

# Precious Metal Stock Review



April 20, 2008

## METALS REVIEW



Gold had a nice week until Friday when the trend line broke down early morning at the usual time right about when NY opened. It looks like it was set up as a bit of a small bull trap as Gold closed right on the 50 day MA Thursday which should have provided support for an up day Friday. Oh well, what's new? That's why I take a longer term view so these actions don't stop me out. Although it seems so obvious sometimes I wish I did play a little more short term on occasion.

Gold bounced today at good support at \$910. Although disheartening to see such a quick drop it's normal, as bull markets tend to go up slowly and correct violently. But they do go up, so today was time to buy after the reaction not panic and sell....that would have been early this morning.

The 100 day MA looks like it should hold and I would be willing to stake that the April 1 low and Fridays will form a solid uptrend line which will launch Gold back above \$1,000, as if it's going to happen before fall then on a seasonal, historical basis this is the time.



Silver had a really nice week but Friday proved too much as speculators sold off heavily only to have the price rebound sharply and close on the upturned 20 day MA.

RSI, Slow STO and MACD look good and are at levels supportive of an advance next week. The \$18.75 region proved too much for Silver but it is building nice momentum towards that region and technically looks like a breakthrough could occur near the end of next week.



Platinum is on the verge of a breakout. Friday's close is right on support and resistance so any move in either direction should be followed with conviction by investors, especially if it breaks up. The downside looks limited to \$2,000 but horizontal support runs at \$1,950 so that's always possible.

The indicators are bullish although the MACD looks very flat. The 20 day MA is pointing up now. Platinum has built very nice support in this region and it should provide a solid support area now and in any future set backs from above.



Palladium looks hot and is building a new support level above last week's gap up. The 50 day MA is the strongest point of resistance now and if Palladium can clear that mark then \$500 will be the next target with \$525 following.

This slow building of support is great and just what we need to work higher without the froth and speculation which is indicative of the end. We are far from the end and this kind of action supports that thesis. Although not exciting like the end it is much more sane and confidence inspiring to be in now before the mania in years to come.

# FUNDAMETALS REVIEW

Royal Bank of Scotland is meeting to discuss a \$14 billion write down and a \$12 billion rights issue to raise capital.

Citigroup reports a \$5.11 billion loss in the first quarter alone. This was less than expected and the shares went higher as a result. They also cut 9,000 jobs as a result of the loss and write downs of \$16 billion which was less than the expected \$18 billion. The shares rallied!

Merrill Lynch wrote down more than \$6.5 billion and is set to cut up to 2,900 more jobs. The stock rallied 4% on this news as investors hoped this was nearing the end of the crisis period. The total write down is over \$30 billion now and Merrill has raised over \$12 billion thus far and is contemplating more in the near future.

JP Morgan reports a net income fall of 50% and records write downs of \$2.6 billion. They also are selling \$6 billion in preferred shares. The shares rallied!

This Reuters story added that:

*“U.S. investment-grade corporate bond volume totalled \$50.7 billion through April 18, according to research firm Dealogic. The previous record for this month was in April 2001, when companies sold \$47.35 billion of high-quality debt.”*

If things are turning around then why are they raising so much capital? My take is that write downs have a long way to go and investors are blind and ignorant in not observing this. The fact that mortgage type losses are only being written down or spoken of is ignorant to the, much larger and growing, derivative crisis

This story makes more sense as Caterpillar beat expectation with a profit increase of 13%. CAT is a large supplier to the mining industry and reflects the demand and activity taking place there. This is a leading indicator as if CAT's profit falls it may indicate a slowing of the mining sector. Don't expect that to happen any time soon.

The basic supply and demand imbalance in Gold is described well here, it's a good short read. Mr. Birch highlights the fact that investment demand is picking up the slackening of jewellery demand and that the low prices in the '90s have resulted in shrunken supply. The fact that it can take at least seven years to bring a mine on stream bodes well for continued strength in the godly metal, Gold.

An excellent history lesson is given in the above article and the highlights include the facts that when lower prices prevail, miners mine the higher grade ore producing more ounces and when higher prices prevail miners mine lower grade ore. As a result of lower prices exploration is slowed or stopped. Just because prices are higher does not mean an immediate increase in production. It takes a long time to get a mine up and running.

Apparently the global credit crisis is not affecting China. Their GDP growth rate did slow this past quarter, from 11.2% in Q4 to 10.6% in Q1. That's akin to saying the runaway freight train careening down a never-ending hill slowed as it lost one ton at the last bend.

This growth is despite the terrible snow hampering development this past winter. Also as a means to slow growth the central bank raised reserve requirements 0.5% to 16% from banks. If the banks in the US had reserves of this percentage we wouldn't be in this mess today. Leverage and the financial instruments created to take advantage of leverage are a main cause of the effect in the US today.

China is raging and I don't think any slowdown in the US will affect it materially. China has been and will continue to grow at an exceptional rate by any rational means compared to nearly any other country. And no small factor is the fact that it's the most populous country.

