

Embry: \$800-\$1000 gold is conservative...

Dorothy Kosich

January 31, 2005 ...

VANCOUVER--(Mineweb.com) Sprott Asset Management Chief Investment Strategist Jol Adamant that gold will hit at least \$800 per ounce as "paper money is going to hell in a ha

In a presentation to the Mining Exploration Roundup in Vancouver, Embry said he believe \$1,000/oz gold price may be conservative. Meanwhile, he reasserted his steadfast conter gold price continues to be manipulated.

Many people have problems with envisioning a significantly higher gold price "because 20 markets tend to result in mind sets that take a long time to change," Embry declared. "The majority of today's investors have been involved in markets for less than 25 years, so they recollection of the last big gold bull market which ended in 1980."

Embry said recent remarks by Jessica Cross of Virtual Metals "really took the cake." Cros remarked that gold jewelry is losing its gilt-edged status, and defined "the modern British j as someone who drapes their body with hunks of worthless 9 carat gold crap. ...This is pu traditional and wealthy gold buyers."

Steadfast in his belief that the gold market is being manipulated, Embry told the audience extremely naive to believe that clandestine intervention is not occurring today."

"It appears that central banks are unwilling to allow the gold price to repudiate their exces monetary policies," he wrote in a paper published last August.

"This time, a new group of central bankers, equally as myopic as their forebears, are at it . considerably greater gusto and infinitely more subterfuge. They are doing it covertly in an free market by leasing their gold into the market through their bullion bank associates. As can determine, they have pumped as many as 500 million ounces into the market over the 12 years," Embry declared in his speech.

He added that he tends to agree that "the U.S. has seriously abused its role as the world's currency and the redressing of this will be very painful. Whether the U.S. dollar is fated to dramatically or whether other countries will aggressively resist the fall by debasing their o currencies remains to be seen, but my suspicion is that we will probably see a considerab of both."

"In either case, gold will reassert itself as the only currency which represents a true store (the current weakness represents a glorious buying opportunity," said the renown gold bug greatly encouraged in my negative views on the U.S. dollar by the fact that the world's gre investor, Berkshire Hathaway's Warren Buffet has \$20 billion of Berkshire's assets denom foreign currencies. To my knowledge, this is his first major currency bet and he tends to b awful lot of the time."

Meanwhile, imports of gold into Turkey were up 129% year-over-year in the most recent n according to Embry, adding "the Arbas may be prepared to trade in more of their U.S. doll alternatives like gold."

Embry said that a bullion deal in New York recently told him that they cannot keep up with demand in Switzerland "and all the world's gold refineries are running full out trying to keep up with overall demand. This is very important because physical off take is the key to breaking the stranglehold that the Comex paper traders have maintained on the gold price to date. The machinations are providing physical buyers with cheap gold and they can't believe their good fortune."

"The only things you have to know to believe in gold at this juncture is that paper money is hell in a handcart, thus fuelling investment demand for gold, there is already an enormous gap between gold demand and mine supply that has been filled by central bank gold, and the banks soon will not be able to fill that role. That equation adds up to dramatically higher gold prices," Embry declared.

In an article soon to be published in "Investors Digest," Embry wrote, "The commercials (i.e. bullion banks), as they have done many times before, had gone extremely short and, yet again, reaped significant short-term profits when the price broke (aided incidentally by considerable central bank intervention). However, it must be remembered that bullion banks have been steadily on the short side from the time gold bottomed at \$252 several years ago."

"So, although they are winning numerous battles, they are slowly but surely losing the war," Embry asserted. He claimed that "any U.S. dollar rally will be transitory and that we are also near a moment when the public questions the value of all paper currencies, not just the U.S. dollar."

Meanwhile, U.S. gross external liabilities are approximately 11 times export earnings while U.S. liabilities are about three times exports. "The later figure resembles those of crisis-prone Latin American economies," Embry wrote. "Whether the U.S. dollar is fated to fall dramatically, or whether other countries will aggressively resist the fall by debasing their own currencies remains to be seen, but my suspicion is that we will probably see a bit of both."

January 28, 2005 ...

This is the latest from Morgan Stanley's chief analyst, Stephen Roach. He's back from Davos and what he says is always worth considering.

