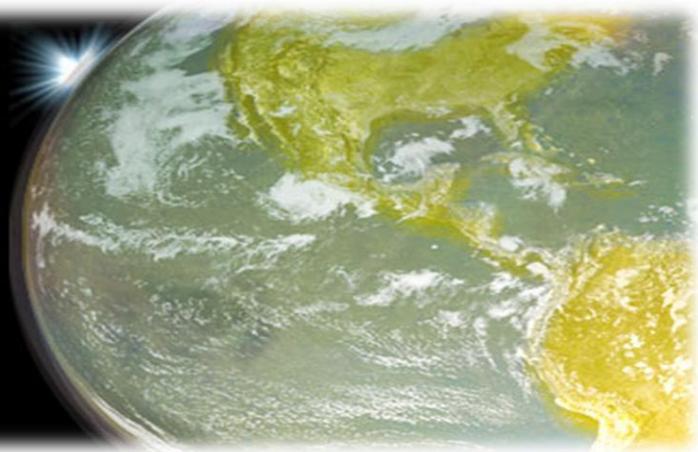


# Precious Metal Stock Review



Where to start his week is the big question. There was so much horrible financial news downgrades

## Metals review



Unfortunately Gold crashed this week, but lo and behold it roared back over \$20 on Friday to finish the week effectively unchanged. Being above \$900 is proving more significant every time the number is breached.

Like we've seen many times before a head and shoulder pattern is coming close to completion and as in the past could be broken to the downside creating technical damage and a sell signal. If this occurs it will no doubt fail and create a bear trap and short covering.

The uptrend beginning in May is barely intact but holding. All three indicators are pointing up and the slow STO and MACD are close to a bullish crossover. RSI is about to breach the 50 which could signify an up trending market.



Silver still just needs a small spark and has put in a rounded bottom in the \$16.50 region. \$18 is proving very difficult to stay above and the market looks like it will range between \$16.50 and \$18.50 roughly. Once the upside is broken it should move up very quickly.

All three indicators are up and bullish with the exception of the MACD which is a hair from giving a buy signal.



Platinum had a nice finish to the week. It is trying to fill the gap left a couple weeks ago. The price bounced exactly off the 100 day MA and it seems that may be a bottom. The gap may be tough to fill but you never know. I am looking for a sideways movement next week to garner strength to power through the gap and continue on the upside. While analysts are calling for a higher price in some cases, others are not. The fundamental outlook is being touted in both directions as well. I believe up is the way of the future and I have positioned myself accordingly.

Slow STO and RSI are flashing fresh buy signals while the MACD is turning up but still has a bit further to go.



Palladium spent most of the week trending and building a base. The price needs to get above the 25 and 50 day MA's and could be pushed down as the MA's move lower.

The Slow STO is just flashing a buy signal, but we will know Monday for sure. MACD is just bearish but mainly flat. RSI has turned up but is not yet above the 50 mark.

To me Thursday looks to have been a bottom with a hammer formation on the candle chart, but we will see over the next week. It looks like this metal is beginning to run a series of higher highs and higher lows which would be positive.

## Fundametals Review

Ambac and MBIA finally had their ratings cut two notches to AA. With this over \$1 Trillion of guaranteed securities are downgraded as well. I could go on here, but I will regress and just post their charts which tell the whole story.



Just as bad is the downgrade of investment rating by S&P of Morgan Stanley, Merrill, and Lehman Ratings. Goldman Sachs was not downgraded but the view remains negative on them. With these downgrades collateral limits will increase putting further pressure on their balance sheets.

Let's just take a look at their charts instead of getting into too much of the same old talk.

**MS (Morgan Stanley) NYSE** © StockCharts.com  
 6-Jun-2008 **CI** 40.81 **Vol** 84.8M **Chg** -3.42 (-7.73%) ▼



**MER (Merrill Lynch & Co., Inc.) NYSE** © StockCharts.com  
 6-Jun-2008 **CI** 39.02 **Vol** 148.5M **Chg** -4.90 (-11.16%) ▼



**LEH (Lehman) NYSE** © StockCharts.com

6-Jun-2008 **CI** 32.29 **Vol** 410.7M **Chg** -4.62 (-12.28%) ▼



**GS (Goldman Sachs) NYSE** © StockCharts.com

6-Jun-2008 **CI** 169.44 **Vol** 54.2M **Chg** -6.97 (-3.95%) ▼



The Fed's bi-monthly \$75 billion auction attracted \$96.62 billion total bids. I guess since they announced they only participated in the auctions to prove there was no "stigma" attached, they are now overbidding to prove no "stigma". What's next? Since December the Fed has loaned a total of \$435 billion. Expect more of this to come.

