Precious Metal Stock Review

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Metals review

Gold had a very constructive, textbook week bouncing off sharply from the multi-decade support line at $850. There appears to be clear sailing to $900, and that should be early next week. Look for some resistance between $900 and $910 but it should not prove significant.

There is a real chance we can $950 next week.

All three indicators have turned up on cue and are still at very low levels giving Gold lots of upside room to run. The MA's are up except the 50 day. We should see that flatten out next week and not violate the 100 day MA.

The battle between the bulls and bears raged on Friday as the price dropped some $15 instantly only to recover and rocket back up $15. It looks like the bulls won the day and they are showing much strength that I expect will continue through the next month at least.

Silver is having trouble getting above $17, but is building a nice base to run up from right below $17. Silver is as explosive as I have ever seen it. There remains an acute retail shortage of the white metal while paper futures are driving the price lower. A small spark will result in a big explosion up at any moment.

All indicators look good and are pointed up with bullish crossovers while remaining at low levels. The 50 day MA is the only thing pointing down but that is acceptable. Honestly I can't say much about Silver at the moment. It is very unpredictable and I liken its situation to a room slowly filling with gas as dawn approaches and the occupant soon to rise and have a first smoke only to light the whole block up.

Holy gap! Platinum gapped up more than once this week clearing resistance lines, and closed the week just off the physiologically important $2,100 at $2,099.

MACD is up and still at low levels but the Slow STO and RSI shot up very quickly. To see the price jump above the 50 day MA is beyond bullish. Gaps signify incredible strength and until that strength abates we will not see the gaps filled. But I do expect them to fill at some point in the future.

There is strong resistance around $2,150 but that may prove futile if this strength can continue.

Nice to see Palladium bounce perfectly off $400 at the 200 day MA and march progressively to the next point of resistance at $450. Palladium closed the week off above the important 100 day MA and looks to continue marching on past $450 without losing a step.

All indicators are low and pointed up in a very healthy fashion. It looks like at least $475 is in play for next week.

Fundametals Review

Well well, who do we have here losing money and cutting jobs! UBS, the largest Swiss bank, lost $17.3 billion in the first quarter alone and is looking to cut up to 7% or 5,500 jobs after cutting 1,500 already. They lost more money than any other European bank in the first quarter and have now written down $38 billion in the last three quarters coming second only to Citigroup's $41 billion write-down. Investors are losing the faith and withdrew $12.2 billion net from their asset and wealth management divisions.

The largest US mortgage finance company Fannie Mae cut their dividend for a second time in six months and lost $2.19 billion. They are looking to raise $6 billion in capital *"as the worst housing slump since the Great Depression deepens."* The shares rose on the day. They previously forecast less of a loss and are optimistic stating

> *" Fannie Mae boosted estimates for credit losses this year to a range of 13 basis points to 17 basis points, up from a range of 11 basis points to 15 basis points. Every basis point, or 0.01 percentage point, is equivalent to 15 cents of earnings a share, according to Morgan Stanley analyst Kenneth Posner, who said he expects the losses to reach 20 basis points as the housing crisis deepens."*

So they are saying they will lose a maximum of $2.55 a share this year. They just lost $2.57 a share in the first quarter alone. I guess by issuing more shares while raising capital it will reduce the loss per share! Or maybe they even think they will turn a profit this year. Come on guys, gimme a break!

The largest US homebuilder D.R. Horton lost $1.3 billion and cut its dividend in half. The shares went over 5% higher after the reported loss.

Federal Reserve Bank of Kansas City President Thomas Hoenig publicly stated that he is worried about inflation and that he hasn't seen it this bad since the 1970's and early 1980's. He says when interest rates begin to rise they may rise quickly. Remember that effects of inflation take up to a year to reach the consumer and we are seeing now the effects of last year's inflation. This year's inflation numbers are markedly worse so don't expect the rising price environment to abate any time soon. The fed also states that interest rate cuts take around six months to work through the system before we see the effects. With recent rate cuts we will continue to see more inflationary effects from that for a least the next six months.

AIG lost $7.81 billion in the first quarter. That's in stark contrast to their profit of $4.13 billion in the same quarter last year. The world's largest insurer plans to raise $12.5 billion. The shares fell 7.7% on the news.

Citigroup is planning to shed some $400 billion of assets of their $2.2 trillion, which may take the crown of the largest US bank away from them. The shares dropped on the news as analysts failed to be impressed with the plan that may or may not work.

The Bank of England kept rates unchanged this week to stave off inflationary pressure. This action continued weakness in the US dollar. Also in the story the United Nations says food prices are 57% higher this March year over year. Expect this trend to continue.

Speaking of inflation and the US dollar weakness, a major and expensive effect to the US populous is another all-time high above $126 in the price of oil. A curious dichotomy which has in the past signified a bottom in the price of oil occurred this week when the price of Brent Crude surpassed the light sweet contract. Hard to believe we could be seeing a bottom in oil but historically that is the way it has happened.

