

# GOLD STOCK ANALYST™

A Monthly Newsletter Finding **Undervalued** Investment Opportunities through Fundamental Analysis & Rankings of the largest North American-Traded Precious Metals Mining Stocks

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## China Revalues... Hardly!

The long-awaited revaluing higher of the Yuan came July 21 in a +2.1% "baby step" from 8.28 to 8.11Yuan/\$1, with two additional facets: 1) the Yuan would be allowed to fluctuate 0.3% per day up or down, and 2) that its value would be set against an unrevealed basket of currencies, not just the Dollar.

In their inscrutable way, the Chinese confused the Market. GSA had hoped the 0.3% per day change would add to 6% per 20 trading day month, and a few months would see the Yuan at a true equilibrium level, which most see as 20% to 30% higher than 8.11/\$1. But in a later clarification the Peoples' Bank said it was "wrongly speculated that the 2% revaluation was the first step in a series of adjustments". The Yuan would not gain daily, and the Bank backed this up by intervening in the ForEx market to maintain the new 8.11/\$1 rate for the balance of July.

The good news is that China moved, and put in place a mechanism under which the Yuan could move higher when the Bank chooses to let it do so. This implies an irregular movement higher in small steps, but with no hint of the timing, or if the final level would be allowed to be market determined.

Congress is unlikely satisfied by 2% vs its proposed 27.5% tariff; expect further moves by China before Treasury's "Currency Manipulator" report is out in Oct-05.

## Who Can Grow Without Issuing Shares?

CNBC guests tell us "growth is the new value play" in the broad stock market. GSA believes it's also true in gold stocks, although with the proviso that it's growth without issuing more shares to reach that goal. ... continued Page 16

## Money Flows In/Out of US

reversed direction in May. Trade represents 90%-95% of in/out money flows, with the balance being money transfers by Govt (foreign aid, etc) and Private (sending money from US to "homeland"). But as the transfer data is available only quarterly within the total Current Account data, the monthly Trade and Foreign Capital flows data (table below) is seen as useful interim info.

The May data, out July 18, showed Long Term Inflows from abroad increased to once again cover the Trade outflows; this reversal of the two month's undercoverage provided strength to the US\$, particularly in light of the monies being repatriated under the Homeland Investment Act (which are not reported in the data as the funds come from subsidiaries owned by US companies, not foreign investors).

US Money Flows	All 2004	Jan-05	Feb-05	Mar-05	Apr-05	May-05
Trade Deficit (bil)	-\$617.6	-\$55.1	-\$60.1	-\$53.6	-\$56.9	-\$55.3
Fgn LT Inflows (bil)	+\$795.2	+\$92.3	+\$84.1	+\$40.6	+\$47.4	+\$60.0
Net In/Out (bil)	+\$177.6	+\$34.2	+24.0	-\$13.0	-\$9.5	+\$4.7

• **Print-only Subscribers** missed July 15 Update w/comments macroeconomic data and Gold, plus company comments on: BGO, AZS, KRY, CAU, and NSU.

• **Las Vegas Gold Show** at the Mirage Hotel, Sept 7&8, 2005. Keynoting is James Grant of *Grant's Interest Rate Observer*. Info: <http://www.goldconference.com>

• **Who really runs US Govt?** July 9 *Economist* reports lobbyists doubled under G.W.Bush presidency, from 16,342 to 34,785. The new "welfare queens"?

• **One Addition and One Deletion to GSA Top 10.** Read Who and Why on page 2

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## Where Are We Now?

Based on 7/29's \$429/oz Gold, and GSA's proprietary Market Cap/oz database compiled since 1994 for Rising and Falling Gold price trends, Gold stocks trade as if Gold was \$408/oz. On average the stocks are:

Undervalued 5% based on MC/oz P+P

Undervalued 5% based on MC/oz Prod

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