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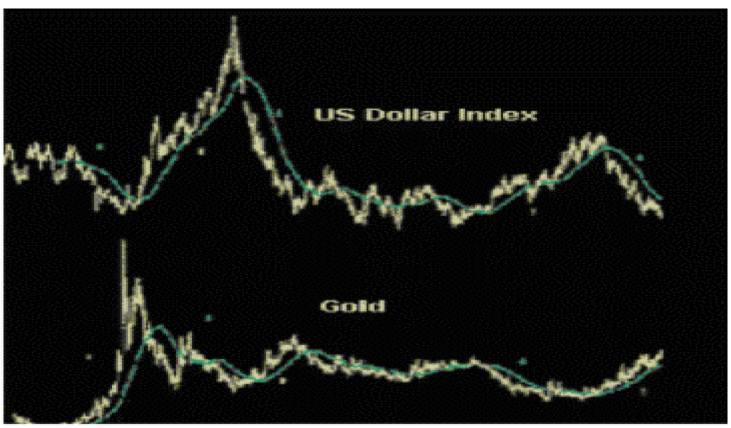
GOLD & US$

Eric Hommelberg

Gold & US$ is chapter II of the Gold Drivers Report 2005. It discusses the forces dragging down the US$. The US is facing a Current Account Deficit exceeding 6% of GDP which raises many alarm bells. The US economy is addicted to an inflow of $2 billion dollars every single working day. This is simply not sustainable since it requires almost 80% of world savings. FED officials are pointing towards a lower dollar. Foreign Central Banks just started selling US dollars in order to diversify its currency reserves. A Dollar devaluation seems to be inevitable and is very Gold friendly since Gold is still a monetary asset and trades like a currency. If the Dollar goes so will Gold but in opposite direction.



The 30-year long-term chart above says it all. A falling dollar will prop up the price of Gold. OK you'll say but why should the dollar fall? Didn't Dick Cheney said that deficits don't matter and that the world is happy to finance these deficits?

Sure he did, and yes, it wasn't and still isn't in the interest of the Asian countries to see the dollar crashing. It would severely hurt their own economies but a simple calculation learns that the dollar simply has to fall. Again, in order to finance the current account deficit an inflow of about $2 billion is required every single working day. This is about 80% of world savings. You don't have to be a genius in order to understand that this can't go above 100% and we're getting close to that at an alarmingly high speed. That's why FED officials are pointing towards lower dollar levels down the road : President of the Dallas Fed, Robert McTeer is straight forward. He said:

"over time, there is only one direction for the dollar to go - lower." END.

So what about other officials on the US$, do they agree with the President of the Dallas Fed? And if that's the case shouldn't we see some evidence of Central Banks diversifying out of the dollar? And does a growing current account deficit really matter? Let's focus on the following issues here:

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The Guessing Game

Joshua Fritsch

The market is going to go up...unless it goes down...or maybe sideways...

Which way are we going? There seems to be a vast array of opinions on that. Here are a few recent quotes:

- "*The psychologically easy thing to do right now is to be bearish on bonds and bullish on gold.*" - Mark Hulbert
- "*Those who are holding and convinced this is another minor shakeout have a very serious surprise in store.*" - John Mackenzie
- "*...I believe APRIL GOLD bottomed on February 9th at 411.50 and is now embarked on a new leg up.*" - Enrico Orlandini

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So what's going to happen? Will gold tank, or will it skyrocket? Are the PM shares done with the brutal correction dating back to December of 2003, or has it just started? Well, I'll let the cat out of the bag now - - **I don't know**!. And to be honest, I don't think anyone else knows either. We are in uncharted financial waters, and I'm willing to bet that while Alan Greenspan has a plan to "fix it" (runaway housing and commodity prices, inflation, a staggering increase in the money supply, other countries dumping dollars, unprecedented government spending and deficits...pick one), he doesn't know for sure how it will turn out. If any of us could predict with absolute certainty which way the market (any market) was going to go, we'd be in Tahiti sitting on our big pile of money instead of wasting our time and energy on editorials such as this one! I find it interesting that many people, professional and amateur alike, make very specific calls in regard to the direction and timing of the market, yet most of them don't say *why*. I've seen predictions from a rabid permabull, well known to the gold community, who put himself on the line with a call for gold to scream upwards of $500 prior to August of 2004...but other than general fundamentals, I don't recall him giving a specific reason for that price target and that timeframe. Was it a simple guess? An educated guess, but a guess nonetheless? Conversely, another well-known market forecaster recently came out with a call for gold and gold shares to take a serious tumble in the immediate future - - he has listed many prices targets for the POG & USD, but doesn't say why this will happen. More confusing yet, back in December of 2004 this same forecaster called for a major rise in the POG and a serious decline of the US Dollar that never materialized - - this also had no stated reason for the

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1. Growing Current Account Deficit: Does it really Matter?
2. Others on the US$ and Current Account Deficit
3. Central Banks diversifying out of the US?

1 - Growing Current Account deficit: does it really matter?
The current account deficit is approaching 6% of GDP, which raises many alarm bells since many analysts see this as a threshold whereby the classic current account adjustment process will be triggered characterized by a weaker currency. (see Caroline L. Freund, "Current Account Adjustment in Industrialized Countries," Board of Governors of the Federal Reserve System International Finance Discussion paper #692, December 2000). This thesis is supported by the fact that at present 70 - 80% off all world's savings is required (inflow of 2$ billion dollar every working day) in order to sustain current dollar levels. Needless to say this can't continue for much longer. As former Fed Chairman Paul Volcker says:

> "the United States economy is growing on the savings of the poor... A big adjustment will inevitably become necessary."

