

**Today's Notes:**

- 1. SPECULATION**
- 2. CANADA BUYS INTO GM**

**1. SPECULATION**

Speculation is a most powerful force; it is stronger than a force 5 hurricane. It is apparent that markets are back at it and hard at it at that. Look at today's price of oil for example. Oil has doubled from its low point of \$37 in February. The Saudis and OPEC continue to tell us that \$75 to \$90 oil is about right (to ensure steady supply and suppress price volatility). Low and behold – a miracle – oil is now selling close to the magic \$75 per barrel. So the real question is was it really worth \$37.55 in February at the bottom or is it worth \$69 today? There were many US legislators who claimed that the root of all evil was speculation in the cash and futures market. These markets may have had an impact but were clearly not the root cause . More on that later.



However numerous experts are calling for much higher, not lower oil prices. Daniel Yergin, of Cambridge Energy Associates, a foremost oil guru and critic of peak oil, for one recently

suggested to the Obama Administration that they had better support the Canadian Oil sands as well as off shore drilling in Brazil. CERA notes in a new multiclient study, current web site, that “the Canadian **“Oil Sands Move from the “Fringe to Center” of Energy Supply.”**

Such is the concern for future oil supply. These admonitions from confirmed critics of the peak oil theory and at a time when oil and carbon based fuels are more than dirty words in Washington. Speculation is now driving the price of oil and Canada’s oil sands have indeed survived their toughest test. Even Imperial Oil’s giant (4.6 billion barrel, \$8 billion phase 1) Kearl oil sands project will now proceed. It is forecast to produce 110,000 barrels of bitumen per day by 2012.

However there has been significant damage done to the global energy supply chain during the Great Contraction. Higher energy prices will almost surely ensue. Et le voila – speculation in the oil pits runs amok. Oil prices between \$90 and \$100 could derail the global recovery. US Energy Secretary Stephen Chu recently pointed out that by 2030 only 15% to 25% of our required energy could be supplied by alternative sources. (We think Dr Chu’s view is wildly optimistic even here). If the oil futures markets are truthful they are speculating correctly on higher oil prices. The entire alternative energy boondoggle in Washington is simply and blatantly a lie that cannot come to fruition in time to help us avoid seriously higher and economically damaging energy prices. We think this damage is much more insidious than any environmental damage due to interim fossil fuel use. Therefore we ask the question, are speculative markets evil and destructive or do they reflect the truth? I’ll leave the conundrum with you.

More important there is speculation in the currency markets as well. Treasury Secretary Geithner is in Beijing. While not reported in the US media, but loudly proclaimed in Europe and Asia, the audience laughed at Secretary Geithner’s defense of the US budget deficit and the stability and strength of the value of the US dollar. Such open mocking is not normally reserved for foreign dignitaries – particularly a US Treasury Secretary who studied in Beijing and speaks the local lingo

Now, except for proclaimed deflationists such as Paul Krugman and Gary Shilling (who by the way has been spot on for the past two years) the world is beginning to speculate on the demise of the US dollar. In other words the world is beginning to speculate that the Obama team will have no choice but to devalue the greenback, in part, to inflate away some of our massive debt load. Let’s remember that the social agenda as well as the attempt to save Wall Street and iconic but out of date US industry is at the root of this dollar problem. This is clearly the wrong way and the world is now beginning to speculate that Washington will have no choice. This was the reason for the guffaws in the audience in Beijing when Sec Geithner responded with boiler plate commentary to the US currency question asked by a Chinese student.

Relative to the dollar there is blood in the currency waters this day.

Is this our dollar speculation justified? What is the true, justifiable value of the US currency? The US has the largest and most powerful military. Global trade, for the most part is conducted in dollars. No other economy is strong enough to supplant the dollar, yet.

And what of the deflationists? Are they being disregarded recklessly? Is inflation pre ordained?

On March 26<sup>th</sup> Nobel Laureate Joseph Stiglitz, one of President Obama's advisers, recommended the use of IMF Special Drawing Rights, perhaps backed by commodities for world trade. This was a most significant occurrence in my view. Stiglitz heads a UN expert panel analyzing the financial crisis and recommending reforms. He noted,

*“There is a growing consensus that there are problems with the dollar reserve system, ... economists have been discussing the weaknesses of single-currency reserve systems for decades. One of the problems (with single currency reserves) is that because of the huge level of volatility, countries are accumulating large amounts of reserves, ... the dollar reserve system is relatively volatile, deflationary, unstable and (had) inequity associated with it, ... the use of dollar reserves contributes to the weakness of the global economy... developing countries have been lending the United States trillions of dollars at almost zero interest rates when they themselves desperately need that money.”*

I know what you are thinking. I should be answering and not asking these questions. Sorry, relative to the inflation / deflation tug of war I am still on the fence. But one fact is becoming more evident. Global speculation in the decline of the dollar is picking up steam. Unfortunately the American press continues to perpetrate the notion that all is well with President Obama's deficit juggernaut and the good old Greenback. Plus ca Change.



## 2. CANADA'S PLIGHT

Canada has avoided much of the worst of the calamity that has befallen the world. This has been in part because Canadian banks did not fall into the trap of most of the rest of the sophisticates in the global banking space. But there are ominous signs emanating from

Ottawa these days. According the Toronto Star. The paper has called this a debt spiral as the impact of the global recession has deepened. Canadians are head over heels in debt. As in the US the baby boomers are coming. They are equally as unprepared for the future as their US cousins. Ottawa will be forced to take up the slack. Though, once again, the Canadian health system is in place relative to its American counterpart.

But this AM we note that the governments of Canada and Ontario are now equity owners in 12% of General Motors. It only cost Canadian taxpayers \$9 billion (~\$300 for every man woman and child in Canada). Prime Minister Harper spoke the truth, something that President Obama has assiduously avoided on this issue. The Canadian PM said he did not expect any return on the GM investment but that it may have saved some 200,000 jobs – mostly in Ontario. We agree with the former statement but doubt the latter. GM will require more battlefield infusions and its ultimate size and geography are much in doubt.

Added to the growing list of woes is a much stronger Canadian dollar. This is much akin to a kick in the pants for industrial Ontario. However, Canada is a great country. The Good Lord has bequeathed upon Canada a wealth of natural resources. It is the world's last stable frontier in this regard. On this score Ottawa appears to be headed rapidly in the opposite direction of Washington where the environmentalists and global warming aficionados have taken over rational thinking. We are strong proponents of the Canadian dollar as an investment vehicle and of Canadian high tech, bio tech and resource companies as Discovery wealth creators. We are certain that the global resource sector cannot wither too much further. We are also certain that even if the US ignores it own perilous natural resource state, the rest of the world will see Canada in a very favorable light. Perhaps that is what CERA's energy leader Daniel Yergin was suggesting to president Obama regarding the Canadian oil sands. I wonder if the new president is as good a listener and he is an orator?



The Loonie has come back a very long way since those grim days of early March (\$.7689). While we think it is due for an interim pull back we like Canada's natural resource discovery prospects and continued Loonie appreciation

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