

**Today's Notes:**

- 1. The Demise of the US Dollar**
- 2. An Old Favorite: A Contrarian**

**1. THE US DOLLAR**

The past five years of US currency movements are shown below in the Bloomberg dollar index. November 2005 was a high point at 92.03. Yesterday the dollar closed at 77.62, a 16% decrease. The dollar bottomed April 18<sup>th</sup> 2008 at 71.68, a 23% decrease in 28 months. This caused Japan and later OECD authorities to talk about a dollar rescue. That was not necessary however. The threat of China withdrawing from the Fannie Mae and Freddie Mac debt markets caused President Bush's Treasury secretary to offer the really first "Too Big To Fail" wealth transfer., On July 13<sup>th</sup>, just 2 days after Countrywide failed, Mr. Paulson guaranteed Fannie and Freddie debt with a \$200 billion government insurance policy. That \$200 billion upper limit has recently been removed. The immediate impact of the Paulson guarantee was a global short Dollar and Yen covering. During the following 8 months the US dollar soared 23%. The Yen rose 33% in that same timeframe.

However the US currency peaked on March 10<sup>th</sup> 2009 just about the same time the Citigroup leaked an internal memo citing a profitable first quarter. Then the dollar commenced its decline once again. Stimulated by the dollar carry trade and historically low Fed funds interest rates, the dollar bottomed on December 1, 2009 at 74.36. It has since turned down once again and closed yesterday at 77.62. In spite of the Paulson entreaties, China stopped buying Agency debt in July 2008. In fact, she sold \$26.1 billion of Fannie and Freddie debt in the second half of 2008. It is clear that it is China that holds the keys to the treasury<sup>1</sup>.

The Loonie (the Canadian dollar) has generally strengthened beginning March 10<sup>th</sup>, 2009 and appears to want to break the 96.12 level where it traded yesterday.

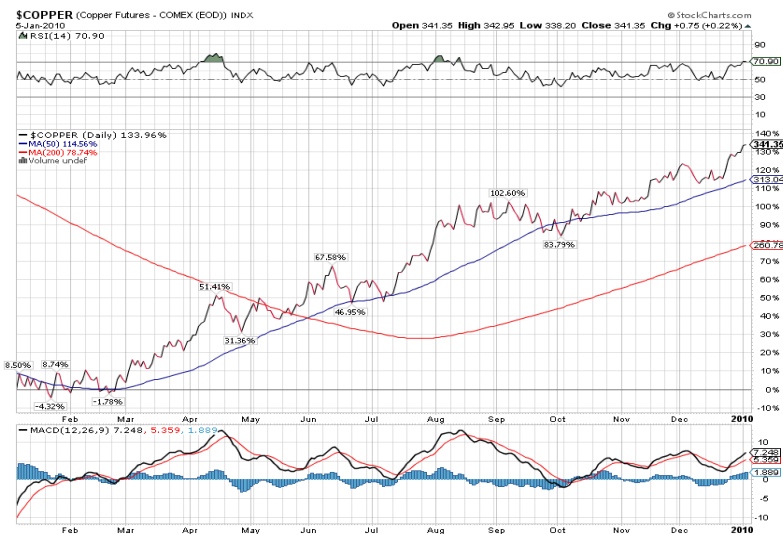


<sup>1</sup> On January 29, 2009 Premier Wen Jiabo, while at Davos, remarked, that the U.S. had *created "inappropriate macroeconomic policies ... an unsustainable model of development by sustained low savings and high consumption ... in blind pursuit of profit .. with a lack of self discipline."* Igor Yugens, senior advisor to Russia's president Medvedev, said of U.S. policy *"of course Mr. Obama expects the Chinese and the Russians to buy US Treasury Bills. That is pretty selfish and philosophically it is protectionism."*

The saga of the US dollar is most definitely one of a currency under long term pressure from exploding U.S. budget and trade deficits. China, Russia and myriad other finance ministers have commented that foreigners will not continue to support the dollar indefinitely. They have become buyers of gold and almost anything that has intrinsic value. We shall discuss the case of the red metal copper in due course.



Copper presents quite a different scenario. One look at the graph of copper suggests that what we used to refer to as the Third World must be gearing up for growth. Copper turned up in March as well but has also bucked any dollar strength. Copper has risen over 130% since March. The red metal, which perhaps best indicates growth and renewal, is trading for \$3.44 per pound. Is copper a bubble founded on Chinese stockpiling? Or is there real supply shortage and looming demand? We shall see. However the past 9 months have been most interesting. We think that there is real decoupling at work in the world. It is much longer term and involves the emerging world and not only China.



This may be the secular trend of emerging economies that are in the process of climbing to a higher level of lifestyle. Both Ferguson and Jacques document this trend of emerging country growth in their recent books. If, as both scholars maintain, power is shifting to the emerging world (along with population growth), the commodity markets are likely to benefit. The longer term pictures of both copper and gold are very telling. Copper has regained 75% of the amount it lost following the dollar short covering begun in July 2008.



It is possible that another secular growth spurt is underway – if so, it is not likely in the OECD countries – but more likely in newly emerging countries, the BRICS and many others. It is the BRACs in which we will seeking discovery investing opportunities<sup>2</sup>.

