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"Gold's outlook is looking more bullish every day!"

"Europe is about to be swept up into chaos, the US is looking ominously like Japan did before its ongoing depression started, and gold's supply is falling just as its demand is swelling.

"Gold has never looked more promising!"

James DiGeorgia, Editor

- **US government is telling *bald-faced lies* about our economy**
- **Major gold mines: their production is sinking!**
- **Respected Middle East think tank tells OPEC countries: start buying gold immediately!**

Just when I thought gold couldn't look any more bullish…it does!

Europe was staggered this month with two "no" votes against the proposed European Constitution. The Netherlands' vote wasn't that surprising, but France—one of the original founding members of the European Union, and one of its strongest advocates—shocked everybody by rejecting it too.

Now the future of the entire Union is at doubt. The European Constitution has to be unanimously approved to be instituted. And there's no backup procedure for what would happen if one or more countries refuses to accept it. The Union is suddenly in political limbo.

Now we're going to see chaos descend on Western Europe, as the politicians try to ram the Constitution down the voters' throats anyway (the Constitution allows for approval by a member government even if that country's voters disapprove). The backlash might get ugly—even violent.

Europe's overall economy was already sick—now the whole thing is about to get worse. Much worse.

Of course, investors are now fleeing the euro. The dollar has strengthened as a result. But despite the stronger dollar…

Gold is looking great!

Media commentators usually sneer at gold, saying it's only worthwhile to protect against a falling dollar. And it's true that gold usually leaps upward as the dollar falls.

But lately, the dollar has surged upwards instead. (I think this is temporary, but that's beside the point.) If gold was only good as a counter-play to the dollar, gold should have fallen. But it hasn't!

Yes, it sagged briefly on the news, but then it reasserted itself. This shows that gold has many other bullish factors pushing it upwards, as I've been saying all along. There's lots of news lately reinforcing this. I'll start with…

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Our faltering economy

Alan Greenspan has been publicly scratching his head lately over long-term interest rates. Despite the Fed's jack-up of short-term interest rates—ratcheted up eight times in the last two years—long term rates have fallen instead. He says it's a "conundrum" and "clearly without recent precedent."

Well, some of us aren't surprised at all. Our government spending orgy and national trade imbalances have been bleeding us dry. Greenspan's been pumping up rates as if the economy needs to be held back from growing too fast—but that's not the case at all.

By pushing long-term rates down, the markets are telling us that the Fed is dead wrong in trying to "cool down" our economy. It doesn't need cooling down—it's sinking, not overheating. Instead, the markets anticipate that the Fed is going to have to reverse itself and drop rates again, to try to bring the economy back to life.

Greenspan actually understands this part—he warned that the markets are signaling "economic weakness." Federal Reserve Governor Kohn gets it too. He recently spoke of global trade imbalances and worried that they're "moving into unfamiliar territory." With the US borrowing $2 billion per day just to make up for our trade deficit, we've never been so far out of whack.

And that was before the stunning rejections of the European Constitution. Europe's troubles are just beginning, and Europeans will be buying even fewer American imports than before. That means our trade imbalances will get *worse* instead of better.

How bad are they now? Just look at the auto industry—US companies are reeling. Since 2000, foreign-brand cars have leaped from 35% of the US market to 43%. General Motors now makes less money building cars than it does lending money to the car buyers. It used to be a car company—now it's turned into a (poorly-run) finance company with a (shrinking) manufacturing division.

And cars are just one piece of a larger pie. Since 2001, American manufacturing jobs have fallen by 16% (2.8 million jobs).

Meanwhile, foreigners are starting to take over our home mortgages. According to the *Wall Street Journal*, foreign holdings of debt backed by American mortgages have surged 80%. So when the real estate bubble pops (I'll talk about this in a moment), it will be foreigners foreclosing on our homes.

And you might have heard about the May jobs report—it was grim. Only 78,000 jobs were created…but that's after the government's bogus "birth/death adjustments" that I explained in last month's issue. Without that adjustment, we actually *lost* 129,000 jobs.

