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Watch

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**The US
ECONOMY
is in Serious
MESS**

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JAMES TURK,
Founder & Chairman,
GoldMoney.com

Gold's Undiminished Appeal

Wheat Continues to Hog Limelight

Base metals and global economy— what lies ahead

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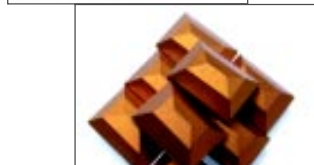
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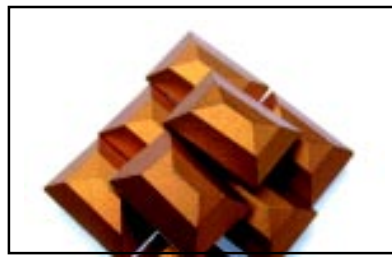


The US Economy is in Serious Mess

- James Turk

"The US economy is in big trouble, it has been in big trouble even before the subprime fiasco began. However, now it is in the serious trouble. More serious trouble because the housing industry was the last prop of the economy and now its gone." Mr. James Turk of Goldmoney.com discusses this and many other related issues in a free wheeling interview. Read on [page 10](#).

COVER STORY



The US Economy is in Serious Mess

- James Turk

You don't come across people like James Turk every now and then. Founder of GoldMoney, a new electronic currency for use in ecommerce, Mr. Turk is a person with a keen eye on imbalances in the global economy. Author of *The Illusions of Prosperity* (1985), *SOCIAL SECURITY Lies, Myths and Reality* (1992) and several monographs on money and banking, Mr. Turk is one of those rare people who know well about the mismanagement of the economy and who are not afraid to call a spade a spade.

His articles have appeared in numerous financial publications. He frequently speaks at investment conferences on Gold, money, and the international banking system, and often appears as a featured guest on radio and television. His latest book, *The Coming Collapse of the Dollar* was published in December 2004. *Commodities Watch* was fortunate to catch up with him during the recently concluded Gold Convention in Mumbai. Here is what he had to say about gold, the US economy and a whole lot of other issues:

CW: Thank you so much for sparing your valuable time with us. Now...there are two perception in the markets; one, that gold is a monetary metal and second, that it is a commodity. What is your opinion?

JT: It's clearly moneyyou know it is the only asset that we produce for accumulation.

Look at wheat...it is grown but consumed, soybeans are grown and again consumed...even copper is consumed in a way after all because some of it gets lost over time. But gold is accumulated. And the reason why it is accumulated is that it is not really good for anything other than its use as money. So I completely disagree with anyone who says gold is not money. It is money nothing more nothing less.

CW: It seems that futures to spot ratio which is seen in other commodities like wheat or copper is not seen in gold and silver. The futures to spot ratios are much higher in these precious metals...much like currencies. In other words the two metals trade more like currencies rather than What do you make out of this?

JT: Yes...gold is always trading in contango. In others words, the futures prices are always more than the spot prices and the reason is

that is the interest rate or the so called cost of carry. So, you will never see gold in backwardation...except during a real crisis. When people doubt someone's ability to deliver in future then they crave for physical gold right now. In that case the spot price will trade at a premium to the future price.

CW: But that's very rare.....a crisis situation where people believe in the present but not in the future.

JT: Exactly, and they would rather have gold in their hands rather than have someone's promise to give them gold at some point of time in the future.

CW: Since it is monetary metal do you see it in competition with stocks or mutual funds? Many a times people compare it with equities and say that gold it not giving returns as compare to Dow Jones and S&P 500. is this kind of comparison justify?

JT: Yes, this comparison is often made, but I'm not sure it is justified. Because gold is more than a mere investment. It's money. I will give you an example...if you have an ounce of gold today you can purchase with it the same amount of crude oil that you could, say, sixty years back. In others words it not an investment because it hasn't appreciated because you can only buy the same amount of crude oil as you could do sixty years back...but it's wonderful money because it

preserves your purchasing power. I have a chart that shows how gold is able to purchase more or less the same amount of oil today as it could decades back.

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The gold price went up during past few years from \$400 to \$700 and at the same time Dow went up from 10,000 to 13,000. Now what that's telling me is that people are losing faith in the dollar and they are either investing in gold or in near-tangible assets like equities.”



