

NEWS & VIEWS

February, 2001

Forecasts, Commentary & Analysis on the Economy and Precious Metals

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"Nothing beats a little cash in a bear market, of course, and the oldest form of cash is gold."

James Grant, *Grant's Interest Rate Observer*

"Gold will be around, gold will be money when the dollar and the euro and the yuan and the ringgitt are mere memories."

Richard Russell, *Dow Theory Letters*

INTRODUCTION: We are going to depart from our normal fare this month to bring you a selection of *NEWS & VIEWS* gleaned from the Big Stack which accumulates at the corner of your editor's desk each month. There is greatness in that pile -- wisdom, knowledge and mystery -- all of which we pass along to you with this issue of your favorite monthly newsletter. January is the month when many financial firms, newsletter writers, analysts, and pundits issue their fearless forecasts for the upcoming year. So this year we thought it would be to our readers' benefit to compile those forecasts in an easy-to-read format for our February edition. The central theme remains the one that fascinates us all -- gold and the politics and economics which attend it. We focus on three issues that seem to have grabbed the gold-owner psyche as 2001 begins: the California energy crisis; the relationship between the new Bush administration and Wall Street; and, of course, what 2001 might bring for various markets including gold. When I first conceived of *NEWS & VIEWS* over a decade ago, this (as the name implies) is the format I envisioned and first utilized. Over the years as we have tried a number of variations on the theme, I always come back to this one. 2001 could get *very interesting* and we hope this issue offers much in the way of solid groundwork. MK

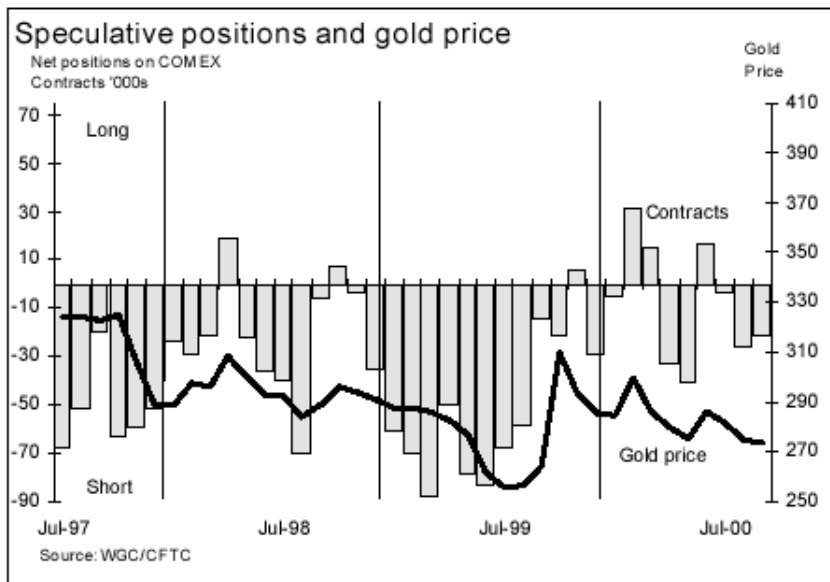
WHAT OTHERS ARE SAYING. . . .

"It is our feeling that the short position is so huge in gold that gold will not undergo a gradual increase, but rather a huge short covering rally which will cause the greatest spike in any commodity ever." --- David Skarica, *Addicted to Profits* (from *Bull and Bear Financial Report*)

value now."--- John Sevier, Perpetual Funds (Australia) 1/23/01

"Analysts have predicted a rise in the gold price next year, as concerns grow over the slowdown of the US economy, a weaker US dollar and higher inflation rates driven by oil price hikes.

For the next 12 months, Salomon Smith Barney predicts the gold price will reach \$US325. BNP Paribas forecasts \$US290, Ord Minnett \$US280 and Rothschilds \$US295." --- Tim Blue, *The Australian*, 1/23/01



Ed. Note: Even a quick review of the above graph reveals a direct correlation between the Large Speculator short position and the price of gold.

