Precious Metal Stock Review

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Welcome to this week's Newsletter. As usual there is a tonne of information to get through so let's get right to it.

The metals had a strong week and the smaller stocks may be beginning to finally show some signs of life. With Oil flying, the gold to oil ratio remains at historic lows. Something's got to give soon. Lots of bad financial news keeps coming out as usual and a nationalization threat from Brazil shocked, well, me at least.

Metals review

Gold looks good. It's consolidating at the 50 and 100 day MA's. The bulls and bears fought hard all week with no apparent winner. There is some strong resistance where Gold is trading now around $925. $950 will be the next hurdle.

The RSI amd MACD are very strong and are signalling a further advance by Gold in the near future. Slow STO is flashing short-term weakness, but that is not confirmed by anything else. The 25 day MA has turned up and looks good but we have a ways to before it crosses the 100 and 50 day MA's.

In the very short-term Gold has formed a very bullish flag pattern and if resolved on the upside has a target of $975. I expect Gold to cross $1,000 again by the end of June.

Silver was up over $1 this week and remains very explosive. If $18.50 can be surpassed the next resistance is $19.50. All three indicators look very healthy for a continued up move. This move is very early so the MA's haven't responded but Silver above the 100 day MA is extremely bullish.

I think we will see Silver run to $20 in short order. There is a possible teacup and handle forming which are known to be very explosive and have a high reliability of a strong move up. If the formation is to continue expect a bit of consolidation around and under $18 before breaking through with the buy signal.

Platinum had a consolidation week and it needed it. The uptrend line is very intact and looks to be able to remain in place for some time even with continued consolidation. All three MA's are moving upwards with a recent bullish crossover between the 25 and 50 day MA's.

The indicators are still bullish with the Slow STO flashing a consolidation signal. The consolidation is bouncing tightly between support at $2,170 and resistance at $2,210.

Sustained fundamental issues and lowered supply guidance are pointing to continued strength in Platinum.

Palladium didn't do too much this week but the consolidation is a good healthy thing right now. It appears as if a reverse bullish head and shoulders is forming where a move above $470 would signal the upside breakout.

The MA's are mixed and trending sideways. Notice the 100 day MA is proving support and if that continues then we could see a breakout late in the week or early next. On a breakout the target for Palladium is $525.

The indicators are healthy with MACD very low still and Slow STO signalling consolidation. The RSI however is signalling a breakout from the head and shoulders pattern in the very near future. According to the RSI there is much more upward strength in this shoulder than the first one. Technically perfect!


$PALL (Palladium Futures) INDX
© StockCharts.com
23-May-2008
Close 461.25 Chg +0.30 (+0.07%)
RSI(14) 55.76
$PALL (Daily) 461.25
MA(25) 446.14
MA(50) 454.89
MA(100) 452.03
Volume undef
MACD(12,26,9) 1.546, -2.099, 3.645
Slow STO %K(14) %D(3) 90.76, 92.68
Dec
2008
Feb
Mar
Apr
May

Fundametals Review

One of the worst performing banks, Citigroup cut earnings estimates for their brethren Goldman Sachs, Lehman Brothers and Morgan Stanley. No mention of themselves! They say;

> *"expects significant asset sales related to leveraged loan inventory, and commercial and residential mortgages as a result of a greater degree of liquidity in the marketplace."*

The really funny part is that this analyst rates Lehman and Morgan as a "buy" and Goldman as "hold". I would think it should be the other way around, but in my analysis they are all a strong sell.

Japan's large banks are finally feeling the effect from the sub-prime crisis and have written down, a paltry by comparison, $7.73 billion.

The lately very outspoken Jamie Dimon says; "The worst is ahead for banks". He believes banks will suffer more from the recession than from the subprime problems. According to him the recession has not started and he gives it a third of a chance to be a bad one, possibly as bad as 1982. He thinks the recession could last until 2010 as does MR. George Soros.

A very good article by Elizabeth MacDonald is a must read for regulators and yourselves. This article is awesome and highlights the facts and just reinforces the danger we are in as investors these days. You must look out for yourself and not trust anyone including the regulators or governments.