CW: Traditionally almost fifteen-sixteen barrels of crude oil could be bought with one ounce of gold

JT: Exactly...but I look at it in a different way. I look at how much crude oil costs in terms of goldgrams. Historically its about 2.3gg/ barrels. Presently, its about 3 gg/ barrels. So crude oil is relatively expensive today whereas gold is relatively cheaper.

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Central banks are diversifying out of the dollar because they are recognizing that the USD has problems. If they are diversifying then we individuals also should be doing the same.”

CW: Very true.....I believe this diversion has taken place after year 2000....in the new millennium, to be more correct.

JT: Yes, that's right. It has happened over past several years and that's partly because the central banks are trying to keep gold from rising. They are in other words trying to kill the messenger because the only serious competitor to the US dollars is gold. Therefore by suppressing gold's price, they believe they can make the dollar appear worthy of being world's reserve currency when in fact it is not.

CW: It's losing that status

JT : Absolutely. And losing it rapidly.

CW: Very true.....recently the government of Kuwait announced the unpegging of their currency with dollar....

JT : Yes....in fact I was in Dubai a couple of months ago....and the talk was that the UAE was also going to do the same, as well as Saudi Arabia. Of course its not just happening in the Middle East, its happening all over the world. Central banks are diversifying out of the dollar because they are recognizing that the USD has problems. If they are diversifying then we individuals also should be doing the same at the personal level....as well as on the company level.

CW: China currently holds the largest bag of forex reserves in the history of mankind. At the last call the Chinese government was possessing reserves to the tune of 1.3 trillion dollars. During January to March 2007 they added roughly 200 billion dollars to that kitty. That's about 1.5 million dollars per second. At the same time Japan is holding about 800-900 billion dollars. Do you think this governments will shift a part of their reserves from dollars to gold?

JT: Its a big question....but the answer is simple: Yes for China; No for Japan. I have been to both the countries recently and I was in Japan with the people of the ministry of Finance and their perception seemed to be that they were 100% committed to the US dollars as well as maintaining the dollar system. On the other hand China is actually diversifying its reserves into dollarsand as well as into



tangible assets ...into the commoditiesthey just bought 10% of BlackRock. They are actually diversifying out of the dollars and buying real things. China says that it has reserves of 1.2 trillion dollars and therefore people think that all this money is invested into the dollars or dollar denominated assets...but it's my belief that they are holding only about 400 billion dollars, and the rest of the money lies in equities and commodities or commodity related assets. And I think they are doing it quietly. Because, if you are a buyer of assets then why tell the world and jack up the prices. In the same way...I think the gold which is being dishoarded by the central banks in Europe.....is quietly being accumulated in China and Singapore.

CW : In Singapore as well?

JT: Yes in Singapore as well.

CW: What kind of indicators lead you to this belief? Some perception you have got looking at some parameters?

JT : I lived in Asia during 1970s...and at that time I worked quite a lot with Chinese businessmen, and I realised that Chinese people have the same feelings towards gold as Indians. It's in their blood just like is the case with the Indians. Right now particularly gold is undervalued so I think that money is actually going into gold and as a consequence I think the price of gold has to rise in near future to bring the demand back in place. Physical gold demand is very strong.

CW: But don't you think such purchases by China and Singapore should have come into the visibility of the BIS?

JT: No they don't, because the central banks hide on their balance sheets what they are doing with their gold. If you look at most central bank's balance sheet they count gold in the vault and gold out on loan as the same thing. Central banks don't report openly how much gold has been leased out and how much they actually have. That is why many people believe that the central banks have far less gold than is being shown in their balance sheet. Lot of this gold has gone into the markets and is now irrecoverable. Though it's claimed that central banks and the IMF together hold about 29,000 tonnes of gold, my own personal belief is that it is no more than 14,000 tonnes, at the most 15,000 tonnes. The rest has been loaned out into the markets during the past 10 years.

