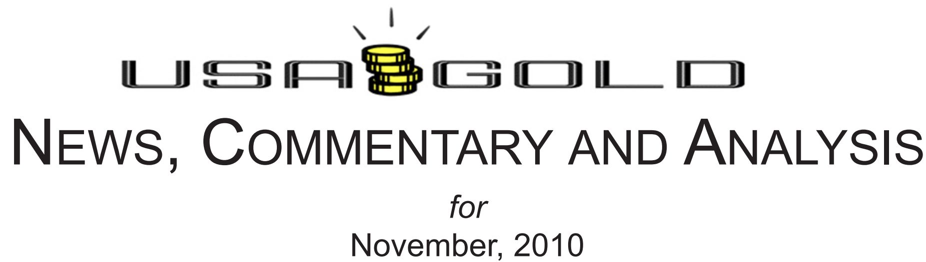


NEWS, COMMENTARY AND ANALYSIS

for
November, 2010

Client newsletter published by USAGOLD-Centennial Precious Metals
Celebrating our 37th year in the gold business

Edited by Michael J.Kosares
Founder: USAGOLD-Centennial Precious Metals, Inc.
Author: The ABCs of Gold Investing: How to Protect and Build Your Wealth With Gold

Free subscription here.

The USAGOLD Survey of Investments

Gold shines brightest in five and ten-year studies

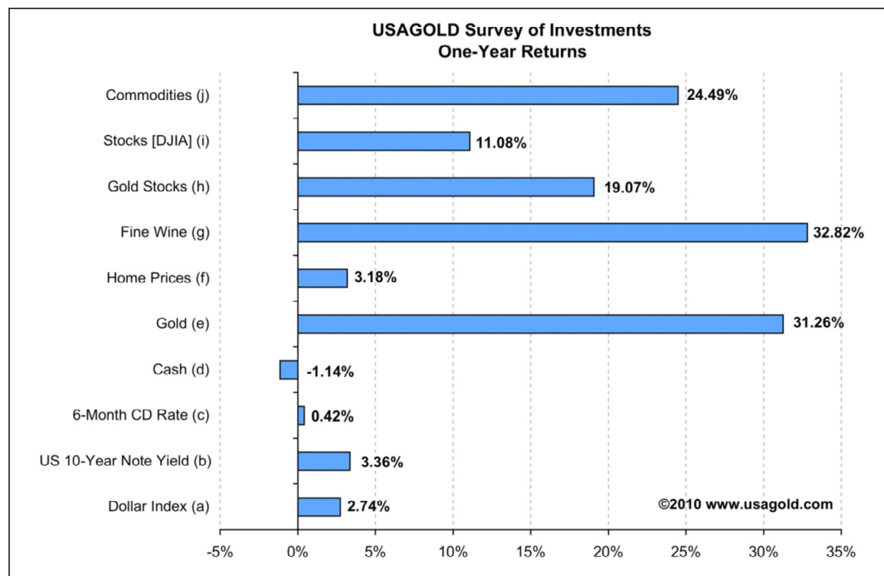
by Peter A. Grant

The one-year study - Gold uncorks big year

IT HAS BEEN ANOTHER STELLAR YEAR FOR GOLD, WHICH APPRECIATED 31.26% in the 12-month period ended September 30, 2010. Only the Liv-ex 100 Fine Wine Index performed better, albeit nominally so. Nonetheless, let's raise a glass to those two fine investments, gold and wine! No wait! Not the good stuff!

Once you've uncorked that heavenly bottle of Lafite Rothschild, the double-digit appreciation is meaningless, and after just four or five glasses your asset is gone completely. And worse yet, if the storage conditions were less than ideal, not only do you lose the return, but you won't even enjoy the wine.

The first thing I notice about the one-year chart, unique to recent surveys, is that nearly everything is positive. Only the dollar bill in your pocket eroded in value as a result of the persistent weight of inflation.

