

Today's Notes:

1. **Gold and Silver**
2. **Emerging Economies: Decoupling?**

1. GOLD AND SILVER: ANTI-CURRENCY

We may have passed the tipping point. Most commentators take this statement to mean that the economy has reached its tipping point. We agree with that sentiment. However I am more inclined to believe that the dollar has met its tipping point. One look at gold and silver and you might believe the same. You see as Dennis Gartman and I have been saying for some time they have become the Anti-currency. Anti-currency? Yes, gold in US dollars has powered higher – seems to want to stay above \$1100 and make a base. Silver doesn't venture too much below \$16.80. We have seen now 6 months of very strong pricing in these metals. These precious metals are anathema to the fiat currencies and hence they compose the Anti-currency. No matter how much people seek a new a stable fiat currency regime it is probably not possible.

For 20 months now China has maintained (notice I did not say “manipulated”) an exchange rate of 6.8 Yuan to the dollar after allowing it to appreciate from 8.2 beginning in 2005. There is not a living soul outside of China that believes that the Yuan is not undervalued. This “maintenance” keeps the fiat Yuan, the hoard of US foreign exchange in China and the Chinese economy afloat. Even though Congress wants to declare China a currency manipulator, Secretary Geithner is delaying that report because China is visiting the U.S. this week. Meanwhile mom and pop continue to buy cheap goods at Wal-Mart and the trade imbalances continue to mount, in itself a bubble in the making.



So it is insane for anyone to claim that entities made by man such as paper currency and paper futures cannot be manipulated.

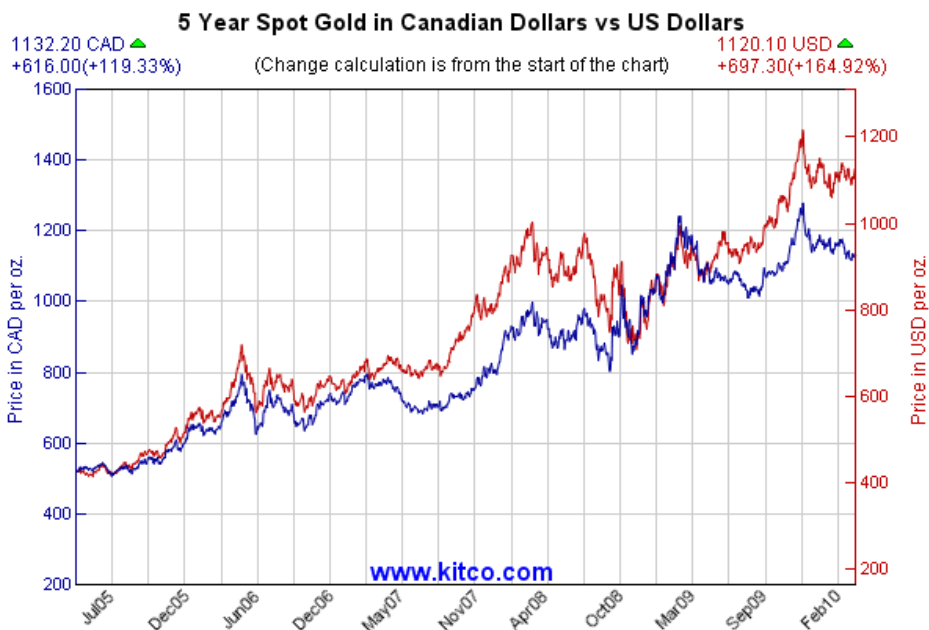
Gold has performed well in dollars over the past year indeed rising 26%. However it has outperformed dollar-based gold when priced in Euros, Yen, British pounds and Swiss Francs in the past 6 months. In other words, gold is pricing in currency risk directly and macro economic policy indirectly. Gold is watching the slow and interminable destruction of the West. So gold has indeed become the anti-currency.

On the other hand gold priced in Aussie dollars, Canadian dollars, Indian rupees, Mexican pesos has dramatically underperformed. These are typically commodity countries with stronger currencies relative to the US dollar. Need you ask why? Perhaps most important is the changing regime in gold pricing in the past 6 months. Is there a tipping point and is gold, priced in various currencies, reflecting that macro-economic tipping point? We think so.