"With gold prices at their lowest levels for 20 years and signs of nervousness in other markets, we think it represents good

"Conservative Republicans see the criticism from Wall Street [of GWB's economics team] over a supposed lack of market awareness in the administration as code, indicating that no nominee as yet is an obvious supporter of big financial bail-outs. For them, Mr. [Charles] Dallara [who will head a new economics group within the National Security Council reporting to national security advisor, Condoleezza Rice, and economics advisor, Lawrence Lindsay] would be a source of concern as he is viewed as a strong proponent of rescue packages. They are critical of the role of Robert Rubin, the Wall Street banker who was the chief economic policy-maker of the Clinton administration, as

being overly attuned to his Wall Street friends in choreographing financial rescues in Latin America and Asia. " --- *Financial Times*, 1/25/01

Ed. Note: Those who read my daily **COMMENTARY AND REVIEW** (CONTINUED NEXT PAGE. . . .)

WHAT OTHERS ARE SAYING. . . .CONT'D

at the USAGOLD website know that we have been watching the relationship between Wall Street and the Bush administration very closely. The Bush administration continues to move toward its own version of an economic policy distinctly separate from that of the Clinton administration. Its distaste for market intervention could be the most fundamentally important of those policy changes. An aggressive change to a free market approach could reverse the Alice in Wonderland psychology that has dominated investment markets for the past decade. We rate this shift, if a reality, as the most important development



thus far in the young Bush administration with far-reaching implications for stocks, the dollar, and gold. Traditionally, the political rancor between the two parties -- liberals and conservatives -- has been kept in check on Wall Street. This developing rift smacks of a politicization of Wall Street that reflects the deep divisions in the U.S. power structure that aren't likely to disappear anytime soon.


"M&G is trying to appease angry holders of its Gold pension fund who have just found out that it has been ditched, writes Paul Farrow. It was the only pension fund in the UK to invest solely in gold. But the gold price has plunged from \$500 to \$265 per ounce in the past 15 years so M&G asked unit trust investors to vote on a proposal to merge the fund with another because of its poor performance. But regulations prevented pension fund holders from voting and they only became aware of the changes in a letter sent to them recently. They are angry because they were moved without their consent. Jeffrey Mushens at M&G said: 'They are gold bugs and think that gold will pick up one day. We are trying to see if we can set up a self-invested personal pension which would give them access to a gold fund from another provider.'" --- *London Telegraph*, 1/21/00

“ [A]ccording to the Bank for International Settlements the size

of the derivatives positions in gold at the end of the year 1999 were 26,000 tons. The problem here is that the derivatives represent a basic short position that will someday have to be covered. The gold short position is over 10 times the annual gold production. If there was a large price rise in gold, it could cause a panic in those short positions. If that happened the price of gold would skyrocket, hurting all sorts of people. Basically a short position exceeding even one times the annual production is unheard of . . . There is no way this position can be covered. Either some central bank will have to step in and sell its gold, or the price will have to rise until the shorts are covered. All of the work that has given us our good trading record is based on cyclical analysis. There is a major monthly cycle bottom in gold projected for the March-April period in 2001. A major price bottom could take place between now and then." -- David Marantette, *Goldstock Letter* (from *Bull and Bear Financial Report*)

“ [T]he question we keep hearing [is], 'What is the matter with gold?' 'Nothing,' is the answer. If you own gold instead of popular U.S. stocks you are in a far better position than those that voted for stocks. Gold does not go out of business like Pets.com, and other nutty ideas. Gold does not get delisted like about 100 companies are about to be on the NASDAQ. Gold's dollar price may not be what we would hope, but it is being priced. Such is the beauty of gold. Whatever the follies of mankind, be they stocks or elections, gold is still there. The store of value is already evident this year, and will become more evident in the coming years. However, we may not have to wait too long for our reward." -- Ned Schmidt, *The Value View Gold Report* (from *Bull and Bear Financial Report*)

"Oh yes, I forgot. There is another currency choice. It's called gold. That 4-letter word. Historically, when the US\$ falls, gold usually rises. It's been falling for a long time & due for a role (CONTINUED NEXT PAGE. . . .)