Producer prices rose a greater than expected 0.4%. This excludes food and energy which are soaring, and if were factored in would reflect a more realistic reality. Why the US government tries to deceive people in this way is catching up to them and will come back to bite them in the not too distant future.

The rating agency Moody's shares plunged 13% when they said a computer error caused assets to be rated AAA mistakenly. Finally we have been told what we already knew, that rating agencies are in cahoots with big banks and wrongly rated poor assets to help out their balance sheets and any sales of the bad assets.

Europe's large banks are on track to set a record and raise $100 billion this year as the crisis continues. Globally last year banks only raised $74 billion. Not that it is a small number but the numbers will continue to grow exponentially as firms slowly reveal the depth of this crisis.

According to the realistic investor Warren Buffet we are already in a recession and it will be much deeper and last much longer than most people expect. He's not as rich as he is for nothing so take head and invest accordingly. He continues to exhibit disdain for the growing derivatives market.

Speaking of derivatives, they grew to $596 Trillion on hedging. This is a 44% increase from last year and is simply impossible to wrap your mind around. That's trillion, not billion and in my eyes shows the problem is growing not shrinking amidst continued write-downs. Derivatives are the cause of today's and tomorrow's financial problems. By this time next year, expect to hear history being made when for the first time ever in finance the word quadrillion is used. That simple fact proves that a fiat currency cannot last because of the unending temptation to create more and more money. The problems that come with this will shock everyone.

Dark pools have emerged onto the headlines again. UBS, Morgan Stanley and Goldman Sachs will now share access to their dark pools. These dark pools are unregulated now inter-bank markets where securities are traded and are not reflected or reported in any numbers. What's the point of the SEC and other regulating bodies if assets can still be traded without being subject to federal regulations? It is becoming more Orwellian by the day.

Big banks are calling for a relaxing of reporting rules and regulations. Basically they want to not have to report write-down's and continue with mark to make believe reporting which looks good on paper and if held indefinitely will reflect well on balance sheets. I pray this does not happen since many of these assets are worthless and must be reported accordingly to instil confidence in regulating bodies. We simply cannot continued to use favouritism when dealing with large institutions, god knows any medium to small business must adhere to rules and regulations so why not the big ones.

To wrap up the bad financial news I am highlighting remarks by Mervyn King, the governor of the Bank of England. He says the nasty decade is beginning and the "nice decade" may be over. Rising inflation and depreciating currencies are the main reasons cited and he says to expect much the same environment as in the 1970's.

Never bite the hand that feeds you. But that is what the US has apparently done. The House of Representatives have passed a bill allowing civil suits against OPEC. Don't they understand that peak oil was reached in 2005? The tough exploration laws and refusal to expand production capacity is the real problem. There is plenty of oil out there but it simply cannot be produced and refined quickly enough to keep up with demand. OPEC cannot produce any more per day and I suggest the US government representatives educate themselves before its too late and they make the situation much worse than it already is.

Platinum and Palladium exchange traded commodity assets are growing with assets under management now at $880 million dollars and holding 361,540 ounces of Platinum and 220,890 of Palladium. This is equivalent to 5% Platinum and 2.5% Palladium world annual production. Just wait until these markets are more followed, they are so small and will move accordingly.

Demand for Platinum is up despite higher Platinum prices. Demand was up 32% in 2007 to 930,000 ounces.

Autocatalyst demand is fairly inelastic and fluctuates only with the amount of car units being built, demand possibly may come off considering Fords announcement of stopping production on certain models for the rest of the year, but then again some cars like the cheap Tata Motors car could pick up and exceed that slack.

The Platinum market ran a supply deficit last year. Demand climbed 8.6% to 7.03 million ounces while supply was 6.55 million ounces created a shortfall of 480,000 ounces according to Johnson Matthey. With a shortfall in demand expected this year expect another supply deficit which should put upwards pressure on prices.

In the same report Palladium had a supply surplus last year. Supply ran up 8% at 8.585 million ounces with demand rising 3.5% to 6.84 million ounces.