So when will this end? When are foreigners going to stop acquiring ever increasing quantities of US dollars? Isn't the FED worried about the huge current account deficit? And what about other officials? What do they have to say?

2 - Others on the US$ and Current Account deficit
After many years of denial Alan Greenspan finally agrees that the huge current account deficit really matters. On November 19, 2004 he said:
Alan Greenspan - US Needs to Cut Budget Gap -

> "Current account deficits, even large ones, have been defused without significant consequences, (but) we cannot become complacent," Greenspan said in remarks prepared for delivery to a European bankers conference in Frankfurt. END.

So by saying "we cannot become complacent" Greenspan admits that huge Current Account deficits really matters.
Former ECB president Wim Duisenberg ishares the worry regarding the tremendous Current Account Deficit. He was quoted by Spanish Newspaper El Pais, he said:
Wim Duisenberg - Former ECB President -

> "A dollar devaluation seems inevitable due to the tremendous US Current Account deficit." END.

Morgan Stanley's Stephen Roach seems to agree with Greenspan and Duisenberg:
Stephen Roach - Morgan Stanley -

> The enormous US trade deficit should be a wake-up call to America and the rest of the world. It is a direct manifestation of a lopsided global economy that remains biased toward unprecedented external imbalances. As long as the US continues to live well beyond its means and as long as the rest of the world fails to live up to its means, this seemingly chronic condition will only get worse. The imperatives of global rebalancing are reaching a flashpoint. END

A few more worried people:
The world's second richest man Warren Buffet is losing confidence in the dollar:

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move, just a prediction. My point is thus - - there is no one person that has the absolute inside track. When you go long or short - or just sit in cash, you should do so based on your own analysis of the available data. Look at the charts, read the articles, **do the homework**! For what this all boils down to is one big guessing game - - do you want to make that educated guess yourself, or leave it to someone else? Now that we've established what we don't know, let's take a look at what we **do** know. No opinion. No conjecture. No guessing. Just facts.

- **FACT**: Gold and Silver are in an uptrend dating back to 2001.
- **FACT**: The major support lines of this uptrend have not yet been broken for either metal.
- **FACT**: The U.S. dollar has been in a downtrend since 2002.
- **FACT**: The major resistance line of this downtrend has not yet been broken.
- **FACT**: Several countries have recently stated that they wish to "diversify" their reserve holdings by moving away from the Dollar.
- **FACT**: Never before in the history of the world has there been a global fiat currency issued by a country that is a record net debtor.
- **FACT**: The reign of nearly every "superpower" throughout history has ended with extreme currency debasement and war. The most famous example would be Rome.
- **FACT**: The United States is currently at war and actively debasing its currency.

Those are the facts. Some are fundamental and some are technical, but they are all pure truth. When it comes to whether or not you should be fully invested, sitting in cash, or hiding in a cave with a large gun, that is a decision each individual has to make on their own; but when you make that decision, remember to consider the facts, not the hype.
Here's a quick view of the POG and HUI - - use it wisely.

I've marked out the major lows for gold dating back three years. The blue circles indicate a major low, and the red circles mark a confirmation low (ie: a second bounce that shows the previous low wasn't just a stop on the way down - I'll call this a "c-low"). Granted, no pattern or cycle lasts forever, but I like to bet with the trend - and to me, the trend is pointing upwards.

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THE STAGE IS BEING SET FOR A GLOBAL INFLATIONARY EVENT

Dr. Richard S. Appel

The U.S. Federal Reserve has aggressively inflated our money supply during the past dozen years. It has performed this act in its effort to stimulate our economy and forestall a potentially damaging period of economic weakness. Prior to this time, and in ever increasing amounts as the years passed, dollar credits have hemorrhaged from our nation. This was largely the result of our unending and expanding balance of payments deficits that were primarily caused by three events: 1. the increased liquidity in our banking system that was generated by the issuance of inflationary purchasing media, 2. the wide-spread availability of enticing, cheap goods offered by our trading partners, and 3.the dollar has depreciated against other currencies which raised the dollar cost of their offered items.

The expatriated U.S. dollars resulting from this massive dollar outflow entered and swelled the central bank coffers of our trading partners. This circumstance has systematically forced foreign countries to increase their own monetary aggregates and threatens to spread inflation around the globe.

The transfer of dollars from the U.S. to other countries resulted in the temporary exportation of inflation from the U.S. to those lands receiving our dollars. If this did not occur and the dollars remained within our monetary system, the U.S. would have already seriously suffered from inflation. Remember, inflation is

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Here I've done things a little differently. The PM stocks are much more volatile than gold itself, which results in slightly deeper oversold technical conditions at each c-low. The blue circles mark all lows and c-lows, the red circles mark what I'm hoping will turn out to be a c-low. The blue trendline is the first line of defense, and the red trendline is additional support should the 200-level fail to hold. If we break the red trendline, I may jump over to the Elliot-Waver Bear Camp - - but for now I remain firmly a bull.
I must point out one major difference between the gold market today and that of the past three years. When the Nasdaq bubble popped in 2000, the Fed responded the same way it has to every financial crisis in the last twenty-some years - - by lowering interest rates thus increasing the money supply. While there are no guarantees, it appears that the Fed will be raising rates for the foreseeable future. Will it be a repeat of the late 70's and early 80's inflation battle? We're going to find out....
One last item... I've taken some good-natured ribbing for not signing these reports. This was not done out of fear of being wrong, or some need to remain anonymous - I simply figured people didn't care. I mean, what you want is the data, right? But for those wondering, my name is Joshua Fritsch. Whether that name will go down in history as a genius or a schmuck doesn't really matter to me. I've received immeasureable knowledge from geniuses and schmucks alike - - it's putting all of that information together that allows me to make my decisions. I hope that my analysis proves useful to your own choices.

