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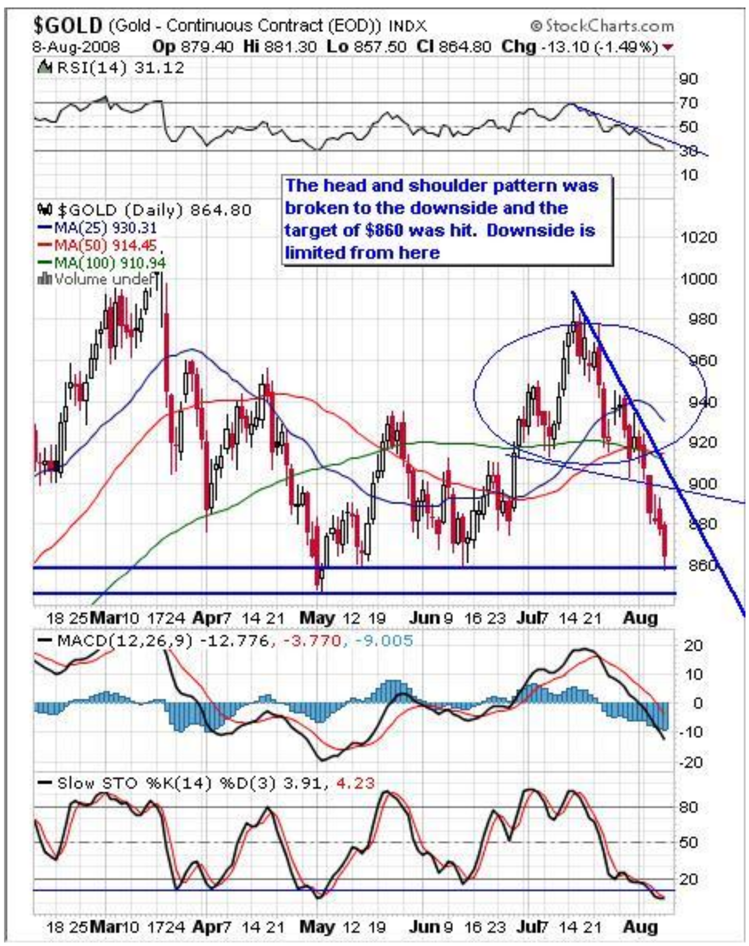
Metals review



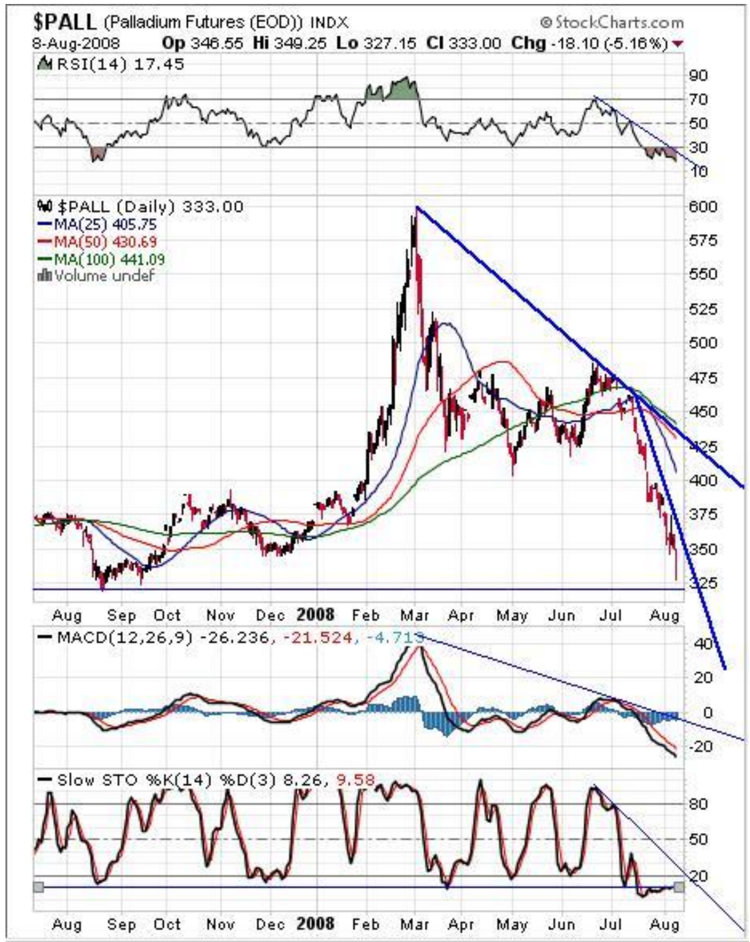
I did not expect another down week in gold but it is fine. As long as the key support at $850 holds. It's a great chance to buy in at this level. The head and shoulder pattern hit its target of $850 to $860 already so the price should begin to stabilize or move up from here. It was not a fun week, but the bright side is that it's over now!

