

SA GOLDS and the RAND

- “moenie worry nie”

*Investment Indicators from Peter George
Wednesday, December 3rd, 2003*

Scripture

“Be strong and do not give up.
Your work will be rewarded.”

2 Chronicles 15 verse 7

Summary

From Tokyo, Japan, to Tokai in the Cape, there is increasing nervousness over the strengthening rand and its effect on the profits of SA gold shares. At first glance investors have every reason to feel concerned. At R2480 an oz, the current Rand gold price has slipped dangerously close to its April 2003 low of R2400, well down from its all-time high of R3600, reached as long ago as December 2001. Then dollar gold was a mere \$278 an oz. As we write it is trading over \$400, yet the Rand gold price is DOWN from R3600 to R2480. This has obviously been caused by a dramatic strengthening in the Rand/Dollar exchange rate, improving from R13,8 in December 2001, to its current level of R6,20. Amidst the gloom there is a ray of light. When the Rand gold price hit its peak of R3600, the JSE Gold Index was 1900. Today, with the Rand gold price hovering substantially lower at R2480 the index is significantly HIGHER at 2350. It has risen from being 52% of the Rand gold price, to a current 94%. (Index 2350/R2480) The ratio between the Rand gold price and the index is telling us something. A volcano is about to erupt.

Although, at its current level of 2350, the JSE Gold Index is well down from its May 2002 peak of 4000, in relation to the Rand gold price it is flying. That may give investors who are losing money cold comfort but share prices DISCOUNT the future. They tell us of things to come. CURRENCIES do the same. Between the JSE Gold Index and the Rand, investors are being warned the price of gold is set to take off. A minimum target for end 2004 could be \$600 an oz. but don't rule out \$850 as commodities boom in concert, returning to their peaks of 1980, and Central Banks print their OWN currencies to slow the Dollar's slide. Even if the Rand continues to strengthen, at a Rand rate of R6/\$, the Rand gold price would more than DOUBLE from R2480 to R5100. Should the Rand strengthen to R5/\$, the Rand gold price would still rise 70% to R4250. **More likely the Rand will consolidate round R6 for the next six months.** It traded at this level for a full twelve months in 1999, before breaking up. There is lots of resistance at R6. If the Rand stays steady, the JSE Gold Index can DOUBLE in the next 12 months. At \$850, it can QUADRUPLE from 2350 to 10,000. As they say in Afrikaans:

“Moenie worry nie!

1. The RAND is South Africa's share price

It is a popular misconception that Governments can control their nation's currencies. They can certainly manipulate them, but only for a period of time – witness US efforts over the last decade to promote a so-called 'strong dollar policy' in the face of failing fundamentals. They partly achieved this by 'rigging' the gold price. Keeping the price under wraps gave the false impression inflation was under control. This in turn kept long term bond rates far lower than they might otherwise have been demanded by international lenders. It enabled the US to drive deeper into debt than would otherwise have been allowed. In time US actions will return to haunt them.

More recently we have observed official intervention to slow the appreciation of the Yen. At one point in the process the Japanese Government was being forced to print sufficient Yen to purchase \$40 billion a month. Even that couldn't halt the dollar's slide. When the Bank of Japan's wholesale printing of Yen threatened to torpedo the Japanese Bond market by scaring off buyers, the Bank had to back off - and allow the Yen to strengthen. In less than a month it fell 7%, from 117 on 15th September of this year, to 108 by 10th October. As the Dollar collapse gathers momentum in the months ahead, we expect the Yen first to breach 100, but ultimately head for 70.

Reserve bank stands aside

Following Kevin Wakeford's courageous exposure of the Deutsche Bank 'Bear Attack' against the Rand in late 2001, the Rand's reversal into a bull market has been a classic case of free market behaviour. The SA Reserve Bank simply stood aside. To the contrary, exporters and collectivist economists have been bemoaning Government lack of action. We commend Government for being prepared to allow the market to run with the ball. Of late they have taken certain minimum steps to boost the country's gross reserves and have successfully eliminated the country's net open forward position. That is prudent. There is more they can do and we will discuss it later.

