



Those who cannot remember the past are condemned to repeat it. Santayana

November 24, 2008

THAT WAS THE WEEK THAT WAS

Monday 17th November

G20 solves nothing, but agrees to meet again in 5 months time. What's the hurry?

Paul Volker, past Chairman of the Federal Reserve and advisor to President elect Obama, says "what this crisis reveals is a broken financial system like no other in my lifetime." [Daily Telegraph](#), 17th Nov 2008.

Chuck Grassley, the most senior Republican member of the Senate Finance Committee wants an investigation of potential conflicts of interest among former Goldman Sachs executives now serving at the US Treasury.

Citigroup announces that it will cut another 52,000 jobs or 1 in 7 of its workforce. The share price has fallen almost 75% in the past year. The company has taken almost \$50 billion in write downs and credit provisions since the start of the credit crisis.

John Paulson, the hedge Fund Manager who made a killing betting against sub-prime mortgages has reversed his position by starting to buy securities backed by residential mortgages. Will he be right again? I'm not betting on it.

Tuesday 18th November

Big Three go begging to Washington, threatening "a catastrophic collapse" if they don't get \$25 billion in a hurry. They employ about 240,000 American workers. It is said that automobile manufacturing has one of the largest multiplier effects in that seven people are employed indirectly for every one employed making cars. But won't the bailout just be a make-work programme? Who is going to buy the cars that they will continue to produce? Perhaps the money could be better spent putting these axed employees to work on America's decaying infrastructure.

One place the bailout of US automobile manufactures won't be coming from is Secretary Paulson's fund. He's made that perfectly clear.

Treasury Secretary Paulson and Fed chairman Ben Bernanke told Congress that their actions to ease the credit crisis were beginning to work, even though the cost of insuring high quality US companies against default on their debt hit a new high.

In Britain now the talk is of Deflation, as the Consumer Price Index in that country registered its biggest drop on record, falling 0.7% in October.

Wednesday 19th November

Now deflation talk has spread to North America. In America consumer prices fell by 1 percent in October; the biggest monthly decline since the CPI was introduced in 1947. Don Kohn, the Federal Reserve vice-chairman, stated that the Federal Reserve would do whatever it takes to stop deflation.

Junk bond yields are over 20% for the first time. Lenders are frightened by the slowing economy and the prospect of an increase in defaults.

The World Gold Council reported that the sale of gold coins and bars reached their highest levels in more than a decade in the third quarter. During that period consumers spent more than \$6.5 billion buying 232.1 tonnes of gold; an increase of 121% over the same period last year. When will somebody put paid to the short sellers on the Comex?

Thursday 20th November

General Motors Acceptance Corporation (GMAC), part-owned by General Motors, is seeking to become a bank holding company so it can tap the Tarp and issue debt guaranteed by the Federal Deposit Insurance Corporation. Which quasi-bank will step up next seeking full banking status?



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"Until they show us the plan, we cannot show them the money," said Nancy Pelosi, speaker of the House of Representatives, citing the lack of specifics that the Big Three executives had detailed in their request for government monetary support. They have until December 2nd to present a viable plan in return for a \$25 billion bailout.

Iceland has borrowed \$10 billion from an array of lenders to avoid economic collapse. But will it be enough? Likely not; Iceland has already agreed to repay depositors with money in Icelandic banks in the United Kingdom, the Netherlands and Germany. That could cost as much as \$8.5 billion.

"In short, things are most likely going to get much worse than better for Reykjavik. The government has already suggested that it may need as much as \$24 billion to pay back all its banks' debts. That may actually be only the near-term figure, with the total likely somewhere around \$50-\$60 billion-more than seven times the country's gross domestic product of \$7.5 billion." [Stratfor](#), November 20, 2008.

Friday 21st November

"Fear stalks big economies-Sharp rise in US jobless-Employment outlook in China grim-Japan sees exports slump." The Financial Times headline Friday 21st November.

No comment required, it, virtually says it all.

What a week for Citigroup and not in a good way. Its share price opened the week at \$9.36 and closed the week at \$3.77, in spite of Prince Alwaleed Bin Talal, its largest shareholder, planning to invest another \$300 million in the company. When does the run begin?

Gold mining shares, have we seen the bottom?

On Friday, the HUI Gold-bugs Index closed at \$212.85, up a whopping 27.45% on the day. Three weeks before the HUI touched \$150, which was a price level not seen since July 2003, when the gold price was only \$350 per ounce.

A daily price close above \$228 would be at least short term bullish. Friday's big price increase will be difficult to reverse, so cautious optimism is warranted.

Is money returning to the gold sector? During the week both Agnico Eagle Mines and Red Back Mining announced capital raisings. Agnico is raising \$252 million and Red Back in a bought deal was initially raising \$40 million, but due to very strong demand this was increased by 50% to \$60 million.

The price of gold had a good week. On Monday the opening price was \$740 and the week closed with gold at \$802. Friday was a very good day with gold closing up \$53.30. (All prices Comex December contract)

The stock market didn't fare as well. The DJIA was down 448.6 points on the week. But for Friday's 494 point gain, based on the news that Mr. Obama has selected Timothy Geithner, president of the Federal Reserve Bank of New York, to be his Treasury Secretary, things would have been a lot worse. But we're nonplussed; why would Mr. Geithner fare any better than Mr. Paulson in sorting out this mess? We'll put it down to hope springing eternal.

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