Article by:
Joshua Fritsch
26 March 2005
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> Buffett says he is losing faith in the soundness of U.S. currency as an investment vehicle because the United States is running a huge trade deficit -- close to $500 billion, and rising rapidly -- that is causing income to flow out of the country at such a rapid rate that it will soon become unsustainable .END.

Rubin: Dollar Decline Could Accelerate

> NEW YORK - Former U.S. Treasury Secretary Robert Rubin warned Monday night that the dollar's recent decline could accelerate and interest rates could rise if politicians in Washington don't act quickly to narrow the federal budget deficit. END.

Nicolas Sarkozy - Former French Finance Minister -

> "U.S. deficits which are forcing the dollar down were more a reason for concern than the rise of the euro." "The markets are worried by the strong U.S. current account deficit." END.

Not only the World's second richest man is losing faith in the dollar but joining him now is the World's richest man:
Bill Gates, World's Richest Man, Bets Against Dollar
Jan. 29 (Bloomberg) -

> Bill Gates, whose net worth of $46.6 billion makes him the world's richest person, is betting against the U.S. dollar.
>
> ``I'm short the dollar,'' Gates, chairman of Microsoft Corp., told Charlie Rose in an interview late yesterday at the World Economic Forum in Davos, Switzerland. ``The ol' dollar, it's gonna go down.''
>
> ``It is a bit scary,'' Gates said. ``We're in uncharted territory when the world's reserve currency has so much outstanding debt.''
>
> Gates's concern that widening U.S. budget and trade deficits are undermining the dollar was echoed in Davos by policymakers including European Central Bank President Jean-Claude Trichet and German Chancellor Gerhard Schroeder. END.

Then out of the blue a few very strong warnings came out again from former chairman of the FED Paul Volcker, his successor Alan Greenspan and again Warren Buffet who said:
Paul Volcker - former FED Chairman - At a conference recently held at the Stanford Institute for Economic Policy Research

> "Below the favourable surface [of the economy], there are as dangerous and intractable circumstances as I can remember.... Nothing in our experience is comparable…But no one is willing to understand [this] and do anything about it…"
>
> "We are consuming… about six per cent more than we are producing. What holds the world together is a massive flow of capital from abroad… it's what feeds our consumption binge... the United States economy is growing on the savings of the poor… A big adjustment will inevitably become necessary, long before the social security surpluses disappear and the deficit explodes."

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"We are skating on increasingly thin ice." END.

Greenspan sounds warning on US deficits Consequences `could be severe,' Fed chief says
Mar 3, 2005
Debt worries clouding outlook for economy

WASHINGTON-U.S. Federal Reserve Board chairman Alan Greenspan issued one of his toughest warnings yet to Congress yesterday about the danger of letting the country's giant budget deficits persist, saying "the consequences for the U.S. economy of doing nothing could be severe." END.

Buffett deepens dollar worries
March 05, 2005

"Warren Buffett has warned that the US trade deficit risks creating a "sharecropper's society" as his letter to shareholders sounded an increasingly bearish tone about the value of the dollar."

"r Buffett's bet against the dollar also grew. Foreign exchange contracts - mostly short positions against the US dollar - nearly doubled over the year to $21.4bn, generating $1.8bn in gains as the greenback fell against other major currencies."

"Mr Buffett stepped up his warning about the US trade deficit and the need to finance it with foreign investment, devoting more than two full pages of the annual report to the topic."END.

Greenspan again:
Greenspan: Budget Deficits Pose Big Threat
Washington Mar 10, 2005

On trade, Greenspan expressed hope that further declines in the value of the U.S. dollar would narrow the trade deficit, which mushroomed to an all-time high of $617.7 billion in 2004.

A weaker dollar makes U.S. exports less expensive to foreign buyers and thus more competitive on overseas markets. A weaker dollar also can raise the prices of imported goods flowing into the United States. END.

Let's repeat one sentence here:
"Greenspan expressed hope that further declines in the value of the U.S. dollar would narrow the trade deficit."
To me it sounds that a further decline in the dollar is considered as a given fact!
But what about CB intervention in order to prevent a dollar decline? The ECB is getting nervous and describes the recent rapid rise of the Euro as being 'brutal'. So they don't seem to be very pleased with a steady dollar decline. Are they going to intervene? Will they be successful?
As said before you can't manipulate a currency against its primary trend for a long period of time. In a question and answer period after his speech, Greenspan said last year :
Alan Greenspan:
November 19, 2004

Central bank intervention in currency markets to support the dollar -- such as through buying dollars to drive up its exchange rate -- could have only a limited and short-term effect. END.

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essentially caused by the over-issuance of purchasing media, in this case dollars. In effect, as the amount of circulating money increases while the quantity of available goods and services remains essentially constant, too many dollars are chasing the same goods, and nominal prices are bid up by supply and demand.