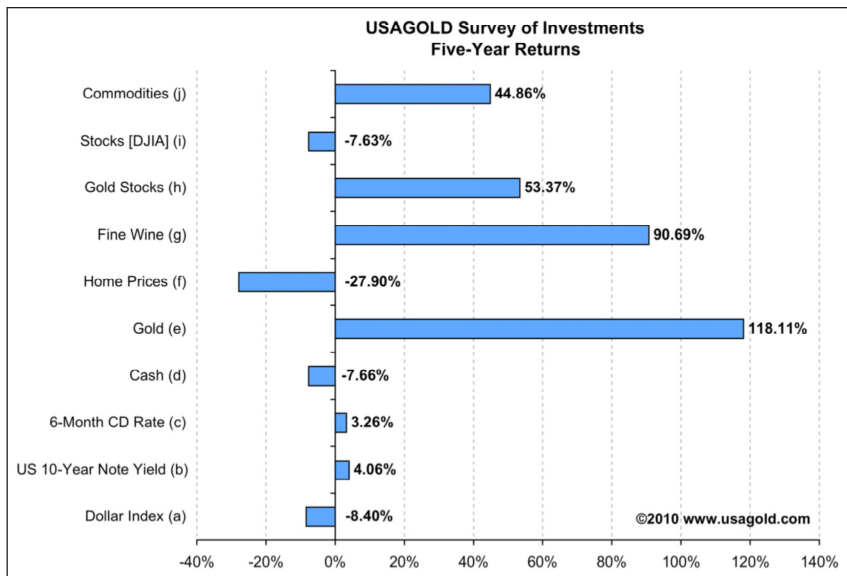


On what tide are all these boats rising? Liquidity. Lots and lots of Fed-provided liquidity. With a zero interest rate policy to boot, the Fed is purposefully pushing investors out along the risk curve.

The Fed appears to be on the verge of turning the liquidity tap wide-open once again, which is likely to erase any lingering safe-haven up-ticks the dollar was clinging to at the end of September. That should

continue to underpin gold.

The five-year study - Gold outshines the field



IN THE FIVE-YEAR PERIOD ended September 30, 2010 gold was up 118.11%, outpacing high-flying gold stocks and the broader commodity complex as measured by the Reuters/Jefferies CRB index (which of course has a 6% allocation to gold).

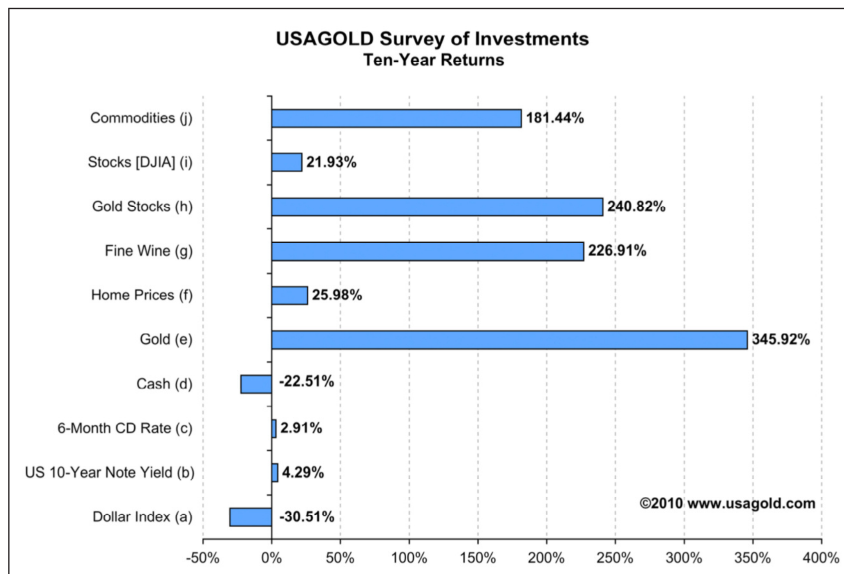
The Dow Jones Industrial Average was down 7.63%, as the five-year period encompasses the 14,279.96 peak as well as the financial crisis inspired 6,440.08 low.

Residential real estate came under considerable pressure over the five-year period ended July 31, 2010 (the most recent S&P/Case-Shiller data available). While housing rebounded modestly in the past year, there remains cause for continued concern.

RealtyTrac recently reported that banks foreclosed on 102,134 properties in September. It was the first single month where foreclosures topped 100,000.

Additionally, the Foreclosure-Gate scandal is widening and nobody seems to have a firm grasp on the implications yet. While the pace of foreclosures is likely to slow in the months ahead as these paperwork issues get sorted out, the scandal is also likely to make buyers increasingly timid.

Ten-year study - Gold sets the long-term performance standard



OVER THE PAST TEN YEARS, gold has risen the most of all the assets we track. Gold stocks are a distant second, followed by fine wines and commodities.

The family home still proved to be a better investment than the Dow, but when inflation is taken into consideration, both are about a wash.

Pay particular attention to the collapse of yields and the dollar over the ten-year period, clear illustrations that your wealth is being inflated away. Stealthily.

The yield on a ten-year note fell from 4.73% in September 2001 to just 2.65% in September 2010. The yield on a six-month certificate of deposit tumbled from 2.84% to a measly 0.38% over the same period.

