Interviewee (1):	**Michael Shaoul**
Title:	**CEO**
Company:	**Marketfield Asset Management, LLC**
Interviewee (2):	**Axel Merk**
Title:	**President and CIO**
Company:	**Merk Investments, Manager of the Merk Funds**
Interviewee (3):	**Lewis Alexander**
Title:	**Managing Director and U.S. Chief Economist**
Company:	**Nomura Securities Co. Ltd., Research Division**
Channel:	**Bloomberg, U.S.**
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Interviewer:	**Tom Keene**

Tom Keene
Let's bring in Michael Shaoul with Oscar Gruss and Marketfield Asset Management. Michael, wander in here. And I want to first look at gold; you feature gold today within the [unintelligible]. We havenθ heard much about gold recently, but here's the chart, and you say warning signs clearly in place. It's a one-way trade. Everybody looking higher: Byron Wien looking higher. Everybody looking higher. What gives you pause?

Michael Shaoul
I think gold peaked in Septemberð right at the beginning of Septemberð at $1921 [per ounce]. And since that time you've incredibly bullish news for gold, bearish for everything else. You have the problems in Europe have sort of gone from bad to worse. There has been an injection of liquidity, and gold has really responded by drifting lower. And then today, you've really violated very, very important support of the 150-day moving average. This has been a really important level since the rally of gold started in early 2009.

Tom Keene
These are technical levels. Does the fundamental story back up your technical caution?

Michael Shaoul
No, and that's what's so negative in my view. The fundamental story, in theory, is very bullish for gold. If you simply look at liquidity creation in Europe and the United States, the Fed is at zero and is being as generous as possible. In Europe, they've kind of messed around, but in the end, they have cut interest rates, so they have added liquidity through the ECB. If you looked a little bit wider and you looked at the two main retail markets for gold, which are China and India, that's when things get more interesting. There you have a lot of monetary tightness. And my sense is that gold's decline at the end of the year is in response to...

Tom Keene
In response to what?

Michael Shaoul
Is in response to two very particular issues. One is, significant losses in the equity market in China and India where you have retail investors now under pressure. And the second more interesting one may be some of the gold classes of hedge funds. You have a bunch of hedge

funds which have had pretty difficult performance in 2011. We're coming towards the end of the year. Now you have the gold classes themselves coming under pressure.

Tom Keene
Look at this chart. I've never done this chart. I did this chart knowing you were coming. Renminbi-Rupee: that's a mouthful. Too much information. It's a currency pairs across the Himalayas and you could see stability, and then Indian weakness, and then stability, and it's just been crushingly difficult. What a tension between two nations that don't trade all that much, China and India, isn't it?

Michael Shaoul
Yeah. You're seeing two slightly different things here. The Renminbi is largely pegged to the dollar. So part of what you see is a moderate strengthening of the Renminbi against the dollar of the last 18 months. Most of what you're seeing is extreme weakness by the rupee against the U.S. dollar, and you see that happen in two phases. The blow-up in 2008 where the rupee reached just above 50 and the blow-up in 2011, where the rupeeð as of this morningð is at an all time high cross rate, about 52-3/4.

Tom Keene
And it folds right into your gold analysis, in that maybe the demand in those two major countries has ebbed a little bit?

Michael Shaoul
I think it has. One of the things we've looked at is the opportunity cost of an Indian holding gold. So you take the price of gold, you multiply it by local interest rates in India, which are high, and then you multiple it by the rupee price of gold. And what you find is it's extremely expensive for an Indian to hold an ounce of gold, versus keeping the money in the bank for the year.

Tom Keene
How do you play that? I mean, what's your target on gold?

Michael Shaoul
If gold really takes out its support here and I guess its last-ditch number would be around $1,600, I think it will retrace a decent portion of its 2009-2011 rally. The low teens is a realistic target.

Tom Keene
The low teens. Earlier this morning on Bloomberg *Surveillance* I spoke with Mr. Merk, Axel Merk of Merk Investments and I asked him if we can conclude that France is going to lose its Triple A credit rating.

[Voiceover]

Axel Merk
Indeed, one of the big negatives over the weekend: while it's great that they're moving towards fiscal integration is they have not taken the banking system seriously enough. And there the governments will need to sacrifice the ratings to bail out the banking system. Only when the banking system is secure enough, that's when the market is going to quiet down. But you need to make sure the bank system is robust. As long as there is no focus, we'll have it grinding down, and also, yes, the ratings will come down.

Tom Keene
Axel Merk, who's under-performed with his weak dollar rating. You see the dollar grows stronger as a safe haven. The French Triple A rating, it's supposed to be sacred and all that. Do you just, again, consider it a foregone conclusion?

Michael Shaoul

I think it's more *sacre bleu* than sacred. I mean, my definition of Triple A is credit so good that you don't need to talk about it. I've always said we said this when Berkshire was losing its Triple A and we said it when GE was losing its Triple A, and when the U.S. lost its Triple A. Everybody talks about France and asks whether it's Triple A or not. The market has already decided that it's not. Frankly, I'd rather the rating agencies got it over and done with, and then we can worry about something else. France is not really Triple A in the same way that Germany is at this point in time.