Through a series of banking system transactions, much of the foreign money acquired by a business or individual ultimately winds up in the vaults of their country's central bank. When a central bank receives another nation's money they generate a bookkeeping credit to the domestic depositor's account in the local currency. Further, the central bank normally uses the acquired dollars to purchase U.S. Treasury Paper. This allows them to at least earn interest on the foreign deposits. The newly created local monetary units then enter their banking system and increase the nation's money supply. The end result which may take time to work through the system, is the reduced purchasing power of those monetary units already in existence, and higher domestic prices.

A good example of the effect of the above process was recently highlighted in news emanating from China. As you know China is one of our nation's most important trading partners, and is likely destined to one day lead the list. Their generally low prices have attracted an enormous influx of U.S. dollars as American after American has sought the great

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bargains produced in their country. While the flood of dollars used to purchase their goods has helped their nation improve both their economy and the state of their citizenry, it has also had a deleterious effect. Quoting a recent New York Times article, "China's inflation rate rose to 2.9 percent in the first two months of the year...The cost of food, which accounts for about a third of the index, rose 8.8 percent in February after climbing 4 percent in January and 2.4 percent in December." Inflation is beginning to emerge there.

The January, $15.3 billion U.S. trade deficit with China was an individual country record. Most of these $15.3 billion dollars will find their way to their central bank which in turn will be compelled to issue new yuan credits to their depositors. Thus, their money supply will be further expanded. The final result will be the stimulation of future across the board price increases for their nation.

I have used China as an example. However, all of the trading partners with which we are in a balance of payments deficit are suffering a similar fate. Japan, South Korea, Malaysia, European Union countries and a host of other nations are also being similarly forced to increase their monetary aggregates, and are thereby threatened with an upset to their domestic pricing structures. This, in order for them to continue doing business with the U.S.

As the United States continues to inflate its money supply, many other

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Also the US government made it clear that they won't join any kind of intervention effort in order to stop the dollar decline.
With all these kind of bearish news coming out lately when it comes to the dollar, you may wonder why only so very few picked upon it during last couple of years. Why didn't we hear these kind of warnings before? Why didn't others warn for things to come some years ago? The dollar decline is already THREE years underway!
Well, as said before denial was the tune of the day. When investment gurus like Warren Buffet were betting against the dollar in 2003 analysts were saying that the old man had lost his touch with the markets. Some esteemed Gold Gurus's like Jim Sinclair and James Turk were calling for a top in the US$ years ago and time has proven them right. Jim Sinclair was among the first currency traders who called for a confirmed top in the dollar back in 2002. (The Millennium transition - Gold ......From Commodity to Currency). Ever since then he has warned for the triple deficits - current account, trade and federal budget. But also from the White House itself there were few who recognized what was coming but unfortunately their voices weren't being heard. Just look at what former White House Economic Advisor Dr. Lawrence Lindsay had to say years back in 2001:
Dr. Lawrence Lindsey,
Former White House Economic Advisor
April 30, 2001

> "I do think it is important that we all keep this in mind: we have had 20 years of expansion - 18 actually, going on 19. And it has been an extraordinary period. But that does not mean that everything is AOK"
>
> "We are in uncharted territory - - it's unprecedented - - it cannot go on - - something has to give."
>
> "it is unlikely that we could forever borrow 4% of GDP from the rest of the world. Or more precisely if you look at trends, we are borrowing increasing amounts from the rest of the world. Imagine going to your banker and saying "we thank you very much for the $280 (billion) you lent us in 1999, and the $400 (billion) you lent us in 2000, and it looks like this year it is going to come in about $520. We are going to need $650 in additional cash in '02, probably $800 in '03." Getting the picture? This is otherwise known as "evergreen" financing. And it won't work. At some point, it is going to have to be adjusted." END.

Now many years later it seems to be more accepted these days that the huge current account deficit of the US is a worry indeed and as said before it requires an inflow of about $2 billion dollars each working day in order to finance these deficits which in turn requires about 80% of world savings. So what if other central banks start slowing down their purchases of US paper, wouldn't that force the dollar down ? Isn't that what the FED is afraid of ? Well, it seems they are :
NY Fed-Slower Cenbank Buying Would Hit Dlr, Rates

> NEW YORK (Reuters) - U.S. interest rates would rise and the dollar would fall if Asian central banks slowed their recent heavy purchases of U.S. assets, the New York Federal Reserve warned in a report on Thursday. END.

It seems that foreign central banks not only are slowing down their dollar purchases but started diversifying out of the dollar as well. Just read the following headlines and judge yourself:
3 - Central Banks diversifying out of the US$?
The US government still insists that concerns regarding Asian Banks selling dollars are misplaced. Treasury Undersecretary for International Affairs John Taylor told Dow Jones (Mar 11, 2005):

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> "There is no evidence we have seen that Central Banks are changing their portfolio proportions." END.

Well, maybe Mr Taylor doesn't read Newspapers, it's just too hard not to disagree with Mr. Taylor after reading the following headlines:

Financial Times
Dollar expected to fall amid China's rumoured selling
November 7, 2004

> China, which has $515bn of reserves, was also said to be selling dollars and buying Asian currencies in readiness to switch the renminbi's dollar peg to a basket arrangement, something Chinese officials have increasingly hinted at. Any re-allocation could push the dollar sharply lower. END.