The dollar fell to a new all-time low against the euro in mid-2008 and was approaching its record low against the yen as the third quarter of 2010 wound down. Only aggressive intervention on the part of the Bank of Japan likely forestalled a new all-time low in the USD-JPY rate.

Concluding remarks

As a gold broker, it's reassuring on some level to see the asset you sell at – or near – the top of our own and other investment surveys year-in and year-out. As an American, however, the policies that are driving this amazing performance are disheartening to say the least, and sadly unlikely to change any time soon.

After decades of a declining dollar and the inflation that results, the Fed is now suddenly worried that there isn't enough inflation. They have made it abundantly clear that further accommodations are necessary to prevent deflation and reinvigorate the floundering US economy.

We are likely on the cusp of QE2 and in the midst of a currency war. We're using up all of our ammo, while simultaneously eroding any goodwill we might have with our allies in the process.

Richard Fisher, the president of the Dallas Federal Reserve Bank, recently pointed out that the Fed is a monetary authority and is therefore limited in what it can do. Fed policy is not a substitute for fiscal policy and he suggested that regulatory and fiscal authorities "get their acts together."

However, I think Congress time and time again has made it abundantly clear that it fears sound fiscal policy. All too frequently nothing hastens to the un-invite back to Washington like talk of austerity measures and tax hikes. So Congress, in seeking political cover, foists the tough decisions on the Fed with its limited toolbox.

The Fed has neither the power to tax, nor the power to cut government spending, so it is liquidity we shall have. Lots and lots more liquidity. Mr. Fisher went on to recommend that any policy designed to stimulate our moribund economy -- whether it be monetary of fiscal – be done in a way that "doesn't scare people about the ultimate liabilities we're going to pile up over time."

Too late. Many are plenty scared already. It is only through proper portfolio diversification, including a physical gold component, that allows them to sleep at night.

Peter Grant is Senior Metals Analyst at USAGOLD-Centennial Precious Metals. He began trading IMM currency futures at the Chicago Mercantile Exchange in the mid-1980s. He spent twelve years with S&P - MMS as Senior Managing FX Strategist. The financial press frequently reports his personal market insights, risk evaluations and forecasts.

Pre-Election Special Offer!

In stock and ready to ship next day!

Pre-1933 gold coins - $20 Liberties and St. Gaudens, British sovereigns, German marks, Dutch guilders, French angels, Uruguay 5 pesos, and more!

Special discounts available for volume orders.

Limited to available inventory.
Orders must be processed before close of business on November 1st.

*Applies only to orders paid by wire transfer, Monday-Thursday.
Orders paid Friday will ship Monday.

1-800-869-5115

Limited availability. First-come, first-served.

Nuggets

Gold in the time of currency wars

THE WAR OF WORDS BETWEEN THE UNITED STATES AND CHINA is on the verge of escalating to an all-out currency war. British financial commentator Ambrose Evans-Pritchard says the United States has issued the world a veiled ultimatum in the form of quantitative easing -- Fed-speak for buying Treasuries directly from the U.S. government and other forms of debt:

> "The atomic bomb, of course, is quantitative easing by the Federal Reserve. America has in effect issued an ultimatum to China and G20: either you stop this predatory behaviour and agree to some formula for global rebalancing, or we will deploy QE2 [quantitative easing] `a l'outrance' to flood your economies with excess liquidity. We will cause you to overheat and drive up your wage costs. We will impose a de facto currency revaluation by more brutal and disruptive means, and there is little you can do to stop it. Pick your poison."

Li Xiangyang, head of the Asian studies at the Chinese Academy of Social Sciences, proclaimed in an article placed tellingly on the front page of People's Daily that the United States is deliberately foisting dollar depreciation on the rest of the world. OPEC, another primary supplier to the United States, expressed similar concerns about the Fed's money printing threat. Some OPEC members went so far as to suggest moving the oil price to $100 per barrel as a consequence.

QE2, which before the age of spin was called simply printing money, is not something being concocted in the United States alone. Japan, Europe and the United Kingdom are all poised to launch their own versions of this ultra-loose monetary policy. So QE2 in the United States is likely to be met with QE3 in the other nation-states -- an extension of the "beggar thy neighbor" policies that have been in force in the world economy for years.

The citizenry in each instance might be well served by understanding that the currency war of today could escalate to the war of attrition tomorrow -- one in which *all* sides are stubbornly "bled white" and *all* the combatants' domestic economies and financial markets are decimated by steady erosion in the purchasing power of their national monies. In such a war, gold becomes the final arbiter, the final measure of value and the final victor simply because all other measures of value cannot be trusted.