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WHAT OTHERS ARE SAYING. . . .CONT'D

reversal. When/if confidence slips away from the US\$, some people will turn to gold for at least a part of the switched funds. It is, after all, the ultimate place to flee to when in doubt or fear. Confidence is all that holds up any currency today, as all are fiat (ie, unbacked by anything but political hot air). If that confidence begins to crack, as it did in 1970's, then gold will glow. And for those who don't like the alternative fiat currency choices, some will vote for the metal." --- Harry Schultz, *Gold Eagle*, 1/17/01

"California's utility industry took a giant step closer to meltdown when Southern California Edison Company failed to make \$596 million in payments due its bondholders and power suppliers. PG&E Corp. and its Pacific Gas & Electric Company utility unit immediately felt the repercussions of the action by the Edison International unit. Standard & Poor's Ratings Group reduced the credit ratings for both Edison and PG&E below investment grade to so-called junk-bond status. Such a ratings action puts the companies in default on credit lines, which could affect PG&E's ability to continue paying its bills. The developments raised the possibility that one or both companies might seek or be forced to file for protection from creditors under the U.S. Bankruptcy Code." --- *TheWall Street Journal*, 1/17/01

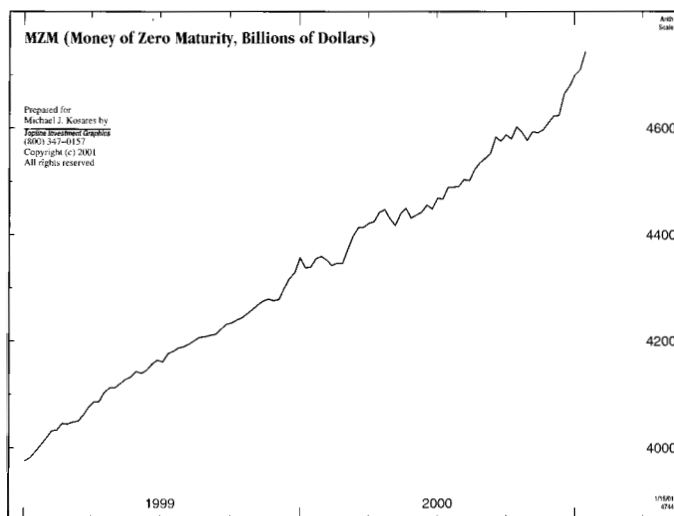
Ed. Note: This is significant in that default is now rolling into the banking sector. We understand that at least three major banks are on the ropes due to the power crisis in California. The DJIA dropped 130 points yesterday as news of this default and the rolling blackouts hit Wall Street.



"Consumer prices jumped 3.4 percent last year, the biggest increase in a decade, although a fall in gasoline prices helped to hold back inflation in December. The Labor Department said Wednesday that its Consumer Price Index, the most closely watched inflation gauge, posted a 0.2 percent increase last month, the third straight month of price moderation. However,

for the entire year, the 3.4 percent rise in consumer prices marked the biggest advance since a 6.1 percent surge in 1990." ---*Associated Press*, 1/17/01

"Some will see Greenspan's acquiescence to the Bush administration on tax cuts as inflationary and thus bullish for gold in the medium to long term. Already we have seen massive money



creation from the Fed over the past several months. Combining tax cuts and rate cuts could become an inflationary quicklime. Throw a little water on the volatile mixture in the form of an international energy crisis and the whole thing could explode in flames. I would caution gold owners and would-be gold owners not to dismiss the California crisis as just another run-of-the-mill, press-generated scare. There are deep systemic risks involved that are not likely to disappear with the wave of the hand. In California, you have right in the United States the sorts of problems that will be occurring all over the globe as energy costs ratchet up inexorably. . . For nation-states, particularly heavily indebted third-world countries, the choice takes on a different twist. They will be deciding whether they should pay their energy bills or principle and interest on their debts to the international banks. That's how the energy crisis becomes a systemic banking crisis. . . [W]e may find the problem runs deep and well beyond the confines of the California border in all directions." ----Michael Kosares, *USAGOLD Commentary & Review*, 1/25/01

"In the last decade the formula for financing mining projects has altered dramatically. Where giant mining houses previously bank-rolled projects by raising funding against their own equity, streamlined mining organisations are now turning to the banking world to share in the risk of such undertakings. . . . Although the group does fund the mining of other metals and minerals, the financing of gold-mines remains a principal focus of Rothschild's activities." --- *Mining Weekly*, 1/18/01