XIANGGANG Hong Kong (Itar -Tass)
November 8, 2004

> By selling U.S. dollars, securities and assets denominated in the U.S. currency, Russia is diversifying its currency reserves, which is in line with the policy pursued by the Central Bank of Russia, Andrei Illarionov, adviser to the Russian President on economic problems, told Itar-Tass on Monday. END.

The New York Times
November 16, 2004

> "The United States is spending nearly $600 billion more a year than it produces, almost 6 percent of its annual gross domestic product. Much of that spending has been financed by Asian governments, which bought more than $1 trillion in Treasury securities and other dollar assets in the last two years to help keep the dollar strong against Asian currencies.
>
> Many analysts expect the financing gap to widen and the dollar to decline further." END.

Financial Times
Dollar Down as Moscow trails Case for Euro
November 24, 2004

> "The dollar hit an eight-year low against European currencies on Tuesday as a senior Russian official said Moscow might increase the proportion of its foreign exchange reserves held in euros."
>
> Hans Redeker, head of currency strategy at BNP Paribas, said: "The Russians are saying they don't see the potential for a rebound of the dollar."END.

China Has Lost Faith in Stability of U.S. Dollar,
Top Chinese Economist Says at World Forum
January 26, 2005

> "DAVOS, Switzerland (AP) -- China has lost faith in the stability of the U.S. dollar and its first priority is to broaden the exchange rate for its currency from the dollar to a more flexible basket of currencies, a top Chinese economist said Wednesday at the

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countries have taken our lead. Japan, which has yet to extricate itself from its fifteen-year economic malaise, numerous European Community countries, as well as a number of additional states are pursuing a similar tact. Their goal is not only an attempt to similarly stimulate their economies via the printing press, but to also improve their competitive advantage in the world's markets by weakening their respective currencies.

The foreign accumulation of 2+ trillion U.S. dollars combined with the fostered money supply increases by many of our trading partners has damaging consequences. Not only have they been forced to increase their monetary aggregates with each dollar that they acquire, but many are also aggressively expanding their measures of money in order to cheapen their currencies, and thus halt the dollar's decline against their domestic monetary units.

We are beginning to see the first signs of rising global inflation unfold as depicted by China's current experience. Several commodities are already trading near or at all time highs. I believe that this trend is destined to continue and will produce far higher prices for all commodities, as they respond to the enormous issuance of fiat currencies by all of the world's major countries. At some point increasing prices will feed upon themselves. One nation after another will experience higher prices as both the cost of needed commodities and finished products, work their way through their economies.

The hardest hit nation will be the U.S. This will occur because foreign held dollar credits will finally return to our shores. These will swell our already enormous pool of domestic dollars. Foreigners are just beginning to sense that all is not right with the dollar. The first countries are beginning to limit their U.S.

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Gold May Rise for 2nd Week on Concern Inflation Will Accelerate

Claudia Carpenter

April 4 (Bloomberg) -- Gold prices may rise for a second week on concern record-high energy prices will spur inflation, boosting demand for precious metals as an alternative to stocks and bonds, a Bloomberg survey showed.

Thirty of 51 traders, investors and analysts surveyed March 31 and April 1 predicted a gain in gold, which rose $3.50 last week to $428.30 an ounce in New York. Twelve in the survey said prices will fall and nine forecast little change.

The cost of crude oil has jumped 67 percent in the past year to $57.27 a barrel on April 1 in New York, a record closing price. Goldman Sachs Group Inc. on March 30 said oil may touch $105 in the next several years. Average U.S. gasoline prices at the pump were a record $2.153 a gallon as of March 28.

``Gold always has been an inflation hedge because it has limited supply, and going forward, if costs go up, then the gold price has to go up, too,'' said Patrick Chidley, an analyst in New York at South Africa-based brokerage Barnard Jacobs Mellet LLC. ``If oil can double, I think gold can double as well.''

Gold's 0.8 percent rise last week on the Comex division of the New York Mercantile Exchange was expected, based on a majority of analysts surveyed March 23 and March 24. Bloomberg's survey has forecast the direction of gold in 29 of 49 weeks, or 59 percent of the time. A futures contract is an obligation to buy or sell a commodity at a set price by a specific date.

Consumer Prices

The consumer price index in February rose 0.4 percent, more than forecast, and the most in four months on higher gasoline, airfares and lodging costs, the

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> World Economic Forum."
>
> "The U.S. dollar is no longer -- in our opinion is no longer -- (seen) as a stable currency, and is devaluating all the time, and that's putting troubles all the time," Fan said, speaking in English. ". END.

Financial Times
January 24, 2005

> The Bank of Thailand said this month it was considering reducing the proportion of its $50 billion reserves held in dollars from 80 percent to 50 percent.END.

Dollar Declines on Report Korea to Diversify Currency Reserves
Feb. 22 (Bloomberg) -

> "The dollar fell the most against the euro in more than a week and dropped versus the yen on a report that Korea's central bank will diversify its currency reserves."
>
> Almost 70 percent of the 56 central banks surveyed said they increased exposure to the 12-nation currency, according to the survey conducted by Central Banking Publications Ltd., a London- based publisher, between September and December 2004. Fifty-two percent said they reduced exposure to the dollar. ". END.

