

Precious Metal Stock Review



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Another week, another waterfall decline in precious metals. This week I am looking at the three year chart to get an idea of where support may fall since all shorter term charts are useless after the falls.

I received another flood of worried emails this week and for good reason. But I remain a staunch supporter of this bull market. Fundamentals are stellar and just keep getting better, but technically we have a lot of damage to repair.

I hope, pray and expect that Friday was the lowest print we will ever see again in all four precious metals I cover here. At least the sun is shining outside. I think everyone needs to enjoy the summer and not worry about the day to day violent gyrations. As one subscriber suggested, go steelhead fishing, although the salmon is much more plentiful this time of year here, I may take his advice. The metals will go higher, so we all have to regroup and enjoy the show. Oh, how the stories from this one will shock future generations.

Metals review



Gold was hammered most of the week with Friday culminating in another huge down day to settle the price below the important \$800 mark. Technically the good news is the last Fibonacci retracement line lies here. The bad news is that if it's broken we could run down to \$735, then to \$700. After that \$650 would be the target. As always I am a bull and expect prices to go up this week, they can't go down for another one...I hope. Another proprietary indicator I use is the Warren's vacation index. As happened last year when I went on vacation the sub-prime crisis hit in full swing. I stepped off a houseboat having no communication with the outside world, to a different world in which the ramifications will continue to be felt for years. I spent the rest of the holiday trying to find out what was going on, secretly, while still assuming a straight face. The signs are pointing to another financial or geopolitical event so

expect something similar and gold should be the beneficiary. My proprietary index is rarely wrong!

All three moving averages are still heading higher but losing momentum. The 100 day moving average coincides with the long term uptrend line and will be a major area of support. RSI, MACD and Slow STO are all bearish. We'd better find some support here pretty quick or the summer low is going to end up being a multi-year low.



Silver lost over 15% this week and it hurt. Dealers are running low on inventory as the price dropped. Both gold and silver are being hoarded or just not available as a result of the low prices. The paper futures are setting the price but the physical sellers are simply not willing

to abide. We may soon have two prices a futures price and a physical price with a spread of many dollars.

\$12.30 is the last Fibonacci support area on the three year chart and will be strong support but that doesn't mean we can run below it. I have been amazed at how far and fast gold and silver have fallen for no apparent reason recently. For more on this I suggest you research what GATA has to say since they are the experts in this field.

All three moving averages are heading higher but weakening. RSI, MACD and Slow STO are bearish and very oversold.



Platinum continued its rout falling 11% on the week. We are now below levels not seen since almost a year ago. Support is strong from here all the way to \$1,100 with multiple bands of support. Miners are taking advantage of these low prices and trying to take over some good companies on the cheap. Fundamentals remain strong but corrections do need to occur but this one is mean.

All three moving averages are moving up but weakening and all three indicators, RSI, MACD and Slow STO are bearish with Slow STO showing a sign of a possible rest and base building not too far off.



Palladium has not been at this level since June 2006, and that was brief. The fundamental reasons to own palladium are sound and improving weekly while the technical reason have been weak, but at these levels the case can certainly be made that prices can't go much lower and the deals are here.

All three moving averages are dead flat and ready to move lower. RSI, MACD and Slow STO are lower than any other period on this three year chart. Technically we are close to a bottom but as they say, markets can remain irrational, longer than you or I can remain solvent.

Fundamentals Review

While it may seem that being bullish the precious metals lately has been a fool's errand more evidence is coming in that demand for the physical metals is surging and some organizations are not willing to part with it at such a discount after the prices has been taken down in the futures market. Here is some of the text from the important news [release](#):

*We just received word, **the US Mint has suspended sales of the 1 oz Gold American Eagles** until further notice and are not accepting new orders from precious metals dealers. This is in addition to the shortage of 1 oz Silver American Eagles.*

This comes at a time when many investors around the nation are scrambling to locate silver bullion and US gold coins while prices are attractively low. These low prices seem to be one of the driving factors in this recent shortage, as investor demand has dramatically increased.

This new development is huge and reeks of supply shortages. The physical metals will be dear to many in the future when prices rise to levels never thought possible. It's on sale, but quantities are limited!

As I finish off the newsletter this morning before a chore filled weekend begins I just checked in at the Kitco website and found this front and center:

"IMPORTANT NEW NOTICE: Due to market volatility and higher demand in the entire industry, we are anticipating delays in supply of all bullion products. Please note that you can continue to place orders and prices will be guaranteed; however, cancellation fees will still be applicable regardless of the length of the delay. Consequently once inventory is received there may also be delays in processing and shipping by our vaults."

So if Kitco never delivers and you finally cancel there is still a fee? That sounds fishy. They could simply refuse to honour your order and pocket the change. It appears demand has peaked while supply has dropped off as prices have as well. Nobody wants to sell their gold at these ridiculous prices. As prices rises supply will come back and demand should remain strong.

Central banks are not [willing](#) to sell the 500 tonnes allotted in the Washington Agreement. To date they have only sold roughly 315 tonnes. With the agreement year running out in September time is running out and the possibility of the year's total being below 400 tonnes is real. Central banks are not eager to sell such a precious asset for paper, fiat currency.