The Chinese are Coming!...to Toronto, Canada. Jinchuan Group Ltd. will be setting up office in Canada to get a little closer to the great properties in the area. The Chinese have been investing in many countries exchanging their US dollars for reserves, mines, refineries or whatever they see fit and Canada is ripe to receive their dollars.

A Chinese sovereign wealth fund slowly has built up a 1% or roughly \$1 billion stake in BP. Bp is the UK's largest publicly traded company.

On South Africa nothing much has changed this past week although some miners may be taking the ball into their own hands as Eastplats has acquired the rights to four generators in order to produce over 23 MW of power independently.

*"With our planned project development schedule and the uncertainty surrounding the power supply situation in South Africa we felt it prudent to ensure a large degree of self sufficiency and the purchase and commissioning of these power units will achieve this", stated Ian Rozier.*

Virtual Metals is estimating a Platinum supply deficit of 360,800 ounces in 2008 compared to a deficit of 412,400 ounces in 2007. They site lower demand because of the higher prices. We will see but I think they are misguided since Platinum cannot be switched out of the catalytic manufacturing business overnight and I don't believe jewellery demand will drop as much as they are predicting. As well the coming winter months are more power

intensive in South and I will be watching the Eskom situation closely as winter takes hold. Mines may shut down or receive less power as a result.

Virtual Metals have been mildly bullish to bearish over the past many years and in some circles its joked that they are called Virtual Metals since they have Virtually No Metals!

Highlighting the importance of investing in politically safe jurisdictions is the [decision](#) in Ecuador to suspend exploration projects for up to six months in order to approve a tougher mining law with more stringent environmental controls. Who knows where this one will go but some miners like Aurelian falling over 30% sure got beat up as a result. The story is a must read and highlights or rather lowlights include:

- *Companies can hold only 3 concessions. Aurelian has 38.*
- *“Mining companies will not be allowed to appeal the government's decision in courts and no compensation will be granted for expropriated holdings.”*
- *“Mr. Acosta said on Friday he will also propose a ban on open-pit mining.”*

Could you have slept well this weekend with these statements directed at a company you're invested in? I wouldn't have.

Mr. John Embry of Sprott Asset Management wrote a must read piece this week and its appended [here](#). Mr. Embry will be speaking at the [GATA](#) conference in Washington this weekend. I wish to formally congratulate GATA, the attendees and supporters throughout the world on yet another milestone. Let's hope history is on our side and the Gold price takes off as it has in the past after a GATA conference.

One more must [read](#) is by the visionary James Turk of GoldMoney. He highlights the risk of staying in the US dollar in the near term. That is why most my money is in the Canadian dollar and invested in Junior and Exploration stocks on Canadian exchanges.

# STOCKS REVIEW

Lake Shore Gold got a significant pat on the back from the large miner Hochschild Mining when they announced they will increase their ownership share to 35% for \$2.40/share, a 44% premium to its price on Wednesday.

Hochschild is a smart company with a long history of mining although they have only been public for a short time. I am involved with them through another company. This bodes well for Lake Shore and implies a near sure bet of an increase in the order of 44% in relatively short order. As a side note Hochschild increased Silver output 12% to 5.8 million ounces last year and is on track to produce 50 million silver equivalent ounces by 2011.



The shares responded very well but still have a ways to go to get to \$2.40. The fact that it gapped up above the 50day MA is very positive and so far is holding.

Andean Resources reported an increase to West Eureka West mineral resource. Highlights include:

- - *Infill drilling confirms continuity of the high gold and silver grades*

- - Gold and silver grades more than doubled from the previous October 2007 resource estimate
- - Total mineral resource tonnage up 15% from the prior estimate
- - More than 1 million ounces of gold and 18 million ounces of silver with grades of 12.9 g/t gold and 235 g/t silver in the Indicated category together with 0.34 million ounces of gold and 4.9 million ounces of silver at a grade of 10.7 g/t gold and 157 g/t silver in the Inferred category

Wayne Hubert, Andean's CEO commented, "There are several exciting parts to this significant increase in the mineral resource estimate at Eureka: first, the bulk of the mineralization is contained in one ore-shoot that remains open to the west and this type of geologic system seldom has ore-shoots in isolation; second, the average silver grades are very high and when used as a by-product, the resulting operating cash cost per ounce of gold should be low; and finally, we have yet another 4 kilometres of outcropping vein to test."

This is great news for Andean and brings them one step closer in the long process of developing a mine.



The shares popped a bit only to come down and fill the gap then close above it. Technically the shares don't look great but on small exploration companies you must be more fundamentally oriented.

The fact that they have such high grades and over a million ounces of gold bodes very well for them. Also the fact they are operating this project in Argentina is a huge plus in my books. Keep an eye on this one as it should perform very well in the coming surge in the Junior and Exploration sectors.

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