www.preciousmetalstockreview.com August 7, 2009

The End of Summer Doldrums?

It was another week in fantasy-land as the major indices continued their March higher. The news I read is bad, just slightly less bad, which for some reason is helping the markets March on. The Dow was up 2.16%, S&P up 2.33% and the Nasdaq was up 1.1%. In Canada the TSX gave up some gains and ended up rising only 0.91% while the junior and exploration heavy Venture Index rose 1.1%.

The gold and silver indices faired well with the HUI rising 1.63%, the XAU rising 0.22% and the GDX index rose 0.54% but the S&P Global Gold Index fell 0.11%. These indices will begin to outperform the physical metals in the near future as gold and silver breakout. The general rule is three to one leverage with them.

Life just seems to have a way to throw my plans off these days. I was planning to take a little vacation early in the summer but it looked like gold was about to break higher and I wanted to be close to the office so I postponed it. Now that the summer is near done, I have to take it now or forever reap the wrath of my family. And as to be expected gold is acting more strongly than any time in recent memory, and at a price so near the formidable level of $1,000. Off I go, but it appears it will be a working vacation this year. I'd much rather be at home instead of trying to keep up on the little laptop but it will do. I plan to do several smaller articles and updates rather than a weekly long letter. So until September hits I hope that will suffice.

Metals review

Gold's wild week saw it gain a meagre 0.17% for the week. While the gain may seem small, the fact that a gain was seen at all was a major accomplishment. The bears were pushing gold hard every chance they got, even after hours, but the bulls came back immediately and pushed gold higher. Usually we don't see the bulls come back until a major support area is hit but it seems they want gold higher, and want it now.

I always get nervous when we near a major breakout and this time is no different. I will remain nervous until gold is solidly above $1,000, and that could be very near.

RSI is hooking lower, now at 56. The moving averages are all very positive. MACD is bullish and could run much higher easily while Slow STO has just flashed a sell signal from overbought territory. This makes me think it's likely gold needs to blow off some steam by consolidating or correcting but the way the bulls have been behaving they just may keep the Slow STO indicator in overbought territory for an extended period.

Silver did much better rising 4.99% for the week and moving solidly above the nasty $14 level. There is a bit of a mess to get through from $15 to $15.50 but it should only be a temporary setback. RSI is hooking lower from almost

70. The moving averages are looking good and heading higher with the exception of the 50 day moving average which is a bit flat but will soon resume it's upward direction.

MACD is bullish and just crossed over into positive ground. Slow STO is slightly bearish from very high levels. I'd like to see some trade between here and the $15.50 level before a big move up to and beyond $16, but rarely do I get what I want in markets, when I want it.

Platinum rose 4.50% on the week and exploded back into the up-trend channel as I expected. It's been an amazingly perfect journey higher for both platinum and palladium this year. It's neutral right now since it's in the middle of it's channel again. The indicators are suggesting a pullback or consolidation here and I would agree and not have much conviction to go either long or short in the near term.

Palladium had a spectacular week moving higher by 5.42% and very near to the top of it's up-trend channel. I am looking for a pullback to the $260 to $250 level near the middle of the channel. Not much to say about this well behaved metal other than watching it is a pleasure.

RSI is bullish, the moving averages are all bullish, as well as MACD. Slow STO is bearish from the nose bleed section and needs to come down some but that doesn't mean it will. Enjoy the show.

Fundametals Review

The Bank of England has upped their quantitative easing efforts by adding a further $50 billion pounds to the program. This, as the ECB held rates steady at the low, low level of 1%. The increase in the quantitative easing program will likely take on the same form as the Federal Reserves recent purchase of Treasury Bills, essentially monetizing debt. This is the road to inflation that will one day get out of control unless authorities can time their moves perfectly, which is highly doubtful.

The chances of getting the crucial timing right is highly doubt-full given the recent track record of predictions which have been wrong every single time. There are a plethora of videos, articles and blogs highlighting and detailing the blunders by our leaders one of the many is found here.