Mr. James Dimon of JP Morgan this week said ; "*We can only speculate how deep and how long the recession in the United States will really be and how that in turn will impact banks," and, "But we are not done with the crisis for a long time,"*

Strangely or maybe more appropriately enough Mr. Dimon was in Germany when stating these remarks.

Merrill Lynch's ultra risqué Level 3 assets rose 69% to $69.86 billion in the first quarter and accounted for 15.5% of Merrill's assets. From the story a reasonably accurate description of Level 3; *"Level 3 assets are those whose valuation is essentially a best guess by the investor, because there is virtually no active trading market for the product to use as a pricing guide"*

In time these assets will be proven essentially worthless.

Once again the IMF has approved plan to sell 400 tons of Gold. They state that 176 of 185 members have cast their votes and all are in favour. But the US has veto power and it must get through congress first. That is never a quick task.

Now, on top of the recently received stimulus checks the house voted to pass a $300 billion housing rescue bill. So the running total so far is $450 billion not including the yet unknown Bear Sterns final bailout tally. Some highlights are;

- $7,500 in tax credits to first time homebuyers
- $15 billion to hard hit communities
- Lender to get an FHA guarantee to write down principal

Industry experts are calling for a 35% to 40% increase in Gold sales this year during the Akshaya Tritiya festival in India. They attribute this to the increasing popularity of the festival along with rising disposable incomes.

AngloGold Ashanti recorded a marked increase over last year with $105 million earned in the first quarter. They produced 1.2 million ounces 9% higher than guidance even in the face of the Eskom power crisis; this is a testament to strong operational teams. Cash costs were also down to $430 per ounce from the guidance number of $467 per ounce.

AngloGold is also trying to raise $1.6 billion to reduce their hedge book which was largely written near the low of the Gold price under $400. The value of their hedge book is approaching $5 billion, that's a loss not a gain. Shareholders should be outraged as their shares are being diluted by 69.4 million shares so the company can fix the huge blunder of hedging at the bottom. And to make matters worse they are offering the new shares to current investors, one for every four held, at a 35% discount to the trading price on that day.

It's hard for me to believe in a management team who didn't believe in their product enough to want exposure to the spot price. And now with the spot price of Gold over $900 they are scrambling to cover the hedges and get exposure to the rise. They reduced hedges from 11.28Moz to 10.03Moz but still, that is a huge amount and amounts to some 2 full years worth of production lost. They do plan to reduce the hedge book by 45% with the $1.6 billion raised.

I guess the good thing is that demand will be increased by 4.05 million ounces as they must buy that many ounces to get their hedge book to their desired level.

Rangold Resources profit rose 42% on higher Gold prices which offset weaker production numbers. Production was down some 5%.

Buenaventura reported a $63 million loss during the first quarter as a result of hedge book unwinding. They have now unwound their full hedge book and will have full exposure to any increase in the future spot price of Gold.

Gold Fields was affected by the Eskom power crisis although the weaker Rand offset that to some degree. Their margin increased to 42% and earnings increased to $176 million from $32 million March on March. Gold Fields did have 14 deaths in the quarter which resulted in some stoppages while safety checks were conducted giving the company another black eye.

DRD Gold produced 70,378 ounces of Gold in the quarter 9% lower than expected. This was due to lower grades and the Eskom situation. Revenue was 20% higher as the strong Gold price and weak US dollar offset the negatives. Cash operating profit jumped 199% which is spectacular.

Lonmin is the third largest Platinum producer and posted a 63% earnings increase in the first quarter. The average price they received per ounce was 43% higher at $1,578 on the back of lowered production by 22% to 346,892 ounces of Platinum concentrate.

As more miners report earnings I am seeing a decrease in overall supply and it is attributed to many things such as low-grading, power problems, safety issues and employee issues. This bodes well for an increase in prices.

Investor put $1.2 billion into Gold related mutual funds and ETF's in March. The first quarter total now stands at some $3.6 billion. This trend is only in its infancy and frankly it will begin to move the Gold price significantly since it is just such a small market.

Long and short Platinum ETN's (exchange traded note) began trading Friday on the NYSE. My experience with these is that it gives shorts another tool to bring down prices or at least slow the rise. Time will tell if demand for Platinum can overwhelm the shorts like the week just past.

The Multi Commodity Exchange (MCX) in India is launching an 8 gram gold coin futures contract which will give the small investor a chance to trade smaller quantities. Remember India likes physical and with this contract delivery is possible with the small coins, so it may really take off and if people take delivery it could add significantly to the demand scenario.

Kinross is seeing opportunities to acquire deposits or companies at very good prices because of their need and struggle to acquire capital in today's economic environment. CEO Tye Burt says; *"We're seeing a lot of stuff lobbed our way in terms of juniors' development projects that are hung up."*

Also from the story:

> *Mr. Burt's comments are similar to those made by Barrick chairman and interim CEO Peter Munk, who told Reuters Tuesday the miner's M&A focus was on smaller one-property companies. Mr. Munk also said the credit crunch has not been a hindrance for larger metals producers with strong cash flows.*

Barrick Gold is on the acquisition trail constantly and sees great opportunity in smaller operations as the big ones are few and far between these days.

