

## NZ Gold Market Commentary For Sunday July 27th 2008

In last week's gold & silver market update we reflected on our July 6th suggestion that “something is afoot”. Since that observation we have seen the unfolding Freddie Mac and Fannie Mae debacle in the United States, with additional banking woes thrown in for good measure. We have also seen the disgraceful condition of Britain's public finances. **An affront made even worse when cognizance is given to all those years during which North Sea Oil revenues were casually squandered - when a worthwhile proportion could have been put aside as a bulwark for more difficult times.**

During last week ‘events’ came closer to home, with yet another New Zealand finance company in trouble. **More distress for another group of Kiwis, who will already be battling rising costs for a whole raft of everyday necessities!**

So did the precious metals behave themselves and increase robustly to reflect, in particular, the situation in the United States. **Sorry, but no!** Gold and silver did move up from **US\$954.60 & US\$18.11** at close on Friday July 18th - and the yellow metal almost seemed to be hinting that it might have another crack at US\$1,000. Then down came the metals with a crash, before a bit of recovery to close at **US\$928.40** for gold and **US\$17.34** for silver on Friday July 25th. In consideration of this we did offer a warning to readers in our update covering the close on Friday July 18th: **“Perhaps prices will fall back if oil comes under further pressure”**. Yet we went on to remind readers that **“inflation is ultimately a disease of money”** and this led us to conclude that fundamentally the precious metals are undervalued against paper. At NZ Gold nothing has happened to change our view, but price volatility reminds us that investing in gold and silver needs a cool and disciplined approach. It also requires us to undertake comparisons. E.g., we would sooner have our money in ‘the metals’ than in a finance company - irrespective of the ‘exchange rate’ on a given day! This brings us to an observation made in our update from Sunday 14th October 2007:

*“A flirtation with logic must surely tell us that it cannot be possible to become sustainably rich, by doing no more than creating money and inflating asset prices”*. A far more authoritative source, the great Austrian economist Ludwig Von Mises (1881-1973) put it thus:

***“True, governments can reduce the rate of interest in the short run. They can issue additional paper money. They can open the way to credit expansion by the banks. They can thus create an artificial boom and the appearance of prosperity. But such a boom is bound to collapse soon or late and to bring about a depression”***.

What a pity that the timeless words of counsel from men like Ludwig Von Mises find so little favour with our leaders these days. Yet we suspect, that by the time all of this is over, they will be ringing in **our ears** if not in those of the lumini that lead us!

We conclude by again offering our readers the following unbelievable figures from Weimar Germany - **a reminder of what can happen when a country tries to dishonestly repudiate its debts through inflation. For NZ Gold events - in that most sophisticated and cultured of countries - offer the most compelling reminder of why gold and silver should be held as long term financial insurance:**

One egg pre 1914 - 29 pfennig  
One egg mid 1923 - 1,200 marks  
One egg Nov. 1923 - 428 billion marks  
One kilo butter pre 1914 - 2.70 marks.  
One kilo butter mid 1923 - 26,000 marks.  
One kilo butter Nov. 1923 - 6 trillion marks  
One kilo beef pre 1914 - 1.75 marks.  
One kilo beef mid 1923 - 18,800 marks.  
One kilo beef Nov. 1923 - 5.6 trillion marks.  
One gold ounce 1919 - 170 marks.  
One gold ounce 1923 - 87 trillion marks.