Global: The Hollow Confidence of Davos

Stephen Roach (from Davos)

The World Economic Forum in Davos always offers ample food for thought to those of us who care about the macro landscape. This year is no exception. While it's understandably a Euro-centric affair, the various constituencies of globalization are well represented. The US is a notable outlier. The Bush Administration -- whose delegations in the last two years were headed by Secretary of State Colin Powell and Vice President Dick Cheney -- is almost nowhere to be seen. That's not too well with this crowd of internationalists, especially those attending the numerous sessions on American leadership.

I find the World Economic Forum especially helpful because it deepens my understanding of the various views of the global consensus that are embedded in asset markets. There were two broad

the debate that got my attention this year -- the first being what I would call the Davos str rebalancing. The consensus at this gathering was far more sympathetic to the perils of ev global imbalances than groups I normally encounter. The notion of a newly symbiotic worl consumes and the rest of the world finances it -- didn't cut it in this crowd. Concerns over mounting US current account deficits, saving shortfalls, budget deficits, and household se were not taken lightly. But while there was agreement on the broad outlines of the probler little conviction on how these imbalances might get resolved.

Most thought that a sharply weaker dollar held the key to the global adjustment process. I perception needed to be qualified -- that dollar depreciation was a necessary but not suffic condition for global rebalancing (see my 14 January dispatch, "The Dollar Can't Do It Alor America's import volumes currently running more than 50% larger than exports, I view the as, first and foremost, a problem of excess domestic demand. And barring a credible prog deficit reduction from Washington -- unfortunately, an entirely reasonable assumption -- th to temper America's consumption binge, in my view, is through higher real interest rates. ' combination of a weaker dollar and higher real rates fits the global rebalancing script to a currency realignment changes the world's relative price structure -- precisely what macro for a lopsided world. But the risk is it only sparks a shift in the mix between foreign and do production that leaves US aggregate demand largely unchanged. Only by raising real inte will American consumers rein in the excesses of asset-dependent demand.

The Davos crowd pushed back on this key point. Higher real interest rates were thought t much risk to rate-sensitive consumers. This would be very bad for a growth-conscious wo that America's central bank didn't have the stomach for this type of painful cure. In fact, th widely portrayed as likely to arrest its tightening campaign at the slightest sign of weaknes economy. Martin Wolf of the Financial Times argued that the question was not if the US r authorities should raise short-term real interest rates but whether the Fed can continue to Fair point.

To me, this is where the rubber meets the road on the rebalancing story. It boils down to t tradeoff between growth and asset bubbles. A central bank that is fearful of setting its poli the appropriate equilibrium level sets up a classic moral hazard dilemma -- it convinces th investment community that the asset-dependent American consumer has become "too big The implication is all too obvious -- a Fed that then perpetuates a regime of subnormal re rates. The excess liquidity that such a policy stance creates then provides a powerful ince investors and speculators to borrow at the short end of the yield curve and invest in longe assets. This, in effect, creates artificial demand for long-dated securities -- compressing yi riskless assets and pushing the buying into riskier asset classes.

This is precisely what's happening today. Despite the five measured tightenings of 2004, 1 Federal Reserve has only succeeded in getting the nominal federal funds rate up to the c inflation rate of 2.25%. With zero short-term real interest rates, little wonder that "carry tra migrated into riskier assets such as high-yield and emerging-market debt, where spreads narrowed to rock-bottom levels. Little wonder also that US house price appreciation has n bubble territory. The longer the Fed maintains subnormal real short-term interest rates, th the possibility of a profusion of asset bubbles. The central bankers at Davos thought I can another planet. In their view, long rates may be pinned down by the so-called "credibility p that markets have bestowed the ultimate trust in the world's monetary authorities when it policy credibility. To me that trust is built on the artificial demand for yield that a zero real interest rate creates. It is a reckless trust that I fear can only end in tears. The Davos crow

sniffled.

The second big issue that I picked up at the World Economic Forum came from a wide-ranging discussion of the China factor. The consensus was very tight on the view that a soft landing had been attained -- that there was little reason to worry about the dreaded hard landing. The latest year-end statistical releases on the state of the Chinese economy seemed to bear that out. Slowing in the growth of industrial output, fixed investment, imports, and inflation. The basic idea of China's soft landing is that it really isn't that soft after all. If the economy has "landed" with output growth still cruising in the 14.4% zone, China's impact on the rest of the world is still likely to remain very strong. The Davos consensus felt that conclusion spelled a sustained period of higher energy and industrial materials prices. As one senior mining executive said, "We are at the beginning of a structural bull market in materials and energy like the 1950s and 1960s." It was made repeatedly that the mix of global demand was shifting increasingly to the energy and materials-intensive China and India of the world. Focused on industrialization, urbanization (eventually, in the case of India) and infrastructure, the growth dynamic in both of these major economies is widely expected to remain biased toward ever-greater energy and raw material demand. Given the shortfall of new incremental supply in the past 20 years, the Davos crowd embraced the notion that the world was re-entering an era of permanently higher commodity prices.