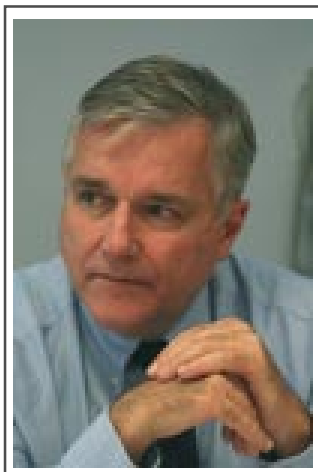
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CW: And obviously there is very little likelihood of it coming back...

JT: Exactly. And most of that is going into Asia. Some of this is being converted into gold jewellery while the rest is going into local central banks. The last report of the Chinese central bank said that they were holding 550 tonnes of gold. I think the number must be close to 1,500 or even 2,000 tonnes. They have been slowly accumulating this quantity over the years.

CW: True. I believe if ever this news was to get aired, the price of gold will go a few notches higher...

JT: Yes, we are going to see very high prices very soon. We are in a bull market and this bull market is going to be much bigger than what we saw during the 1970s. Remember its not that the gold price is going up...its simply that the dollar is going down.



CW: True...true...too much printing of money...as well as increase in money supply.....

JT: That's right. Look at what happened during the past few weeks. The governments created five hundred billion dollar out of nowhere...just by the stroke of a pen. That is very very inflationary. It is my understanding that as more

and more people get informed about these issues....they are going to take their money out of dollars...as well as out of other national currencies and pile into gold.

CW: True. And here is the anomaly. On one side money is being printed like never before, and on the other hand the amount of gold that is produced every year is constant. Even today with the gold costing about 700 dollars an ounce, the total annual mining output comes to no more than 56 billion dollars...

JT: That's very right. And of course, remember with gold there is no counterparty risk. You know when you take a national currency or a bank deposit you have a counterparty risk and that's becoming increasingly important with things like subprime.....the commercial paper backed by subprime assets which had really no value has become a problem. So there is growing risk of counterparty risk with national currencies whereas, with the gold you have nothing like that. And that is one of gold's best attributes.

CW: Talking of US housing industry debacle, Lehman brothers is going to sack more than 1,200 employees, Countrywide is talking of sacking up to 5,000 of its employees. Put together all the banks and other mortgage sellers are expected to handover pink slips to more than 100,000 employees due to subprime debacle. Do you think the meltdown in the US housing industry is going to cost the economy very dearly? After all, all these

people who get thrown out of their jobs are not likely to have lot of money left for consumption. And as you know consumerism is responsible for 70 per cent of the American Economy. So do you see the US economy going through an extended suffering?

JT: Absolutely, the US economy is in the big trouble, it has been in the big trouble even before the subprime fiasco began....However, now it is in the serious troublemore serious trouble because the housing industry was the last prop of the economy and now it's gone. The housing industry was boosted by the US government simply because they knew well that they can't manufacture cars or other things competitively so let us make houses.

CW: That's right.

JT: Yet another prop is to print paperto print worthless IOUs....that is going to go on.

CW: True. But there is a question: If Mr. Bernanke steps on the gas...and goes on printing more and more.....what do you think will happen in let us say 3-5 years from now? Where will the gold price be?

JT: It's going to soar. It's going to be another Weimar Germany scenario. To me gold is so undervalued that I can't see what it can do except go higher. To me it's a very clear path. Obviously nothing is ever certain in our world and anything could happen that I can't foresee.....but during past six years gold has gained by 15 per cent per year against the US dollar. I think that performance is not just going to continue but even accelerate as we go forward....specially now with the subprime and commercial paper blow up. These things are causing people to look at save havens and gold is the best safe haven in the world in times of crisis.

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Most people in the US are not prepared for a calamity and thus are not going to be able to cope up with the disasters that await them. But just like the Great Depression when it occurred some were ready and others were not. Those who were ready sailed through easily and those who were not ready suffered the consequences. ”

CW: True. Many people feel that if the US dollar has problem why not shift your money to currencies like Euro or Yen. Do you think such a move is justified?

JT: Well...it's not so easy. You know the Yen is suppressed by its own government.....On the other hand Euro has its own problems. There in fact is no currency like gold right now.

CW: So according to you the torch bearer should be gold?

JT: Absolutely, there are a couple of currencies that might make sense like UAE Dirham or Kuwait Dinar.....they are likely to appreciate

because they have oil reserves but they are neither a free currency nor a global currency so in reality they don't offer a solution.