Oil had a very volatile week ending at all-time highs Friday breaking the \$10 a day limit to close up \$10.75. I really enjoyed hearing T. Boon Pickens say simply demand exceeds supply, that's the problem not speculators. George Soros also had some very nice words on the matter on C-Span early in the week. These guys are billionaires for a reason. Politicians and policy makers are not. Who do you want to listen to or consult with for your investment decisions?

Foreshadowing what's to come in the Gold, Silver and other commodities, the CFTC is investigating speculation in oil and says trading may overwhelm commodities markets. They are attributing this to growth in electronic and worldwide trading becoming more readily available. Basically it comes down to many of these markets being too small for investors, making them extremely volatile and ripe for speculation and in turn investigation. This quote from the story sums it up pretty well;

*"The tail doesn't wag the dog," William Adams, a managing director at JKV Global in Chicago, said in an interview. "You've got a weak dollar and higher demand so there is really only one direction the price can go."*

Here's one bass backwards story titled; "Wall Street Says  $-2 + -2 = 4$  as Liabilities Get New Bond Math". This quote from story gives a reasonable and short explanation;

*"Merrill Lynch & Co., Citigroup Inc. and four other U.S. financial companies have used an accounting rule adopted last year to book almost \$12 billion of revenue after a decline in prices of their own bonds. The rule, intended to expand the "mark-to-market" accounting that banks use to record profits or losses on trading assets, allows them to report gains when market prices for their liabilities fall."*

With tactics such as this we will never know just how bad the books are of financials until, like Bear Sterns, it's too late. Be very careful.

The mortgage unit of GMAC has reversed course and says they need three times the liquidity expected just three weeks ago to stay in business.

Friday the DOW finally cracked under the pressure and Gold and the related stocks sent us into the weekend with a smile. While the volatility in Precious Metals has been scary for some, it will only get worse so if you can't stand the heat stay out of the kitchen.

Shanghai Futures Exchange volume grew 19% over the previous month; metals are traded on the exchange.

The state bank of Pakistan denied a story that their Gold reserves have declined and said they “have marginally increased” their Gold reserves. I wonder if they would be interested in the long touted always doubted IMF gold sales.

Options on the questionable Gold ETF, GLD are now available for trading after many requests. The volume in this new options set will be fun to watch and be a good indicator of investment demand among other things. Another thing to watch is if any demand is taken away from the HUI and XAU options sets.

This story highlights the fact that oil and Gold stocks are lagging the actual commodities and the analyst says they have even more room to run up. He also says better value and potential can be found in the smaller stocks if you do your homework. This is nothing new but does reinforce the thoughts I have penned on numerous occasions regarding the difficulty in analysing these smaller companies. It literally took me a couple years of full time study to learn how to value the companies in the PM sector and analyse their potential, and I am still learning new tricks nearly every day. As an aside the beautiful Canadian Mint’s 100kg coin is pictured in the story above and makes me drool!

Also from the story above the 38 year low in the gold to oil ratio is mentioned and the analyst says it usually signals a strong outperformance by Gold stocks in the near future. It’s a great story and deserves a read to appreciate all the great points made there, but made here in this newsletter nearly weekly.

Troubled Zimbabwe expects to produce just 4 tonnes of Gold this year from the maximum potential of 30 tonnes. Inflation continues to be rampant there and just this week the Zimbabwe dollar hit a staggering 1 billion= \$1 USD! The stories ran here in the past about troubled payments to miners being both late or in fast depreciating local currency are a large contributor to the decline.

The CFO of Barrick says the Gold industry needs \$700 Gold in the long term to stay profitable. That in my opinion is optimistic since I see a continued and accelerated inflationary cycle with demand for oil and power outstripping supply more dramatically and other costs and inputs rising as a result leading to a higher cost per ounce than he thinks and meaning we need a much, much higher Gold price. He also predicts a decreasing supply as costs run up and deposits continue to be harder to find, permit and construct. He says peak Gold was reached a couple years ago.