My challenge to this conclusion came on the point as to whether China, India, and other developing world economies should truly be considered an autonomous source of incremental demand for the global economy. To the extent that these economies remain wedded largely to export-led growth models, they may be nothing more than a levered play on the American consumer -- the primary engine on the demand side of the global economy. Should US private consumption ever falter, admittedly, a long-standing concern of mine -- then the so-called "natural demand" for energy and other raw materials might mysteriously vanish into thin air. The Davos consensus viewed the China factor as sustainable and real -- with lasting impacts on sharply elevated pricing in the commodity complex. In my view, until this conclusion is stress-tested by the long overdue adjustment of the American consumer, the jury is still out on this key point.

The consensus at this year's World Economic Forum senses something doesn't add up in the global economy. There was concern over America's seemingly chronic saving shortfall and its resulting trade deficits. There was concern over the lack of internal demand elsewhere in the world -- especially in the wealthy economies of Europe and Asia. And there were concerns over the lack of flexible labor markets, economies, and policies in many segments of the developing world -- from China to Russia. In the end, the Davos crowd drew its greatest comfort from the passage of time that an unbalanced world survived yet another year without a disruptive outcome in financial markets. It was a hollow confidence, at best.

January 24, 2005 ...

Excerpt from an interview that Bill Griffeth of CNBC conducted with Warren Buffett

BILL GRIFFETH, CNBC ANCHOR: How much would you pay to have lunch with the world's most successful investor? Well someone registered in Singapore, bid \$202,000 on that an eBay charity auction for the opportunity to sit down with Warren Buffett.

That lunch takes place today at New York's famed Smith & Wollensky Steakhouse. We take

there live, where Mr. Buffet is, I'm told, looking over the menu.

How you been? Thank you for joining us. What's for lunch?

WARREN BUFFET, CHMN. & CEO, BERKSHIRE HATHAWAY: Well, I'll tell you, since S Wollensky is buying, I think I'll order one of everything!

Incidentally, the buyer of the lunch, you mentioned correctly, I think bid \$202,000, or \$205 because there was a little mix-up at the end and one fellow didn't get to bid, he voluntarily that bought me, increased it to \$250,000, and on top of that, Smith & Wollensky has contr dollars \$10,000 to Glide, so Glide is going to come out of this with 260,000. And I'm going out with a free lunch!)

GRIFFETH: Not a bad deal. Tell me about the Glide Foundation. You've been quoted as : some incredibly wonderful things about it. Tell us about it.

BUFFETT: It's a remarkable place, Bill. Glide, a young black minister 40 years ago went c Francisco to a dying church that had 100 elderly white parishioners. And they quit when h

And he took this shell of a church and built it into an incredible social organization that now served over 800,000 meals last year, 20,000 volunteers. It takes the people who are hope gives them hope. And I've seen it in action, and I really have never seen a better social se organization.

GRIFFETH: Did I read correctly that the staff members now themselves are former homel or recovered addicts?

BUFFETT: A lot of them. And you'll find people -- Oprah has been there, the President an Clinton have been there, Bill Cosby, Sharon Stone, Robin Williams. All of these people pit because they have seen the job that Cecil Williams does. He's the real deal.

GRIFFETH: Well, they can't have a better sponsor than you, as well.

BUFFETT: Thank you.

GRIFFETH: By the way, if I'm spending \$250,000 for lunch and I ask questions, do I get s straight answers? I mean, you're going to divulge some information to these folks today?

BUFFETT: I do my best, Bill. You might check with the person that bought it last year but them their money's worth.

GRIFFETH: I'm going to ask questions for free, if I may?

BUFFETT: We'll give you the children's portion.

(LAUGHTER)

GRIFFETH: I know I'm not going to get you to tell us what you're buying or anything, right your thoughts on the stock market right now in light of what's going on with the economy : corporate profitability, the Fed raising rates? I mean, just big picture, what's Warren Buffe

U.S. stock market right now?