Eskom was justly criticized during a recent conference at the RBS Platinum conference. Because of a lack of reliable power most new operations are looking to create their own source of power. A telling quote from the story; *"While the world needs more platinum the producers are being prevented from delivering by challenges such as restricted electrical power supply, limited and shrinking skills pool and sharply increasing capital and operating costs,".*

Also at the RBC conference consolidation of South African juniors was a major topic of discussion. Juniors are said to be undervalued due to the analysts using long-term Platinum prices 25% to 50% lower than current prices.

More power issues, from Zambia this time. The country is unlikely to collect $415 million in taxes due to lowered output as a result of power disruptions.

Goldfields have cut production targets 15% due to the power shortages in South Africa. Roughly 3.6 million ounces is targeted now as opposed to the 4.25 million ounces originally targeted. The company also expected energy, materials and labour costs to increase over the next few years putting further pressure on revenues. The most relevant quote from the CEO which applies to the whole industry; *"No doubt, shareholders are looking for us to increase our margin because of higher prices ... but if you have prices going up and then the input price is following the same curve, nobody makes any more money," said Holland."*

The World Gold Council reports Gold demand down across the board this year except investment demand is up.   Demand growth is coming from China 15%, Russia 9%, Egypt 15% and Vietnam 71% while India reported a 50% demand decrease.

Barrick spent $240,000 lobbying mining rules in the first quarter. I don't know what they are lobbying about and we may never know. Although the creative floating hedges which they now employ are certainly the result of some strong lobbying. The story says Barrick lobbied Congress on the proposed IMF sale of 400 tonnes. For or against was not specified. A former US mint special assistant Michael Brown is lobbying for Barrick.

Goldcorp has $1.3 billion in the bank and is looking for strategic acquisitions so pay attention to plays near any current Goldcorp operations as possible takeover targets. Goldcorp also plans to run an open-pit operation at their prolific Red Lake property. Red Lake produced 700,600 ounces last year and Goldcorp has a 1 million ounce per year target there with the help of the open-pit.

Peru, the world's fifth largest Gold producer looks to increase production by 10% this year. South African Goldfields project Cerro Corona is expected to be the major contributor to the increase in output, while an increase in production at Newmont's Yanacocha and Minera IRL Ltd's Corihuarmi mine will contribute as well.

DRD Gold had two workers in South Africa killed this past week in anti-immigrant protests attacks which caused some disruption to production. Neighbourhoods near the EPRM mine have been hit by the violent mobs causing employees to fear going to work and not showing up as a result. Last quarter the EPRM mine output fell 21%. The president is calling this a national crisis and is asking for army intervention.

AngloGold Ashanti, Gold Fields, Harmony Anglo Platinum and Impala Platinum operate in the vicinity and report to be unaffected by the crisis.

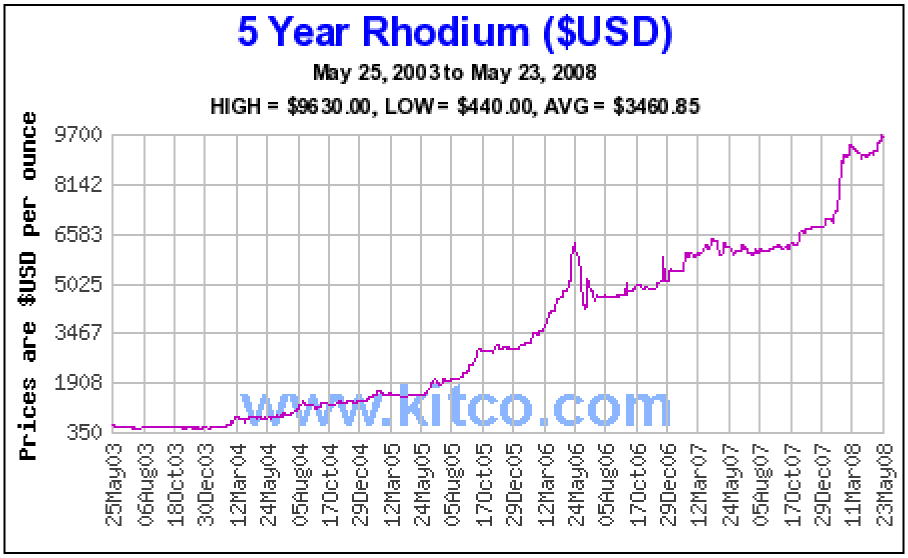
The newly launched MCX futures contract is attracting good demand and while still very small it is growing at a rapid pace to far.

