

Start

I lived 15 years in Taiwan and 18 in UK, Belgium, US East, Texas, West coast. Canada. I run a boutique hedge fund focusing on junior resource equities that is up over 50% this year.

Traveling and studying economics and markets are my passion,

(Next Japanese)

In the past 18 months I have traveled

Japan, Thailand, Hong Kong, China, Taiwan, Bolivia, Peru, and ALL Across US and Canada

(Next Thailand).

Things are getting better across the board, simple things like internet connection, mass transit, entertainment, accessibility to goods and services.

I am for one who likes to follow the money

Having worked in the US Silicon Valley, and Vancouver with great concentration of resource companies now carries great resembles to those days..

(Next Depression)

Everybody has an opinion on the great inflation / deflation debate (inflation vs deflation)

Through the years I have read a multitude of articles and books with one extreme point of view or another regarding impending economic doom. Everything from impending goldilocks prosperity to imminent 1930s depression is floating around in bookstores these days.

(Next Deflation)

The deflationists argue that when debt is issued at increasing levels, there comes a point when we cannot service the debt, and eventually resort to selling everything we have – bonds, stocks, houses, cars – to raise dollars to pay debt. In

this scenario, deflation occurs as money aggregates shrink by debt repayments, people hold off purchases knowing goods will get cheaper, and workers will be laid off as there is no demand.

Deflationists and Depressionists are often the same bunch. They eagerly anticipate some specific back-breaking straw, an event that triggers the debt implosion, with the world blown back to stone ages and streets filled with riots and violence.

How does subprime fit or qualify as that back breaking straw?

?? Size of US treasury

?? Size of US mortgage

30% GSE Fannie/Freddie

?? Size of US Subprime (capital T)

Remember Mad cow scare? Who ate beef, When the US blamed it on Canadian Beef, Steven Harper / Jean.

Would you touch beef knowing there is a slightest quantity of mad cow disease going around? Would you touch?

In the last 3 months, we have witnessed the worst financial event in the US over the last 50 years. I would say size and significance of US mortgage debacle dwarfs the recent events of 9/11, LTCM, the dot.com bubble burst or the more distant events such as thrifts collapse of the 1987 crash.

(Next Mad Cow)

Those mortgages are sliced up into pieces and grouped by principal, interest components, and maturities and durations. No one has a clue the make up of a given MBS portfolio. Half of Joe in Boston + quarter of Bob in LA.

The subprime mess shook the US financial system to the core, as it directly affected the marketability of the \$30 trillion+ US debt market.

John, you are way off... Really? Still in doubt?

(next AAA)

The view was made in September, since then Markit.com

(next BBB)

\$10 trillion

\$2 trillion

(next Cards)

What if we just let it be?

I am an optimist better than today. So the above mentioned scenario can't happened rite? Let's see what the official response is.

(next FT)

(next barter)

I wonder who is on the other end?

I wonder why did Bank of America invests billions in Countrywide, when it could get Countrywide for pennies on the dollar by waiting for just a few weeks more.

(next Mucker)

trillions of dollars of mortgage positions need to be unwounded. Which can't be solved by adjusting interest rates by a percent or two

(next lenders, borrowers)

The Fed injected (printed) \$41 billion on November 1st, the largest amount in a single day post 9-11. However neither this nor the \$70 billion superfund will solve this mad cow problem, as

In public and privately, the Fed needs to redeem any and all mortgage debts with new paper. It needs to catch up and print hundreds of \$billions more.

(next worst, settled)!

What's to give?

(next dollar chart)

When you print more, value goes down, Economics 101.

2:15pm, Oil \$90-94, not demand and reduced oil inventory, it's the dollar stupid. Last Tuesday Up. at the expense of the dollar, with no catalyst for a rebound.

What's more creating headache for exporters and financial analysts. Ikea, Sweden, with shelf made in Malaysia, sell for \$100 Canadian and \$70 US. I don't know how those quant analysts work when one can't possibly calculate true earnings in a currency that is a moving target.

(next dow)

For those who predict a free fall in the equity market,

"Jim Rogers Ft.com, 5% 50 basis point." Anyone thinks market is about to seriously drop..I suppose

Dow is selling at a discount measuring in a free falling currency. Quasi Tangible. And 50% from aboard. Anything is possible, but we are not betting on it.

(next Stealing)

Debt is a man-made virtual feature with limited, localized effect.

Can you honestly see Safeway running out of food or corporate America such as McDonalds or 3M stop growing? The world is forever going forwards, not backwards. Remember debts are man-made features, existing in a virtual world, serving to facilitate the transfer of ownership of real assets. While debt implosion may cause localized social instability, the disruption does not affect technological or intellectual capacities, or the existence of hard assets. All the houses, cars, planes, and technologies are still here regardless of the fate of the dollar.

I was in Thailand for a three day break and the immigration lines at the airport where full of mainland Chinese. What subprime problem so they say.

In my view, the dollar losing its reigning status would affect the global economy mildly and swiftly, as the loss of purchasing power by the dollar merely facilitate transfer of wealth of dollar holders to other fiat currency holders, and the owner of hard assets. If the party has to end for the dollar, it just means that the party is starting somewhere else.