In fact, the international concern about money printing has already driven the gold price to record levels in recent weeks. Former Federal Reserve chairman, Alan Greenspan, may have gotten it right when he said a few weeks ago that "fiat money has no place to go but gold."

I am not bound over to swear allegiance to any master;
where the storm drives me I turn in for shelter."
Horace, 68 B.C.

"We view quantitative easing and its monetary consequences as an unequivocal benefit for gold and silver in particular, as investors seek out their role as stores of value in times of flat currency risk."
Morgan Stanley client advisory

The irony is that by implementing yet more QE, America may not do itself much good. It could succeed, though, in imposing chaos on the rest of the world.
Liam Halligan, The Telegraph, London

Fort Knox

Former Treasury official says America should sell its gold reserve

WHEN YOU TAKE THE ABOVE SCENARIO UNDER CONSIDERATION, it is difficult to understand why anyone would want to sell off the U.S. gold reserve, but that is precisely what former Treasury official Edwin (Ted) Truman is suggesting. In a widely circulated (and commented upon) Financial Times article, he points out that selling the 8000+ tonne hoard at $1300 would raise $340 billion that could be applied to the national debt. He also states, in shades of the argument Gordon Brown offered as the primary reason for selling off most of Britain's gold at roughly $300 per ounce, that the federal government will be getting rid of an asset for which it receives "no return."

My, oh my, how quickly we forget. What Truman avoids in his simplistic argument is that the national debt now stands at a cool $13.615 trillion. Selling the gold would reduce that debt to $13.275 trillion -- not the kind of reduction likely to turn any heads.

This is the kind of muddle-headed economics that got us into this incredible financial mess in the first place. Any American politician thinking Truman might be on to something would do well to consider the plight of Gordon Brown, the former prime minister of the United Kingdom. It was Brown who pushed the Bank of England to sell a significant portion of Britain's gold just before the launch of gold's historic bull market. Brown's Folly, as the British gold sale has come to be known, came to the forefront repeatedly in his loss to David Cameron and the Tories this year. The average price brought by the sale was in the neighborhood of $300 per ounce.

WITH THE U.S. NATIONAL DEBT INCREASING AT A RATE OF NEARLY $5 BILLION PER DAY, the national gold reserve would be wiped out with a little over two months of governmental red ink. And then the national reserve would be gone, never to be retrieved. Though few Americans would sanction such a sale, it would play well in places like China which is trying to find ways to deal with its enormous holdings of U.S. dollars. On the day Truman's piece was officially published in Financial Times, gold shot over the $1370 mark to close at an all-time high. Talking down gold just isn't what it used to be.

Guns, butter and common stocks?

IN ALL MY YEARS IN THE GOLD BUSINESS AND WRITING ON SUBJECT MATTER surrounding the Federal Reserve, I cannot remember a Fed chairman ever admitting that the policy of the Federal Reserve was to print money and drop it on the government's door step. Whether or not that money will actually make it to the general economy remains to be seen. The trouble with bailouts is that they usually cover past indiscretions -- money that has already been spent or lost.

The stock market has risen amidst all the talk of quantitative easing because Wall Street hopes a good chunk of this money will be funnelled back into the stock market. In other words, Wall Street is hoping for another artificial, inflation-induced bubble. This could be a forlorn hope. If the next big public works project is to pave Wall Street with funny money, the bailout will have to somehow make its way out of the federal government and onto the balance sheets of the nation's largest financial companies. It is difficult to define under what tortured set of circumstances such a thing is likely to happen except in a roundabout way that could take months, if not years. As a result, much of the helium that has been pumped into Wall Street's latest balloon could just as easily go flat.

A new currency regime

HERE'S AN INTERESTING PIECE OF NEWS PASSED ALONG BY AMBROSE EVANS-PRITCHARD in the same column quoted above:

> "And while the French deny that they are in talks with China over the creation of a new currency regime, I heard French finance minister Christine Lagarde say in person at a meeting in Italy that France would use its G20 presidency to push for an alternative to the dollar. She specifically cited the Bancor, the idea floated by Keynes in the 1940s for a commodity currency priced off a basket of metals. The US risks gambling away the 'exorbitant privilege' it has enjoyed for two thirds of a century as currency hegemon."

Of course, whenever the politicians start talking about a basket of commodities backing a currency, they are really talking about gold. The problem, if one chooses to see it as a problem, is that gold would need to be valued in the mid-four figures in order to even begin clearing the amount of U.S. federal debt being held by various trading partners.