Protesters in the Philippines were warned by official that they were committing an illegal act by blocking the road to Oceana Gold's Didipio project. The project is still in the construction phase and is so far unaffected by the blockade. The dispute is over an unpaid tax to local authorities but the federal authorities there said no such tax was authorized.

Brazil shocked this week when they threatened to nationalize privately held fertilizer mineral deposits. This move is an attempt to bring down the cost of farming. Although this may be just a threat it is causing me to reconsider any investment in the country. This is not a sure thing and so far may only apply to agricultural related products and production, but you never know in the future what they could decide to nationalize. These announcements come quick and usually out of the blue so I stress the importance again of investing in safe geopolitical jurisdictions.

Sino Gold will clear its hedge book completely now after raising $202 million.

Finally the most precious of precious metals, Rhodium, hit another all-time high this week. The price rose to over $9,800 an ounce. While Gold may not perform quite as spectacularly I do believe it has a chance to perform in quite a similar fashion. Check out this chart! From about $350 only five years ago, it's now closing in on $10,000. WOW!


5 Year Rhodium ($USD)
May 25, 2003 to May 23, 2008
HIGH = $9630.00, LOW = $440.00, AVG = $3460.85
Prices are $USD per ounce
9700
8142
6583
5025
3467
1908
350
25May03
06Aug03
18Oct03
30Dec03
12Mar04
24May04
05Aug04
17Oct04
29Dec04
12Mar05
24May05
05Aug05
17Oct05
29Dec05
12Mar06
24May06
05Aug06
17Oct06
29Dec06
12Mar07
24May07
05Aug07
17Oct07
29Dec07
11Mar08
23May08
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Stocks Review

Aurcana reported nice widths including 145 g/t Silver and 1.96% Copper over 23.5 meters. The company currently has an 80% interest in the small operating La Negra property and are hoping to re-open the Rosario mine after completing an expansion project on current infrastructure.

The company has a market cap of just over $54 million. Volume is good in this stock and the price is now solidly in strong support. The $0.50 level is very strong and combined with the 200 day MA support should hold up.

When they convert these latest results in a compliant resource the company should begin to perform again. This looks like a great bargain at these prices although there is much due diligence to get through before one should consider investing.

San Gold has hit high grade near their operating mill. The best intercept was 85 g/tonne Gold over 6.3 meters. This project is located in Manitoba, Canada and is the best intercept for quite some time in the mineral belt. The company is now in production and is fine tuning their mill to optimize output. The funds raised from mining will help further exploration. Over the past four years exploration success has raised the resource to 1.6 million ounces from 550,000.

The market cap is $272 million. The stock is trading near the top of its yearlong trading range and had huge volume recently. The run up may be a bit overextended but you never can tell in these small stocks. If the stock can break above $1.70 then we could see some real fireworks. They have a good project and real potential as a takeover target as well as a producer with strong expansion potential.

Although there may be some better bargains out there since this stock has held up reasonably well over the past year when others were getting hammered. But then again it's a testament to management, policies and the property itself that the price has held up so well.

Cream Minerals is targeting a 300 million ounce Silver resource equivalent in there $2.6 million exploration program this summer. The project has good infrastructure and is located in close proximity to a large urban center. The current Silver equivalent resource on the property is 71 million ounces.

Cream Minerals has several exciting exploration programs in Mexico, Canada and Sierra Leone.

While it looks very ugly, the small market cap of just $12 million may be a great bargain. This stock has been beaten and counted out. It's near support, but that doesn't mean much. We need to see some exploration success this summer from their properties, but they are for real and do have leases on historic and prolific mineral concessions.

This may be one to keep an eye on for an easy three or four bagger in short order.

Have a great week everyone and enjoy your long weekend...just don't drive too far!

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