BUFFETT: I never try to predict the market. I've made money over the years by buying in companies, run by good people, at attractive prices. And I don't try and make it out of buy market at one point and selling at another point.

I'm having a hard time finding things to buy, if that says anything about the market. But re find something tomorrow to buy, I don't give a thought as to whether the market is going u just barrel in.

GRIFFETH: Are you bullish, as it were, on the dollar? Do you think it goes much lower fro

BUFFETT: I think over time that -- unless we have a major change in trade policies, I don't the dollar avoids going down. I don't know when it happens, I don't have any idea whethe this month or this year, or next year. But we are force-feeding dollars on to the rest of the rate of close to a couple billion dollars a day, and that's going to weigh on the dollar. I see around that.

GRIFFETH: I know that you have taken positions, sort of against the dollar, but do you we overseas more for acquisitions instead, as a result of this?

BUFFETT: Well, I certainly welcome the chance to buy businesses, or for that matter, stor denominated in the other currencies, or businesses that do -- make their money in other c But I've always been interested in that. But I would say that it would be a small plus to be dozen other countries versus earning money in the dollar.

We still have most of our money in dollars. That's the nature of running all the businesses we've never -- prior to 2002, I had never owned a dime's worth of foreign currency. I mea got back from a trip, I couldn't wait to cash in my eight euros, or whatever is was that was But I've changed my views.

GRIFFETH: Everybody is talking about China, and it's impact globally on the economy, a commodity prices, jobs and, whatever. Anything you like in China?

BUFFETT: Well, we own -- as you may know -- we own about a billion dollars worth of Pe which I bought a couple of years ago. But I really bought that as a very, very major oil con was selling at a very attractive price.

And it wasn't because specifically it was in China, but it was very cheap, it's a huge comp out 45 percent of what it earns. And I thought it was very attractive, and I feel very good a

GRIFFETH: Econ 101 would suggest that if the dollar goes as low as it does, for as long a that inflation can't be far behind. Today's consumer price index report, notwithstanding, d inflation too far down the road. And I know you have that silver play a few years ago. Do y raw materials or commodities as a decent investment as a result?

BUFFETT: Well, we haven't been buying commodities, but I do agree with what you said I've been wrong on inflation over the years, in recent years, because I thought it would he than it has. But in the last 12 months in our businesses we have seen huge increases in r prices.

I mean, steel prices have doubled on us, all kinds of fiber prices have increased dramatically; those are going to be pushed through into consumer prices. So I think you're going to see inflation and I think it ties in with a weakening dollar as well.

GRIFFETH: And it certainly doesn't help corporate profitability then either, does it?

BUFFETT: Well, it depends on the company, but normally inflation is bad news for everyb

GRIFFETH: Can you shed light -- I mean, obviously this is a legal proceeding and you're not want to comment on the legal part of it at all, but the subpoenas from New York State Attorney General Eliot Spitzer for General Re, one of your divisions, you got the same thing eight days from the SEC late last month.

Are you looking into this yourself, are you conducting an investigation into what's going on with the reinsurance unit there?

BUFFETT: Well, we're having our law firm actually conduct investigations and look at all the transactions of the past, to supply that information to both the SEC and to the Attorney General Spitzer's office. So we have them working on it. And a number of other insurance companies are doing the same thing, and we'll cooperate fully.

GRIFFETH: I mean, I got to be frank, the first time I heard about this, Warren Buffett, of all you're doing the due diligence before you buy a company. And I'm not saying that General Re is the wrong on this, but you are -- like many reinsurance companies and insurance brokers -- these subpoenas from the attorney general's office and the SEC. I can't imagine you didn't do due diligence ahead of time, yes?

BUFFETT: Well, I think every big reinsurer that I know has received requests for information. It might be wrong on that, but certainly as I read the papers it sounds like they've all received it. I think it's an industry-wide investigation and we'll have to see how it turns out.

GRIFFETH: We haven't heard anything publicly but has GEICO been contacted as well?

BUFFETT: No, GEICO is a personal lines company selling auto insurance and

I don't think you'll see that any of the personal lines companies will be looked into in this case. It's the reinsurance companies and big commercial insurers.

