
www.preciousmetalstockreview.com October 24, 2009

# Boiling Point

I remember well when gold rose from the measly price of $400 to above $700, the excitement was contagous. Then it rose from $700 to $1000 and the excitement was marginal. Now as we are at the beginning of the next major up-leg the excitement is moribund. The only excitement is from select institutional investors and central bankers, but even they are a rare breed and certainly not listened to by the masses, but they will.

There are three obvious stages to a bull market, smart money accumulation being the first. That stage is just winding down now. We are only at the beginning of the second stage where gold climbs the so called wall of worry as institutions and funds accumulate before telling their clients to get into the market.

It may still be years away from the blowoff top which will see gold priced in the many thousands of dollars and silver in the hundreds. It's been a slow and rewarding journey so far, but the real fun is just beginning.

All that being said this coming week is the Comex options expiry for gold and silver. These expiries have been plagued by weakness in the past. I expect the metals to come under major pressure right off the bat Monday, but the kicker will be whether the buyers have enough conviction and cash to keep prices stable or even move them higher. This week will without a doubt be the most important week of this century when referring to the precious metals. Don't blink.

# Metals review


Gold had a subdued move up 0.22% on the week and is trading its way into another upside move. There are a few observations I'd like to make on the gold chart this week.

Gold is trading in a tighter and tighter range, between $1,060 and $1,050. The moves lower are violent and fast when looked at on a 5 minute chart and being met by a strong large buyer who moves prices up nearly as fast as they fell. Many of these moves took place after the open market closes at 2 pm EST, which means it's large, well connected traders fighting each other. Certain Central banks are whom I believe to be on the buy side, as well as institutional investors who are not part of the growing, but losing, shun gold crowd. Many of whom actually sell gold as their business!?

The last sideways pattern in September saw prices trade within the triangle followed by a quick violent move lower to shake out the weak hands. Notice the move lower out of the September triangle was stopped at support at $980. Right now this new triangle looks to be about to make a similar move. If gold doesn't head straight up from here, a short move to support at $1,020 is possible, but it will be short-lived. Once the $1,070 level is beat, $1,100 will be easy pickings.

The indicators are also interesting this week. The RSI has been making higher lows and higher highs for this move. It is nearing the uptrend line and suggests that a move higher is imminent. However if a correction to $1,020 occurs it will annul the uptrend line in the RSI and put off some technical traders. But that is exactly what the shorts want, to discourage or shake out as many people as possible so they can cover a portion of their short contracts.

The gold Commitment of Traders (COT) report, which is cut off on Tuesdays, showed the commercials to have increased the long position by 154 futures contracts to total 86,225 while increasing again their short position by 1,721 to total 383,718 futures contracts. Total open interest is now a staggering 509,678 contracts. We are approaching all time high open interest again.

All the moving averages are in fine shape and likely won't get the chance to provide support for a few months at least. The slower moving MACD is now showing a sell signal but as with the RSI has traced out a pattern of higher highs and higher lows going back to July. That's bullish. MACD would have to move all the way to below 10 from 17 to annul this pattern. That is highly unlikely.

Slow STO shot a sell signal from overbought ground and is likely to come back to the middle of it's range for a few days. The most likely scenario in my view, but not my desire, is a quick correction over the next week or two to the $1,020 area before turning on a dime and shooting to at least $1,100. But for me either scenario is fine since I am fully invested and will remain so until this move higher is done in up to six months at which time I will be booking some profits in hopes of loading back up at lower prices. However I always keep a core position because you just never know when or what will happen with 100% certainty.


Silver gained 1.20% for the week and is bouncing between the $18 and $17.50 levels. I really don't see any move below $17 as plausible, but a move up to $20 in short order as the more likely scenario.

RSI is flat and not giving any signal at all right now. The moving averages are all trending higher and far below the trading range. MACD is now flashing a sell signal as well as the Slow STO indicator. The uptrend line is fast approaching silvers trading range and will most likely push it higher in explosive fashion.