Another upbeat note on the dollar from Australia:
The Australian
February 25, 2005

> "Treasurer Peter Costello's closest adviser fears the US is heading for a devastating financial crash that could ravage Australia's economic growth."
>
> "The financial crash feared by Dr Henry would involve a sharp fall in the US dollar and a bond market selloff, which would push up US and world interest rates.". END.

Japan the next to diversify? :
Dollar Declines After Koizumi Says Japan May Diversify Reserves
March 10, 2005

The dollar dropped against the euro and the yen in Asia after Prime Minister Junichiro Koizumi said Japan ``in general'' needs to consider diversifying the investment of its foreign reserves. END.
And then China again. Their rumoured selling turns out to be not a rumour at all:
China Reduces Dollars in Reserves, Increases Euros, Lehman Says
March 11, 2005

> China's central bank cut the share of its currency reserves held in dollars and raised its holdings of euros, according to an estimate by Lehman Brothers Holdings Inc.
> END.

So after all we see that the Russians don't see the potential for a rebound of the dollar. Neither do the Chinese, the Koreans, the Thais, the Australians, the Japanese and fifty-two percent of all central banks. Is it any wonder that Alan Greenspan, Robert McTeer, Wim Duisenberg, Bob Rubin, Warren Buffet, Stephen Roach, Bill Gates, Paul Volcker, etc…all have a cautious long-term view on the dollar?
Again and again former politicians, Fed officials and high profile investors are projecting a sober outlook

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for the dollar caused by the ever increasing Current Account deficits so a further decline seems to be unavoidable coming years. Let's repeat once more Alan Greenspan's remark on the dollar and deficits:
"Greenspan expressed hope that further declines in the value of the U.S. dollar would narrow the trade deficit." END.
Again this sounds to me as if a further dollar decline is considered as a given fact. The end result could very well be a race for the dollar door. Bridgewater Associates reported:
The Break Down of The Dollar System
March 10, 2005

> In the early 70's, France first, and then other countries, started to peel off the dollar standard and started to ask the Fed for gold instead of dollars. The result was inevitable as the race for the dollar door began. In the last couple of weeks the exact same dynamic began anew as Korea, then China and Thursday Japan, all expressed their interest in diversifying their dollar holdings. The race to the door is likely about to begin. END.

The message from al the quotes above should be clear and is straight forward:
The sky-rocketing current account deficit will force the dollar lower and could lead to a race for the dollar door.
Former Assistant Secretary of the Treasury in the Reagan administration Paul Craig Roberts said seems to agree:
Counter-punch
So Much for the New Bush Economy
Paul Craig Roberts
March 10, 2005

> The dollar's value and status as reserve currency cannot forever stand the trade and budget deficits that are now part and parcel of America's economic policy.
>
> Unless there are major changes soon, America's economic future is a third world work force with a banana democracy's worthless currency. END

It goes far beyond the scope of this article in order to explain what causes the growing deficits and how they interact with the dollar. For the Gold investor it only matters that growing Current Account deficits really matters and that it eventually leads to lower dollar levels. As the dollar goes so will Gold but in opposite direction.

Highlights:

- Current Account deficits exceeding 6% of GDP raises many Alarm Bells
- US economy is addicted to an inflow of $2 billion dollars every single working day. This is simply not sustainable since it requires almost 80% of world savings.
- FED officials are pointing towards a lower dollar
- Foreign Central Banks just started selling US dollars in order to diversify their currency reserves
- A Dollar devaluation is very Gold friendly since Gold is still a monetary asset and trades like a currency. If the Dollar goes so will Gold but in opposite direction.

Total US Debt & Exploding Trade Deficits
As said before it goes far beyond the scope of this article in order to explain what causes the growing Current Account deficits and how they interact with the dollar. However I do think it's important to discuss just a few items regarding total US debt.

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THE STAGE IS BEING SET FOR A GLOBAL INFLATIONARY EVENT

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dollar holdings. Russia, Malaysia, China, Japan and South Korea have already announced their desire to achieve this goal. Later, a flight from the dollar will occur.

Foreign entities will sell their U.S. treasury securities and will exchange the received dollars for their own currencies. Our bond market will plummet as will the dollar, and inflation will become rampant. Gold and to a lesser extent silver will then act as life boats on a stormy sea. They will save those who recognize their importance, and gold will again return to the limelight as the only true and desirable form of money worth holding.

This series of events will not occur overnight. We likely have a few years or more to prepare. Our government will fight the demise of the dollar and the outbreak of inflation with all of the available methods at their disposal. They will call in all of the favors owed them by other nations, and will twist as many arms as is necessary to coerce the other countries to retain their dollar holdings. In the end they will lose. I for one hope that they will be successful for as many months or years as possible. It will not be a pleasant experience when our dollars finally come home to roost, but the stage is being set for an inflationary storm when they return.

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Gold May Rise for 2nd Week on Concern Inflation Will Accelerate

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Labor Department said March 23. Prices excluding food and energy rose 0.3 percent, the most since September. Prices on that basis were up 2.4 percent from a year earlier, the biggest increase since August 2002.

The Institute for Supply Management said April 1 its index of prices paid by manufacturers jumped in March by the most in more than a year.

Rivendell Bicycle Works, a Walnut Creek, California-based retailer, raised prices on two models made in Japan because they have become more expensive to import as the dollar declined about 4.6 percent against the yen this year. The price of Atlantis and Rambouillet frames rose 7.7 percent to $1,400, and Rambouillet bike prices rose 8.7 percent to $2,300.