Many find the “peak” theory bogus or confusing. “Peak” DOES NOT mean there is no more of the commodity, but it does mean production has peaked and is on the decline. While there may be copious amounts of oil around, supply cannot meet demand. Supply has been falling since 2005 and even if they could pull more out of the ground, refineries could not produce anymore until facilities are built. I have a feeling we will be hearing the word “peak” a lot in the future referring to everything from corn, to sugar, coffee, gold, silver etc...

A story about the potential and huge interest continuing to develop in Africa’s natural resource deposits yet to be discovered. Investment doubled from 2000 to 2006 to \$315 billion. A good

rule of thumb when considering investing there is that if you don't hear much in the news about that country it is one of the safer ones.

Her top picks are Zambia and Ghana. While I am cautious about Ghana lately I would add Tanzania, Congo, Sierra Leone, and some others to the list safe enough to consider investing.

I love [this](#) story indicating slowing auto demand in the US will hurt demand for Platinum and Palladium. US auto sales dropped 11% in May. No mention of the obvious as the spin is spun. In this [article](#) Chinese auto sale growth is forecast to increase between 10% and 20% this year while Indian vehicle sales rose 18% year on year. Ok, so who really believes a drop in the US will affect PGM demand as China and India alone grow so quickly.

I usually like Bloomberg but it is truly hard to find unbiased news these days. The obvious thought popped into my head about rising demand in other countries while I read the first article. All I did was Google "Chinese car demand" and the second story from above was the first one to pop up. I mean, come on I don't even get paid to do this, if I was actually being paid you would think I would put just a bit of thought into articles.

Implats, in South Africa, [expressed](#) their disdain over the power issues as they need a secure and greater source to obtain their growth objectives. The company conceded potential for opening delays but is still in negotiations with Eskom. They also mentioned the possibility of another power source, I assume that would be diesel generators and as you must know diesel is now more expensive than gasoline and the refinery capacity for it is much smaller than gasoline's. Diesel demand is growing much faster than refinery capacity.

Johnson Matthey the world's biggest PGM distributor profits [rose](#) 16% in the first quarter. They expect more growth and attribute it to growing regulation for better car emissions as well as higher PGM prices.

Gold production [fell](#) 16.8% in South Africa during the first quarter. This is mainly due to Eskom's power supply issues. 7.5% of South Africa's exports are accounted for by Gold alone. The heavy mining country's growth slowed to 2.1% from 5.3% in the last three months of 2007 just before the power crisis became a reality.

The royalty tax law in South Africa has been [revised](#) to benefit miners and will be charged on profitability now. This is a great thing for the country and its miners, now if they can just get over all the other hurdles.

Silver Wheaton has [agreed](#) to buy 50% of the Silver coming out of the La Negra mine in Mexico. They just keep scoring great deals with little risk. As usual their cost is in the \$3.90 range for a cash injection to get the mine up and running. This company may perform as well as the actual metal, better probably, which will be in the \$100 to \$200 quite easily in the next decade or in my view much sooner.

Merrill Lynch has raised their Platinum outlook 25%. The company expects prices to average \$2,500 in 2009 and 2010. This increased outlook is based on the Eskom power shortages which are forecast to continue until 2012.

Mining in Western Australia was affected after a gas explosion causing loss of power to the mines in the region. Companies affected by the outage are BHP Billiton, Rio Tinto, Newmont Mining, Minara Resources, Newcrest, Iluka Resources, Alumina, Alcoa, Eastern Goldfields and Oxiana. Operator Apache Energy said it could take up to three months to restore normality. The miners are scrambling for a quick fix.

Gold Field's shaft number four at the Beatrix mine has been halted as workers sit 1,100m underground in protest and demand reinstatement of workers let go five years ago and other demands yet unnamed.

Polyus Gold is in the midst of a bidding war. Alrosa, Onexim Group and Kazimir Partners are all vying for a 2.5% to 6.54% stake in the company.

Great Panther is reopening the historic 400 year old Guanajuato Mines in central Mexico. They expect to produce 1.1 million ounces of Silver equivalent in 2008 and see the potential to grow to over 2 million ounces over the next few years.

