

GSA-ProTM

The version of *Gold Stock Analyst* newsletter for Professional Investors
 Reports on 70+ Gold miners plus the GSA-Top10 newsletter in mid-month

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Where Are We Now?

Based on 12/28's \$1,405/oz Gold, and GSA's proprietary Market Cap/oz database compiled since 1994, Gold Stocks trade as if Gold was at \$1,228/oz. On average, Gold Stocks are:

Overvalued +2%

Chinese Nominal Interest Rate Increases...

have Gold investors worried that the Central Bank (CB) will be successful in slowing the economy from its +10% growth rate and cool inflation from its +5.1% increase in Nov-10. This is an economic impossibility if China also wants continued jobs growth.

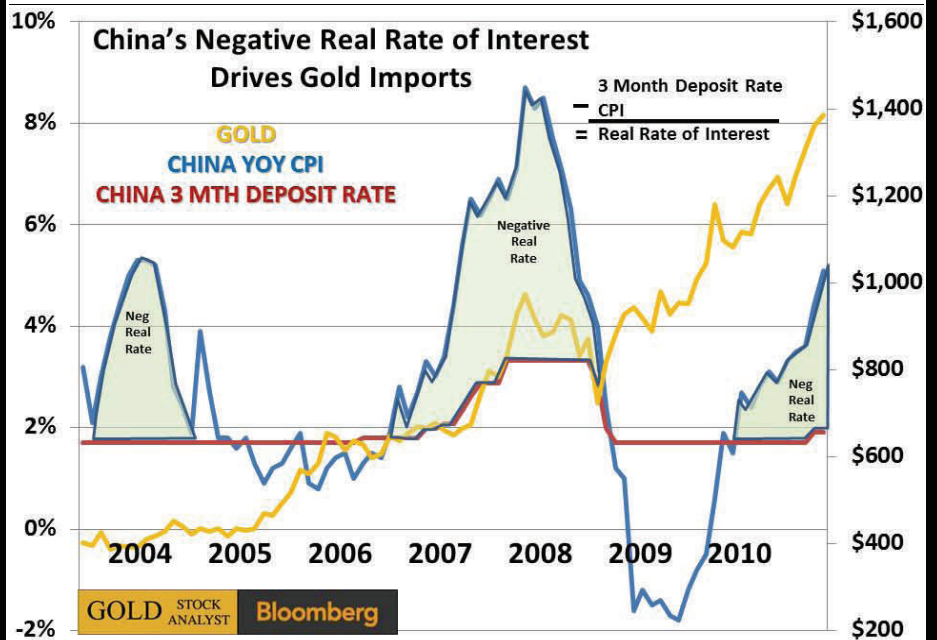
Investors forget that while raising interest rates is stepping on the economic brakes, China also has its other foot on the gas pedal. Printing Yuan and pumping them into the economy to buy up excess US Dollars arriving from its \$226 bil/yr trade surplus is highly inflationary.

The Yuan should be allowed to rise as it would cut demand for Chinese goods and mean fewer Dollars need be bought by the Central Bank. But lower exports means lower Chinese employment, exactly what the leaders do not want, hence the use of interest rates rather than the exchange rate to try and smother inflation.

More important to investors should be the surge in Gold imported by China, from 1.4 mil oz in 2009 to an estimated 6.5 mil oz for 2010. The world's #1 Gold producer (~10 mil oz/yr) can't internally fill the demand of its 1.3 billion citizens.

Chinese Gold demand surges because their real interest rate has turned negative. This always spurs demand for Gold (See Oct issue GSA-Top10 for more) as people seek refuge from the erosion of their money's purchasing power.

Chinese rates should be of little concern to investors so long as the CB's increases trail the CPI, just as did the Federal Reserve's moves in the 1970s to give rise to Gold last big bull market.



- **Winter Vacation:** GSA will be closed Dec 30 and reopen Jan 10, 2011.
- **Royalty Earner** fundamentals detailed in User Guide posted on GSA homepage.