``This is our first increase in a couple of years,'' John Bennett, the store's general manager, said March 31 in a telephone interview. ``With the strong yen, it's made it harder to maintain prices.''

Some investors said the Federal Reserve, which has raised benchmark interest rates seven times since June to 2.75 percent to curb inflation, may not boost them fast enough for fear of slowing economic growth. U.S. companies added 110,000 jobs to payrolls in March, the lowest since 83,000 in July.

Raising Rates

``Weaker economic numbers, specifically the monthly jobs report, will reduce the threat that the Fed will become more aggressive in raising interest rates,'' said John Person,

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GOLD & US$

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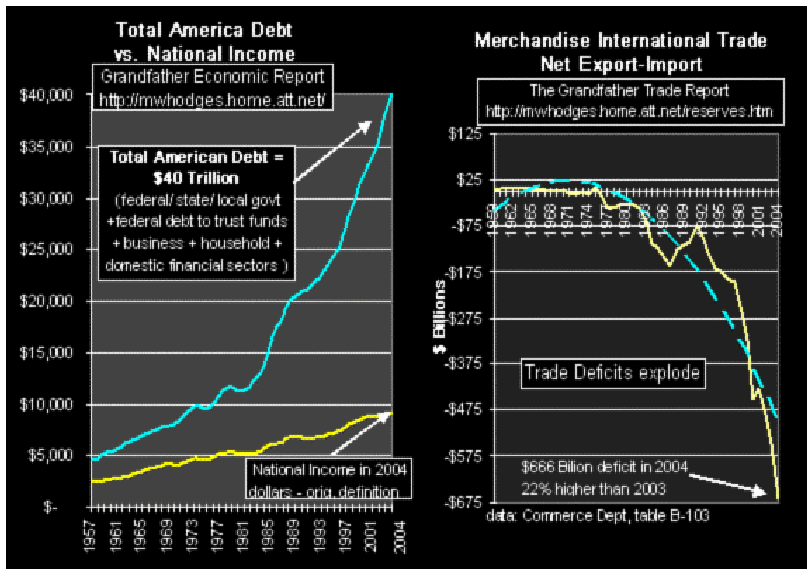
Former IMF consultant and Financial Sector Specialist of the World Bank Richard Duncan describes in detail (*Richard Duncan: The Dollar Crisis - Causes Consequences - Cures*) how the US economic growth of the last 20 years has been fueled by credit (Thanks to Alan Greenspan who made easy credit available by lowering interest rates to a 40 year low thereby encouraging consumers to take out cheaper mortgage loans and to spend spend spend spend..) thereby creating a total US debt exceeding 340% of GDP (see chart below).



http://mwhodges.home.att.net/ America's total Debt Report

The chart on the left shows a total US Debt exceeding 340% of GDP. It's obvious that the US is getting more dependant on more debt in order to sustain economic growth.
The chart on the right shows an obvious trend. A trend of US consumers buying tons of cheap foreign manufactured goods, which in turn leads to higher trade deficits and therefore higher current account deficits. The current account deficit is approaching 7% of GDP, which raises many alarm bells since many analysts see this as a threshold whereby the classic current account adjustment process will be triggered characterized by a weaker currency.

If a total Debt of 37$ trillion wasn't already bad enough, what about future fiscal liabilities exceeding $50 trillion? . Peter Peterson, secretary of commerce during the Nixon administration and Prof. Laurence Kotlikof, senior economist at the President's Council of Economic Advisors (CEA) during the first Reagan administration, published excellent books ("Running on Empty" , "the coming Generational Storm") in which they explain in greatest detail why the US is heading towards bankruptcy. They project a fiscal liability of more than 50$ trillion which requires a budgetary resource that only inflation can provide.

Inflation and higher rates to come? How does that interact with Gold? Well, that's food for thought for next chapter Gold & Inflation, Negative real rates.

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Gold. Buy or sell?

By Jack Chan

Intro

Since the gold bull market began in 2001, each and every time when bullion takes a hit, the question always pops up : "is the gold bull market over?" There are two primary influences on why investors think and feel this way.

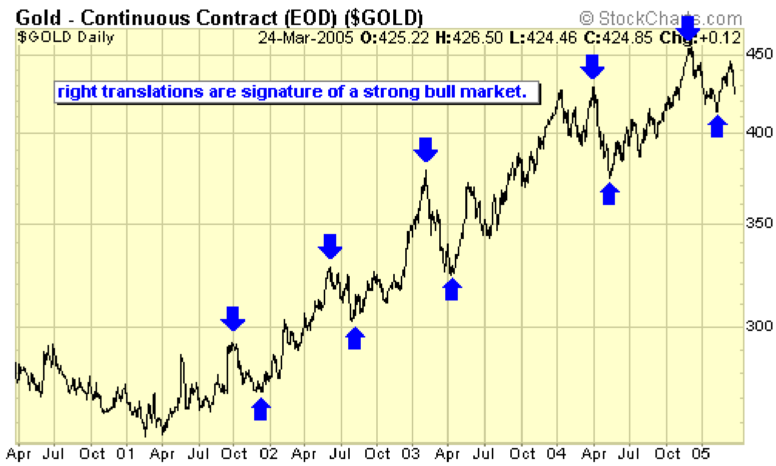
#1 – after a twenty year relentless bear market, it is hard to imagine, let alone accept the fact that gold can one day be the choice vehicle for investments.