Gold in the Chinese currency is priced identically with gold in US dollars. The Russian gold pricing is also very close. Currency manipulation? – maybe – likely. Gold is demonstrating that it is the great discriminator. It is the anti-(fiat) currency. There are weak currencies and weak economies.

Over a five year time horizon there isn't really much difference across the board. But in the past 6 months the message is unequivocally clear. Gold has been a great investment outperforming the equity markets. For example gold in US dollars gained a total return of 164% while gold denominated in Canadian dollars gained 116%.

This AM the Loonie sits at par with its US cousin. We have expected that for some time. It will cost you C\$1.0055 to buy \$1 US dollar and you will receive US\$.9944 for each Loonie you tender. We have invested accordingly.



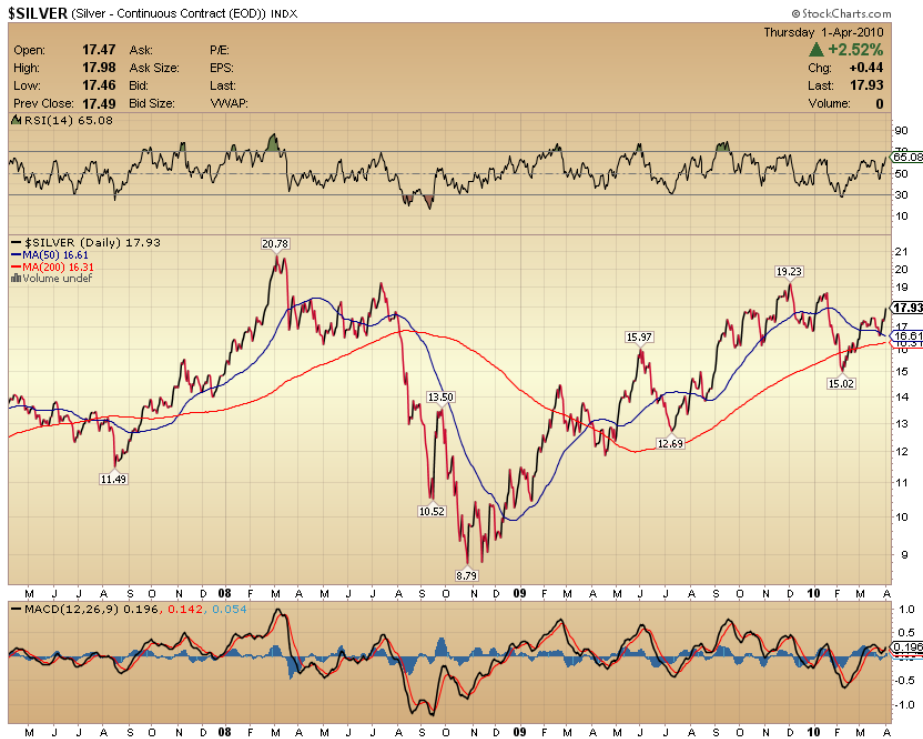
Here's the fate of the Canadian Loonie over the past decade. We are now challenging the top of this market in 2008 as you can see. Will the Canadian currency strengthen from here? Yes we think so. Much to the displeasure of the Ontario and Quebec and to the fancy of Saskatchewan, Alberta and B.C. the dollar will face the tough resistance of the bankers at par but par shall eventually be broken. Unfortunately I shall be presenting this scenario in Calgary this weekend and therefore I shall be forced to pay up for my Harvey's.



I make one final but important point. It matters little that gold is in a bull market in almost every fiat currency – take your pick. The real issue is that the CFTC may now impose the necessary restrictions on the oil, currency and metals futures market to change the situation from one in which the “tail wags the dog” to one in which real currency values and adjustments become visible. This will be the real test of the tipping point. Ted Butler points out in his excellent letter that JP Morgan may not be not “wagging” the silver market anymore – that is very significant since it portends the belief that Chairman Gensler may, in fact, act – much to the credit of Ted Butler all these years.