Gold versus Platinum

Two years ago, as the South African currency burst through R12 to the US dollar on its way to R13,80, we sent out an urgent E-Mail, begging clients to bring their money home. We based our case on South Africa's role as the world's commodity 'treasure chest' – but first and foremost as the world's biggest producer of gold. We went further in our promotion of the Rand by drawing a distinction between gold as ultimate 'money' and the general run of other commodities. The latter are more exposed to the vagaries of normal supply and demand and the trade cycle. Sometimes the two work hand in hand. In a depression however, they move in opposite directions. That is why in the thirties gold shares were priced in pounds, but platinum shares were bought for pennies, and farms were auctioned off for nothing. Gold is money. Platinum, to the contrary, is not. Fifty percent of current platinum consumption gets used in catalytic converters for the car industry. In a depression car sales will plummet. Goodbye platinum.

Although Central Banks may print money and promote easy credit to keep recession and depression at bay, the risk of failure is ever-present. Even now US M3 money supply is stalling as borrowers grow cautious. Gold however will thrive on the chaos which accompanies depression. In a financial meltdown it always serves as **asset of last resort**. It has done so since time immemorial and will do so again in the future.

Rand strength primarily linked to Gold

As we study the action of the Rand over the past twenty four months one cannot but link its returning strength, first and foremost, to **gold's emergence from an extended 22-year bear market**. Secondly, but to a lesser extent, it reflects the broad-based recovery in the price of all commodities – best represented by the rising trend of the CRB Index. (Commodity Research Bureau Index). As the Rand approached its nadir in late 2001, the CRB double-bottomed at 183. It has since pushed up to 257 – a rise of 40% in two years. Gold also bottomed in 2001, and at \$254 an oz. Its latest price of \$401 represents a 57% move in two years. As the Gold Cartel's stranglehold on the metal is broken, we expect gold to play 'catch-up'. It should rapidly move back to where it ought to have been. In the process it will easily overtake performance of the CRB.

Falling rates leave Rand unscathed

Contrary to popular opinion, we maintain the Rand's behaviour over the past twelve months has had little to do with interest rate differentials and everything to do with South Africa's role as the world's most diversified producer of commodities. The evidence against rates as the currency's main driver is indisputable. Despite a cumulative 5% reduction in Bank Rate over the past twelve months – bringing it down from 17% to 12% - Rand strength continued unabated. Even in the face of two recent, trend-changing rises in rates by the Central Bank of Australia and one by the Bank of England, the Rand continued to beat all comers.

Commodity Currencies warn of a coming boom in hard assets

We have plotted the competitive performance of the currencies of the main commodity producing countries **since December 2001**. We have included the EURO, and then compared all against the US Dollar. Starting from December 2001 they rank as follows:

1. The South African Rand, up from 7,2US cents to 15,6US cents, a rise of 116%.
2. The New Zealand Dollar, up from 41 US cents to 64 US cents, a rise of 56%.
3. The Australian Dollar, up from 50 US cents to 72 US cents, a rise of 44%.
4. The EURO, up from 90 US cents to 120 US cents, a rise of 33%.
5. The Canadian Dollar, up from 63 US cents to 76 US cents, a rise of 20%.

Recall from an earlier paragraph that the CRB, over the same period, rose 40%, from 183 to 257, before correcting back to 246. Clearly the top three commodity currencies are outpacing the CRB itself. They are effectively discounting further gains in **all** commodities. By way of interest, the CRB's 1980 all time intra-day high was 337 – another 37% above current levels. On a point and figure chart the CRB confirms this, giving a medium term upside count to 304. We expect that level to be reached and exceeded before the end of 2004. The strength of commodity currencies bears this out. By way of example, **Aussie Gold Miners are also under pressure**. In this respect South African mines are not unique. But the Rand's superb homerun sticks out like a sore thumb. Why?