In the end, it is unlikely the United States will go quietly into the good night when it comes to dislodging the dollar as the world's primary reserve currency. A new currency at this juncture seems a forlorn hope -- more the stuff of ivory towers than practical reality. Just as the recent International Monetary Fund meetings in Washington disbanded by failing to address the real problems in the world monetary order, any future attempts to drag either Washington or Beijing to the currency "peace table" will be met with staunch resistance on both sides. For gold owners, the most likely scenario is more of the same.

Final Note: The short study by Jonathan Kosares promised for this issue on the prospect of U.S. Treasuries being in the first stages of a bubble will be featured in the next edition.

For quotes and information

Gold bullion coins • Pre-1933 gold coins

Trading Desk

1-800-869-5115

Extension #100

6am to 5pm Mountain / Monday-Friday

USAGOLD's

Daily Market Report

Start the day right with Pete Grant's Morning Report

- Track Markets Online -

USAGOLD Mobile

Designed specially for use on your contemporary portable device

Live prices: Gold, Silver, Crude oil and the Euro

http://www.usagold.com/mobile/

October's Top Gold Articles

October, 2010

by Randy Strauss

Editor's Note: As the USAGOLD sitemaster, Randy Strauss selects articles and opinion pieces daily for our News & Views page, one of our most popular web pages. On occasion, he offers his own analysis on the news of the day -- all of which makes for some interesting reading. Editing and posting the breaking news puts him in a position uniquely suited for choosing the month's top articles on gold and related subject matter. Here are his selections for September and his own views.

Do gold and silver ETFs make good investments?

By Alix Steel, TheStreet; October 5, 2010

Silver and gold prices are hitting record highs, making physically backed exchange-traded funds very tempting investments. Before you buy, here's what you need to know. ... When you buy gold and silver physically backed ETFs, you do not own the physical metal, you own a paper representation. The actual metal is stored by a custodian, usually one of the large banks like JPMorgan or HSBC. ... Also, since most custodians are banks, if they fail, the trust becomes an unsecured creditor. There might be a substantial delay or fees associated with obtaining the allocated gold. Granted, the custodians are reputable large investment banks, but as we saw in 2008, any of them can become insolvent. ... Because you own shares and not the physical metal, precious metal ETFs may be sold short, so two people can own the same "gold" -- the original owner and the investor who is borrowing the shares.

COMMENT: A fairly comprehensive treatment of the shortcomings of the precious metals ETFs which were engineered by Wall Street for "consumption" by Main Street, effectively feeding Main Street more varieties of paper through the pretense of gold connectivity. Don't they realize they're playing with fire when it comes to fractionalizing and derivatizing a tangible asset such as gold? But be that as it may, far be it from the so-called "super rich" to be so easily duped into holding an empty bag (as demonstrated in our next article).

Super-rich investors buy gold by tonne

By Laura MacInnis, Reuters; October 4, 2010

The world's wealthiest people have responded to economic worries by buying bars of gold, sometimes by the tonne, and **moving assets out of the financial system**, bankers catering to the very rich said on Monday. Fears of a double-dip downturn had boosted the appetite for **physical bullion** as well as mining company shares and exchange-traded funds, UBS executive Josef Stadler told the Reuters Global Private Banking Summit. "They don't only buy ETFs or futures, they buy physical gold," said Stadler, who runs the Swiss bank's services for clients with assets of at least $50 million to invest. UBS is recommending top-tier clients hold 7-10 percent of their assets in precious metals like gold.... In a sign of the uncertain times, some clients go further. "We had a clear example of a couple buying over a tonne of gold ... and carrying it to another place," Stadler said. At today's prices, that shipment would be worth about $42 million. ... Samir Raslan, Citigroup's regional head for central, eastern and northern Europe, Africa and Turkey, said clients were not going overboard on gold. "I wouldn't say that clients are over-investing. It's part of an asset allocation but it's not something that they are deciding all of a sudden," he said.

COMMENT: This point was certainly corroborated by an article the same day in the UK's Telegraph entitled 'JPMorgan reopens New York gold vault as investors scramble for yellow metal'. Accordingly, the reopening of the vault, which was closed in the 1990s, was cited by the media as "evidence that there's appetite from investors to actually buy the metal itself, rather than just gain exposure to gold through mining shares or other assets."

Spot gold prices: more room to grow

By Andrea Tse, TheStreet; September 27, 2010

"Gold, relatively speaking, is actually a very small market, so it doesn't take that much money to bring it higher," Yu-Dee Chang, chief principal at ACE Investment Strategists said. "If people are buying gold the way they're buying currencies, the way they were buying stocks back in the 90s, gold should really rise a lot." Chang went onto to say that gold may have experienced **a spike in attention** for hitting its all-time high of $1,300 last week -- but that high is just in absolute terms. "If you look at gold on an inflation-adjusted basis, gold's record high was really around $2,800 back in 1980 on an inflation-adjusted basis. So on an inflation-adjusted basis, we're nowhere near that high. We've got a lot of room."

