



What's New?

Feddern Financial Consulting Group Newsletter

November 12, 2009

KEYS TO THE BEGINNING OF A RECOVERY:

- 1. The Real Estate market must stabilize. If not reversing, at least not continuing to fall. *NEW HOUSING STARTS UP this past Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!***
- 2. Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! *IT'S ACTUALLY WORSE as a "%," Back to near 10% - BUT IT CONTINUES TO MOUNT @ OVER 250,000+ weekly.***
- 3. Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. *SOME POSITIVE SIGNS but mainly in TECHNOLOGY.***
- 4. Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! Lots of "hoopla" from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by PRIME loan and Alt-A resets!**
- 5. The DOLLAR has to decline. *It's started for REAL!***
- 6. Auto sales must stabilize at some NEW level. *Maybe started!***
- 7. The consumer must get "back in the game of consumin'" *NO WAY!***

ANALYSIS OF THE ABOVE: No Real Hope YET! -11/12/2009

INDIA, CHINA and GOLD

Let's review the big picture for gold. What's going on? And what are people saying?

For much of 2009, gold traded in the range of low-mid \$900 per ounce. There was a dip over the summer, with a strong upswing starting in September. Gold is now trading well over \$1,000 per ounce, in fact just under \$1,100.

Did you know that government of India was buying gold in mid-October. Over a two-week span, the central bank of India (yes believe it or not they also have their version of the FED) bought 200 tonnes (metric tons) of gold from the International Monetary Fund (IMF) at an average price of \$1,045. The IMF — over which the U.S. holds veto power for most actions — got approval to sell the gold from — where else? — our wonderful U.S. Congress, last spring. Yes, yes we know; they're always looking out for us aren't they?

Previously, the government of India held 350 tonnes of gold reserves. This 200-tonne purchase is a 57% increase in India's reserves. There's joy in India, I'll bet. (It makes me wonder what the Pakistanis think, now that their large neighbor has both nuclear weapons AND a growing gold hoard.)

The Collapsing Economy?

Here's what the Financial Times had to say. "Gold prices last Tuesday surged to an all-time high after India's central bank bought 200 tonnes of the precious metal, swapping dollars for bullion as the country's finance minister warned the economies of the U.S. and Europe had 'collapsed.' India's decision to exchange \$6.7 billion for gold equivalent to 8% of world annual mine production sent the strongest signal yet that Asian countries were moving away from the U.S. currency."

Have the economies of the U.S. and Europe really "collapsed"? As we sit here at our desk in Louisville Metro, it appears that we might not exactly say that the U.S. economy has collapsed around us. OK, so the economy isn't booming, either.

Just yesterday, the consumer powerhouse Johnson & Johnson foresees a long, continuing economic slump. J&J anticipates a slow recovery at best, contrary to the optimism of its namesake "No More Tears" brand. J&J management evidently believes that things will stay tough out there. And as if to add to the predicament, J&J is laying off about 8,000 employees.

Economic collapse or no, the point is that Indian gold purchases from the IMF are supporting the gold price. And the IMF has another 203.5 tonnes of gold yet to sell.

Who will buy the IMF gold? We've previously speculated that the Chinese are waiting in the wings. But now that the IMF has set a precedent for selling to a non-Chinese buyer, there are surely other players out there polishing their shoes and practicing their speech to the IMF bankers. We might see Arab countries buying. Or Russia. Maybe Brazil, with all its newfound energy wealth offshore.

China's Golden Ambitions

Reuters news service has an interesting take on the matter. Reuters noted that it's cheaper for China to buy domestically mined gold than to purchase bullion from the IMF at \$1,045 per ounce. According to Li Yang, a former adviser to the People's Bank, "China's gold is much cheaper than that."

In other words, China is the world's No. 1 gold producer (bet you didn't know that), and its mine costs are much less than \$1,045 per ounce. So — China being governed by the Communist Party — why not just buy gold at "cost" from the mouth of the mine, right? Take the accounting hit and get the gold. In the long run, will it matter? (And we all know how the Chinese are able to think in terms of the long run.)

According to another Chinese Central Bank official (yes, they also have a FED) — although with no direct authority over gold buying, "China is the world's biggest gold producer, so there's no urgency for us, as there is for India, to snap up big volumes whenever they come onto the global market. It's cheaper for us to buy gold from the Chinese market, but it doesn't help diversify our huge foreign exchange reserves."

This Chinese official added, "To diversify our portfolio, we should spend dollars on things like gold. But the catch is that even if China bought half the world's annual gold supply, it would only cost a few tens of billions of dollars, which is tiny compared to China's huge reserves."

And then the Chinese official offered this comment. "Having said that, I think China still should buy some IMF gold this time, and it might indeed do so, but it's unlikely to take all the 200 tonnes that are left, as the price is, obviously, not particularly appealing. It would be a symbolic purchase, but better than nothing."

Finally, Xia Bin, head of China's Financial Department of the Development and Research Center also said China should buy IMF gold. "Why not? Even if it's sold at a market price, we should still buy," he said, according to Reuters, which was clearly a personal view from Xia Bin and not state policy. "India's OK with it, why shouldn't we be? What's the use for so many dollars, whose purchasing power is weakening anyway? With so many foreign reserves in hand, I think China should buy, without doubt."

What do you think it will mean for the dollar with the central banks of both India and China dumping dollars for

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We continue to receive more and more inquiries about our Down-side Risk Management disciplines along with our group of recommended money managers. We appreciate your “referrals.” It’s the main way we continue to build our business.

Call us anytime: 502.442-0363 Direct 800/258-1502 Toll Free 502/442-0365 Fax 502/552-2049 Cell

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