Agnico Eagle has poured the first gold bar at the recently opened Goldex mine. This is the first of five mines to open over the next eighteen months. These new mines are expected to increase production five-fold by 2010. The company stock is performing very well and continues to be a leader in that regard. These guys are one of the few doing a great job and expanding production at a very steady, nice rate. A cool video showing the pouring is available in the link above.

Aquarius lost 1,950 ounces of PGM's during the short strike last week. Workers and management have "resolved to work together to build a constructive climate of engagement in the future"

Newmont increased its stake in Gabriel Resources 1.5% to 19.9% just below the automatic offer threshold of 20%. Newmont is their largest shareholder.

Troubled Crystallex had another blow this week when their CEO resigned. This is one more straw on the weakening camel's back. I don't know what will happen with this company now. Their troubles in Venezuela are not anywhere close to being resolved. The shares fell 11% on the news.

Centerra Gold's shares tumbled over 20% on the week after Kyrgyzstan's parliament urged government to increase taxes on the company. Rumours of nationalization followed. They are suggesting a tax rate of 18%, they are also looking to get a 40% stake in the company. An earlier deal where the government would have acquired 30% was turned down by parliament. The mine accounts for roughly 4% of the country's GDP.

I've heard this before but it appears Barrick's Pascua Lama project is closer to being approved. Argentina and Chile are [approaching](#) agreement on tax divisions on the project which lies right on their borders. The \$3 billion dollar development price tag must be rising as costs are soaring, and they still must receive permits from Argentina. I think it is still a ways away and it remains highly controversial and protested.

A must [read](#) from Sprott details what we have been talking about here for so long in terms of horrible financial news and their overall situation which is unlikely to end anytime soon.

Dr. Martin Murenbeeld's presentation from the recent New York Hard Asset Conference is well worth a read or listen (on the left) and is linked [here](#). It's full of wonderful charts and all the right reasons to be invested in precious metals.

## Stocks Review

Geologix has increased its indicated and inferred resources in Mexico at the San Agustin project. Indicated resources are now 2.65 million ounces of Gold equivalent and inferred are 2.48 million ounces. That's 5.13 million ounces which is a very attractive number to majors these days. These increases do not include more than 50 drill holes recently completed in the phase three drill program. This table outlines the resource:

Table 3: Mineral Resource by Oxide and Sulphide Zone (Capped)

Zone	Category	Tonnes g/t	Gold g/t	Silver	Lead%	Zinc%
Oxide	Indicated	9,685,000	0.57	18.2	0.09	0.21
	Inferred	5,409,000	0.48	21.0	0.12	0.20
Sulphide	Indicated	51,113,000	0.48	10.5	0.05	0.56

Inferred 47,969,000 0.42 13.8 0.09 0.62



This is one of the few stocks who have held up well and actually increased during this trying time. No wonder since they continue to hit great mineralization and increase the resource. It is also a huge testament to management and their ability to raise capital in non-dilutive or destructive to shareholders ways.

Technically it's close to resistance but has just broken out above the moving averages. You never know with these stocks but I am looking for a sideways trade until they come out with some more news, or the Gold or Silver prices rise substantially and bring interest back into this much ignored sector.

Oromin Exploration has hit fantastic grades over very wide widths. Some highlights include;

- 12 metres of 10.95 g/t gold in DH-188 at Golouma South
- 22 metres of 5.68 g/t gold in DH-194 at Golouma South
- 19 metres of 5.66 g/t gold in DH-226 at Golouma West
- 5 metres of 16.39 g/t gold in DH-229 at Golouma West
- 9 metres of 8.92 g/t gold in DH-292 at Masato
- 39+ metres of 3.04 g/t gold in DH-325 at Masato

These are highly mineable widths and a Ni 43-101 report is in the works and scheduled for completion by the end of June. This project is in West Africa in a seldom heard of country called Senegal.



The stock has recently broken down on the three year chart. Results like these should cause the stock to rise, but there may be some pressure being applied in order for the shorts to cover before the resource estimate is released later this month.

Support lies around \$2.10 and a recent bounce there confirms this. In the past this stock has provided great trading opportunities and may again but they are getting closer to a production decision and with continued good results I wouldn't be betting against this company.

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