“ Though it's claimed that central banks and the IMF together hold about 29,000 tonnes of gold, my own personal belief is that it is no more than 14,000 tonnes, at the most 15,000 tonnes. The rest has been loaned out into the markets during the past 10 years. ”

CW: And what about currencies like Australian, Canadian or New Zealand dollar? Again they are commodity based currencies, and as luck should have it, they have been rising steadily against the US dollar. Do you fancy them?

JT: They are again good currencies, but not something that can replace the US dollar. Take for example the Canadian dollar. I am bullish on it. Canada is a big oil producing country. It has all those oil sands and so has the potential to become a big oil supplier in the future but again is not a viable solution. In fact there is no viable solution apart from gold. You know...when the Sterling lost its role as global currency the US dollar took over. That was a logical replacement. If you look at the scene today you will find that if US dollar was to lose its status there is no other currency to take over. The only currency left is gold. This is the reason why gold is likely to return to its traditional role and occupy the centre stage of the global commerce....and I expect it to happen during the next 3-5 years.

CW: Very true....but there would be some serious sharp downward movement as well. After all nothing goes up in a straight line....

JT: True.

CW: Let us talk of a new phenomenon. Nowadays we often see gold falling along with the stock markets - in spite of having inverse correlation. Why do you think its happening?

JT: Yes you know it is interestinghistorically stocks and gold are inversely correlated...but over the past few years there have been some positive correlation between the Dow and gold. You know the gold price went up during past few years from \$400 to \$700 and at the same time Dow went up from 10,000 to 13,000. Now what that's telling me is that people are losing faith in the dollars and they are either investing in gold or in near-tangible assets like equities...If you buy Newmont or Goldcorp shares, it's not only gold but something near tangible because people expect that whatever may happen to the US dollar, these companies will stay in the business. So equities of commodity producing companies will do well. Oil equities will do well. On the other hand the equities of banks and financial services will go down.

CW: If the US dollar depreciates it will increase the cost of imports in the US, thus forcing people to consume less and less. Don't you think this is going to cause a whole lot of turmoil in

the social ranks? After all the economy ultimately touches every rank of the social structure, and when people have to change their lifestyle - specially from a rich one to a poor one - they crib a lot. What do you think will be the changes in the American social order?

JT: A very important question...,but one that's impossible to answer. I frankly don't know the answer. But I think there is going to be lot of disruption. Most people in the US are not prepared for a calamity and thus are not going to be able to cope up with the disasters that await them. But just like the Great Depression when it occurred some were ready and others were not. Those who were ready sailed through easily and those who were not ready suffered the consequences. So my expectation is that it's going to be the same scenario this time around. We have to be prepared and the best way to be prepared is to own gold and silver. They are the most liquid form of money.

CW: This is what some wise people did during the Great Depression. They bought scrips like Homestake mining..

JT: Absolutely. Everybody who had equities of mining companies did well. They were able to get through all the problems. Simply, because the counterparty risk at that time was very high. The banks were failing.. corporations were going bust....nobody trusted anybody anymore. All institutions seemed to be on path of disruption. Today, the Federal Reserve seems to be in the same position. At the same time it doesn't seem to be in the position to manage the ship. I think there are going to be lots of failures and broken promises. What we are seeing now is just the tip of the ice berg. It's going to be as bad as 1974 when there was a serious banking crisis in Germany as well as in the United States. That banking crisis brought a serious credit crunch. I think this time it is going to be much worse. You know with hundreds of billions of dollars created overnight to pump liquidity in the systemthat's not going to improve anything because confidence is being shaken.

“ During past six years gold has gained by 15 per cent per year against the US dollar. I think that performance is not just going to continue but even accelerate as we go forward. ”

CW: Though we have been talking - and everybody does so - about the US economy, the fact is that the economy of a whole lot of other countries is none too better. In fact entire global economy is floating on a cloud of gas. What do you think about that?

JT: True, but the US economy is more vulnerable than most because of all the debt and no savings. You know the US has negative savings for years against the countries like China who have savings' rate of 30-40 per cent. Besides, many of these people are self-reliant but relatively few in the US are.

CW: Mr. Turk, thank you so much for sparing your time with us.