(Next DROP)

Last Saturday in Vancouver, my casual sushi dinner for two came to CAD \$81 (USD \$84). Seven years ago, the same dinner would have cost CAD \$60 (USD \$42). In Dollar terms, foreign goods and services have more than doubled in price in fewer than seven years. This is not some economic index based on hedonistic mathematical or substitution theory, this is based on my hotel, taxi, and food bills from Bali to Bangkok, and from Toronto to Rio.

(next money supply)

Make no mistake, the Dollar, with unlimited supplies, has an intrinsic value of zero. This fact has been incessantly broadcasted recently by global banking figures as they are ready to *“inject”* unlimited *“liquidity”* to stave off any crisis ranging from the subprime market collapse, derivatives, to recession. It is only natural that the price of goods goes up when money is printed without abandon. And you wonder why money aggregate figures are no longer reported by officials, citing cost of compiling such data.

(next foreign reserve)

One can hardly understand the real impact of a depreciating currency until he travels abroad. Given that fewer than 15% of the US population has passports, it's no surprise that the alarm has not been sounded loudly yet. Domestic price inflation on goods has been kept relatively at bay thanks to a suppressed Chinese currency (RMB), however in my opinion that is about to change.

Oil is an integral part of our daily living, and the US public often voice complaints about the high price of oil. However, many overlook that just as much money is spent on Chinese made goods as is on fuel, day in and day out.

(next Euro / Cad)

Given the extent of the US trade deficit with China (\$150 billion per year), there is no reason for RMB not to appreciate 50% against the Dollar, which is what Euro and Canadian dollar did from their 2002 low against the dollar.

(next RMB)

So far RMB is up a modest 10%.

For a US family that spends \$300 to \$500 a month on Chinese goods, a further 40% appreciation of the RMB will translate into a \$100 to \$200 monthly cost increase. I spend at least \$500 a month on Chinese goods, and to me, the logic of asking the Chinese to revalue their currency upwards is no different from asking the Saudi's to jack up their oil price further, which is no logic at all for a US consumer.

Holding Dollars is like playing musical chairs. When the music stops, the one holding the most Green IOUs, loses.

1. With a rapidly sinking Dollar vs. western currencies, the Dollar's supreme image is now very wobbly.
2. Having built up a war chest of USD 1 trillion, the Chinese need no more Dollars to shore up confidence in its own paper within the international arena

Combining these two factors, the Chinese government will likely loosen the RMB peg to the Dollar at a faster pace, and we expect a minimum of 20% appreciation in RMB over the Dollar (i.e 5-6 RMB to 1 USD) in the next 12 to 18 months.

(next Gold)

Gold is international money, and will follow the RMB's suit and climb

International exporters have been cutting slacks but will revise price upwards, (IKEA, Kellogg, 3M, Kimberly Clark) We are indeed entering a phase of serious inflationary era in US that can longer be hidden by juggling numbers.

Gold and the RMB's rise will be the final chapter to the Dollar's status as the world's reserve currency, and the end to an era of low priced Walmart goods made in China.

So what's the target for gold?

(next Euro and CAD)

Treat it as money

(next Oil and Copper)

Treat it as commodity

Last time it traded, 1960, 1.05, gold is \$30. Central bankers all have habit to inflate, therefore I tend to align gold to commodity gains.

(next Gold target)

This gold target is a conservative estimate given that other commodities from oil to copper have all quadrupled from their lows this decade. Gold's low was \$250/oz in 2001. \$850 by 2008, conservative. \$850 is not much of a resistance. Oil \$20. 2008 prove to be conservative, 2 months target, mind you don't believe it's much of resistance. No one believed oil will go to \$100 after \$40. And \$850 gold just gotten started, remember those \$10 trillion mortgage position? Entire universe of Gold is not even \$3 trillion against a backdrop of \$70-100 trillion investable dollars.

(next XAU)

Gold stocks. \$500, \$600 look good. \$700 doubles although gold gone up 40%. Sexy but risks from geopolitical to operational to Frauds, Southwestern.

(XAU GOLD)

Bottom buy XAU, top sell both!

(Next Conclusion)

Co-existence of Prosperity and Gold's rising popularity?

Here let me point out that Gold has risen from \$250/oz to \$720/oz in six years while the global economy has grown the fastest since WWII according to The Financial Time. This goes to show that a Gold bull and prosperity can happily co-exist without a doom and gloom outcome. With an increasing global middle class

and ever-expanding fiat money aggregate, I don't see the rising gold and economic trends reversing anytime soon.

(Next Romeo)

The dollar's free fall will continue, while gold and RMB's rise will accelerate in pace. We will look back next year and kick ourselves for not buying gold below \$850. For those who hold dollar savings, to borrow from the classic line from the movie "Romeo Must Die" by the Kung Fu master Jet Li to his brother who betrayed him – "That was a mistake."

(Next Capital work Shop)

Businesscard free monthly newsletter of my traveling and views on markets from commodity to currencies to equity to bonds.

Thank you.