But despite a faltering economy, Americans are merrily plunging further into debt. A recent Federal Reserve report says Americans are refinancing their homes and spending half the money for cars, vacations, home improvements, and other consumer expenses. (Much of the rest is being used to speculate in real estate.)

We're using our homes as giant ATM machines—pulling cash out and going further and further in the hole.

Overall, we're drowning in debt today. Since 1990, median household spending has risen 30% (and that's *after* adjusting for inflation). But median household income has risen only 11%. Median household debt has leaped up by a whopping 80%, including skyrocketing credit card balances (up 23% in the last five years).

The danger signs are everywhere. But nobody's noticing. Instead, the government is apparently trying to cover things up…

The White House just issued a press release, saying this year's budget deficit is lower than anticipated. But this is a flat-out lie!

The release said previous estimates were for a $427 billion deficit, but now it's more likely to be "only" $350 billion. I was stunned when I saw this in the newspaper—how can the media even reprint this garbage?

This year, our national debt has climbed from $7.38 trillion to $7.80 trillion. That means we've *already rung up* a $420 billion deficit this fiscal year, and there's still three months to go.

Are we going to spend the next three months *paying back* $70 billion dollars, to get back down to the $350 level for the year? Or is the White House just lying to us? Which do you think is more likely?

Also, I've mentioned before how stock buybacks are a sign of economic weakness—companies are supposed to spend their cash on expanding their businesses, and a stock repurchase means they don't see any good ways to do that. Stock buybacks are now up to 8% of total company cash, up from just 3.1% a year earlier.

Recent announcements add up to a whopping $61 billion in buybacks: $10 billion for Dell, $3 billion by Yahoo, $2 billion by Home Depot, and lots of others. The *Wall Street Journal* said this shows corporate executives are "worried" about the economy, and the health of their companies.

Surprisingly, the *Journal* is only one of a growing number of media talking about our crumbling economy. A recent article discussed all our economic imbalances, and asked: will the global rebalancing "be chaotic, with a dollar collapse, much higher US interest rates, and perhaps a global recession?"

Another article complained:

"Economists are reading the wrong fairy tale. This isn't a 'Goldilocks' economy—not too hot, not too cold—as many have called it. Instead, it's more like 'The Emperor's New Clothes.'

"The emperor, in this case, is Federal Reserve Board Chairman Alan Greenspan…"

All this is bad enough. But even if our economy was healthy (which it isn't), it would still be doomed by…

Latest prices as GEA goes to press—June 15, 2005

Comex spot contract: silver $7.30, gold $428.40
Nymex spot platinum: $877.00, palladium $188.00
Nymex Light Sweet Crude Oil $55.50

Silver coins		Dealer will buy at this price	Dealer will sell at this price
100 1 oz. silver American Eagles		$840	$960
100 1 oz. common rounds		$740	$860
$1,000 face value US pre-1965 coin bag (circulated)		$4,700	$5,700
$1,000 face value US circulated silver dollar bag (VG or better)		$8,200	$9,200
US Morgan silver dollars	PCGS MS64	$42	$55
	PCGS MS65	$110	$160
	PCGS MS66	$300	$360
Platinum coins			
U.S. Platinum Eagle:	1 oz.	$870	$990
	1/2 oz.	$440	$520
	1/4 oz.	$220	$320
	1/10 oz.	$90	$160
Gold coins			
Australian Kangaroo		$415	$470
British sovereign (Kings)		$96	$135
(Elizabeths)		$97	$135
Canadian Maple Leaf		$415	$480
Credit Suisse 1 oz. gold bar		$410	$480
Mexican 50 peso Centenario		$490	$560
South African Krugerrand		$410	$470
US Gold Eagle:	1 oz.	$423	$480
	1/2 oz.	$200	$250
	1/4 oz.	$98	$140
	1/10 oz.	$44	$57
US $20 double eagle:			
Liberty	Raw MS60	$490	$570
	NGC MS63	$700	$850
	NGC MS64	$1,150	$1,750
	NGC MS65	$4,150	$4,850
Saint Gaudens	Raw MS60	$500	$600
	NGC MS63	$600	$725
	NGC MS64	$650	$780
	NGC MS65	$1,100	$1,350

Prices courtesy of Finest Known, Boca Raton, FL.
(800) 806-3468.

