

Precious Metal Stock Review



www.preciousmetalstockreview.com

27 July 2008

Being host most of last weekend didn't allow me to fulfill my newsletter duties so I will be including some of last week's most important events in this week's letter. Luckily our unbroken streak of rainy weekends looks to be intact so another weekend in the office won't hurt that much.

As bad as things can feel in the precious metals markets these days, the fact that they can't get too much worse has to console some. Gold especially and silver are looking good technically with gold bouncing around strong support after its second run at the venerable \$1,000. Palladium looks to be holding while platinum is anyone's guess at this point.

Metals review



It has been quite a couple of weeks of downside volatility. The price has dropped some \$70 from the peak of the last run to \$990. The green line depicts the major battle area for \$1,000. While it is \$990 instead of \$1,000 it does represent that milestone. Therefore we have had our second test of the \$1,000 according to this chart.

As usual the price dropped violently and scared many people into questioning both the direction of the market and their sanity. Nothing has changed as gold continues to work perfectly towards ever-increasing higher prices.

The drop brought gold to a significant Fibonacci support level and it looks to have bottomed there. This level also happens to coincide with the 50 day moving average as well as the short term uptrend line depicted in orange.

The moving averages are mixed but with the 25 day above the 100 and the 50 day close to moving above the 100 we are posturing for a very strong move up which coincides with everything else mentioned about this particular chart. RSI is above 50 which is bullish, MACD crossed over bearishly but seems to be turning back up here and can still maintain its uptrend line. Slow STO is at 20 which in the past has led to very nice price increases. Please, if you find yourself panicking then you are not meant to be in this market. Everything in this chart is constructive and very healthy. We may violate support but chances are it will just be a bear trap so stay focused on that thought and take advantage of it.



Silver has also taken a scary ride down the rollercoaster. As the short term Fibonacci lines indicated the support at \$17.35 held just barely. There is a nice uptrend line in blue at that level which also was tested and if it holds will be one notch stronger the next time it is tested.

The moving averages are mixed right now but the 25 day is above the 100 day and the 50 day is moving up and very near to crossing the 100 day. If that occurs and the 100 day can turn up as well that will signify strength.

It's interesting how as the three lines drawn from the peak are broken it is always followed by a scare down move BEFORE the trending move up begins. This tends to scare people out and then they don't enter the market when they should and miss the move up until near the peak when they enter again just before the price moves lower. So many people have been trading this market wrong. It moves almost counter intuitively but if you can study past moves, have patience and forget your emotions you can make a killing in the precious metals. Margin will ruin you though so if considering futures, options on the ETF or any other trading means please take heed.

The RSI has turned up from about the 40 level, MACD has turned down but is just holding its uptrend and the Slow STO is very low and accordingly at a good entry point.



Platinum broke down out of its bullish triangle on reports of stable power supply and decreasing demand for the precious metal. These are just reports and as with the financial crisis everything is rosy until it's not. The fundamental remain strong except for errant reports and speculation. Traders were stopped out and the metal continues its downward trend having fallen over \$300 in two short weeks.

We will see where this ends but the blue lines depict support, although not very strong at \$1,750, \$1,680 and \$1,600 being by far the strongest.

All three moving averages have turned down with bearish crossovers being completed signifying downward continued pressure. Notice the trend lines drawn on all three indicators could not be bested near the end of the triangle pattern which should have tipped us off to a potential downward move which was followed through. The indicators remain bearish but are very oversold, but markets can remain like this for a very long time. Indicators cannot be relied upon for anything else but to show potential. The market is always right and once this one settles down it will present an excellent buying opportunity to make a lot of money.



Much the same applies to palladium. The triangle was broken to the downside and support lies here and now at \$386. The indicators are quite low but still have room to run down. The precious metals remain extremely volatile and investors must wait for inevitable violent corrections and enter when a sign of a bottom appears as most people are ready to jump from their office windows.