GRIFFETH: Before I get off this topic here, I had an e-mail from a colleague of mine in Europe who said there are rumors you're looking at a European reinsurance company over there. Are you acquiring reinsurance assets at this point?

BUFFETT: Well, I'll never say never. I like buying things, Bill. But I don't -- I don't even talk about that sort of thing.

GRIFFETH: I don't mean to needle you too much.

BUFFETT: That's OK.

GRIFFETH: But you know those airlines -- airlines are at \$1.50 in some cases. I mean, do

value there yet?

BUFFET: In the airlines?

GRIFFETH: In your favorite investment over the years?

BUFFETT: I have an 800 number I call when I get the urge to buy an airline stock. And I call at midnight and say my name is Warren and I'm an alcoholic and they talk me down. No more.

GRIFFETH: Before I let you go, we were asking our viewers today if they would pay, what originally billed as \$202,100 to have lunch with Warren Buffett today. Let me ask the great investor himself, would you pay that much to have lunch with yourself?

BUFFETT: I don't think I'd pay that much to have lunch with anyone, except you, Bill!

(LAUGHTER)

GRIFFETH: Well, bon appetite, enjoy, and good luck with the Glide Foundation. It sounds like a wonderful organization. Thanks for joining us.

BUFFETT: It is a terrific one. Thanks for having me.

GRIFFETH: You bet.

Warren Buffett, chairman & CEO of Berkshire Hathaway, at New York's Smith & Wollensky ready to have lunch with a group that spent \$250,000, as we now know, to have lunch with

And while we're at it, the Class A shares of Berkshire Hathaway up \$800 right now, at \$87; we're at it, the B shares are up \$25, which is a gain of 0.88 percent, now at \$2,915.50 per stock splits coming from Mr. Buffett.

Courtesy of CNBC/Dow Jones Desktop Video, LLC.

January 24, 2005 ...

Here's an alarming quote from Edward Chancellor author of "Crunch Time For Credit"

He concludes: 'The growth of credit has created an illusory prosperity while producing profound imbalances in the British and American economies...When credit ceases to grow, the weakness of these economies will become apparent'.

'It will also become clear that the credit boom, by inflating asset prices and boosting profits to inappropriate levels (both for the private sector and in general). At some stage these sheets will have to be adjusted to face a new reality. The process of adjustment is likely to be painful. It may well end in either an extraordinary deflation...or an extraordinary inflation'.

Yuan step at a time**January 20, 2005**

From The Economist print edition

The case for a big revaluation of the Chinese currency is weaker than commonly claimed

MANY policymakers and economists argue that the Chinese yuan, pegged for a decade to a dollar, is grossly undervalued, and that a revaluation is essential to reduce America's huge account deficit. The issue is likely to be high on the agenda at the next G7 meeting of finance ministers and central bankers on February 4th and 5th, to which China has been invited. For the week, showing a further widening of America's trade deficit and a big increase in China's exports, have surely increased the pressure on China.

However, in a new paper, "To Be a Rock and Not to Roll", Stephen King, the chief economist at HSBC bank, exposes several myths behind the conventional arguments for a revaluation. The first is that China's large and growing trade surplus with America proves that the yuan is undervalued. China's surplus with America is offset by a deficit with other Asian countries as it imports capital equipment and components. As a result, China's overall trade surplus with America was \$32 billion last year, smaller than in the late 1990s and peanuts compared with America's surplus of over \$600 billion. Nor does the extraordinarily rapid growth in Chinese exports prove that the currency is too cheap: imports have also been rising rapidly.

But what about the huge increase in China's foreign-exchange reserves, which jumped by \$100 billion in the fourth quarter of last year? To prevent the yuan rising against the dollar, the People's Bank of China is being forced to buy vast amounts of American Treasury securities, which proves that the yuan is being held below its market rate? Not necessarily. Much of the reserves reflects inflows of short-term capital, from investors taking advantage of higher interest rates in China or speculating on a revaluation. In the long term, if China scrapped its controls on capital outflows, the yuan might well fall as Chinese households diversified into foreign assets.

It is true that because of its peg to the dollar, the yuan's real trade-weighted exchange rate (adjusted for inflation differences with other countries) has fallen by 13% since 2001. But on a longer scale, the Chinese currency looks less cheap. Between 1994 and 2001, it gained 30%, dragged up to parity with the dollar (see right-hand chart). Those who accuse the Chinese of pursuing a cheap-yuan policy conveniently forget that during the East Asian crisis China let pass the chance to devalue its currency in line with most of its neighbours.