Oil: Gathering strength for its next move up

The Department of Energy recently predicted "new records" in oil prices, averaging $60 per barrel just in the near future. Coming from a conservative government agency, this is shocking news, and means the true prices will be higher still.

Why? The news from oil-producing countries is that oil will be shooting up soon—even higher than its recent record.

For example, Mexico is the second-largest supplier of oil to the US (after Canada. Saudi Arabia is third). All Mexican oil is produced by Pemex (Petroleos Mexicanos), the huge state-owned oil monopoly.

But Mexican exports to the US will soon decline. Pemex can't supply all of Mexico's needs: Mexico is now spending $14 billion importing natural gas, gasoline, and petrochemicals. Mexico's domestic demand is growing, and Pemex can't keep up.

Plus, Pemex's output is about to fall off a cliff. Pemex currently produces about 3.38 million bpd (barrels per day)—and almost two-thirds of it comes from the giant Cantarell field in the Gulf of Mexico. But Pemex officials recently said Cantarell has peaked: its output will start to fall next year.

The country is running out of oil fast...

Without further discoveries, Mexico's oil will be completely gone in just 11 years.

And new discoveries now would be too late anyway: it takes years to find, confirm, and develop a new field.

The Mexican oil industry is doomed—and it's bye-bye to the United States' second-largest supplier of oil.

Further south are more growing problems. I've written before about the lunatic dictator of Venezuela, Hugo Chavez. Normally we wouldn't care about a banana-republic tyrant, but Venezuela has the sixth-largest oil reserves in the world: bigger than the US, Canada, and Mexico *combined*.

More and more, Chavez is rattling his sword against the US. He just bought 40 Mi35 helicopters and 100,000 Kalashnikov assault rifles from Russia, and is trying to buy ground-attack planes and Spanish naval ships. He says President Bush is a "jerk" whose administration is a "mafia of assassins." (He also says Condoleeza Rice lies in bed at night dreaming about him.) What's worse, Chavez is now asking Iran to form a *nuclear* alliance, presumably against the US.

Venezuelan oil is important to the US, but he's threatening to stop selling it to us. And even if he doesn't stop the sales, there's a growing problem in his country…

Venezuelan oil production has plunged, and is still sinking

Chavez recently admitted, "We have a little problem…" He said Venezuelan oil production has dropped by 200,000 bpd. International observers say it's actually nearing a staggering 1,000,000 bpd.

Chavez has ruined his oil industry by seizing its assets and chasing out the Western energy companies that were running everything. To "fix" his oil problems, he's ordered Venezuela to prepare for a "great leap" forward—which is quoting Chinese Communist dictator Mao Tse-Tung's plan to revolutionize Chinese agriculture in the 1950's.

By the way, you might remember Mao's "great leap" forward didn't help Chinese agriculture at all. Instead, it destroyed it, causing a huge famine. (Apparently Chavez's history books didn't mention that part.)

So Venezuelan oil is doomed too.

Meanwhile over in Russia, the president of top Russian oil producer Lukoil just announced Russian oil production has "stabilized." That's a nice way of saying the recent increases in Russian production have come to an end.

In the last couple of years, Russian oil production had made a great recovery from the disastrous Communist mismanagement. Growth was about 9% per year, up 2.7 million bpd since 2000. This satisfied almost *half* the total global increase in demand during that time.

But as I predicted last year, that growth is now over. The Nazi-like show trial of Mikhail Khodorkovsky, head of former Russian oil giant Yukos, just ended (he got nine years in jail for trumped-up charges). It showed the Russian government has seized control of the oil industry, which has scared away desperately-needed Western investment. And oil production will no doubt plunge under the new government "management," just like everywhere else in the world this has happened.

And even without government bungling, Russian oil exports are projected to drop, since domestic demand is growing. In fact, demand for oil is growing all over the world…

Global oil demand is projected to grow by 2 million bpd this year. Where will the new oil come from?