2. Why the RAND is leading the pack

If the Rand is giving advance warning of a massive rise in SA commodity prices, it has to be focusing on the prospects for gold because that can potentially once again become by far South Africa's major export. Based on a 50-year close correlation between the prices of oil and gold, gold should be \$525 right now. Based on an even closer correlation between gold and the US money supply since 1933, when gold was worth \$20,67 an ounce, the current price should be over \$700. **(Read the attached**

article by ex-South African Paul van Eeden, now residing in Phoenix, Arizona in the US)

If all constituents of the CRB return to their respective 1980 highs by the end of next year, as certain astute market analysts project, then **expect gold itself to retest its own 1980 high of \$850**. That is more than double the current price. No wonder the Rand has **doubled in advance**.

Adjusting 1980 Dollar prices for inflation

In due course, as the Central Banks are driven by fear of depression to resort to a concerted effort to print, we expect the CRB to break through its all time high of 337, doubling again in the years ahead. That will not be the end. Gold will do the same. But gold will be doubling from \$850 – its previous all time high – to \$1700 as a result of depletion of the US gold stock. There again the ultimate top will likely be far higher, as Governments accelerate their printing. We do not expect this to happen tomorrow, but over the next three years the gains could be quite astounding. There is a further reason why prices deserve to double again. Take the price of Brent oil as an example. In nominal Dollar terms the price peaked at \$40 a barrel in 1980. In real terms the price would have to go back to \$90 a barrel in today's Dollars.

Russell predicts \$3000 gold

Veteran Chartist Richard Russell frequently stresses the powerful **inverse relationship** which exists between Gold and the Dow and has done so over the past century. He projects a crossover point in approximately three years time, when the Dow will have fallen to 3000 – from its current level of nearly 10,000 – and Gold will have risen to the same numerical level of **\$3000 an oz.** – from its current level of \$400.

This scenario is definitely a bullish one for the Rand. There may be the odd correction. When it comes it will doubtless be stronger than anticipated but many opportunities for profit have been lost in the past two years by currency traders concentrating on corrections but ignoring the **trend**. We believe the trend for the Rand remains strong for the foreseeable future – three to five years out at least. But we do expect a period of stability for the next six months as the Rand works through the considerable resistance which exists in the R6 area.

From now on, we believe the gold price will outpace the currencies

The panic over the extent to which the strong currencies of South Africa and Australia are damaging the revenue of their respective gold producers, is probably drawing to a close – if not now, certainly within the next two weeks. **Richard Russell is expecting gold to gap up sharply in the immediate future – probably the next week or so.** When this happens, gold mine revenues will turn up and the pressure will be off.

Rand's long term uptrend comes in at R6

With regard to the Rand there is a further reason. If one constructs a LOG CHART of the Rand since 1988, it would appear that the uptrend line comes in at R6, coinciding with the strong resistance we spoke of earlier. We would expect at least a six month bounce off the trendline, before the major trend is broken. Even then, we believe it will only do so when the price of gold has almost doubled.

3. A stab at a long term projection for gold

In the paragraph above we set out reasons as to why the next twelve months could see an explosion in the price of gold, from \$400 to between \$600 and \$850. The analysis completely ignores the outside chance of a massive short-covering panic. GATA (The Gold Anti-Trust Action Committee) believes there is a huge discrepancy between what the Central Banks purport to carry on their books by way of total holdings of gold, and what is actually there. The difference has been 'lent' to the Bullion Banks and effectively 'sold' because the chances of getting it back are virtually zero.

The likes of well-known gold experts such as Frank Veneroso and James Turk have convinced aficionados in the gold fraternity and most members of GATA, that the true level of Central Bank gold holdings is nowhere near the published figure of 32,000 tons. In fact it could be as low as 12,000 tons. It is common knowledge that the IMF advised Central Banks to keep 'lent gold' on the balance sheet – even when it had physically gone and was hanging round the necks of Indians. Both Portugal and the Philippines openly admitted they had been instructed to comply. This was dishonest and a blatant attempt to avert exposure. If the Bullion Banks 'borrowed' the gold when the price was below \$300, but only panic when the price races to \$500, it will be too late to rescue the Central banks from the disastrous effects of their foolish efforts to deceive the markets. They will never be able to buy the stuff back. They will have to write it off. When that happens, Paul van Eeden's ratio between the US money supply and the US Treasury's presumed stock of gold, will literally go out the window. Most of the gold may already have been sold, lent or pledged. If we are correct, the 'theoretical value' of this drastically reduced gold stock, will be at least double van Eeden's current target of \$700.