All three moving averages are moving down. RSI is trending down and at very low levels on the six month chart. It needs to get above the downtrend line to signal some strength. MACD has broken down and is showing no sign of stopping. Slow STO is at extremely oversold levels. This chart with the indicators trend lines support lines and broken head and shoulders pattern tells me we should begin to flatten out and build steam for the next run up. See my weekly chart update here for a longer term view to help but the big picture in perspective.

Silver broke the very strong support at $16.50. I did not expect this to happen even in the worst case scenario. See the longer term chart for more of an idea of what to expect.

All three moving averages are moving down. RSI remains bearish but is approaching a very oversold condition. MACD is oversold but can and looks to be heading lower. Slow STO is showing signs of a reversal in price. I don't see how silver can remain this cheap for more than a couple of days. I spoke about a potential bear trap formation recently and I thought it was in but at higher levels. This is a true bear trap setting off massive technical sell signals and triggering many stops which cascade and exaggerate the move. Silver at this price is cheap and the best bargain anywhere, except maybe some quality junior and exploration shares.

Platinum looks like it has bottomed out finally. Unbelievably the price is still up some +20% over the past year although it may not have felt like it over the past month. There is strong support at $1,500 and $1,600. See long term charts for a better look. These lower prices may attract buying attention from auto manufacturers looking to secure some stocks at a much reduced price. Even though the American auto demand is off, we will soon see how the whole world is fairing. I think once the Olympics are over we will see a truer reading of demand.



Palladium continued its fall but is near strong support. $350 could not be held and $325 will be the next test. See the longer term charts for a big picture view on how truly cheap palladium is today, especially if you consider the decreasing purchasing power of the US dollar.

All moving averages are bearish. RSI is in deeply oversold territory and can stay here. MACD is showing a bit of a reduction in selling pressure and is at extremely low levels never see on this six month chart. Slow STO is moving up and at a key level which in the past has represented a good entry point into this market.

Fundametals Review

So many have asked why they should invest in gold and why I am so sure the market will continue to go up. There are many reasons many of which I outline in this newsletter nearly weekly. But the simplest reason is written about in this story where the well versed and knowledgeable Nouriel Roubini simply says hundreds of banks will fail. He goes on to state his opinion that we are only in the second inning of this recession. Referring to the recent bailout of the huge mortgage institutions Fannie Mae and Freddie Mac, he states;

> *"The regulators should investigate themselves for bailing out Fannie Mae and Freddie Mac, the creditors of Bear Stearns and the financial system with new lending facilities. They have swapped U.S. Treasury bonds for toxic securities," he told Barron's. "It is privatizing the gains and profits, and socializing the losses as usual. This is socialism for Wall Street and the rich."*

The public is realizing more every day they are losing purchasing power holding US dollars, and if they have more than the $100,000 FDIC insured amount they may lose it. Even the very undercapitalized FDIC's ability to bail out many more banks, especially if they're large is very questionable at best. The fact is Americans must get out of the US dollar and take billionaire Jim Rogers's advice when he said to get out of the dollar "at all costs". Gold is an obvious choice and silver a lesser but even better option. Mining shares in a foreign currency are great as well since they will give much more leverage than the metal. A nice mix of the two would be preferable, as long as one is positive they have access to the bullion, otherwise what's the point?

Another story of the times here. Morgan Stanley reneged on thousands of home equity credit lines mostly those which have lost some value of their home in this crisis. But the fact is many large institutions such as Morgan Stanley are bleeding badly and need to stop it. But a band aid will not heal a wound as large as the one sustained.

Newmont is considering selling its half of the Kalgoorlie mine in Australia which is owned in a 50:50 joint venture by Barrick and Newmont. The mine is experiencing some geotechnical as well as cash cost issues. This is just another example of miners trying to cut rising cash costs and boost operating results to help take advantage of the high metals prices. Barrick reserved comment on the matter but did express the intention to not dispose of their share of the mine.

The long ago announced strike plan in South Africa finally took place and affected three of the four Goldfields owned mines in the country for the daylong protest. Goldfields also announced a job cut of 1,885 positions as part of the redesign of their South Deep mine in South Africa. Severance packages have been offered and actually oversubscribed with 2,053 applications.

AngloGold Ashanti, who recently cut a portion of their hedge book, expects to realize a 17% discount to spot gold as they close more hedges.

This story from India talks about a possible IMF (International Monetary Fund) gold sale again but with the right spin unlike western media. The truth is stated in that there are several IMF depositories around the world including one in India. The truth is that if, and that's a big if, the IMF sells gold, not one ounce will come to market. It will be bought by, in this article India who holds some IMF gold within their borders already. But there would be quite stiff competition for this potential IMF gold sale and more likely would be split between some countries having IMF depositories in their country. Basically an IMF sale will not affect the gold supply, hence price, other than psychologically for those uninformed or ignorant.