WHAT OTHERS ARE SAYING. . . .CONT'D

"The money has been tight,' Mundell told me. 'They (the Fed) need to push more money into open-market operations -- not just cut interest rates. With that, the price of gold will go up, say to \$310 (compared to the current deflationary \$264 per ounce)." Nobel Prize Economist, Robert Mundell, as reported by Robert Novak, 1/15/01

"Mr. Sprinkel's (Treasury Dept. senior official under Reagan) hostility to intervention in currency markets contributed, some say, to the excessive rise in the value of the dollar that finally had to be corrected in the Plaza agreement of 1985. The question now is whether another Beryl Sprinkel will be lurking inside the incoming administration of President-elect George W. Bush--perhaps in the shape of Lawrence Lindsey, who has been named Mr. Bush's senior economic adviser and is known to dislike currency intervention. Today's concerns are not about the dollar overshooting upward, but downward. Many economists believe the dollar should decline, to help reduce the huge U.S. current account deficit. But some worry that a falling dollar might plunge out of control, starting a vicious cycle that could increase inflation, force up interest rates and induce a full-blown recession. Already there is speculation in foreign exchange markets that Paul O'Neill, Mr. Bush's choice for Treasury secretary, with his business background, will look more favorably on a weaker dollar to help U.S. exporters than his predecessors, Robert Rubin and Larry Summers, whose constant laconic leitmotif was the need for a strong dollar." --- Reginald Dale, *International Herald Tribune*, 1/15/01

"We learn [from reading Bob Woodward's *Maestro*] that Greenspan studied the theory of relativity and regarded his hypothesis that productivity had increased as analogous to Einstein's hypothesis that light would bend (p. 151), that his research staff considered their assignment to measure the change in productivity as 'the economist's equivalent of the Manhattan Project' (p. 173), and that if Greenspan had not been reappointed as Fed Chairman in 1996, he would have

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broken precedent and remained on the Board of Governors until his term expired in 2006. The intellectual atmosphere was more important than the particular pecking order." --- Roger Garrison, *Ludwig von Mises Institute*, 1/15/01

"A consistent price recovery [in gold] is expected in the second quarter of this year on the back of a major global currency trend change leading to a weakening USD." --Frederik Panizutti, Swiss-based MKS Finance, 1/11/01

"Given a free market, gold always reflects the health of economies. When gold correctly topped out in 1980-82, all world stock markets began basing, and in 1982 started a multi-year bull market. All was well, no need for the gold alarm bell.

(CONTINUED NEXT PAGE. . . .)



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ANNOUNCEMENT

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We have expanded the available product line and upgraded services for our Europe-based clientele. We can now ship most gold, silver, platinum and palladium coin and bullion products, as well as the pre-1933 gold coins (including our Coin of the Month Special Offers) from our depository facility in the United States fully insured through Fed Ex or the U.S. Postal Service directly to your European address. Also secured, fully insured storage in the United States is now available.

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But the situation is reversed now. All is not well. Debt in most first-world nations is high, and at its worst in the U.S. Money supply is being dangerously inflated, which means it can't be inflated to help in the coming recession. Credit is overextended verses risk. People stopped saving, thus no reserve pool for a cushion. Public exposure to stock is dangerous, with most now experiencing losses, but unable to sell as they're waiting for the market to come back, as it has done in recent years. This time it won't; the mega-bull market is over. So the entire middle class can be, if not wiped out, at least robbed of all bull market profits. The alarm bells weren't allowed to ring!!! The public is being misled, deceived, robbed. By who? By the bullion banks [3-5 of them] and cooperative fat cat bullion brokers and their masters in a political hierarchy. Their fingerprints are all over the market place every day." --- Harry Schultz 12/10/00

"Bush caused a stir when he said, 'I'm pleased that the Fed has cut interest rates,' ending Bill Clinton's iron no-comment policy about anything that the Federal Reserve does. An institution that can be praised can also be panned. Democrats in Congress pray that Greenspan will open fire on the Bush tax cuts. The president-elect could respond to that by telling the nation that there is no way to maintain prosperity with interest rates that are too high and taxes that are too high. That would be recognition

that the Lord of Money is just another government official." --- Robert Novak, Columnist, 1/8/01