More US leaders recently openly said that they believe up to 500 banks will fail as we move forward. Estimates coming from nearly any government official have been obscenely low or even outright dismissive. That 500 number could easily double or triple in reality. But that would scare too many people to say it openly. Funny, in a sad way, that a few years ago the 500 number would have done so then. My, oh my, how times change.

Since we are talking about banks failing please see here for this weeks list of the three biggest losers. This brings the years total to 72 now and I expect this trend to continue to accelerate.

The latest GSE (Government Sponsored Entity) to report earnings, I mean losses, did so to the tune of $14.8 billion. The company expects to continue losing money for the "foreseeable future". They are asking for a further $10.7 billion capital investment which will add to the total received, soon to total $44.9 billion. The cumulative losses, even with dubious accounting methods, over the last two years is now $101.6 billion. Housing prices may be starting to stabilize here, but I think they will continue lower and defaults will increase taking this company further into the abyss. As the commercial real estate resets continue, and increase, I expect a major shock to the system.

All these bailouts inevitably lead to the need for break-up and management fees. Wall Street banks who've barely held together will be the benefactor. The large insurer who has received government bailout of about $180 billion could be the big bonanza for Wall Street. The banks could reportedly receive up to $1 billion in fees from the break-up. Where is the outrage? This clip from the movie "Network" instantly came to mind. That's the spirit.

Now that's Irony. Just as I closed the clip down and turned up my classic rock station again, the, I suppose, now "classic" "We're Not Gonna Take It" by Twisted Sister was playing. Guess who was next? Ya, that's right, "The Who" with a song by the same title. It's a sign!

I've said many times in the past that Indian buying, or lack thereof, are important indicators to the near future of gold. Indians have begun buying gold jewellery in anticipation of the rise in price as the festival season kicks off in the fall and always has a positive effect on the gold price, sometimes more than others. If this recent action in gold is any indication the rise in price should be spectacular.

Chinese gold production is up 13.5% year on year to 146.51 tonnes. There is no doubt China will again claim the title of the worlds largest gold producer.

The Royal mint has doubled production in order to try and meet the surging demand for gold coins. This is in stark contrast to the US mint who has halted production altogether and the Canadian mint who lost much gold. The US mint uses the excuse that they cannot get enough blanks to continue minting, but the Royal Mint can attain double the blanks they have in the past seemingly with no mention of a blank shortage. It doesn't add up.

The non-story this week is the new Central Bank Gold Agreement which will see a cap of 400 tonnes being sold each year for the next five years. The current 500 tonne sales cap has not been met for years, with this years total only 140 tonnes to date. The IMF's 403 tonnes will be incorporated into this agreement but I still don't expect the yearly sales to increase much, if at all as the agreement plays out, and once the IMF's gold is sold the total will approach zero. Why a central bank would ever sell gold which is no-ones liability and ALWAYS an asset is beyond me and many countries are not keen on selling any more, as well as being upset they have sold as much as they did in the past.

If the threat of strikes over wage negotiations wasn't bad enough the South African mining sector is now threatened by a looming strike at Eskom, the power provider in that country. The industry experienced a power shortage last year and have yet to fully recover in many cases, this will not go over well. Although some companies have taken steps to reduce any power disruptions by adding their own generators or other power supply sources so this could be a great test for them. The strike is not set in stone as of yet but it's close and we should know early in the week which outcome will take place.

A must listen to interview with Jim Sinclair can be found here.

In my free, nearly weekly newsletter I include many links and charts which cannot always be viewed through sites which publish my work. If you are having difficulties viewing them please sign up in the left margin for free at http://www.preciousmetalstockreview.com/ or send an email to warren@preciousmetalstockreview.com with “subscribe” as the subject and receive the newsletter directly in your inbox, links and all. If you would like to subscribe and see what my portfolio consists of please see here.

Until next time, thank you for your time, take care, and thanks for reading.

Warren Bevan

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