COMMENT: In my view, the key part of this article was the aforementioned "spike in attention". That more than any other factor is what's fundamentally behind most of the "bubble" talk that's being tossed about with so little else behind it. In other words, just because something that had long been neglected suddenly steps forward in the bright media spotlight does not automatically translate into or imply that its market price is also out in front from a fundamental standpoint. Gold still has a century-long accumulation of moldy, old financial baggage and other clinging shadows to shrug off before its value as a pure (tangible) wealth reserve will be glittering appropriately high and bright in the marketplace.

Gold Fields launches first U.S. dollar bond

By Tim Kiladze, Globe and Mail; October 1, 2010

South African-based Gold Fields Ltd. sold its first U.S. dollar denominated bond offering Friday morning. The $1-billion (U.S.) deal will pay a 4.875 per cent coupon and mature in 2020. In mid-September Gold Fields' management signalled that they were talking to fixed-income investors about a potential deal to determine the appetite for new debt. ... the money will be used to pay off [old] debt, which totalled $1.1-billion as of June 30. The proceeds are also expected to partially fund Gold Field's growth agenda...

COMMENT: Short but sweet, and here's the takeaway point. For so many years up to now it had been the dollar realm that was kicking the gold realm to the curb through the rampant practice of effectively shorting the metal and bringing current the selling pressure of future production through gold-denominated financing in the form of gold loans. But now it would seem that the shoe is on the other foot, and gold is now kicking the dollar. Here we are seeing a prominent gold miner taking out a dollar loan rather than opting for a gold loan. (And this comes hot on the heels of Monday's news that Dubai, "The City of Gold", was itself planning to effectively short the dollar through a benchmark sale of 5- and 10-yr. bonds denominated in dollars rather than the local dirhams.) It would seem that wisdom is finally prevailing in the financial world. The pertinent players have accepted the reality that gold's affinity is toward that of a naturally strengthening currency, thus making it imprudent to borrow/short because the payback is a real bitch. Dollars are essentially custom-made for the needs of borrowers and financiers. On the other hand, they tend to become weaker over time and therefore are the no-brainer option for no-hassle borrowing and spending/shorting. The Fed's own QE2 rhetoric officially punctuates that direction.

Bank of America: QE could drive gold prices higher

By Sam Coventry, Economy News; October 1, 2010

"Since the first round of QE, precious metals have perhaps become the biggest beneficiary of money printing..." says a note on gold prices released by Bank of America Corp this morning. "Just as **commercial banks** became extremely distrustful of each other's credit profile due to the severe drop in US house prices, **Central Banks** are quickly becoming distrustful of each other on the back of widening sovereign

credit spreads, unilateral policy moves to ease quantitatively or unexpected interventions in the foreign exchange markets," says the note. Suki Cooper at Barclays Capital says that the surprising strength in physical demand has certainly provided an elevated cushion for gold prices but the strength of investment demand continues to drive prices higher.

COMMENT: It might strike a reader odd that Suki seems to treat investment demand for gold as though it were in realm different than physical demand. And frankly, often times it is -- a lion's share of the so called investment demand doesn't cause much by way of making any footprints in the physical realm because this sort of "investment" demand is really just a function of dollar-wrangling and exists only on paper and in the digital realm of derivatives, hovering on a wing and a prayer. So at the present time, Suki is right -- the paper demand is moving the market's indicators of price discovery, which as yet remain a paper-dominated mechanism. But it will be the continuing shift of investor focus out of paper and into the physical realm that will truly begin to make the world of the saver spin firmly on its proper axis. The next article expands on the remark that central banks are becoming distrustful of each other...