The foolish actions of the Central Banks allow them little scope for further interference in the market, whether by directly 'selling' or 'lending' the metal itself, or attempting to manipulate the price via the paper markets by artificially offloading derivatives. It helps explain why the Gold Cartel is being forced to fight an increasingly pathetic 'rearguard' action in attempting to slow the rise of gold.

Make no mistake; had the Gold Cartel been able to prevent the price from bursting through the crucial level of \$400, they would have done so. They patently could not.

Past history is a reliable guide to the future.

In the previous ten year 'bull run' from 1970 to 1980, gold rose from \$35 to \$850. This coincided with a major bear market in the Dow. Despite the continuing best efforts of the US Treasury's "Plunge Protection Team", tasked with massaging US equity markets during times of crisis, the current Dow rally will eventually run out of steam because across the board the boost to spending is almost exclusively financed by adding debt – much of it by extracting what little equity remains in the overblown US housing market.

If efforts to boost credit and print money continue, the international bond market will be the first to succumb. It will fall victim to growing fears of a **debt crisis**. If borrowers themselves catch fright and cut their spending, Gross Domestic Product could slump 20% overnight. This would be worse than anything which happened in the nineteen thirties. Lenders themselves might even precipitate such a move by dumping their bonds in advance. Certainly the prudent would be wise to do so.

Conversely, if in face of a threatened depression, Central banks accelerate their printing, the result could be an **inflationary depression** as happened in Russia. In either event, US long term interest rates look set to rise 50% in the next twelve months, before doubling again in the following two years. This will dramatically burst the property bubbles in the US, the UK, and Australia. Read a recent leading article in the Economist entitled: "**When Bubbles Burst**". A copy is attached. South African property owners would do well to read it. They will not emerge unscathed, particularly as the strong Rand begins to deter potential foreign buyers, and gives existing holders a good reason to take profits. Some may be forced to sell, having financed their South African purchases with bonds on their primary properties back home. A crack in these domestic markets will have a serious knock-on effect in South Africa. The same happens when major equity markets crash. The damage spreads throughout the world.

In Australia the Central bank has already reported a 9% fall in year on year rental levels with the 'buy-to-rent' market having reached saturation point. A Swiss client informs us it is becoming increasingly difficult to secure takers in their own housing market, whether for rent or purchase.

Sooner rather than later, many instruments of debt will become like poison pills. From junk bonds to long-dated Treasuries, they will be dumped and are therefore to be avoided unless there are sound reasons to make an exception – as in the case of South African Government Bonds. In the US, Fannie Mae and Freddie Mac – America's giant mortgage providers - will eventually be history.

The long term bear in world equity markets will eventually resume with a vengeance. When it does, the property markets will follow suit. The new bull market in gold will begin to accelerate. We believe the next decade in gold will mimic the previous run from 1970 to 1980. However, instead of going from \$35 to \$850 between 1970 and 1980, gold will go from \$350 to \$8500 between 2002 and 2012. **The average 34% per annum compound rate of growth enjoyed in the first period, will simply duplicate itself - but with a 'nought' attached to all the relevant figures. The compound rate will remain the same.**

Sometime during the process, the Dollar Standard will collapse. There is a risk it could drag down the entire FIAT money system at the same time. As Paul van Eeden says in his article on Gold attached:

"I don't like the EURO. It is the ultimate FIAT currency."

In its favour is the fact that the EURO block enjoys a trade surplus with the rest of the world, and on a net basis are major creditors – both to the US and the rest of the world.

The FIAT money system will inevitably give way. Because there is no limit on the amount of currency which each nation is entitled to print, the system lacks the inherent discipline necessary to ensure its survival. If you doubt these words revisit the history of the German inflation of the twenties. , the world will be forced to return to a Gold Standard, but at **far higher** prices.