The silver COT saw the commercials increase longs by 359 to total 28,261 and increase shorts by 937 to total 94,265. Their long short ratio remains highly short and is underwater. How long they can take the pain is debatable but regardless, silver is going higher.


Platinum moved higher by 1.60% on the week into new recent high ground. The $1,350 level was broken convincingly to the upside this past week. The wonderful pattern of higher highs and higher lows is abundantly clear on this six month chart.

Not much needs to be said about this metals trading. It's been nearly textbook all year long and looks as if it will continue it's trend of two steps higher, one step back for the remainder of the year.


Palladium leapt 2.72% for the week and is up in the nosebleed section of it's channel. The recent moonshot has sent all the indicators into very overbought ground and I imagine a pullback is about to occur. There is a band of support at the $335 to $326 area but more likely I think a move down to $310 will take place before this metal resumes its march higher.

RSI is coming down from near the 80 area. The moving averages remain in an uptrend. It looks like the 50 day moving average will be able to provide support at $310 if indeed the price does correct to that level.

MACD is flat and looks ready to turn lower but has yet to provide a sell signal. Slow STO is also flat and has been in overbought territory for this whole month of October.

# Fundametals Review

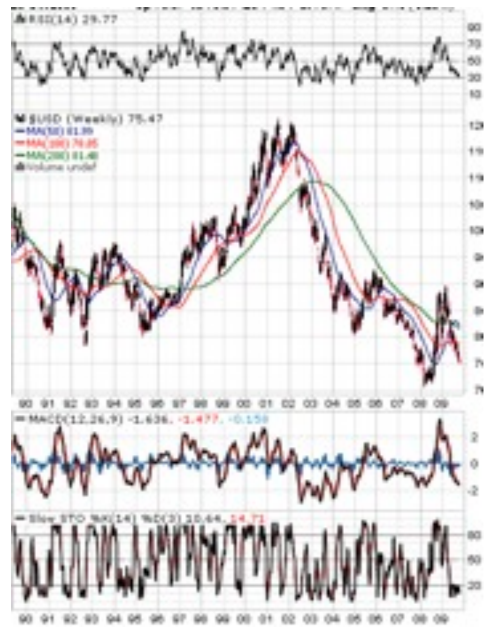
I suppose the big story this week is that aid recipients who have yet to pay back the government, sorry I mean you the taxpayer, will see top executive pay cut by 90% on average.  There is no need to get into the dirty details since these executives will be paid in lavish bonuses dished out in more creative ways than I care to imagine.  Or they will simply be lured by higher pay to those companies who have payed back you, the taxpayer.  Isn't that wonderful.  The few who have been able to pay back aid money have reaped incredible profits as of late due to their inside connections, now they will have their pick of top executives throughout their industry.

Leaders from Latin America agreed to adopt a regional currency recently.  Countries including Venezuela, Ecuador and Nicaragua, all countries I try and steer clear of when investing in stocks, will be taking part and hope to have this new currency implemented in 2010 for regional trade.  The goal is to circumvent the use of the USD.  Having or conducting business in USD terms is becoming an increasingly infected thorn in the side of many nations.  Coming up with an effective and practical solution is taking time, but agreements such as these are becoming more and more commonplace.  Countries have lost faith in the USD and are implementing or creating strategies to skirt the problem.

