Pulse

We recently talked to a media friend in Ottawa and we asked, looking for a story, “How’s the pulse in Ottawa?” He took the question in a different way and responded: “There is no pulse in Ottawa.” No truer arrow was ever shot. Consider some recent events. We have a huge proposed takeover of one of Canada’s last resource giants but no visible reaction in Ottawa. A collapsing trade balance? Yawn, let the Bank of Canada hike rates, keep the loonie strong and further crush industry and trade. The province of Ontario pleads for rate relief – more yawns. The Globe and Mail compares Ontario with California – more yawns.

Our policy makers do not appear proactive or even reactive. Inactive is about the best that can be said.

Canada is a lucky place for all the reasons cited by politicians and economists here and abroad. In a word, resources. But Russia, the Congo, Peru and lots of other places have resources. In fact, they generally have more than Canada. The big open pits in South America and Africa have pretty well displaced many of the great underground mining names in Canada – no more Gaspé Copper, no more Chibougamou, no more Sullivan in BC, and Sudbury is a pale shadow of former years. The huge metallurgical complex in Timmins is closed. The perception of Canada being a resource powerhouse lives on, but the reality is less attractive.

We are good at oil sands, hydro-electricity in Québec and iron ore in Labrador and these may put us $20 or even $30 billion to the good on the trade account, but they alone don’t justify the complacency, so evident amongst the mandarins, regarding overall trade, the loonie or Canada’s balance of payments. The inactivity, or indifference, to big issues in Ottawa is breathtaking. On both sides of the House.

The de-industrialization (thanks to the strong loonie) of Canada, the pitiful position of our forex reserves (pretty well the same as South Africa or the Philippines with the important note that Canada has no gold at all) and the mounting current account deficit (debt service, debt service) will sooner rather than later offset speculative purchases of the loonie and then what? Will the Feds have to guarantee the provinces? How will the Fed balance sheet look when it consolidates the provinces and CMHC? What will happen to the loonie when the grim reality about Canada’s financial health becomes more visible?

A lower loonie will be all good for our remaining resource companies, preferably those that go out and find stuff instead of those who pay up to buy things on a platter. The big problem with things on a platter is that a company’s share count often goes up faster than its gold production. Besides, there was always a bigger reward for those who turn dead land into a mine, but often the mining industry, vaguely like Ottawa, seems to opt for the easy, or promotional, road to riches. The PDAC (Prospectors and Developers Association of Canada) has apparently already leased all its booths for the annual whoop-up in March, but you probably won’t find a prospector there. Nor will you find many mining companies looking for good properties – those days are pretty well over. But you will find promoters and investors. And, of course, thousands of suckers.

Which brings us around to the stock market. There is not much pulse there either. For many who gingerly step into the market it’s yield, yield, and that makes a lot of sense. But there doesn’t seem to be a lot of faith in the future and that’s unfortunate because, when the loonie breaks lower, Canada’s outlook will improve a lot. Meanwhile, given the choice between a bad currency yielding next to nothing and a good utility share, there is no choice.

But where there is stock market pulse is in the world of precious metals. Having lived through the 1960s and 70s we like the analogy of today with the early 1970s. That’s when a decade of intervention* in the gold and

* It’s a bit comical to hear the US complaining about Chinese (and now Japanese) intervention in forex markets (why not single out Taiwan or the Gulf States?) when the US and friends appear to be coming to the end of sixty years of on-again, off-again intervention in the gold market.

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silver market pretty well stopped and, for a decade or so, the market was more or less free. (During this period the gold price appreciated about twenty times.) We now appear to have come to the end of another 30 years of intervention in the gold market and, as Victor Hugo said, an army of a million men can be stopped, but nothing can stop an idea whose time has come.

There is another comparison with the first gold wave and that is with silver. Throughout the 1960s and 70s, even before the Hunt brothers stampeded the market, silver led gold. That has started again. Going forward it seems very likely that gold will lead other commodities and wealth-creating stocks higher while sending all these overvalued currencies lower. It also appears that global growth will pull the Western World away from the brink of double dip (why else is copper at $3.50?) so the market pulse should pick up. Forget cash, be there.

It will all happen despite government apathy, or perhaps because of it.

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Toronto, Ontario
September 21, 2010