Silver? Silver has serious upside potential from this level as well. It has been a laggard relative to gold. Spot silver is a small market and seems poised to move much higher particularly if the CFTC is serious about reigning in the silver manipulators. By the way I first learned of futures market manipulation in China in 1995. I lectured in Shanghai and Beijing with my host Chris Tibbs of Citibank to the Chinese CSRC. Subsequently the government closed the nascent futures market which had cornered its Treasury market. So it does happen. I wonder if my testimony to Congress this week will have the same effect on our natural resource policy? What do you think?

Given the recent drill results from Quaterra Resources (I own it) on its Nieves silver project in Zacatecas I like the company's developing silver resource - a lot particularly with silver's upside. Please have a look.



2. CHINA: MORGAN STANLEY ON THE QUALITY OF LIFE HYPOTHESIS (CHRIS BERRY)

I repeat a column from Morning Notes last December because I believe that it is even more accurate today. It was once thought, back in the halcyon days of 2005 that China and the new Asia would decouple and save the West from its fate. That did not happen. However another more powerful force seems to be at work. This AM the U.S. has relented in the face of Chinese concern about being branded a currency manipulator by the Treasury (the Obama Administration). The shoe is most definitely on the other foot today – post crisis. We believe it will be the emerging economies – over the next decade that will lead the way out of this global economic predicament. The rising quality of life cycle will be the driving force. It is unstoppable. It will take time and be challenging but when it ends the power shift from West to East, from developed to developing, will have occurred. 60 years of dollar supremacy, of the reserve currency US dollar, are waning. I am focusing on the emergence of these developing economies and their impact on the global commodity cycle. Here’s what Roach said about “The Next Asia.” in a Morning Note that my father wrote last December.

“Asia in the past 30 years has done an extraordinary job- especially China, but increasingly, the rest of the region – in lifting standards of living well beyond anything we’ve seen in the annals of economic development.”

This is of course the key for survival of any country. The ability to raise the well being, lifestyle or quality of life for its citizens is key to survival. The situation in Asia is much

different today than it was 68 years ago. Today China has accumulated massive foreign exchange reserves and is buying commodities essential for the **Next Asia** which is identical in intent and purpose to Japan's declaration of the East Asian Co-Prosperity Sphere.

The difference is that so many more commodities and discoveries are necessary today. Rare earth elements, tungsten, molybdenum, lithium, phosphates, oil, gas, coal, uranium, nuclear technology, CCS technology, genetic technology, food technology and on and on, are all necessary for the Next Asia just as oil and iron ore were necessary for Japan's survival in 1940. Today China is in a position to control these elements as she builds her infrastructure to improve the lifestyle of her citizens. The metro system in Beijing, with its 17 million inhabitants, will increase in reach from 125 miles today (December 7, 2009) to an ultra modern 350 miles by 2015. Each year two new subway lines come on stream increasing the lifestyle and productivity of the residents of Beijing.

The US economy will not, of course, waste away under these Asian pressures. Given the new intrusion of Western government,

- 1) the imposition of moral hazard on our financial and industrial institutions by Too Big To Fail bailouts,
- 2) new governmental oversight and "Czars" of all sorts with extended powers and
- 3) excessive debt issuance necessary from all the myriad spending programs which can only be financed by higher taxes,

the quality of life (if we go forward with current plans) in the US will fall as it will increase geometrically in the "Next Asia."

Watching the reaction of copper prices over the next year will be especially interesting. I believe that they will probably be a precursor of the expectations that Asia can shift its focus from an export-driven model to one more evenly consumer-based. This will happen in due course. The real issue is how long will this shift take.

We must all realize that the fate of a country is often intertwined in the geopolitics of war. 68 years ago today was a prime and tragic example of such an eventuality. No government wants its citizens to live a more modest lifestyle. But that is surely in the future for the West if we move forward under the present governmental plans. Japan failed in her attempt to resurrect Asia – China will not.

THIS WEEK (April 8) I testify to a Congressional Committee (Natural Resources) on the fate of the Grand Canyon and particularly mining the abundant uranium resources on the Arizona Strip. My topic is broader. I propose the establishment of a national extractive resource policy for our natural resources. – please wish me luck.

ON APRIL 10TH the I will present a keynote address in at the Cambridge House symposium in Calgary titled, "The Rise and Fall of the US Dollar."

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