Although platinum has corrected quite significantly recently the supply deficit remains intact and higher prices will again follow. A director at Platinum Australia [notes](#) the supply deficit of 500,000 ounces in 2007 will be eclipsed this year in his view. He notes most large miners are expected to have reduced output this year, including Impala, Aquarius, Xstrata and Lonmin who recently received a takeover offer. The initial spike in platinum and palladium was jump started by the Eskom power crisis which led to mine closures. Power is still at 95% and

companies are not producing as much as projected as a result. Increasing demand from China is also noted as the auto manufacturing business continues to grow rapidly there after 26% growth last year.

The weakness in the US and lower automobile production is a major cause of the recent decline. Nothing goes straight up and platinum has been no exception. But the major trend remains bullish, especially now after a 30% correction. The recent clean air reforms in Chinese cities will soon be expanded to rural communities leading to more catalytic converter demand, which translates to platinum and palladium demand increases.

Rusoro Mining, with strong Russian ties, has formalized a 50\50 joint venture on the recently purchased from Hecla Mining Venezuelan assets. The partial nationalization is hailed as the best of both worlds since the local community will benefit greatly from the wealth creation as well as the government and the international investment community. The facts are that Russian interests control a large portion of the company with Venezuela and Russia being very tight and some say anti-American. There is no doubt in my mind that if the asset was not bought by a company with strong ties to Venezuela, the assets would have been nationalized 100% while remaining in an American companies hands..

Silver Standard is suimg HSBC and DBRS for their recommendation to purchase ABCP paper. The paper then was written down to \$27 million from \$57.7 million. I expect a settlement to be reached similar to Wachovia's recent settlement whereby they bought back the near worthless assets. Lawyers have a cash cow now suing the big brokers for false and deliberate recommendation of these worthless products.

Crystallex has updated shareholders regarding the halt of the Las Cristinas mine in Venezuela. The government has stated that permits may be issued after all for the mine but has requested possible modification to the mine plan which includes:

- *Further improvements to optimising the social projects in the area.*
- *Mitigating the impact of open-vein mining in the currently affected areas of the Imataca Forest Reserve.*
- *Improving the remediation plans at the end of the mine life as well as repairing existing environmental damage caused by illegal mining.*

Time will tell but Venezuela makes me very nervous and this could just be a stalling tactic or a ploy to receive an even more detailed mine plan to be used by the country eventually.

Kinross Gold has reported lower earnings than expected after costs rose offsetting the rise in gold prices. Costs were \$466 per ounce compared to \$348 last year. The company also raised their cost estimates to \$425 to \$445 from their previous forecast of \$385 to \$395. Foreign exchange rates also attributed to a smaller than expected profit. With the drop in oil prices their estimates may be realistic but they could run higher if oil resumes its inevitable ascent soon.

Gold buying has begun early this year in India for the upcoming festival season, Diwali, and marriage season. The Indian are very price conscious and the huge downswing in gold has peaked their buying interest for physical gold. India is very price sensitive and in the past has been a good indication of worldwide demand for gold.

Russian steel giant Severstal has bought the recently closed Balazhal gold mine in Kazakhstan. They are expanding the gold portion of their business. The mine was closed in 2006 from financial difficulties but has up to 30 to 40 metric tonnes of gold remaining. Just as China is expanding resources and looking for opportunities worldwide so is Russia. This latest takeover will not be touted in the mainstream circles as much as the North American based names have been but it is important nonetheless. Takeovers are coming by both companies and countries who own large stakes in companies. These takeovers would not be occurring if a bearish view on gold was present. As they are doing I am taking advantage of this sale to add to positions.

Goldcorp is on the move again by receiving approval from Terrane Metals to proceed with a joint venture partnership at the 100% Terrane owned Mt. Milligan property. The terms outline a minimum stake of 30% and maximum of 60%. A loan guarantee on a line of credit for Terrane for up to \$40 million was given by Goldcorp as the main condition. The line of credit is for a period of 18 months and the joint venture offer is only applicable during that timeframe.

Dubai's jewellery sales have increased 30% in July as prices of gold and silver dropped. Indians living in the country are largely credited for the increase as they buy gifts before returning home for summer holidays. The countries imports in the first half of the year slumped 4.7% while exports rose 26.1%.

The oil producer Saudi Arabia is expanding mineral exploration in the deserts of the country. Gold is being targeted but many other minerals are present. The geology is said to be fantastic there. The government's recent decision to allow large scale mineral production has sparked the exploration interest. Since the '40's exploration there in total has amounted to what is explored each year in Canada. As oil production is decreasing there with further larger declines to come the country is seeking a way to create new jobs and wealth. Once again, they would not be so eager if gold and the metals were heading lower. All this new exploration ground is fine and dandy but it will take a long time to come to fruition and eventually the market will be flooded with an abundance of gold, but for now it's not.

Something is going on in the Democratic Republic Congo but Anglo American is not talking. Concessions were recently taken away after sweeping reforms in the country and speculation is rampant that Anglo may be close to getting the concessions back.

The recent Xstrata bid for Lonmin Mining will be fought tooth and nail. The very cheap offer is due to the recent smashing of platinum and is taking advantage of that fact. Lonmin is touting their total mine life being 100 years with 156.3 million ounces of platinum group metals reserves. The bid will be increased or rejected, or more likely for such a huge reserve and mine life there will in all likelihood be another bidder or two.

Well that's all from me as we enjoy our second sunny weekend of the summer, maybe third, and I prepare for a much needed vacation. The next newsletter is scheduled for the September 6th weekend unless something extraordinary occurs. I wish you a great end to your summer.

Sincerely,

Warren Bevan

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