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Another Bout of the Asian Flu?

A Monday Morning Musing from Mickey, the Mercenary Geologist

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China is exhibiting the beginnings of an economic slowdown. Container shipments are rapidly decreasing from its southern Chinese ports of Shanghai and Hong Kong. The Beijing-centered planned economy recently instituted an 18% across-the-board increase in the price of fuel, presumably to ensure adequate supplies for the August Olympics, their great "coming-out party" to the world. First half 2008 inflation is 7.9%. Food prices, which comprise 50% of the cost-of-living among China's teeming poor, are now increasing at a 20% annualized rate.

China is clearly affected by the cost of oil, its distance from Western markets, and the decrease in consumable purchases in those markets, especially the United States. I wonder what's going to happen after the Olympics are over and the fascist state has no reason to pretty up for potential new beaus after her first prom date.

Similar problems are adversely affecting the Indian economy. Inflation is at 12%, the monetary supply increased over 20% in the past year, and the government has instituted export bans on corn, wheat, rice, beans, and cement. The Indian stock market is experiencing increasing volatility exacerbated by a net drain of $6.7 billion by foreign institutional investors in the first half of 2008. Trade deficit for May alone was a record $10.4 billion.

Vietnam, another site of recent entrepreneurship and individual capitalism, is showing the strain of transition from a centrally planned to market controlled economy. Inflation is rampant at 25% and threatening to undermine the 8% annual GDP growth over the past five years. Social discontent has predictably followed and has been increasingly aimed at foreign invested firms with over 300 strikes in the past year. Inflation is driven by a 22% increase in food in May alone and over 16% in construction materials. A $14 billion trade deficit in the past five months is exacerbating the situation.

Macroeconomic instability is compounded by government inexperience in dealing with a free market and has recently led Hanoi to partially retreat into its previous isolationist mode. Tightening of monetary policy led by 14% interest rates is a start to control their problems. The worry is they won't do enough to deflate the currency, cut government spending, and call in insolvent banks. A potential foreign exchange liquidity crisis looms ahead.

By analogy: In1997 the first Asian Flu epidemic started with a foreign exchange liquidity crisis in Thailand.

However, the 2008 Asian downturn is largely caused by a very ill American economy. As my friend, new Aussie citizen James Macdonald says, *"When the USA sneezes, the rest of us catch a cold."*

So where in the economy, you may ask, would this Asian Flu strike hardest?

Answer: Commodities, or "stuff" as Clyde Harrison of the Brookshire Raw Materials Fund calls them: Energy, minerals, and agriculture. They comprise the only current bullish sectors in the world and they are driven solely by increasing Asian demand.

For example, about 62% of the world's cement production in 2007 was consumed in developing Asian countries including: China (at a whopping 50%), India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam (Source: OilDrum.com). Likewise, these seven nations used 29% of world refined copper in 2006 (Source: International Copper Study Group).

I don't know much about the cement market but I do know that copper is a metal which has a delicately balanced supply and demand profile and North American and European usage has been declining for the past few years.

If China slows drastically after the Olympics, India's monetary woes continue, and Vietnam implodes, this bout of *The Asian Contagion* will severely wound or kill the current boom in industrial mineral resources. Such a scenario could happen in short order, certainly by year's end.

Add this sobering thought to the list of reasons to buy gold, silver, and platinum. They are the only safe havens in these turbulent times.

Ciao for now,

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The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

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