New gold rush begins for emerging markets

By TheStreet; October 12, 2010

Ten years ago, the western world's central banks were selling gold from their vaults just as fast as they could at a rate equivalent to 10% of annual demand -- about 442 tons. They didn't see any further need for such an ancient symbol of monetary stability in the 21st century. After all, it paid no yield; it just sat there, incurring storage and insurance costs along the way. So they opted instead to fill their vaults with "safe" sovereign debt, with its yields and interest. Fast forward to today and that same investment looks far from reassuring. And central bankers are finally beginning to see the light. They now understand the **value of gold**, a store of value for 2,000 years and one **free of liability**. Central banks are no longer selling gold; in many cases, they're buying it. This makes for one of the most important developments in recent history for the gold market. Even overlooking its psychological boost, it has removed a very real, very large source of supply from the market. ... China gave the clearest sign of this new trend last year when it almost doubled its gold reserves. With 1,054 tons, the country has become the world's fifth-largest holder of the metal. .... China may even be buying all of their own domestic gold mine output. That says something, since China now produces the most gold and Russia claims another large chunk. Put simply, production from their mines will never hit the global market, thus supporting gold prices. ... In order to keep gold prices low for as long as possible, they have to buy more conservatively. The global gold market simply cannot support large purchases. ...... So emerging market central bankers will wait for opportunities... like India's 2009 purchase of 200 tons of gold from the International Monetary Fund. And with the continuing problems in the periphery of Europe, more opportunities could arise. For instance, Portugal has over 80% of its reserves in gold. It may have to sell some of that off in order to stay solvent, considering its current financial problems. And that would just shift economic power to the emerging world that much more.

COMMENT: Gold, in the role of reserve asset, will continue to move to the forefront because gold's own central banker, Mother Nature, will not quantitatively ease away its value. Yet despite those firm limitations in physical supply, the commercial financial fraternity has over the decades stepped in and effectively overridden the physical base by quantitatively increasing the supply of artificial gold to undiscerning investors through unallocated accounts, lending, futures contracts and other derivatives. The paradigm shift that has been underway for the past decade involves the Central Banks (who as a group are more concerned about system stability than are their commercially opportunistic Wall Street counterparts) putting the kibosh on the paper gold antics. First of all, the CBs are now not ready, willing, nor able to play lender of last resort to the commercial banks when it comes to backstopping metal-denominated contracts that have fallen in default. And secondly, being stability-minded and on heightened alert with the old dollar-centric system now circling the drain, the central banks cannot simply sit back and passively observe/allow their only viable hard reserve asset (gold) continue to be quantitatively eased into soft-currency status by the short-sighted paperizing pursuits of the commercial investment banking sector.

NEW RECORD HIGH: Gold rises on dollar weakness, may gain more as Asia banks build reserves

By Nicholas Larkin and Sungwoo Park, Bloomberg; October 14, 2010

Gold climbed to a record for a second day as a weaker dollar spurred demand for an alternative investment. **Gold futures for December delivery [closed] at $1,377.60 on the Comex in New York, after reaching an all-time high of $1,388.10**. The greenback dropped to the lowest level in 10 months against a basket of six major currencies on bets that the Federal Reserve will buy more debt to sustain the economic recovery. Asian central banks may continue to increase gold reserves, said the Bank of Nova Scotia. "There is a distrust of currencies, and gold is the only solution," said Bernard Sin, the head of currency and metal trading at bullion refiner MKS Finance SA in Geneva. "A lot of money is going into precious metals." Gold, up 26 percent this year, is heading for its 10th consecutive annual gain. The metal rallied as central banks and governments maintained low borrowing costs and spent trillions of dollars to stimulate economies. On Oct. 4, Fed Chairman Ben S. Bernanke said that the central bank's first round of large-scale asset purchases aided the economy and that further buying is likely to help more. He is scheduled to speak about monetary policy in Boston tomorrow.

COMMENT: Simply an article commemorating the latest high-water mark in a long progression of new record-setting days for gold.

U.S. Fed wrestling with size of Treasury bond purchase

By Jeannine Aversa, AP; October 15, 2010

The U.S. Federal Reserve is prepared to take further steps to rejuvenate the American economy by buying Treasury bonds but is wrestling with how big the program should be, Chairman Ben Bernanke said Friday. ... Bernanke also indicated that policymakers are trying to craft a plan to strengthen the economy and lift inflation from super-low levels. ... Because the economy is weak, "the risk of deflation is higher than desirable," Bernanke said. For now, the Fed is more interested in seeing prices rise -- rather than fall. A prolonged drop in prices for goods, for wages and in the values of homes and stocks is dangerous for the economy and Americans' pocketbooks. It makes paying on debt much harder, causing more people to fall into foreclosures, default on credit card bills and companies to slide into bankruptcy. Bernanke's comments come as the Fed is weighing steps to **try to raise people's expectations of where they think inflation is heading** in the months ahead. If the Fed were to communicate that it will tolerate a higher-than-normal rate of inflation, that could make companies feel more inclined to nudge up their prices. **Shoppers, thinking prices would be rising even further in the future, would be more inclined to make purchases sooner**. That would lift inflation from worrisome low levels.