And there's a final piece of the puzzle yet. Even if all this new oil magically appears from somewhere (despite all the gloomy news from Mexico, Venezuela, Russia, and other places), it won't do us much good.

Why? Because we won't be able to refine any of it into useful products!

Refineries worldwide are already running flat-out. In 2003 and 2004, world oil demand grew by 4.6 million bpd, but refining capacity grew by

Oil Stock Update

My purpose in the *GEA* is to give you profitable recommendations, for both short-term gains and long-term (buy and hold) profits.

Although over the long term prices are moving higher, the energy markets are volatile. That gives us many short-term opportunities. For example, we just took profits on two recommendations from last month's newsletter: 15.14% on Bill Barrett Corp., and 16.51% on Berry Petroleum.

Total time from recommendation to profits: only 20 days!

But over the long term, a different strategy is necessary. Remember, our country has a long-term energy problem that's not going away any time soon. This will drive some of the recommendations I give you, and it's important to keep this in mind.

Over the next several weeks, I'll be issuing a series of reports about the market signals and other factors I use to make decisions about buy-and-hold stocks. This should help with many of the questions I've been getting about specific stocks.

Watch your email for notifications as they're released.

only 700,000. This year, with demand expected to increase nearly 2 million bpd, refining capacity is forecasted to grow by less than half that amount.

So even if we get more oil, the end-product prices of gasoline, diesel, jet fuel, plastics, etc. are going to stay sky-high.

We desperately need more refineries. But we aren't going to get any—there haven't been any new ones built in the US since the late 1970's. The regulatory and environmental hassles are too high, and too expensive. (Plus, it takes years to plan and build one anyway—too late to help our current crisis.)

We're going to be smacked with permanently high gas prices from now on!

We're not getting the oil we need, the oil we are getting can't be refined, and even the gas stations themselves are getting hurt and will have to raise profit margins soon.

That last part is strange, but true. Oil has shot up so far, the gas stations have had to shrink their profit margins to reduce the shock to the consumer. Profit margins for self-serve gas were only 7.7 cents per gallon in the first quarter (down from 9.1 cents for 2004). The big oil companies are being forced out of the retail fuel business: Chevron, Conoco Phillips, and Exxon Mobil have all sold gas stations. And Royal Dutch/Shell used to have 22,000 stations back in 2001 (800 of which it owned and operated itself): now it has only 16,000 (and owns & operates *none*). Company-operated stations have fallen from almost 15% of stations six years ago, down to 10% today.

High oil and high gasoline has already smacked our economy hard, and now it's about to get worse. This just means…

Gold is looking more bullish than ever!

And not just because of our groaning economy, or higher oil prices.

As I mentioned earlier, even though the dollar has popped up lately, gold hasn't been affected. There are lots of reasons gold is going to flourish.

First of all, the Euro Union vote has meant a tumbling euro. But this currency was one of the major alternatives to the dollar. Investors looking for non-dollar investments will now increasingly look to gold.

Even as a stand-alone investment, gold is looking stronger. Demand is surging upwards (more on this in a moment), but production is actually *falling*. Global production was down 4.4% last year.

Why? Two reasons: Australia and South Africa.

Australia is the world's second-biggest gold-producing nation, and its gold mines are stumbling badly. Australia's gold output sank to a 9-year low in 2004 (down 6.5 %).

But in South Africa, the world's largest producer, the situation is even worse. Gold output has plunged about 60% since 1971, flirting with lows last seen in 1947.

Here's why. Gold is priced worldwide in dollars, but South African mines have to pay their costs in rand (the local currency). Since the dollar has fallen against the rand, the mines are getting fewer rand when they sell their gold.

And South African mines are tremendously expensive to operate—some are up to two miles deep. On top of that, wages and local costs are rising. So mines are costing more to operate but getting less profit for their product. As one analyst has said, "There's simply no incentive for companies to invest in expanding existing operations or considering new operations."

The *South African Mining News* just quoted the CEO of Randgold Resources: he said it's "unfair to expect South Africa's deep-level gold mines to continue operating profitably at the current low rand gold prices." That's putting it mildly. For example, DRDGold just announced its South African mines might be closed, and 5,600 workers laid off. Either way, it warned there will be "less production" than today—so gold production will tumble even further.