"[O]ne man has outdone all others – Mr. Greenspan. What's more, with his repeated, successful interventions in times of financial stress, especially the bail-out of the insane LTCM hedge fund, he created a festering 'moral hazard.' After all, his name has become legend in the markets as the wise and all-powerful monetary Maestro. In the end, he only encouraged more and more reckless speculation and more and more risk-taking, inexorably making for his ultimate downfall. He will end up in the history books not as the Great Maestro, but as the Great Desperado among central bankers." -- Dr. Kurt Richebacher, *The Richebacher Letter*, 1/01

"Move over, Alan Greenspan. George W. Bush's incoming administration wants to be an equal partner in managing the economy. After eight years of putting fiscal policy on autopilot and letting the Fed do all the heavy work of tweaking the economy, Bush's economic team wants to get off the sidelines and back in the game." --- Rex Nutting, *CBS MarketWatch*, 1/8/01

"There is no doubt whatsoever that the final period of the last century was the American decade. But there is now a good chance that the first decade of this century will turn out to be European." --- Martin Huefner, Economist, Hypo Vereinsbank AG of Germany (as quoted in *World Herald Tribune*, 1/14/01)

"If the yellow metal moves into the \$300-to-\$325 range, breathe easy, because the economy eventually will, too. However, should the 'barbarous relic' (as John Maynard Keynes mistakenly called it) stay in its current range in the months ahead, keep worrying, because the Federal Reserve will be destructively imitating the Bank of Japan." -- Steven Forbes, *Forbes*, 1/9/01

"The Bank of England on January 23 sold 805,600 ounces of gold at \$268 per ounce with the auction 4.8 times oversubscribed! This is the highest level of demand for gold seen since the start of the auctions in 1999. The declining wedge on the weekly continuation bar chart of gold, coupled with the bullish divergence on the stochastic indicator, factored in with excessively bearish technical indicators and sentiment, suggests an upside breakout. We may see the funds, banks, and speculators, who have been heavily short gold, now start to become uneasy and cover their shorts. Since gold has been in the tank for 20 years, if the central banks of the world start in concert to lower interest rates and reinflate, the undervalued and oversold technically and psychologically precious metals could re-cover. ... A 30-year and 60-year cycle low in gold and silver should come no later than this September, often a seasonal turning point for gold. My turning point work suggests that gold and silver could bottom now, late January/early February, commensurate

(CONTINUED NEXT PAGE. . . .)

WHAT OTHERS ARE SAYING. . . .CONT'D

with the timing of a panic-risk in the financial markets. Just after mid-summer, June 21, summer solstice and the time of a solar eclipse, is also a key time for these precious metals. --- R.E. McMaster, *The Reaper*, 1/26/01

“A major holder of gold, the Banque de France is against gold sales, and we have a very conservative and prudent approach to gold lending. The creation of the single currency has in no way refined our motivation for holding gold, which remains in our view an important reserve asset. The Banque de France is definitely not among the active players in the market ... Gold lent out loses its unique quality of a credit risk-free asset; it becomes the underlying asset of the claim, the value of which depends on the quality of the borrower. Consequently, our policy regarding gold lending is that of a responsible gold



holder, which means that the Banque de France pays due attention to the trade-off between its own interests, which are to enhance the return on its assets, and the impact on the market. The Banque de France view is now widely shared by the central banking community, as has been expressed in the 1999 joint statement on gold. There is a growing tendency towards risk control and risk-mitigation techniques. Activities previously considered risk-free are now considered to be mandating some form of security. Payment systems are an example of this trend, the same can be said of the settlement of foreign exchange transactions. The trend towards collateralisation of these activities is developing. This coincides with an environment where government paper, the traditional vehicle for collateralisation, might become scarcer and hence more expensive. Is there, therefore, a role for gold in such circumstances? In theory, why not? In practice gold has to compete with other assets. The extent to which gold might play a larger role in the future depends upon the cost of holding it, which is closely related to the level of real interest rates, and upon the risk aversion of the market participants. When the balance between these two factors will trigger additional demand for gold very much remains an

open question.” --- Herve Ferhani, Head of gold and foreign exchange at the Banque de France, 11/17/00 (as published by the World Gold Council in its journal, *Gold in the Official Sector*)

Ed. Note: In short, Mr. Ferhani is advocating central bank gold purchases.

