

Yen, Finally

Golden Star Shines, pre-Blast-Off?



February 17, 2007

Yen

The exaggeration of the title reflects the patience one has had to endure while waiting for this reversal.

Still, the growing buzz is that this sharp Yen reversal is for real, that the carry trade is starting its massive reversal, and that the trigger may well be the inevitable rate hike, which could be as early as next week. All as forecast in these pages.

These commentators behind the buzz to whom I refer are those who are reflecting a change of heart in their analyses and attitudes. This is important because the theme in the [February 4 report](#) was that the bearish psychology had become "nuts" and that we could easily see a sharp reversal, due to the elastic band of psychology being so

stretched. Supporting that analysis of crowd psychology was the observation that the panic had set in as the Yen had just made a new low versus the Dollar. But, alas, we could see that the same pattern had appeared in oil just before its sharp reversal, I noted.

So, the commentators who have gone from one end to the other in short order either reflect the like tendency of an over-sized Yen carry trade, or simply that they read these reports that tend to lead all others in matters Japanese.

As you read the following excerpts, all supporting a Yen that rallies versus the Euro most strongly at first, remember that the news this week was the breadth of the Yen's move, as it rallied more versus the Euro than the USD. **The following is from the most recent report:**

"I reiterate the above market calls because the market psychology has truly gone to extremes regarding the Yen. I believe that it's a good time for perspective, regarding the Yen which is the key, not just to domestic Japanese stocks, as discussed in the New York and Yen sections below."

"Note the following, taken from today's Nikkei Net Interactive. It pertains to scheduled meetings of finance ministers and reflects today's mood (see Yen section):

"The talks may also touch upon the euro's sharp appreciation against the yen, which has European authorities fuming as it makes their cars, electronics and other exports less price-competitive overseas amid intensifying global competition."

"This was followed by a quote of a Japanese official saying that he was unaware of it even being an issue.

"Over many years, I remember that dramatic turnarounds have occurred around the times of meetings of finance ministers, such as the one above. There also, I recall

ministers downplaying anything that could be misconstrued as anyone strong-arming or being strong-armed.

“So, amid the diplomacy, dramatic volatility kicks in, ending with a bona fide trend change for the Yen that takes shape after an initial spike reversal. The Yen is central to several investment themes and, just as many are panicking, the currency may be preparing for a sharp reversal. So, perspective is good.”

Well, that’s what this week was about.

The following excerpts from recent letters shed light on what is presently occurring, while underscoring why we try to be front-runners, rather than followers. In any event:

From the December 24 report:

“And there are many reasons to believe that the Dollar will fall most against the Yen. Of course, the *given* here is that the Dollar will fall; I don’t even doubt it.

“For investors in domestic equities, this will be a major turning point. An accelerated resumption of the Yen’s bull market – perhaps ushered in by the next interest rate boost – will coincide with a flight of more than enough capital to such equities.”

From the December 3 report:

“We’ve got the right currencies and will not move. Life has gone into still motion for the Yen, to direct the markets toward an organized and orderly unwinding of the Japanese carry trade.

“The long-term forces at play have not and will not go away. The Japanese economy and rates are in a bull market. The US? Not. As for the Yen, the Bank of Japan is going to raise rates, sooner or later. It would be consistent with the policy

of credit tightening, unless the latter is being used to avoid doing the former. "

And, from that same report, with respect to Japanese domestic stocks, many historically rallying on a 2-month lag....

"Admittedly, the major spark will come from the Yen. This will shift asset allocation to more Yen-based equity investment. The spark could be sharp, due to the extremes from which the Yen and domestic stocks are coming, although the latter have been firm since yearend."

From the February 4 New York report:

"Liquidity: The story is that as long as investors can borrow cheap Yen and buy US assets, liquidity will be ample. It's a funny thing. I've believed that ever since the new bull market in the Yen was signaled and began, that the Yen has been kept down artificially to allow the carry trades to unwind in a more orderly fashion. The next rate hike in Japan may well be the trigger and cyclical take-offs in the Yen are often first-day explosions. For all the markets covered in these reports, directly or indirectly, the turn in the Yen is the single largest story at this time"

(con't from NEW YORK section) "Therefore, the idealized timing for a big collapse, in my view, is the March – April period. This view is further bolstered by the fact that we are in the minor wave-3, within the final 5th wave. It should be over in its entirety by about March 1"

(con't) "The Japanese Yen's slight new low looks a lot like oil's new low into the 50's. In both cases, the moves broke through a neckline resistance (oil chart down, Yen chart up, the latter representing a price decline). This may not be an accident. In any event, oil has reversed. Is the Yen right behind it? I continue to believe that the moves in the other currencies, such as the Swiss Franc and Euro, are forerunners to the Yen's advance."

Technical:

In the last report, I noted the new high in the Dollar versus the Yen (since 2003) as being a perfect trap for the bulls on the Dollar versus the Yen.