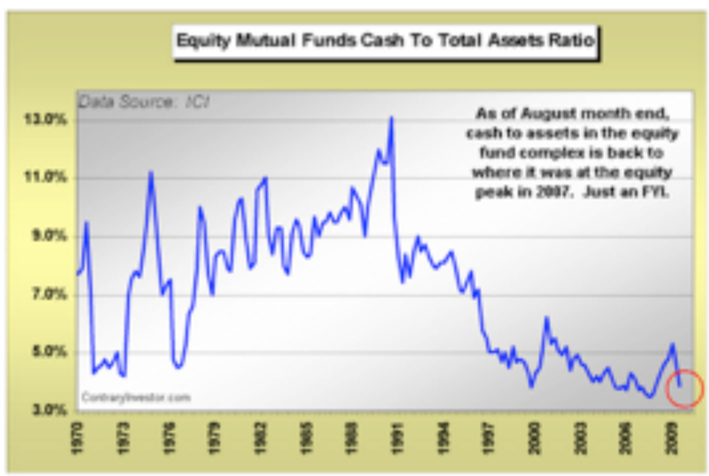
The life of a fiat currency historically has been about 42 years.  Guess how old the USD is?  The last silver coin for circulation was issued in 1969 meaning that from that day forth the USD has been a fiat currency, backed by nothing but the "word" of the US government.  No fiat, unbacked, currency has ever lasted, but there are still some circulating.

Iran also has recently decided to drop the USD from their forex reserves.  This "plan" has been in the works for a few years now, let's see if it can finally happen this time.  Part of the same old plan is to open a non-USD bourse to sell their oil and gas in mainly the Euro.

All the above ties into the fact that it's now public knowledge that many cash rich central banks are shying away from the US dollar in favour of other currencies and of course gold and other hard, non-perishable commodities. Over the past few weeks governments have told traders to stop shorting the USD. Usually that has a positive effect, but not this time as the USD index has fallen two points, to 75.47 in under a month and is nearing a major support point at 74. If that falls, just under 72 will be the next stop. That level is the 20 year low on the chart on the right, and the lowest point ever for the USD measured against a basket of currencies which comprise the US Dollar Index. This comes as gold is making all-time highs in USD terms. That is golds natural role, to hold value as fiat currencies eventually fall.



Mutual fund are a good source to follow in term of monies invested, compared to cash levels. This chart shows that the cash held is now just about down to 3% again, the level it was just before the 2007 crash. That in and of itself does not say a crash is again imminent, but there are increasing signs and talk that it is approaching as complacency and urgency to get into the rally among the investing public becomes common. Investing with a contrary mindset is always advisable in my view.




Please see this link for this weeks list of biggest losers, or failed banks. I still don't quite get why banks can only fail on Friday's after the market closes, but then again a lot of what occurs in the markets just does not compute to me as being free and fair. Seven banks failed this week making it the single largest number of failures year to date and bringing the years total to 106!

The planned, two day miners strike in Peru went of with a hitch this year. Many workers who are soon to be entering new contract negotiations, remained on the job while still supporting the basis for the strike, laws for improved benefits.

When accounting for inflation gold still remains well off it's high which would be well above the $2,000 level. Gold has not kept up with the rising price of items like bread, fuel or medical care. Martin Murebeeld who manages $58.5 billion says "the world's money supply has increased and gold hasn't kept pace. We're now in a period of catching up".

John William, who calculates economic statistics base on the formulas used before the days of hedonics, and swapping steak for burgers as prices rise to keep the perception that inflation is lower than in reality, says that gold would have to rise sixfold in order to top it's record 1980 high. I couldn't agree more and expect an even higher price eventually as this bull market turns into a bubble. As they say, there's no rush like a gold rush.

Some robbers in the Washington area are now targeting Indian families since they have a high affinity for high quality gold.

The world's largest gold miner undertook an internal review over the summer and has decided to cut 80 jobs mainly at the corporate head office in Toronto. Good, those paper pushers got the company into massive hedges below $400 an ounce and cost the company huge dollars. The company, just in the past two months, rose $3.75 billion to try and close out their remaining hedge-book and that figure will likely not be enough as the gold price continues it's rise. I am happy to say I am not a shareholder in that company, nor would I want to be after such poor management. Shouldn't a gold company be bullish on gold and want exposure to a higher gold price? It seems they do now, but will be penalized heavily to gain that stance and take years to benefit.

