+39.43%

Meanwhile the US dollar is flying high. This is an unusual circumstance. Commodities are obeying the unwritten rule of US dollar ascendancy and declining. Oil is touching a 3 month low (\$73.67). Is oil anticipating austerity and slower global growth? With a weekend upon us there is a sense that global deflationary expectations are forming. It could be that the trillion dollar (US) carry trade is being unwound as the possibility of a debt deflation spiral in Europe overwhelms investors. When this happens the real money substitutes, gold and silver, go bid.

The following table shows the tremendous dollar strength as of 8:30 AM Eastern time. This table reminds me of the currency volatility that occurred in October 2008 and July 2009. The world wants dollars, gold and silver. As you can see the Canadian Loonie and Aussie dollar, two commodity countries, are much weaker this AM. Gold is stronger in every currency this AM.

US Dollar	--	05/14-08:17	--	--	19.59	+0.16	▲	+0.82%
Australian Dollar	-0.38%	05/14-08:11	1.1208	0.8923	21.96	+0.27	▲	+1.23%
Brazilian Real	+0.06%	05/14-08:16	1.7793	0.5620	34.86	+0.37	▲	+1.06%
British Pound	-0.20%	05/14-08:16	0.6860	1.4578	13.44	+0.14	▲	+1.07%
Canadian Dollar	-0.67%	05/14-08:17	1.0274	0.9733	20.13	+0.30	▲	+1.53%
Chinese Yuan	+0.01%	05/14-05:52	6.8223	0.1466	133.65	+1.17	▲	+0.89%
Euro	-0.38%	05/14-08:17	0.8005	1.2493	15.68	+0.19	▲	+1.25%
Hong Kong Dollar	-0.02%	05/14-08:16	7.7784	0.1286	152.38	+1.38	▲	+0.91%
Indian Rupee	-0.31%	05/14-07:34	45.2150	0.0221	885.76	+10.05	▲	+1.15%
Japanese Yen	+0.19%	05/14-08:17	92.5150	0.0108	1812.37	+11.79	▲	+0.65%
Mexican Pesos	-0.38%	05/14-08:17	12.4679	0.0802	244.25	+3.02	▲	+1.25%
Russian Ruble	-0.49%	05/14-08:11	30.2000	0.0331	591.62	+7.75	▲	+1.33%
S.African Rand	-0.46%	05/14-08:17	7.5321	0.1328	147.55	+2.02	▲	+1.39%
Swiss Franc	-0.41%	05/14-08:16	1.1222	0.8911	21.98	+0.27	▲	+1.26%

They say “*the rain in span falls mainly in the plain.*” It is raining fear and anger in Spain and Portugal this AM. As austerity programs are announced and implemented in both countries citizens are protesting, particularly unions who see their hard fought, decade-long entitlements begin to melt away like a spring snow. The question of interest is whether there will be enough austerity and pain to reduce budget deficits to sustainable levels in the PIIG countries.

As austerity begins to kick in to satisfy global bond markets, growth will slow and deflation will take hold. Rogoff and Reinhart (*This Time It's Different*) contend that an austere, vicious and global deleveraging will obtain for 5 to 7 years as has been the case throughout credit crises over history. Perhaps the world's credit, capital and commodity markets are recognizing the obvious.

One Morning Note reader wrote last week to suggest we need a better definition of deflation. Is it asset price deflation or money supply deflation? A good definition, one that seems strikingly appropriate today, is as follows:

“A decline in general price levels, often caused by a reduction in the supply of money or credit. Deflation can also be brought about by direct contractions in spending, either in the form of a reduction in government spending, personal spending or investment spending. Deflation has often had the side effect of increasing unemployment in an economy, since the process often leads to a lower level of demand in the economy.”

The direct contraction in government spending (at least in southern Europe) will most certainly lead to a painful spiral of lower output. Central banks claim to be able to inflate away excess debt. Indeed the reserve currency status of the US dollar has been a great enabler in that regard for the US. But a deflationary spiral, once it takes hold, is a more difficult phenomenon to counter.

Relative to the ongoing EU debt problems Paul Volcker remarked yesterday,

“You have the great problem of a potential disintegration of the euro ... The essential element of discipline in economic policy and in fiscal policy that was hoped for has so far not been rewarded in some countries.”

There is no discipline behind any fiat currency whether it is the Euro or the US Dollar. Richard Nixon left us that legacy. Fiat currency is simply paper. Mervin King Governor of the Bank of England goes one step further in the UK Telegraph. He contends the United States and Britain may experience the same deflationary expectations and realizations as Greece, Portugal and Spain if fiscal austerity in the US and UK is not implemented – and soon.

“Every country around the world is in a similar position, even the United States; the world's largest economy has a very large fiscal deficit. And one of the concerns in financial markets is clearly – how will this enormous stock of public debt be reduced over the next few years? And it's very important that governments, both here and elsewhere, get to grips with this problem, have a clear approach and a very clear and credible approach to reducing the size of those deficits over, in our case, the lifetime of this parliament, in order to convince markets that they should be willing to continue to finance the very large sums of money that will be needed to be raised from financial markets over the next few years, at reasonable interest rates.”

If you read Mr. King's statement carefully you must ask the question of how in the world the current US Congress can possibly extend the entitlement system, as they are trying to do here in the US with cap and trade, health care and other programs. US debt will hit \$13 trillion next week putting it well beyond the sustainable level.

So what is the prudent way forward for discovery investors? You must continue to own precious metals, specifically gold and silver. I have been advocating that for the past decade. You must continue to own world class, liquid discovery opportunities in the health care and resources sectors. The best resources should be energy and precious metals related. We do believe that emerging economies will eventually supply growth and that the commodity super cycle is a secular bull. In the short run however if a deflationary spiral takes hold it will likely affect world growth significantly.

2. SENESCO TECHNOLOGIES

The shares soared yesterday. They are up again this AM. The stock is still a value proposition in my view. Take a look at the graph.



The new Chairman Dr. Harlan Waksal has restructured the balance sheet and the management of the company. He is focused solely on cancer – specifically multiple myeloma. In a few short months he has performed a miraculous transformation at Senesco. The company is now focusing on clinical trials next year at the Mayo Clinic. He will stay focused on blood cancers because he believes these tumors are easier to deal with. That means the next tranche will likely be lymphoma and leukemia.

The balance sheet is now restored with about \$12 million – enough to take the company through a Phase IB –IIA trial at the Mayo Clinic by next year. The \$10 million in toxic debt has been retired. The company will seek an IND by the fourth quarter and enter trials by this time next year. There are many other valuable pieces to Senesco. Diabetes research and H1N1 research (University of Virginia) but management is now focused on the cancer challenge. The pre clinical cancer trials on mice at Senesco and the Mayo have been very encouraging with up to 95% tumor load and size reduction and remission in some of the mice. There do not appear to be side effects to the Factor 5A1 gene therapy in mice.

Only God can predict the outcome in human trials, but one of the great satisfactions of Discovery Investing is owning and supporting a company like Senesco or Neuralstem (I own both and have never sold a share of either). Everyone in this day and age has been touched by cancer. Please read the company's web site. I will be reporting on Neuralstem's rise to prominence next week.

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