Fundamentals Review

The past two weeks bring us a host of strike news. In Peru Buenaventura has had their road to the Orcopampa mine [blocked](#) by the local community who decided to renege on the current agreement they have with the company. Later in the week the community [suspended](#) the blockade and the company resumed production. The community and Mining Ministry are negotiating to ensure there is not a repeat of this in the future. Approximate losses to the company are pegged at 4,000 ounces or \$3.8 million over the two days.

Gold Fields Beatrix mine in South Africa was the [victim](#) of a stay away strike this week when only 10% of workers showed up allowing only one of three shafts to operate. The workers are protesting rising electricity costs. Losses are unclear but the mine produces 46 kg of Gold per day on average.

More bad news [hit](#) Gold Fields this week when another worker was killed at the Kloof mine. The main shaft was shut for investigation and safety purposes and will affect output by a yet to be determined amount.

Harmony Gold expects to lose between 1,059 to 1,236 ounces of production at the Virginia mine in South Africa after a strike in protest of a recent fatality by 6,500 workers. That amounts to up to \$1.18 million dollars at the upper end.

Harmony Gold [shut](#) its Victoria mine in South Africa after 6,500 mine workers downed tools in protest after a worker was killed in an accident.

Also in South Africa's Free State where 30% of the countries gold is produced workers stayed [away](#) from work in a one day protest of rising living costs. A national strike remains scheduled for August 6.

AngloGold Ashanti has finally [cut](#) their hedge book. The reduction was by 39% accounting for 4.4 million ounces of the 11.3 total hedged positions. Their recent \$1.7 billion rights issue was the funding used for this reduction. It's too bad they have waited so long and as a result have diluted shareholders by covering hedges put on when Gold was under \$400.

A shocking and potentially damaging [announcement](#) out of Ontario this week says that basically 43% of Ontario will now be off limits to mining and other industrial usages. The announcement caught many off guard including communities in the region who apparently weren't consulted. Global warming is a key point in the decision since it's estimated that the boreal forest in the region absorbs 12.5 million tonnes of carbon dioxide per year. The area also supports over 200 species of wildlife including some endangered species.

It's not clear which companies will be affected by this decree but Goldcorp and DeBeers have mining projects there. I don't believe this will decision will hold up over time. I think it will go to the courts eventually and frankly it is shocking to me that such a rich, important and mining friendly area has seemingly been shut down overnight. I am certainly for protecting the

environment especially in such a huge and important area, but I don't believe in sudden reversals of policy and I believe there will be a sustainable balance found. Fully developing the region is not good nor is leaving it completely untouched in my view as a shareholder of mining and exploration companies.

In Ghana the illegal mining issue is [raised](#) once again as the Gold price continues its rise into the stratosphere. The facts remain; it's dangerous to the illegal miners and legal miners as they battle for ore and infrastructure. Illegal miners are much more damaging to the environment, commonly using mercury to get the gold out of the rock.

Sometimes up to 6,000 illegal miners are on the legal miner's property per week and fights can break out with illegal's vandalizing or stealing infrastructure further endangering safety at the legal mines. Companies are realizing this is the largest social issue and other forms of work must be offered to the people as security costs are escalating and even threatening plant closures.

Illegal mining is big business in many impoverished nation. It is estimated that up to 1.5 artisanal miners operate in the Democratic Republic of Congo alone. Up to 650,000 in Sierra Leone, 250,000 in Ghana and thousands if not hundreds of thousands across the rest of Africa.

Barrick Gold is trying to offset rising energy costs by [buying](#) a small Canadian oil and gas producer company Cadence Energy. After the initial offer of \$354 million they raised the offer to \$410 million. Another company was close to [acquiring](#) Cadence when Barrick came knocking, shocking both other parties but providing much better value for shareholders of Cadence. Barrick did end up [winning](#) the bid for Cadence for the \$410 million.

The newly formed Gold Wheaton who's stock has doubled since its inception has [finalized](#) its first contract with FNX mining. The contract allows Gold Wheaton by gold for \$400 and sell it into the market at the spot price for an initial upfront cash payment used to complete infrastructure and development. It's the same model as Silver Wheaton which can buy Silver for roughly \$3.90 an ounce.