#2 – since the bull market began in 2001, each new high in bullion prices are quickly met with waterfall declines, creating fear and substantial losses to those who are late to the party.

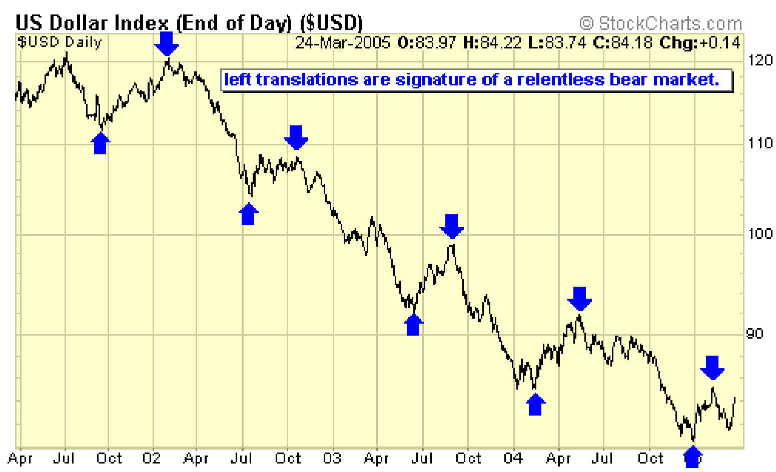
Influence #1 deals with investors psychology, which I'm not smart enough to present any type of analysis or prognosis for.

Influence #2 is easily recognized and identified thru simple chart work.

Signatures of a bull and bear market



Since the gold bull market began off the major bottom in 2001, each and every new high is sold into heavily, resulting in a waterfall, over the cliff type of plunging price action. This occurs suddenly, fast and hard, but it ends the same way it starts: quickly. These major sell offs are often over on average of six to eight weeks, although it seems and feels like eternity for those who hold gold and stocks. This type of price action is what technicians label as "right translation", as the cycles top and bottom on the right hand side of a cycle. This is classic bull market behavior, once recognized and identified by trained eyes, these major sell offs become glorious buying opportunities.



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Gold May Rise for 2nd Week on Concern Inflation Will Accelerate

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president of Nationalfutures.com Advisory Services Inc., an advisory and research company in Palm Beach, Florida. ``Higher rates choke off economic stimulus. This is a great environment for gold bugs as we are in a commodity price boom.''

The Reuters-CRB Index of 17 commodities rose 10.5 percent in the first quarter, the most since an 11.2 percent gain in the 2004 first quarter. The index is up 36 percent in the past two years and reached a 24-year high on March 16.

Gold, up 28 percent during the past two years, touched a 16- year high of $458.70 an ounce on Dec. 2 as the dollar fell to a record low against the euro last year.

Gold in Euros

In euro terms, gold prices are up 2.7 percent this year while in dollar terms gold is down 2.3 percent. Last year, the opposite was true, with gold priced in euros down 2.1 percent against a 5.4 percent rise in dollar terms.

``Gold is beginning to appreciate in terms of foreign currencies,'' said Adrian Day, president of Annapolis, Maryland- based Adrian Day's Asset Management, which has $86 million in assets. ``The next few weeks could see a strong rebound in gold.''

Hedge-fund managers and other large speculators increased their net-long position in New York gold futures by 11 percent in the week ended March 29, the U.S. Commodity Futures Trading Commission said. Speculative long positions, or bets prices will rise, outnumbered short positions by 101,521 contracts.

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Gold has technical support at the 200-day moving average of $425 an ounce, said Youn Seung Kim, dealer at Samsung Futures Inc.'s global brokerage & trading team in Seoul.

Prices probably will rise to the 50-day moving average of about $433 on the June contract, said Steve Bennett, an individual gold investor in Minneapolis.

IMF

Finance ministers from the Group of Seven richest countries are set to meet April 15 to review a report by the International Monetary Fund on the possibility of selling its gold reserves.

The IMF, which owns 2.1 percent of the world's bullion, could sell some of its gold reserves to help some of the poorest countries in the world, the Financial Times reported last week, citing IMF Managing Director Rodrigo Rato.

Any rise in gold this week ``will be limited by the possibility that the IMF will sell gold,'' said Samsung's Youn Seung Kim.

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The Outstanding Public Debt

National Debt:
7,785,923,323,665.05
The estimated population of the United States is **295,821,410**
US citizen's share of this debt is
$26,319.67
The National Debt has continued to increase an average of
$2.19 billion per day
Business, Government and Financial Debt exceeds
$37 Trillion

Gold. Buy or sell?

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In contrast, a bear market is exactly the opposite. Slow and steady declines are often met with sharp and fast rallies, creating the illusion of a "V" bottom. This type of price action is labeled by technicians as "left translation", due to the fact that the cycle tops and bottoms occur on the left hand side of the cycles. This is classic bear market behavior, and experienced traders seize these quick but short rallies to build short positions.

The current situation

$XAU – this week prices plunged and now testing the major uptrend, since this bull market began four years ago, the uptrend line has acted as support and the lauching pad for the next rally, will this time be different? Who knows, but the current situation presents an excellent buying opportunity as risk/reward is well defined.

Summary
For many untrained eyes, technical analysis as presented by most market analysts is often intimidating, complex, and complicated; it is like looking at a street map of New York city! The sole purpose of technical analysis is to provide a favorable risk/reward opportunity to enter the markets, and I believe now is the time.
Good luck.

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