

Today's Notes:

1. **CHINA AGAIN: PREPARE**
2. **DISCOVERY INVESTING TUTORIAL - VIDEO RE SEND**
3. **QUATERRA SEMINAR AT THE PRINCETON CLUB**
4. **FROM TOMORROW TILL OCTOBER 4TH, I WILL BE IN EUROPE. INTERNET CONNECTIONS AND PUBLICATION OF MORNING NOTES WILL BE SPORADIC.**

1. CHINA AGAIN

China is in the news again. Washington has decided to place a 35% tariff on Chinese tires. This was on top of a 4% tariff currently maintained. Tire imports to the US have risen from 14.6 million (2004) to 46 million worth \$1.8 billion in 2008. Jobs are at stake – in both countries. There is nothing like unemployment to get a government's attention. By the end of this year 7 tire plants may be forced to close down in the US. With 9.7% official unemployment (11% or more unofficially) the measures are understandable if undesirable. It is clear that the balmy days of free trade, Chinese financing of the American consumer and unconstrained debt issuance along with high living, are finally over.

Chen Deming, China's minister of commerce said,
"This is a grave act of trade protectionism, Not only does it violate WTO rules, it contravenes commitments the United States government made at the April G20 financial summit."

The American position is summed up by U.S. Trade Representative Ron Kirk,
"This administration is doing what is necessary to enforce trade agreements on behalf of American workers and manufacturers ... enforcing trade laws are key to maintaining an open and free trading system."

The tire market is but one case study of hundreds reflective of the deeply ingrained trade imbalance that has grown between the two countries in the past 30 years. In addition, new tariffs on imported steel pipes have been initiated by the current Administration in Washington. This situation could devolve into something uglier though we think it will be contained. Such a dispute is in neither country's best interest.

Predictably China has shown an outrage. At the recent Dalian World Economic forum Yu Yongding, an academic, formerly an advisor to the Chinese central bank, discussed the use of IMF Special Drawing Rights (SDR's) in place of the US currency as the world's reserve.

More important, there is a threat by several Chinese State Owned Enterprises (SOEs) to renege on oil futures contracts with large western banking counterparties. The issue apparently relates to the run up in oil prices to \$147 in June 2008, Goldman Sachs subsequent forecast of \$200 oil and then the GS call for lower oil prices and oil's decline to \$32. Chinese organizations lost millions and feel deceived by the American banking system and futures markets. Equally important is the reported short position that Chinese

institutions hold in the silver and gold futures market. A repudiation of these contracts would sew wild volatility into the world's derivative markets and invoke massive short covering. But are there enough physical commodities to cover? With the announcement of new tariffs on tires rubber futures fell 9%. We have come to realize that the commodity (and financial) futures markets are always and everywhere the, "tails that wag the dog." They were long ago designed this way. This is particularly true in the recent 2 decades of US de regulation of the commercial and investment banking industries. A quick revisit to stock index futures (portfolio insurance) in October of 1987 will reconfirm that issue.

At the recent Dalian meetings Mr. Yu said, *"The U.S. has been running a current account deficit for more than 26 years now, and they are accumulating huge foreign debt, and now they are running huge budget deficits. According to very optimistic estimations, within ten years, they will continue to run budget deficits,"*

China bears responsibility here as well. She managed to keep her currency pegged and cheap during this timeframe to accumulate such massive dollar reserves and build her export industries. Now she has a dollar problem as well. A very clear message from Washington has been one of unbridled spending, huge and increasing deficits in the future and if necessary use of the Federal Reserve's printing press. The next chapter in the saga is the beginning of trade protectionism that will reign in global trade and up the geopolitical ante. China is moving aggressively to allow its citizens to own gold and silver while pursuing a dollar diversification.

Nevertheless when all the smoke clears it is the US dollar that remains powerful as the world's reserve currency. Indeed it may not always be this way. The US is the world's strongest military power and that carries weight in the reserve currency debate. But that may not always be the case. China is preparing for this eventuality and so must you.

2. DISCOVERY INVESTING TUTORIAL

Sorry for the inability to view my Discovery Investing seminar. I am re-sending this AM. This is the introductory seminar. I plan to present several more which will be more detailed and focus on specific topics; the 10 point grid, the 8 point discovery process and risk analysis. We will also present three case studies (both winners and losers) to help in the teaching of the technique. The video is about 48 minutes in duration. A CTL Click to invoke the link should bring up the video screen. Sorry for the inconvenience

http://www.mininginteractive.com/videos/videos.php?link=20090713_MIU_Berry&tabselect=miu&type=miu

3. DR. PATTON'S SEMINAR

Quaterra's Dr. Tom Patton presented a first rate seminar at the Princeton Club in New York on Thursday afternoon. A group of 60 fund managers and investors attended. I shall have an audio copy of his presentation posted as soon as possible. Dr. Patton's 40 minute presentation focused on three major issues. They are:

- 1) The recent joint ventures (two) with Freeport McMoran, the world's largest copper company that Quaterra has recently signed on Quaterra's copper targets. The Tintic deal is a 70/30 carry to bankable feasibility.
- 2) The company's large land position in Mexico (close to 1,000 square miles) with two Peñasquito-type targets. A new silver discovery hole in Durango. The potential for Quaterra's Nieves property to reach 100 million ounces of silver and,
- 3) Last, but certainly not least, the potential for MacArthur's copper wealth and the ultimate consolidation of the prolific Yerington, Nevada district in which MacArthur sits.

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