Hecla Mining had a work stoppage with workers blocking the entrance while rallying President Chavez to nationalize the mine. With many recent nationalizations taking place in Venezuela you just never know. It's definitely worth keeping an eye on this situation. Hecla said output had not yet been affected by the situation but it is inevitable if the situation persists.

Kyrgyzstan is in the process of drafting a new more investor friendly mining code. It will reduce taxes on miners as well as make it more difficult to revoke mining concession. This area of the world is mineral rich and largely underexplored. Government officials realize how significant mining is to their economy at 11% of GDP and are willing to promote growth and I believe will be a responsible steward to foreign investors. They have a bit of work to polish their tarnished image but I think in this case time will heal.

Stocks Review

Noront received some great results this past week from their Double Eagle Project. The results have been approved for inclusion into the current resource database which will increase the resources significantly. The project is in the expensive but stable jurisdiction of Ontario, Canada. Note the high Platinum Group Metals (PGM) content.

HIGHLIGHTS:

- Hole 28 averaged 6.73% nickel, 5.11% copper, 0.05 g/t platinum, 14 g/t palladium, 0.41g/t gold and 12.9 g/t silver over 1.5 metre core length, within a much larger 73.2 metre section that averaged 1.31% nickel;

- Hole 30 averaged 3.5% nickel, 3.54% copper, 0.48 g/t platinum, 8.96 g/t palladium, 0.22 g/t gold and 9.3 g/t silver over 11.1 metres, within an 84.7 metre core length that averaged 1.1% nickel;

- Hole 34 averaged 6.88% nickel, 5.05% copper, 2.53 g/t platinum, 14.07 g/t palladium, 0.39 g/t gold and 15.1 g/t silver over 10.6 metres, within an 38.5 metre core length that averaged 2.34% nickel.

- Exploration continues on project through breakup period, third drill getting ready for anomaly testing;

- All analytical results for holes NOT-07-01 through to NOT-08-35 have been delivered to P&E Mining Consultants for incorporating into a resource study.

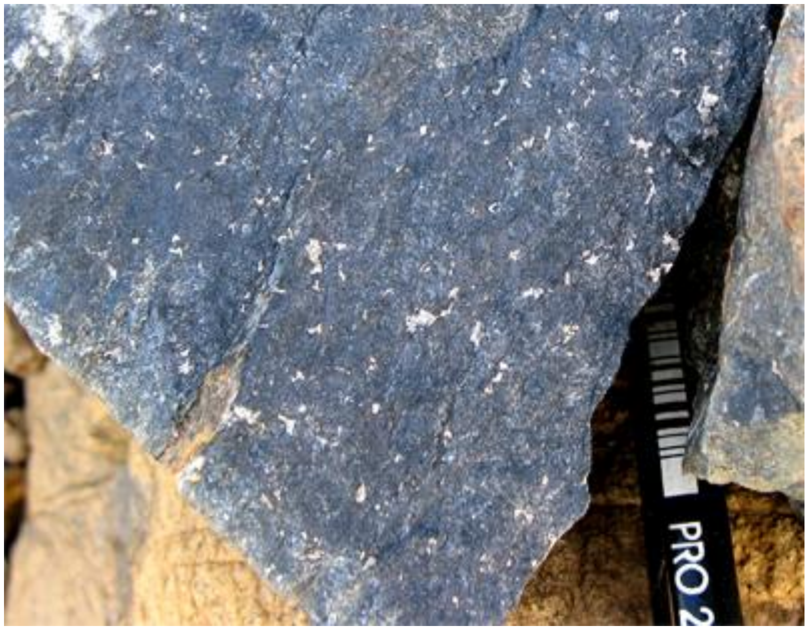
Technically $3.50 a few weeks back looks to be the bottom and would have been a washout great entry point. $4.50 is strong support and should hold relatively well in the future. $5.00 proved to be too much to overcome but the bullish flag pattern forming bodes well for a future jump above $5.00 likely being the last time to be seen for this stock.

Pacific Northwest capital released exploration results from the 2007 campaign on their Tonsina property in Alaska near the town of Platinum and had some great results.

Highlights from the 2007 exploration program include:

- Chromite bearing outcrop grab samples contain up to 2**.3g/t platinum and 1.6g/t palladium**
- Chip channel samples of chromite and sulfide bearing outcrop contain up to **0.86g/t platinum and 1.1g/t, palladium over a 2 meter interval**
- Sulfide bearing outcrop grab samples contain up to 0.97% nickel and 0.58% copper
- Chip channel samples of sulfide bearing outcrop contain up to **0.75% nickel over a 2 meter interval**

I’ve included a picture of the mineral bearing rock. As you can see there is significant visible PGM mineralization. SO far the mineralization has been traced over a length of 900m.



This stock has been extremely volatile and could have been traded for incredible profits over the past year. It is near the bottom of this volatile trading range and looks to be rebounding with the indicators beginning to turn up again. If history is telling then expect a swift move up. $0.50 will prove to be resistance with no major issues before that hurdle.

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