In an interesting scheme to get hold of physical gold which will likely be given back as cash later. Gold will now be gladly accepted as collateral for trades. The group states that "a lot of participants were holding physical gold and this was proving costly to them, they were interested to find out of they would look at accepting gold as collateral as an alternative to debt or equities". The gold must be physically deposited in their depository rather than pledged with paper certificates. This makes no sense to me. Why would anyone give their gold up to someone else? It will prove to be a very bad decision on their part in time. This defeats the whole purpose of holding physical gold in my view. Why not give them certificates, and keep the gold at your current depository?

Indian gold investors are truly becoming just that as they increase their buying of gold coins and bars, shunning the traditional investment of jewellery which has a very high premium. Investment for coins and bars is predicted to surpass the traditional investment of jewellery in 2 to 3 years. Even this years festival season saw increased coin demand, up over 30%, nearing jewellery demand, according to some sources. In 2008, jewellery consumption was 501.6 tonnes with investment demand rising to 211 tonnes.

When gold prices first crested the $1,000 level in 2008, Indians ceased buying gold and sold their unwanted or scrap gold. Now that the prices are once again solidly over $1,000 they have once again slowed buying, but are not selling unwanted gold. The article pontificates that demand will not return in earnest unless gold returns to $900 to $950 an ounce, a scenario I find highly unlikely.

On the other hand this article tells that during a one week festival period in October sales, while gold was over $1,000, up 6% year over year to 56 tonnes versus 53 tonnes last year.

The Chinese economy only grew at 8.9% year over year in Q3. China has had a staggering growth number for years now even while most of the world posts negative numbers. Simply amazing.

A favourite of mine, Niall Ferguson, says that the USD is done and the Chinese are dumping it right now. I've been talking and showing evidence of this weekly for a long time now. China and other cash rich companies are spending billions every week to buy hard assets and partner with developing countries in order to spend their USD reserves as quickly as possible.

Here is another pice of evidence. The Chinese Gold Group which is state controlled is planning to step up their already growing presence in Central Asia, Russia and Africa. The details are still murky and we won't know which deals they are working on for a while but China is going at full speed to find and do deals that are accretive to their future. China prefers investing in Australia but that country has given them a hard time lately as they gobble up as many assets as possible. Canada is also high on the Chinese list, a

This weeks sad but true is that banks are soon to begin charging you for paying off your credit cards on time every month. This will be a trial ballon at first with only selected groups being targeted but it will spread. What's next? Look to be charged to login to your bank account online one day.

A very good documentary can be found at the link and is a must watch for more insight into how we got into this mess. Many people warned about the coming crisis but none were listened to. Perhaps those who saw it coming should have some say in how to get out of it rather than those who didn't see it and only admitted it once it was far too late, even then reluctantly. Sadly it will be the same old story until the people rise up against the dark forces lurking behind the curtain of government.

Well that was entertaining. The youngest was at his cousins a few houses down the road and had a grouse fly into the window and perish. Since he's been out with his grandpa getting grouse last weekend, he naturally took it home and did a fantastic job of gutting it and getting the breasts. That's a job I haven't done in years and don't envy, but he seems to almost enjoy it, actually he does enjoy it. Maybe it's a kid thing, since he's in the army and guns phase. I guess it's grouse for dinner!

Some week this letter rolls out easily and quite quickly, this week was not one of those weeks. Let's hope for a better next week.

In my free, nearly weekly newsletter I include many links and charts which cannot always be viewed through sites which publish my work. If you are having difficulties viewing them please sign up in the left margin for free at http://www.preciousmetalstockreview.com/ or send an email to warren@preciousmetalstockreview.com with "subscribe" as the subject and receive the newsletter directly in your inbox, links and all. If you would like to subscribe and see what my portfolio consists of please see here.

Until next week take care and thank you for reading.

Warren Bevan

If you found this information useful, or informative please pass it on to your friends or family.

**Free Service**