Perhaps the biggest myth of all, says Mr King, is that the yuan's value is the only stumbling block to reducing America's current-account deficit. China accounts for less than 10% of America's current-account deficit, so a 10% revaluation of the yuan—as much as might be reasonably expected—would reduce the dollar's trade-weighted value by only 1%. If it were matched by a 10% rise in all other Asian currencies, then the dollar's trade-weighted index would fall by 3.7%. But even that is small compared with the dollar's decline of 16% since early 2002, let alone with what would be needed to reduce America's current-account deficit to a sustainable level. Assuming no other policy changes, the dollar needs to fall by a further 30% to reduce the deficit to 2-3% of GDP. A rise in the exchange rate, it is argued, would give the central bank proper scope to reduce the money supply, causing higher inflation and excessive lending. The snag is that a small revaluation is likely to increase expectations of another future appreciation, attracting yet more speculative capital and swelling foreign reserves further. To discourage speculation would require a much larger revaluation than the Chinese are likely to accept.

Some economists argue that as China gets richer it needs to allow its real exchange rate to rise in order to reap the full gains of its economic success. A stronger exchange rate would boost consumers' purchasing power, by allowing them to buy more foreign goods. At present, growth is dependent on exports, while consumption is weak. However, an increase in the real exchange rate need not require a rise in the nominal rate. Instead it could come about through higher inflation in countries abroad—as occurred in Japan in the 1950s and 1960s.

Mr King concludes that the biggest problem for China's current exchange-rate policy is not itself but the performance of the dollar. A fixed exchange rate is supposed to provide stability. If the dollar continues to fall, China may wish to switch to a more reliable store of value and account. One alternative is a currency basket reflecting the pattern of its trade. China already does this more with the European Union and Japan than with America.

The real blame for America's current-account deficit lies with its lack of saving, not the Chinese. Last year, Li Ruogu, the deputy governor of the People's Bank of China, warned the United States not to blame other countries for its economic difficulties. He said that foreign pressure would force China to move faster to free its exchange rate. It would indeed be ironic if a change in China's exchange-rate policy came not as a result of American pressure, but from China's own desire to use the dollar as an international reserve currency.

January 16 2005...

Bond markets braced for GM downgrade

By Dan Roberts and Jenny Wiggins in New York

Corporate bond investors are bracing themselves for a possible downgrade for General Motors, one of the largest borrowers in the world, and fear its effect on the wider market.

The troubled US vehicle maker, which has \$291 bn of debt outstanding, is teetering on the edge of a fall to junk rating status, a move with serious repercussions for many fund managers who only hold investment grade debt.

On Friday, Standard & Poor's took the unusual step of announcing it was "focusing on the appropriateness of the stable rating outlook" for GM despite reaffirming its existing BBB- notch above junk.

"Normally, we would not delve into these matters in so much detail," said Scott Sprinzen, a S&P analyst. "It's rare for so much market attention to be focused on a rating outlook so we want to be explicit."

High-yield fund managers said S&P was signalling its intentions well ahead of time due to about junk bond investors' ability to absorb billions of dollars of GM debt should others be unable to sell.

Most of GM's corporate debt is issued through financial subsidiary General Motors Acceptance Corporation. GMAC had \$45.9bn of US dollar corporate debt and \$24.1bn of euro debt outstanding at the first week of January, according to Lehman Brothers.

"It's an awful lot of debt for the high-yield market to absorb," said Tom Parker, head of high-yield investments at Barclays Global Investors. JP Morgan estimates the total market value of GM debt at \$300bn.

yield debt market at \$908bn at the end of last year.

GM itself has also begun making preparations for a rating downgrade. Last week - shortly forecasting an unexpected drop in profits for 2005 - the company revealed that GMAC has restructured its borrowings to allow it to continue trading if its parent was reduced to junk

Eric Feldstein, chief executive of GMAC, said: "Liquidity to us is oxygen; we need it to fun

But even greater turmoil may be felt in the credit markets where vehicle makers have long among the biggest issuers of investment-grade debt.

GMAC is already trading like a low junk-rated company. Its 10-year bonds were last week yield about 285 basis points over Treasuries, similar to a B rated credit.

Companies holding BB ratings typically trade at a yield of 150bp to 200bp over Treasuries