While gold production is falling, demand is soaring. Consumer demand was 20% higher in 2004 than the previous year: India was up 17.6%, China was up 13%, and Turkey (the third-largest consumer) was up 18%. And all this was *despite* higher gold prices.

Now China even has a newspaper printed on gold paper. The Beijing "Chinese Flourishing Period" is 20 pages long, printed on 16,000 square centimeters of gold paper. Chinese interest in the yellow metal is so strong, the Ministry of Labor and Social Security has authorized a new job: "gold investment analyst."

Over in India, some estimates are for 30% higher gold sales this year. And this isn't just jewelry: gold coin sales are also up. One bank has seen sales shoot up 10% in just a few weeks.

In the US, gold is looking strong. In the last few months, officers at a few prominent Wall Street firms (including Merrill Lynch and Morgan Stanley) have shocked the markets by advising their clients to buy gold. Remember, Wall Street brokers peddle stocks and bonds, and every dollar that goes into gold comes out of their pockets (or so they think). Wall Street *hates* gold…but even advisors there are admitting gold is in a bull market.

Advisors in other countries are saying the same thing. Jonathan Barratt from Australia's Tricom Resources recently pointed out, "If the US [economic] story is positive, you have an inflationary story, which is good for gold; if crude pushes through $60 per barrel you have cost push inflation; if it comes down to $35 it promotes growth

Are we in a housing bubble?

Seems like everywhere you look, the media are running stories about a real estate bubble. And it's easy to understand why.

Existing-home sales leaped upward 4.5% just in April. The median home price was up 15.1% from a year earlier, the biggest increase since November 1980. And housing prices have gone ballistic in many areas of the country. For example, prices in some areas of Florida have *tripled* in just five years.

The *Wall Street Journal* just ran a poll on its website. 81% of respondents thought US real estate was in a bubble. Ironically, that probably means the bubble still has a ways to run yet. Bubbles climb a "wall of worry" on the way up: everybody sees what's happening, and is too scared to jump in. But the bubble swells and swells, until even the skeptics figure it's really "different this time" and jump in. When the last bear capitulates, *that's* when bubbles usually pop.

Real estate bubbles normally wouldn't concern us in the *GEA*, but this one has a scary side to it. When this one finally blows, a huge amount of wealth is going to get wiped out, and much of what's left will be transferred to foreigners. Plus, our job market is going to get whacked.

Here's why. First of all, adjustable-rate and interest-only mortgages are now almost two-thirds of all mortgage originations. For example, in California interest-only mortgages are now 61% of new loans, up from less than 2% in 2002.

This means people are buying homes *way* above what they can afford, but they're banking on prices rising and bailing them out. If prices turn south instead, foreclosures will soar.

Investment bank UBS AG has pointed out this kind of activity is usually "symptomatic of the end of the housing cycle." When people are stretching to buy homes, prices are too high, and they'll soon peak and turn down.

This usually happens when interest rates are high. But we're still at historic *lows* for mortgage rates. If rates come back up, the market will crash hard.

And as financial researcher Stu Feldstein has said, this is "just one of several very scary things going on in the mortgage industry." Another is that people are pulling their equity out of their homes in record numbers to speculate in the market: in 2004, nearly 2.2 million households took out their home equity and bought additional real estate, usually as a rental property.

This is so popular in some markets that there's now a glut of rental properties. This will cause rents to fall and will put the landlords underwater on their mortgage payments, leading to forced sales of the properties.

All these factors paint a grim picture for real estate prices. And once the foreclosures start, the homes will be auctioned off and pressure prices down even further, creating a vicious circle that will suck more homeowners into default.

Some of the foreclosures might not be auctioned. I already mentioned that more foreigners are buying debt secured by mortgages. When those mortgages go into default, the foreigners will own our homes.

All this is bad enough. But it's sobering to realize the real estate bubble is one of the few props holding up our economy right now. Employment in housing-related industries has provided *43% of all private-sector jobs created* since late 2001. Once the bubble bursts, those jobs go away, and our entire economy gets dumped into the toilet.