We are not suggesting that the US currency must fall continually. In the short run we may see some strength. These shall be selling opportunities – trading your Greenbacks for Loonies and commodities. Longer term, however, without significant actions to reduce the deficit (Washington has shown no proclivity to take this course) the dollar cannot sustain higher levels. Thus Op-Ed contributor Bob Hebert lamented this situation in the US this morning (*An Uneasy Feeling, New York Times*):

- 1) “No previous decade going back to the 1940s had job growth of less than 20 %.”
- 2) “Middle-class families in 2008 earned less, adjusted for inflation, than in 1999.”
- 3) One in eight Americans, and one in four children, are on food stamps.
- 4) Six million Americans have said that food stamps were their only income.

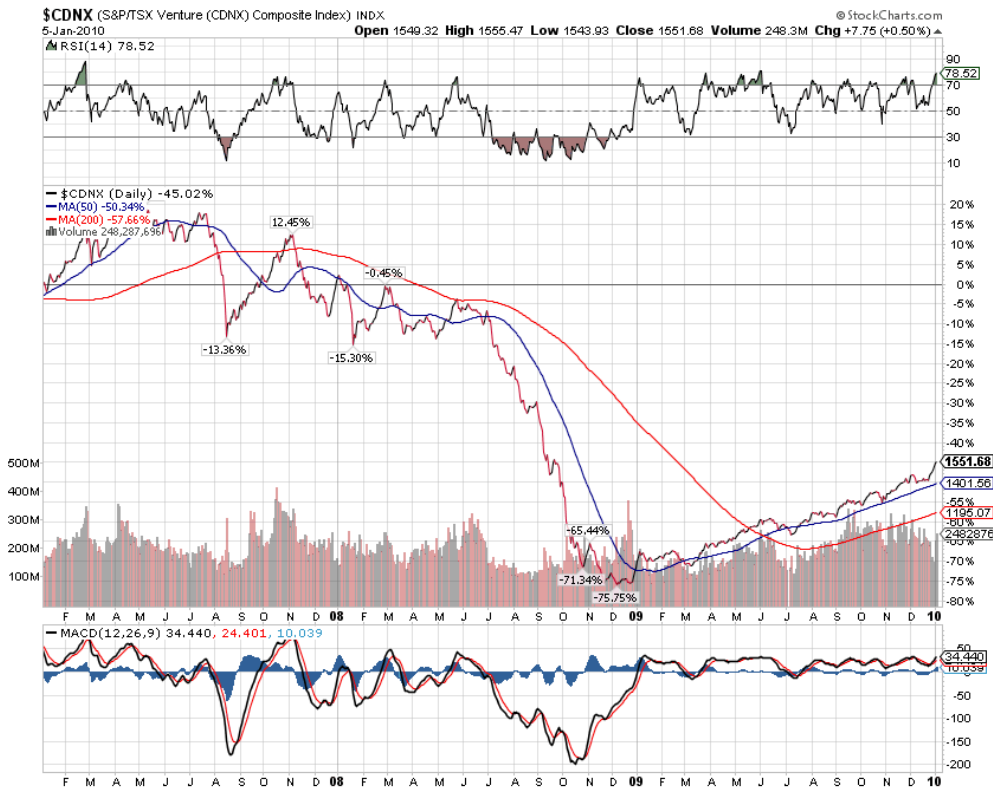
*“We keep talking about how essential it is to radically improve public education while, at the same time, we’re closing libraries and firing teachers by the tens of thousands for economic reasons. The fault lies everywhere. If America can’t change, then the*

<sup>2</sup> BRICs = Brazil, Russia, India and China. BRACs = Brazil, Russia, Australia and Canada.

*current state of decline is bound to continue. You can't have a healthy economy with so many millions of people out of work, and there is no plan now that would result in the creation of millions of new jobs any time soon."*

So according to Mr. Hebert this great country is in trouble and we must work very hard to dig out of the dilemma. I have no doubt that we will succeed. But the locus of geopolitical powers in the world is also shifting. The dollar is likely to be a casualty of this tectonic shift.

What about our favorite Canadian resource stocks? While the commodities have soared, the junior miners and others have not. There is plenty of ground to be made up.



## 2. AN OLD FAVORITE – NOW A CONTRARIAN

If you are not a contrarian discovery investor there is no need to read this Morning Note. I have been a shareholder and advocate of Senesco Technologies for 6 years. The gene technology, IMO, is world class and the IP is well protected by patents. Within the past two years the company issued two convertible debentures. One of these has come back to haunt the fortunes of the company. As you can see below the picture is ugly. However the relentless selling of the shares into the market cannot continue forever. Once the toxic convert has run its course, and the overhead pressure is off the shares, the stock will move up.

Here's why. New Chairman of the Board, Harlan Waksal (developer of Erbitux), has changed management. He and the Board are now active in the stock. The company expects to be in clinical trials in 2010 at the Mayo Clinic. SNT has so many different potentialities that perhaps this has been a problem. They are now focused solely on

cancer treatments, in particular, multiple myeloma. The company has generated very good results (average 95% tumor reduction) on human cancers in scid mice.

There are many risks here and the shares could fall further. However there is also tremendous potential upside. This contrarian discovery play has one of the best risk / reward ratios I have seen. I think the new management team has a chance to turn this company's shares around by entering the clinic with human cancer trials this year. At present Senesco is not for the faint of heart. However I plan to be a buyer of the shares at any level below 25 cents within 48 hours. I presently own shares in SNT. Please perform your own due diligence and discuss this with your advisor.



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*advisor. He is a paid advisor to Revett Minerals. We cannot attest to nor certify the correctness of any information in this note. Please consult your financial advisor and perform your own due diligence before considering any companies mentioned in this informational bulletin.*