An article where more merger and acquisition talk is bandied about. But a few quotes stuck out that many of you need to hear in these trying times, which are taken much too seriously and strewn as the end of the bull market in metals. CEO of AngloGold Ashanti Mr. Mark Cutifani says; *"I still think we have an industry that's under stress. We have seen declining production in the last six years. We will probably see production decline in the next three to five years continuing because there hasn't been enough investment,"*

He goes on to say*; "I think it's a great time (to buy back hedges). The fundamentals are very strong for gold and there is a strong possibility gold will break through the $1,000 mark,"*

These low prices are nothing but an opportunity. As I have been saying for so long the fundamentals have not changed and until they do I remains long and strong during the good times and recently the bad times. But the bad times always have come regularly therefore the smartest thing to do being waiting for them, and then accumulate. Now is the worst time in a while after it looked like we had bottomed above $900 it is frustrating but just another chance to get in on the cheap. The many trying times to date have been nothing but opportunities, this being another one. Don't lose heart, think of the gift given to everyone, and take advantage of it.

The opportunity is being seized in India as precious metal traders are struggling to meet heavy demand sparked by low silver and gold prices recently breaking below strong physiological support levels. Higher premiums have resulted and driven up the cost of acquiring gold and silver accordingly. Orders are taking up to 10 days to be filled. The buyers are taking advantage of the break in price before the festival season kicks off in mi-August. Demand has recently picked up very strongly world-wide, out of the blue. Unless you have a clue.

I talk about the reasons why here weekly. Paper dollars are simply that. Why are they worth face value? What are they backed by? Paper dollars are depreciating and consumers are picking up on that fact and running to gold and silver to preserve buying power and increase wealth. The fact that the metals are managed lower or held back from rising as quickly or as much as they should is just a bonus for the ones who get it and are accumulating after sharp price breaks such as we have now.

I maintain that the prices will be sharply higher by the end of this year as they have been nearly every year bull to date. Nothing has changed my long term view.

Speaking of managed markets, the US Commodity Futures and Trading Commission (CFTC) confessed this week that total speculator held futures and options contracts were actually controlling 48% rather than the previously reported 38% of the oil market. This is a huge admission and could well be the case in the precious metals markets.

It comes down to the fact that the CFTC does not care about markets being manipulated and they let it slide until recently in the largest market, crude oil. If they took a closer look at the gold and silver markets and were honest about what they saw the story would be much different. Ted Butler focuses exclusively on this topic and issues weekly reports. A quote from the article; *"There may have been multiple 'positions' which were reclassified ... but they all appear to have been held by just one trader, and this was a very special trader, with an enormous concentration of positions in crude oil amounting to perhaps 460 million barrels, and not much interest in anything else," noted John Kemp of RBS Sempra Commodities.*

As Mr. Butler contests, only a few traders hold over 80% of the positions in the futures market which in turn gives them basically a free pass to put the price wherever they want it whenever they want it to a large degree. Ad since the CFTC is largely controlled by large financial institutions it remains in their best interest to look the other way.

The soon to start gold futures trading in Thailand is being strongly opposed. A study on the effects to jewellery shops is wanted and a fear of losses in paper gold trading is sited. I don't think it will affect the jewellers as much as feared since Thailand recently went through a currency crisis and has a firm grasp on what the true merits of physical gold in possession are.

The recent Xstrata $10 billion bid for Lonmin mining is important as they try to increase their exposure in South Africa. The plan is very transparent and designed to be make them the largest producer in the country eventually. It is another example of the deals to be found today and the fact that the bull run is far from over as large corporations try to increase leverage and increase market share to the precious metals.

South African gold output fell 12.3% year over year. Overall mineral production was down 6.3%. These figures are largely due to power issues earlier in the year but other factors have contributed such as safety and union awareness and opposition to poor and dangerous working conditions.

Barrick Gold is continuing their strategy of hedging rising costs by acquiring oil producing companies, albeit small so far. After the recent acquisition they have announced another one for $87.5 million in cash. This time with Daylight Resources, who produce in the same region as Cadence Energy, in fact their properties neighbour each other. Daylight produces 900 barrels a day of oil equivalent. Both acquisitions will produce around 4,500 barrels of oil equivalent per day which translates to 30% of Barrick's oil usage needs.

The spade of takeover offers is finally being recognised in the mainstream media for what is really is. The large companies are not replacing mined reserves as quick as they are mining them and the very undervalued junior and exploration companies are their ticket to achieving this goal. This is just the beginning of a large and long-term takeover wave. Unfortunately many shares are so undervalued right now that many shareholders will not be happy with a takeover offer at today's valuations. In time the valuation will reflect a more true value, and in the end after most of the takeovers are complete the valuation will simply be unrealistically high. We will be selling around that time and moving on to the next great investment theme.

The disgust over unjustly low share prices is rampant on the internet chat boards. The recent takeover offer by Kinross for Aurelian is the target. Investors are steaming at the bid since it comes just after the shares were cut in half after the Ecuadorian government announced a revision and possible revocation of mining concession there. Kinross is just taking advantage, as any smart business person would, of this situation. I would be mad as well but do not hold that stock anymore. But the theme is widespread and many of my stocks are unjustly lower than when gold and silver were much lower. This phase will pass.

Well that's a wrap. Let's hope the sun shines this week both figuratively and in the true sense. As the comedian red Green says; "If you can't be handsome you may as well be handy". The precious metals are far from handsome these days but they may come in handy in the not too far off future. Have a great week.

Warren Bevan

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