And here's an ominous thought. You might remember Japan also had stock and real estate bubbles a decade ago. Both burst, and Japan's been mired in depression ever since. Here in the US, our stock bubble popped a few years back, and real estate will be next. Will we follow Japan into depression too?

and potentially inflation; and if equity prices come down as a result of interest rates moving up, then there is also a move to gold". Any way you look at it, the outlook for gold is great.

Gold is getting so hot, the US Mint just announced a new 24-karat US gold coin. American Gold Eagles are 22-karat gold (91% percent pure), but 100% pure gold coins from other countries have grown increasingly popular. The Mint has noticed that pure 24-karat coins are up to a full one-third of US sales, so they're going to issue some of their own. The Mint's director estimated the global market for pure gold coins will hit $2.4 billion.

I've gone on record predicting gold at $1,000 an ounce. Some industry analysts are now saying that's *too conservative* of an estimate. According to the *Mining Weekly*, gold will hit **$1,200 an ounce** in the next ten years. The article pointed to declining supply from official sales, increasing demand from China, and global gold production that will peak next year and decline afterwards.

I think gold will skyrocket long before then. The *Mining Weekly* article ignored the dying dollar, the US debt levels, and trade imbalances. And it also didn't include this shocker…

The prominent Gulf Research Center in Dubai has recommended that all Middle Eastern oil countries dump the dollar and pile into gold!

The Center endorsed the theory (prominent among some gold advocates) that Western central and commercial banks have manipulated gold prices downwards. This manipulation was done to cover up the hollowing-out of the US dollar (when gold prices are weak, the dollar looks strong).

This theory is hotly argued in gold circles, but I haven't mentioned it in the *GEA* before. There's no way to prove it, and there's so many bullish factors for gold otherwise that it doesn't really matter. But if it's true, as the Center now believes, Western banks have much less gold than they claim.

Here's the theory. Western banks claim to have lots of gold, but it's no longer in their possession. It was leased out to industry players, who then sold it into the market. (This allowed the central banks to suppress gold's price, while still claiming to own the metal they're supposed to be safekeeping.) The idea was that the leasing players would buy gold on the market later and return it to the banks.

But this means the banks are extremely vulnerable to a spike in gold prices. When gold goes up, it gets much harder for the leasing players to buy it back and fulfill their leasing agreements. Since much of this leasing took place back when gold was in the upper $200s and lower $300s, the banks are in serious trouble now. Their vaults are empty, and their leases are about to be defaulted upon.

Is all this true? There's certainly a lot of circumstantial evidence for it. And it wouldn't even be the first time: Western governments manipulated gold's price for years in the early 1960's (in the "London Gold Pool"). But that scheme failed eventually, as all price manipulation schemes do: with a violent price breakout. Gold leaped up 17% almost immediately after the manipulation was broken, and five years later was up 340%. Then it went up another 600% within the next seven years.

The Center has predicted today's manipulation of gold prices will fail just as the London Gold Pool did. Once it does, "it will be highly difficult and expensive to accumulate a gold reserve. This is especially true for central banks that have low gold reserves like those in the Gulf Cooperation Council countries…

"**The paper dollar standard is a dead man walking**. Its debt, accumulated over the recent decades, is too high to be effectively repaid. It will either default or be inflated to such an extent that it will not 'hurt' to pay it back. Therefore, the accrued imbalances in global finance and the inherent weakness of worldwide growth models that rely on a continuance of US deficit spending are likely to usher in a serious crisis of currency systems in coming years…

"Gold will be a suitable means of asset protection and ultimate payment in such a scenario. It will preserve the wealth of individuals and central banks alike and will ensure important maneuverability for the latter."

So the Center is recommending all Middle Eastern oil countries dump their dollars now, because the greenback will be inflated into toilet paper soon. Instead, oil countries should buy all the gold they can get their hands on. Once gold breaks out, its price will shoot up to permanent new highs, and then it will be too late to get in at reasonable prices.

Dump dollars, and buy gold. I think that's good advice for all of us!