“Recent studies have revealed some staggering statistics: 65% of the wealthy families have lost the family wealth by the end of the second generation. 90% of these families will have lost their family wealth by the end of the third generation.” --- *Chalcedon Report*, 12/00

Ed. Note: Gold remains the ultimate store of wealth no matter life’s circumstances, twists or turns.



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“In a rare and candid interview with CNCB’s Maria Funiaroma, the US Dollar admitted today, in between commercials, that it was suffering an identity crisis. During the interview the Dollar appeared confused, unable to understand what its current role actually was; frail and at times, it appeared to be suffering from the monetary version of Alzheimers disease. “
(Excerpt -- “U.S. Dollar Admits Identity Crisis”)

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SHORT & SWEET. Investor interest in gold has picked up considerably since the start of the year with volumes running at 1999 record demand levels once again. Most of the interest has to do with concern about stock market weakness, the California energy crisis, and inflation/recession. We would like to take this opportunity to welcome our European friends, clients and prospective clients. Now we will begin sending hard copies of this newsletter to our current and prospective

**Dr. Moneywise says:
Save Gold while you may
No morning Sun lasts a whole day.**

European clientele, since we are now satisfied that the very same program offered our U.S.-based clientele can now be offered over there. Our popular ALMANAC is also available gratis as well as the other publications you see offered here from time to time. We ask you to just make a request either through e-mail or by calling on the international toll-free number. There is much information available at our web site:www.usagold.com. Please click on the EuroDelivery link. We look forward to working with you, answering your questions, and building a long-term relationship. Though we are separated by an ocean, you are never further than a telephone call or key board stroke away. George Cooper speaks German if any of our German/Austrian friends would like to talk about gold in their native language. . . . Marie Ballard (Small Order Desk) speaks Spanish and (some) German. At the same time, over the years we have found that a great many Europeans speak English and we are grateful for that. I think you will find a friendly home for your gold interest at Centennial Precious Metals/USAGOLD. We are also offering secure, insured U.S.-based storage in individual accounts. Speaking of Europe, our clientele in Switzerland will be happy to know that the U.S. government has acted on Swiss cheese. After six months of debate, the Department of Agriculture will require smaller holes for Swiss Cheese. The color must also be white to light yellow. Reactions to January's Bank of England gold sale being oversubscribed by 4.8 times at a premium over the London AM Fix: "That tells you people are buying. There is a big demand for gold in the spot market," said John Hathaway, who manages the \$20 million Tocqueville Gold Fund. "To me it is a question of when gold moves higher, not if," said Joe Foster, manager of the Van Eck International Investor's Gold Fund. We'll end this month's edition with this quote from our good friend, James Turk (*The Freemarket Gold & Money Report*): "[T]he



BCA (*Bank Credit Analyst*) Financial Stress Index is now higher than at any time since the 1990 banking crisis! It has been my sense that a financial crisis is brewing. Bank loan losses have been rising. Stock markets around the world have been weak. The Dollar appears to have topped out. Any one of these factors might be a trigger for the next financial crisis, which judging from the BCA index could hit at any time. So 2001 may prove to be a painful year for everyone on the wrong side of this forthcoming crisis, whatever it turns out to be. Now is probably a good time to top-up your holdings of Gold." That's it for this month, my fellow goldmeisters. May you Winter well. Happy Trails until we meet again. Regards, Michael J. Kosares

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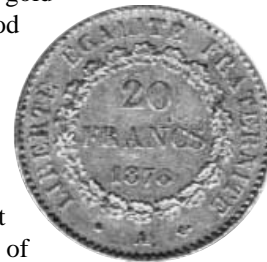
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coin has always been considered by the French to be Good Luck. Legend has it that Napoleon carried an earlier version of this coin in his many battles back and forth across Europe and lost his "Angel" the day before Waterloo. Symbolically, the Angel represents the Spirit of France and she is shown on the coin writing the French Constitution. A rooster symbolizing Vigilance appears next to the Angel. Behind the Angel stands the fasces or bundle of rods -- a symbol of power previously carried by Roman magistrates. On



top of the fasces is the Cap of Liberty, which also appears on U.S. coinage with the same meaning. The slogan "Liberte Egalite Fraternite" appears on the reverse along with the date.

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