Tom Keene
My colleague, Simon Kennedy, is suggesting that the rating agencies perhaps would be jawboned or embarrassed into not changing their ratings now. Could they go the other way and speed it up, as you say?

Michael Shaoul
It could go the other way. But the market has already spoken. I mean, the France-Germany spread was as wide as 190 basis points a couple of weeks ago, and it's still well over 100 basis points. So France is already not being treated as Triple A by capital markets. And what the rating agencies do, I don't think really matters at the end of the day.

Tom Keene
What's your most confident call right now?

Michael Shaoul
Continued U.S. out-performance, which I think eventually is going to turn into positive U.S. equity performance. Maybe it's going to take until early 2012. But the one standout, from 2011, and the thing that people talk least about, is the extent to which the U.S. equity market has out-performed everything else.

Tom Keene
Right. Let's come back. Michael Shaoul, we got a real treat for you folks, and that is Lewis Alexander will join us with Mr. Shaoul, and we'll talk about the very busy events of the weekend and into this week.

[Ad break]

Tom Keene
Lew Alexander is here from Nomura with Michael Shaoul, Marketfield Asset Management. There they are. They're lined up. Let's bring back the Renminbi-Rupee chartð Lew had a tantrum and said, ñOh, I missed that chart. We got to see it. Here it is. Look at it down here, Lew, and you can see just a surge in India. The BRICs, the concept of the BRICs. Do you believe in the concept of the BRICs?

Lewis Alexander
Absolutely. Look, the merging markets have been the strongest source of growth over the last several years. Next year, we think China and India together are going to count for about two-thirds of global growth. It's very much a real thing.

Tom Keene
Two-thirds of all of global growth will just come from those two systems.

Lewis Alexander
Yes.

Tom Keene
How do you play that then? How do you advise Nomura to play the relative strength of the emerging records?

Lewis Alexander
Well, in some ways, in a cyclical downturn, one of the things that matters a lot is where is their policy flexibility. Emerging markets are the part of the world that can in fact respond to these downward pressures, and we think that that's going to continue to generate good opportunities. But at the same time, there's no question in the cyclical downturn, there's de-leveraging going on that's going to affect certain parts of the regions. And so over a medium term, I'm very bullish on emerging markets. I think this cycle in Eastern Europe is vulnerable to what's going on in Europe, and America would be vulnerable if China slowed and commodity prices went down. So there's no easy path here.

Tom Keene
I keep telling the people, Michael, Eastern Europe is what I'm watching, the exposure of the Austrian banks. Some noise there a couple of weeks ago. But then Eastern Europe affected by the real economy slowdown of Europe. Do you agree, and which part of Eastern Europe is most vulnerable?

Michael Shaoul
I think Eastern Europe is an extension of Europe, which is kind of messy. But I'd be much more concerned about some of the markets, which have just been talked about. India, to me, looks to be a textbook cyclical blowup. You're talking about one of the worst performing equity markets year to date. You just had a segment talking about State Bank of India needing a major recapitalization. It seems to me the popular emerging market trade, which is predominantly BRICs but goes a little bit wider, has had a dreadful performance in 2011, and people are being as stubborn about emerging markets right now as they were about technology a decade ago.

Tom Keene
Let's go to this chart. We showed this earlier. I want to explain this chart. We got a lot of mail on it. Reality sets in for the elites, and you could see the three-month Euro basis swap, and down we go. That is a struggling ability to find dollars in Europe. And then we've got the recent up-move where we come back up, and then we've just rolled over in the last couple of days. Absolutely remarkable how we've come around with three months of Euro basis stocks. And I title this, Lew Alexander, ñReality Sets In for the Elites of Europe". What did you learn out of the weekend?

Lewis Alexander
In some respects they made the progress that had been hoped for, but it's been a very narrow progress. It's really only about governance. It may have some impact on the fiscal outlook over the long term. But in terms of issues like have we solved Greece? No. Have we moved forward in creating a financial ring fence around the rest of Europe? Not really. Have we advanced capitalization of the banking system? No. Have we advanced putting in place structural policies that will actually generate growth? I think there are just an awful lot of ways, an awful lot of issues, that haven't really been addressed by what was done over the weekend.

Tom Keene
The last review, Michael, we'll come back Lew Alexander. The idea here, of your best idea for 2012? Where is your greatest confidence? Is it the U.S.?

Michael Shaoul
Yeah, definitely.

Tom Keene
How do you play the U.S. most comfortably? Is it large cap dividend-paying?

Michael Shaoul
I don't think dividends matter. I think you want large cap invested economically, domestically economically sensitive. I've said it before. I like retail. I like most of technology. I'm beginning to

like the home builders a lot. I think you stick to the domestic U.S. economy, which has been much stronger than people expected this year.

Tom Keene
Michael Shaoul, thank you so much.