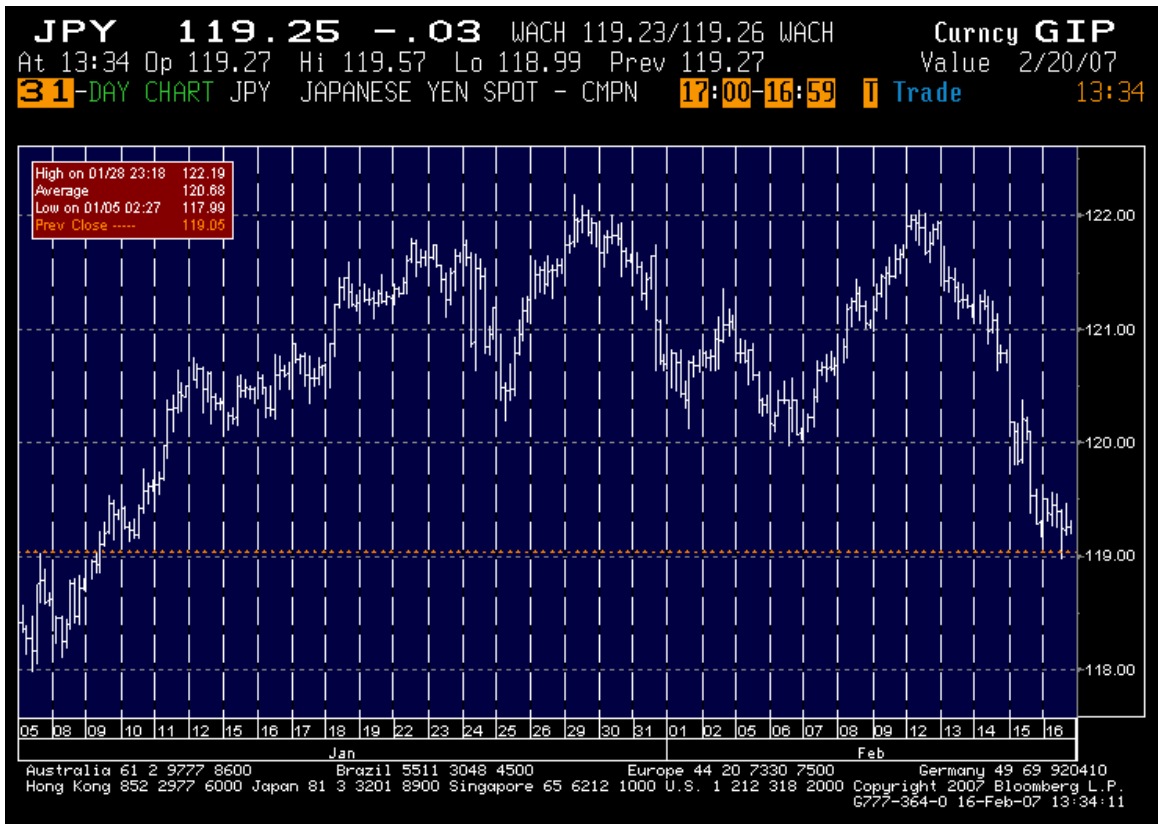
The following daily chart gives us a look at good support at 117 or so for the Dollar, but a quick break below that would signal a larger confirmation of a cycle low for the Yen.

Please scroll down.



My preferred interpretation of the following 31-day chart is consistent with the notion that if the Dollar is at support at 119, it could reverse from resistance at 120, if the trend is at all bad, and it may well finally be.

Please scroll down.



Conclusion & strategy:

For newcomers, short the Dollar versus the Yen on a bounce to 120, with a stop over the recent highs. If it keeps falling, great. We've waited too long.....even though it was/is inevitable. It was inevitable since the first rate boost. Everything else has been a fooler to help unwind the carry trade. As usual, the popular media-supported story was wrong.

Golden Star

December 3

"This is my special situation in gold. Not unlike its past, management has disappointed by not coming through initially, with what it ultimately does end up providing: higher output.

"....shows how leveraged the performance has been the past two months relative to gold, as it's under-performance

perhaps gives way to potentially geometric gains, as we head into the New Year.

“GSC (GSS in the US) has a history of this.”

The following 6-year weekly chart is an update of the one referenced in the 2nd paragraph of this section. It confirms my analysis that basing patterns within basing patterns appear to be completed and preparing for sizeable gains this year.



The following 1-year daily chart suggests to me that holders of the stock (who may follow it too closely) may wish to note that support is firm at \$3.75. On the other hand, new buyers may want to start taking positions at \$4.25. I've long since recommended the stock, so I can only point out scenarios.

Obviously, one would want to be more aggressive in accumulation, if one believed that the breakout were imminent. Usually, however, breakouts only occur on the first attempt only a minority of the time.

Conclusion & strategy: When the December report was written, the stock was \$3.69. Today, at \$4.50 it has gone a long way toward confirming that a lengthy basing pattern is complete and that the lows are firmly in place. That doesn't mean an immediate breakout, however. Time to accumulate would be short, nonetheless, even if there were a pause. Remember, the fooler about Golden Star, as I've written often, is that it is out of sync with the metal. That said, during gold declines, the stock will be accumulated still further, as the pullbacks in gold shake shares loose from weak hands. Bottom line: an unusual portion of Golden Star's gains will likely occur during gold corrections. Invest and trade accordingly. The previous recommendations stand: The stock has seen \$10.00, and will again.



Until the regularly scheduled March report,

Sid Klein

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