4. SA Gold Shares offer far greater value

Until Anglo consummates its deal with Ashanti, Newmont Mining remains the world's largest gold producer with Goldfields SA at number four. However, when it comes to gold in the ground, the current capitalization of Newmont, at \$50 a share, places an approximate valuation of \$210 on each reserve ounce. In Goldfields case, with the share below \$13, the valuation is only \$70 – **less than a third of the price**. As a straight 'value play', any investor in his right mind would now switch his Newmont shares into Goldfields. If the dollar price of gold begins to rise sharply, and the Rand tracks sideways for the next six months as we think is likely, profits at Goldfields will explode from a low base. Those at Newmont will rise far less steeply and the shares are already trading on a very high multiple – probably in excess of 50 times earnings. Over twelve months we would therefore anticipate Goldfields and other South African producers to appreciate at least twice as fast as Newmont – even in Rand terms.

5. Plummeting inflation set to protect SA Mines

There are distinct benefits to having a strong currency. For the month of October the year-on-year South African PPI (Producer Price Inflation figure) fell to a negative 1,8% for the first time since the deflationary 1940's. Producer prices generally lead consumer prices by three to six months. The PPI itself lags the currency. If the Rand churns around the current level of R6,10 – R6,20 for the next few months or even dips lower for a brief spell, the PPI could easily fall further. Fourteen economists polled by REUTERS expect next year's CPI to fall to a minimal positive figure of 1,9%. We would be surprised if it doesn't follow the PPI and go negative as well.

Germany is probably still South Africa's major trading partner so comparing Rand performance against the EURO is more relevant in determining the likely extent of expected falls in the prices of imported goods. The Rand /EURO rate has fallen from an all-time high of 10,9 in December 2001, to its current level of 7,4. In short the Rand has appreciated 47% against the EURO. In other words your German-sourced WEBER braai should have almost halved in price over the past two years. In certain shops with old stock a particular model is still selling for R1500. In fast-moving stores the same model is now down to R1000.

The most interesting sector to watch is the motor industry. The banks must be agonizing over the value of their security. Customers who have bought vehicles in the last two years for minimal deposits have little commercial reason to continue paying them off. They would be better off walking away and starting again. Yet there seems to be an industry-wide conspiracy to maintain prices as long as possible to 'protect' the second hand market. Various other inducements will be offered in lieu of a reduction in price. Patience, it will come to all who wait. Price cuts are inevitable.

In the labour market, annual wage increases of the order of 10%, have become the order of the day. A brutal change is coming. There have already been major lay-offs in the mining industry. These should soon halt but as prices start to fall elsewhere and margins are pared, even Government will find it can no longer afford to grant endless increases. The unions themselves will find their members' wages stretch far further as regular PPI declines filter through into the retail sector. Some companies, particularly those in the textile industry, will simply succumb to Chinese competition – like TEJ did the other day. It will get much tougher but, in due course, as South Africans get used to having a strong currency, they will learn to work harder and more productively or they

literally won't eat. The purpose of this paragraph is to highlight the positive effects of having a strong currency – specifically as it relates to the mining sector. The inflationary expectations of both workers and contractors will rapidly collapse. When the Rand gold price begins to rise again – and even when it starts to roar – the rest of the country will be subdued. South African mines will be far better able to contain inflation than their dollar-based counterparts. The benefits of subsequent increases in revenue will be far longer-lasting. Eventually this will reflect in the market ratings of South African shares.

6. A TIP for Reserve Bank Governor TITO

Exporters are baying for the blood of Reserve Bank Governor Tito Mboweni. They want him to slash interest rates fast enough and far enough to halt the strengthening Rand in its tracks and then hopefully reverse it. The Governor is playing it cool. Five years ago, in 1998, South Africa had a negative foreign exchange position – what the bankers call a 'net open foreign currency position' and it stood at a deficit of \$23,2 billion. By the end of October this year, for the first time since the South African debt crisis of 1985, the figure turned positive. It swung to \$2,7 billion. The net inflow for the month was a healthy \$1 billion.

In view of our expectation that the Dollar is set to slide 50% in the next three years, we see little wisdom in rebuilding South Africa's reserves by accepting Dollars. There was clearly a need to do so until the net foreign position had been extinguished because the debt was determined in Dollars. Having cleared the debt, the Bank should have greater flexibility going forward. No doubt the bulk of future funds will logically flow to the far safer EURO – based on our trading ties – or even the Yen for the same reason. A sounder reason would be because the EURO is likely to become the major currency of choice and will therefore appreciate the most. There are other grounds for choosing the EURO. In discussion with friends in the banking industry we understand the Reserve bank is concerned that much of the funds flowing in could be described as 'hot money'. For this reason a high degree of liquidity is required in the event they suddenly flow out.

