SA BULLION

Press Release | SA Bullion statement on the production of underweight Krugerrands by SA Mint

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We live in financially troubled times and have today witnessed some seminal events. Whilst it is generally not our style to comment on very short term economic forces, we think that today's events merit commentary. The issues at hand are to be found affecting the major economies on either side of the North Atlantic and therefore the US Dollar, the Euro and Gold. We shall more fully address these issues in our September quarterly report.

<u>The US Debt Ceiling Impasse</u>

The US national debt limit is set by Congress. That ceiling is currently set at $14.3 trillion and has been reached in recent weeks. According to Timothy Geithner, the Secretary of the Treasury, the US will run out of cash on Tuesday (2 August) and will then be unable to fund the running of government or pay its bills. This is unless Congress and the President approve a new, higher, debt ceiling. Should the warring Republicans and Democrats of the US Congress fail to reach a deal regarding tax hikes and expenditure cuts, and thence a new arrangement for a higher debt ceiling, the US will go into technical default. Whether the US would then miss paying the first-arriving coupon payment on its treasury debt is another matter altogether.

We fully expect an imminent deal that will allow Congress to raise the debt ceiling. Altogether we don't see these issues as particularly worrying in isolation as we believe it is highly likely that they will be resolved.

More importantly however, we believe that in the process, untold damage is being done to the standing of the US dollar. The US dollar is still the reserve currency of the world, and the Euro is next in line, but it's interesting to observe that gold has moved up from obscurity ten years ago to now rank as the third most important currency in the world. This trajectory will continue as the US dollar loses its lofty status and 'dollar gold' continues to rise. We expect this scenario to perpetuate for many years to come.

<u>Credit rating downgrade</u>

US Treasury debt has been the ultimate safe haven for decades. That is about to change. In our estimation the US will lose its AAA credit rating irrespective of resolutions for the debt impasse. The very much more important issue than the debt impasse is the staggering level of overall debt and the deteriorating ability to service that debt. Solvency is what this is all about. The problems will wax and wane in the public eye but longer run US debt, and by extension the US dollar, are going to pay a big price.

<u>Europe</u>

Spanish sovereign debt has been placed on review by Moody's for a possible downgrade from Aa2 to Aa3. The effect of such a downgrade would be to increase the cost of borrowing for the Spanish government, thereby increasing the pressure on an already very vulnerable nation. We fully expect that when the US problems are temporarily bedded-down European problems will again come to the fore.

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