COMMENT: The current value of the U.S. dollar is being officially and willfully tinkered away. A frank assessment must admit that ALL national currencies are just economic tools -- irresistible playthings which are fiddled with by politicians and their bureaucratic wingmen as though it were a sort of magical "Easy Button" to solve the various problems facing their society. As these tools lose value through their overuse and abuse, we would all do well to have our savings safely set apart in the form of something else that's less prone to the mischief of the printing press -- something as good as gold. To preserve the purchasing power of your savings, prudence calls for an exchange into hard assets. As time progresses, it will be increasingly obvious that gold is indeed the right choice.

Currency debasement still major force behind gold strength

By David Levenstein, Mineweb; October 4, 2010

... Yes, perhaps the price of gold may appear to be overbought, but the gold price is hardly making new highs on account of nothing. And, while there are many reasons why the price is going higher, the main driving force behind this rise in price is because the major currencies of the world are debasing and the

rising price of gold reflects that fact. ... And, unless there is something drastic about to happen that will reverse the current trend in currencies, don't expect to see the price of gold collapse. ... As the economies of the US and most European countries remain depressed, central banks are going to try various expansionary monetary policies to re-start their economies. However, no matter what they try central bankers and politicians can't repeal the laws of economics. And, the consequence of their actions is going to lead to printing more money that will cause these currencies to become worth even less... As the US dollar weakens, other currencies strengthen. This puts pressure on these countries as their exports become more expensive and as in the case of Japan, these countries will be forced to devalue their currencies in order to maintain a competitive edge. As a result we can expect to see these countries engage in a competitive race of currency devaluation to increase exports. While we will never see or hear any declaration of a global currency war, we have now entered a period when the entire global monetary system is under stress and the battle of currencies has already begun. On September 15 former Federal Reserve Chairman Alan Greenspan made a speech to the Council on Foreign Relations. According to the article [in the New York Sun] Greenspan did not mince his words and said, "Fiat money has no place to go but gold." ... As more and more investors as well as central banks themselves know that the possible conclusion could be a severe drop in the value of their national currencies, they are going to diversify into other assets including gold.

COMMENT: These excerpts from Levenstein ought to be printed on milk cartons and on the back of cereal boxes to give this efficient summary of monetary affairs the widest possible audience. As these are merely excerpts, be sure to click through to the source to read this one in its entirety.

$10,000 Gold?

By Kenneth Rogoff (P-S); October 10, 2010

Admittedly, getting to a much higher price for gold is not quite the leap of imagination that it seems... In my view, the most powerful argument to justify today's high price of gold is the dramatic emergence of Asia, Latin America, and the Middle East into the global economy. As legions of new consumers gain purchasing power, demand inevitably rises, driving up the price of scarce commodities. At the same time, emerging-market central banks need to accumulate gold reserves, which they still hold in far lower proportion than do rich-country central banks. With the euro looking less appetizing as a diversification play away from the dollar, gold's appeal has naturally grown.

COMMENT: This article is notable not merely for the scope of the price level being rationalized, but also for the calibre and credentials of the author providing the rationalization -- Kenneth Rogoff is Professor of Economics and Public Policy at Harvard University, and formerly the chief economist at the IMF.

Published by
USAGOLD-Centennial Precious Metals, Inc.
Gold Coins & Bullion since 1973

©Copyright 2010 Michael J. Kosares

•••

Please visit our website for a wide range of client-oriented services

USAGOLD
Live Gold Price • Daily Market Report • Gold-Related Article Links • Mobile Services • Twitter • Much More

•••

We invite you to register for the following services:

USAGOLD News, Commentary & Analysis
Free subscription.

Introductory Information Packet
Start right with this comprehensive overview for first-time investors.
Available online or by hard copy.

•••

For quotes and further information, please contact our Trading Desk:

1-800-869-5115
Extension #100

Michael J. Kosares has nearly 40 years of experience in the gold business and is the founder/owner of USAGOLD-Centennial Precious Metals, Inc. He is the author of *The ABCs of Gold Investing: How to Protect and Build Your Wealth With Gold* as well as numerous magazine and internet articles. He is frequently interviewed in the financial press and is well-known for his ongoing commentary on the gold market and its economic, political and financial underpinnings.

This newsletter is distributed with the understanding that it has been prepared for informational purposes only and the Publisher or Author is not engaged in rendering legal, accounting, financial or other professional services. The information in this newsletter is not intended to create, and receipt of it does not constitute a lawyer-client relationship, accountant-client relationship, or any other type of relationship. If legal or financial advice or other expert assistance is required, the services of a competent professional person should be sought. The Author disclaims all warranties and any personal liability, loss, or risk incurred as a consequence of the use and application, either directly or indirectly, of any information presented herein.