Having said all that, we still believe there is a case for doing something more radical. We suggest the Bank should consider diverting up to half of these money flows into the purchase of straight bullion. If the inflow continues to average \$1 billion a month, this would involve setting aside \$500 million each month. At the current price of \$400 an oz. the country would be able to repurchase 1,25m ozs or 40 tons a month. Last year South Africa's total annual production of gold slipped below 400 tons for the first time in years. The programme we propose would therefore entail South Africa effectively withholding all her gold production for an indefinite period – say at least twelve months. It would place the country in a position to rebuild her reserves of the metal. This would go a long way to mitigate the damaging effects of 'hedging' conducted by some of the country's major gold producers. 'Hedging' is the process by means of which gold producers – AngloGold in particular – sell forward a greater or lesser portion of their production for the next few years. At one stage AngloGold had up to 50% sold forward for an average of five years. In the past twelve months the figure has fallen sharply but is still substantial.

If the Reserve bank builds its own reserves of gold, it will negate the hedging actions of producers. This will place the country in a position to benefit fully from the coming bull market in gold. More important, rather than wasting time buying depreciating dollars, the country would be holding an asset likely to outperform all other currencies over an

extended period of time. More important, to the extent that 40 tons a month is not an inconsiderable amount, the South Africa's actions would marginally improve the gold price ruling in the market and would go some way towards alleviating the pressure on jobs and profits in the mining industry. The timing of such a move would be perfect. The country would be taking full advantage of a strong Rand to pick up gold at very low Rand gold price. With the metal breaking through the critical \$400 level, it could be the trigger needed to give impetus to a sharp upward move into new territory. With the US openly pushing for a weaker dollar, they could hardly object to SA wanting a stronger gold price.

The IMF might get tetchy because respectable Central banks are not supposed to prefer gold, to their lousy FIAT paper.

It is interesting that, as we write this, the State Bank of Vietnam has just announced the purchase of 8 tons of gold to meet strong internal demand which, in turn, is causing substantial price premiums to develop.

According to former Vietnamese World Gold Council representative Khanh, the reasons for the growing demand for gold are as follows:

1. The continuing unstable situation in IRAQ.
2. Reports leaking out that, from the beginning of 2004, the Bank of Japan will cease to insure all bank deposits, causing depositors to fear for the safety of their funds. This could lead to a substantial increase in Japanese demand for gold, in preference to their holding funds in shaky banks. The recent bailout of another major bank will give further substance to those fears.
3. The increasing extent to which China is building up the percentage of gold in her foreign exchange reserves.
4. The announcement by Barrick Gold that they are no longer going to hedge any of their future production. They are currently short 16m ozs of gold, worth \$6,4 billion.
5. The Bank of Vietnam's total purchases of gold for the year to date – including estimates for November and December – project a total demand for 62 tons. Yet, based on last month's demand of 8 tons, the figure for the coming year will rise by at least 50%.

7. Barrick's 'About Turn'

In the previous paragraph we referred to Barrick's sudden announcement – involving an overnight change of policy – that, contrary to recent assurances, they would no longer seek to hedge future production. Those 'in the know' are convinced the decision relates to threats stemming from the Blanchard court case. Blanchard is suing Barrick and members of the Gold Cartel for having artificially suppressed the price of gold over an extended period of time. In an unbelievable act of foolishness, Barrick pleaded they couldn't be sued because they were acting on 'instructions' from Government – probably the US Treasury. The Judge said that in no way let them off the hook. To the consternation of Barrick and the Gold Cartel, he proceeded to give Blanchard 'discovery' - the right to access all relevant documentation which could substantiate

Blanchard's allegations. There is talk of Barrick having to fork out \$600m in damages and give an undertaking to cease their hedging forthwith.