Egypt is back producing Gold and [expects](#) to produce up to 8 tonnes of the king's metal in 2009. First quarter demand for Gold in Egypt was up 14.5% to 18 tonnes. From 1902 to 1958 it's estimated that Egypt produced 7.4 tonnes. 8 tonnes annually is a far cry from their former small producer status.

The Middle East's largest gold consumer, Saudi Arabia, is seeing significant scrap [shortages](#). The usual numbers range between 20 and 30 tonnes of scrap gold per year. This year however there is very limited supply as people continue to hoard their jewellery in hope of higher prices down the road.

Another gold ETF is [budding](#), this time in Hong Kong. Notice how the GLD American ETF is holding so much more gold than any other ETF worldwide. So many countries have experience with currency devaluation or crises as well as political upheaval. Most of the world simply knows the value of paper when compared to physical gold. You can always trade gold

for goods, but not paper or paper which says you own gold in an ETF. Remember all the ETF's worldwide are settled in cash...not gold.

Another must read from legendary investment manager John Embry at Sprott management is found [here](#).

Minefinders had a [setback](#) in reaching commercial production on schedule. Production expectations are now cut for 2008 but 2009 and 2010 should remain intact. The delay is caused by an earlier blockade in June and some remaining protester have threatened violence and remained onsite until recently. Everything is in place including infrastructure and workers and now that authorities have confirmed safe access to the mine things are set to begin shortly.

Newcrest Mining has [reported](#) a 6% drop in production resulting from the gas explosion in Western Australia a short time ago. Newcrest expects losses to come in at \$34.3 million.

By far the biggest news really in a while is the Kinross [bid](#) for Aurelian Resources. It's a 41.2 billion all cash friendly bid. Speculation is rampant that a bidding war may soon ensue as well as Kinross having some inside knowledge as to the new mining law coming soon in Ecuador.

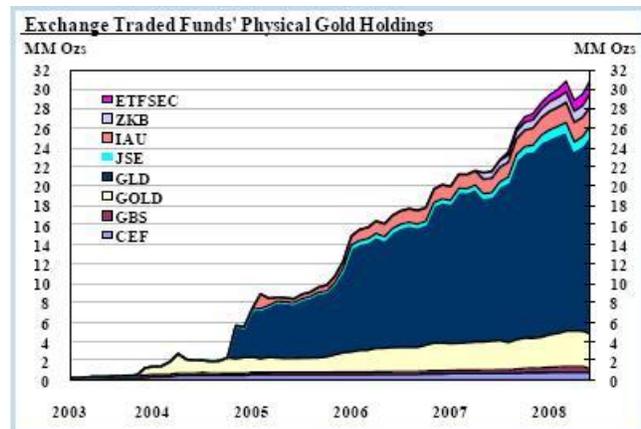
What's really exciting about this is that as mentioned above we just had a run on gold at \$1,000. This combined with this takeover bid may be the two catalysts we have been waiting for to really light the fire up again under this industry. We can only hope and wait to see, but as the saying goes, it's darkest before dawn.

I see the sun cracking out a bit so I'll try and wrap it up here. In our new home we are trying to be more self sufficient. We have a wood stove, and I got a new toy, a chainsaw. It's a great distraction from sitting in front of the screen all day, and good exercise to boot. But it's much harder work than I'd thought, my back aches for days after a load or two. Thank god for the hot tub on the back deck! I wish you all a great week in trading and your lives in general.

Sincerely,

Warren Bevan

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Note: CEF-Central Fund of Canada traded on the Toronto Stock Exchange. GOLD-Gold Bullion Securities traded on the Australian Stock Exchange. GBS-Gold Bullion Securities traded on the London Stock Exchange. GLD-Streettrack's Gold Shares traded on the New York Stock Exchange. GLD (JSE)-Gold Bullion Debentures traded on the Johannesburg Securities Exchange. IAU-iShares Comex Gold Trust traded on the American Stock Exchange. ZKB-Zurich Cantonal traded on the Swiss Exchange. ETF-ETF Securities traded on the London Stock Exchange. Data as of 30 June 2008.

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