The story goes further. It is suggested that Barrick has an understanding with their bankers which requires that at all times the company's consolidated net worth exceeds \$2 billion. In June it was \$3,4 billion. The rise in gold since June has reduced the figure to \$2,6 billion. Should gold brush past \$432 Barrick's net value would crash to \$2 billion. However, if they are faced with a claim of \$600m, it would take Barrick's net worth below \$2 billion with immediate effect. This could trigger a major margin call from their banks. This could be why they were forced to renounce hedging when they did.

Some years ago the price of Barrick shares exceeded that of Newmont. Shareholders of both companies simultaneously urged their respective Boards to halt their hedging programmes. The Newmont Board listened. The Barrick Board refused. Today the share price of Barrick is less than half that of Newmont. If they get a margin call in coming weeks, it could lead to major problems for them. All of this speaks of the end of an era. The anti-gold brigade is heading for the trash can.

8. The OUTLOOK for URANIUM

As with other commodities, the price of Uranium hit its all-time high in early 1980. It reached \$40 a lb. Under the twin pressures of a general slump in commodity prices and negative fallout from the tragedies of 'Three Mile Island' in the US and "Chernobyl" in Russia, demand for nuclear energy collapsed and the construction of new stations came to a grinding halt. However, when weighed against the environmental damage caused by the burning of hydrocarbons, South Africa's 'Pebble Bed Reactor' could well be off to a flying start and demand for Uranium with it.

As with gold, the price of Uranium Oxide bottomed in 2000. It plunged to \$6 a lb. It has since recovered to \$13. Should the oil price rise as forecast, and the situation in the Middle East continue to deteriorate, we have little doubt that the demand for nuclear energy will recover sharply and the outlook for the price of Uranium Oxide could simultaneously improve dramatically. The US Senate has recently targeted financial assistance for six new stations and demonstrates every intention of pushing nuclear as a means of reducing long term dependence on the Middle East.

We have no doubt that over time the price of Uranium Oxide will retest its all time high of \$40 a lb. – before doubling again to compensate for loss of Dollar buying power over the last 22 years. In so far as its previous peak coincided with that of the CRB, there is every reason to expect the two will once again move in tandem. Nuclear energy's return to favour may well surprise the oil and coal markets – even more the 'greens'.

South Africa has very substantial deposits of Uranium – even if we are not currently the world's largest producer. Most of South Africa's Uranium is found in conjunction with gold. Erstwhile highest grade producer was small but expanding gold company Afilease. Their Dominion Reefs deposit is large, high grade and shallow. One of these days shareholders will wake up to discover they have R10 a share in the net present value of their Uranium. With the current price languishing below R5, the stock is an exciting 12 month lock up.

9. Options on Gold

We have repeatedly targeted \$400 as a suitable strike rate for long-dated options on gold. With the metal trading either side of \$400, these options are now 'in the money' and therefore expensive – costing between \$38 and \$40 an oz. They are also relatively safe. If our gold price projections are achieved, a move to \$600 would generate gross revenue of \$200 an oz versus costs of \$40. This represents a five fold return in 12 months. If however gold bursts through to its all-time high of \$850, the return would jump to eleven fold. The \$400 level has been a long time in coming. Do not underestimate potential speed with which the market can return to old highs.

10. Attachments

1. A 30 year chart of the CRB Index
2. US Dollar Implosion – Part 11 *by Alf Field*
3. Gold and the US Money Supply *by Paul van Eeden*
4. When Bubbles Burst – *the Economist*

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A personal profile of Peter George

He turned 61 in August, 2003. Born in Natal, South Africa. Graduated with a BA (PPE) – Politics, Philosophy, and Economics - at Oxford University, England, followed by an MBA at the University of Cape Town. He was a Member of the Johannesburg Stock Exchange from 1969-1981, Chairman of Wit Nigel gold mine from 1983-1987, and a Member of the South African Bond Exchange from 1993-1997. He and his associates currently own an option to repurchase and reopen the Wit Nigel gold mine. Today he writes a regular commentary on world markets, currencies, and gold. This is available via e-mail or, by special arrangement, via surface mail. His own e-mail address is pgportfo@trinityholdings.co.za;

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