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September

The Gold Battle Rages On

This past week saw some great moves by gold and silver and their equities. Even some of the smaller stocks really woke up moving more than 30% in some cases. While this is still an exception the day is coming when the junior and exploration stocks will see moves like that on a regular basis. Until that time, accumulate.

I've gone short on the fundamental section this week in favour of posting more charts. Every chart is a weekly chart which clears away the noise, and gives a much cleaner picture of price action. The picture looks very good, but I always get nervous near a breakout point. Gold has not yet broken out to the upside, but is very close.

Later I talk more in depth about the commitment of traders report which makes me nervous and giddy at the same time. For both gold and silver their primary opponents over the years have been, what is termed the commercial traders. The latest report showed that they are opposed to this recent big rise in gold and silver and were shorting as the prices moved up. Somebody with very deep pockets wants physical metal and that is why this move has lasted as long as it has against major opposition.

I don't know who is pushing gold higher but the commercials, major financial institutions, want it lower. The Chinese came out this week and stated that they are buying gold but must do it slowly and on price dips since their market operations could move the price much higher quickly and defeat the purpose of their operations.

I remain nearly fully invested and a huge gold and silver bull. However I am very nervous here at this point for the very short term.

Metals review



Gold moved up 1.19% for the week but more importantly closed the week off above the \$1,000 level for the first weekly close above that mark, EVER!! We are on the cusp of the breakout move up several hundred dollars higher. That being said, I remain nervous in the short term until either that breakout occurs or a correction takes place.

I received some flack last week for not being an ardent bull right now. I was pounding the table below \$900, and anywhere below \$950 all summer. Nobody was listening then. Now they show up, refreshed from summer vacation and expect to make a quick fortune. That's not how markets generally work. I can't help but be nervous here until the breakout happens or a pullback

happens, but on the cusp is where people can get burned hard. A lesson I learned long ago. Buying on weakness and selling strength has and will work in this bull market. We are in a period of strengthening price action.

The weekly RSI is in great shape as well as the weekly long-term moving averages. MACD is just giving the buy signal and the Slow STO is moving into overbought territory.

It's very exciting watching this market now. The biggest shock came after the market closed on Friday and the access market opened. Too many times before this limited access market has seen the price moved lower, but not this time.

The amazing battles in the futures market continued to heat up as the commercials who generally oppose gold price rises increased long by 2,688 futures contracts and increased shorts by 56,777. The [Commitment of Traders report](#) is cut off on Tuesday and not reported until Friday so this incredibly huge increase in short occurred from Sept. 1 to Sept. 8. As gold moved from \$950 to \$1,005 in only a few days. The commercial group is the only reporting group who is short gold, and very short. If they are forced to, or decide to cover this move higher will be swift and massive, possibly moving the price over \$1,400 for a period.



Silver moved higher by 3.33% for the week and is now solidly into the congestion zone between \$16.36 and \$18.25. The range just mentioned should be where we see most of the trading for the next month or two. All the indicators here are looking very nice on the weekly chart and the 50 week moving average is now moving up.

For silver's COT report the commercial reporting group are the only group who remains short. Commercials increased longs by 8,572 and increased shorts by 72,453 which brings the long total to 136,955 and the short total to 427,167. It seems a short squeeze is all but inevitable if silver can manage to continue trending higher.



Platinum moved higher by 4.94% for the week and is holding strong in its up-trend channel. The weekly chart shows just how well and steady this metal has been moving for nearly a year now. The 200 week moving average is proving resistance right now but looks to be about to give up and let platinum move above \$1,300 for an extended period of time.

RSI is very bullish as well as MACD but the Slow STO is now into overbought ground but showing a buy signal which could see the metal move up over the next couple of weeks before a correction.



Palladium fell 0.51% for the week and remains precariously near the upper reaches of the up-trend channel. I warned of the high probability of a correction or consolidation last week and it appears as if that is what is taking place.

RSI is turning lower while the MACD is slowly moving flatter and could likely move lower as a consolidation takes place. Slow STO is extremely high right now and is just about to flash a sell signal. A move down to \$275 would be very healthy and refresh the metal for another charge.



The TSX Venture exchange looks very similar to the platinum and palladium charts by trading in a solid up-trending channel for at least all for 2009. While I would like to see it move up much quicker since a good portion of the [stocks I hold](#) trade on this exchange, the slow solid move higher is better than nothing and should accelerate once gold and silver breakout to much higher levels.



The S&P TSX Global Gold Index is moving back to test the breakout last week. I don't see any downside below 340 on a weekly basis in this indexes near future. Volume was very heavy during the breakout week, and quite strong last week. I would like to see a continuation of high volume this week along with a move to at least 370. The [precious metal equities](#) are doing their job by being more volatile than the actual metal on average.



The HUI rose 4.17% for the week but should have been higher since the announced hedge-book closing by the world's largest gold miner this past week took its stock down 4.65% and this equity has a 13.44% weighting in the HUI index. Too bad for the HUI but it is still a strong showing.

The 430 level is important since it converges with an old confirmed head and shoulders pattern. There is support at 400 and a move to test that area would be actually very constructive. That would put the price solidly into the mid-range of its up-trend channel as well as let the indicators blow off some steam.



The GDX looks like it will move to the 50 area this coming week after this past weeks 2.38% rise. It may take a few weeks to move through the resistance at the 50 level but it's getting close.



The last chart today is the XAU index which rose 1.70% for the week which is much less than the HUI since the large miner closing the hedge-book takes a full 16.6% weighting in this index. This weighed heavily and prevented a much larger rise which would have occurred had the announcement not taken place.

Fundamentals Review

Record low interest rates were left unchanged by Britain, South Korea, New Zealand and Canada over the week further enticing borrowers to borrow. Why anyone would buy treasuries and bonds at these low rates baffles me. On the other hand taking advantage of these low rates to borrow for investment purposes makes much more sense.

This weeks list of three biggest losers can be found here and puts the years total at 92. We should see the century mark hit within two, three weeks maximum.

Another call for a new global currency was mentioned this past week, but this time by the United Nations. While still in the early stages this is the first call by a major multinational institution and sets the stage for more talks and studies to be completed before finally this is adopted. The US dollar will not remain the only reserve currency in the world. The US dollar will survive but international trade will be conducted using many major currencies or more likely regional currency baskets such as the Euro. However these must be backed by something tangible, unlike the Euro, and not simply be allowed to be created out of thin air as all currencies are in our world today.

The new SDR notes being issued are no exception to this. SDR's have no backing and since the IMF announced they will be selling a portion of their physical gold holdings it reduces further the theoretical faith that can be given to them.

An interesting article was published this past week where evidence is suggesting something we all already know full well, that China continues to purchase physical gold on weakness. Cheng Siwei who is "until recently Vice-Chairman of the Communists Party's Standing Committee and now a sort of economic ambassador for China around the world" said; "Gold is definitely an alternative, but when we buy, the price goes up. We have to do it carefully so as to not stimulate the market".

We will never be able to prove this until the country announces they have increased their gold holdings, but rest assured that is what is taking place. This has been called the "Beijing put" which effectively puts a floor under the gold price. Hedge-book closings will also be a major factor in supporting the price but should pale in comparison to increasing investment demand.

The US Treasury's economic and financial emissary said late in the week it does indeed make sense for China to diversify their stockpile of foreign

exchange reserves. While the exact makeup of the reserves remain a state secret it's estimated that up to 70% is in USD denominated assets.

I apologize for harping on and on weekly about the Chinese story but it simply cannot be ignored and is evolving at what is equivalent to economic light speed. This week the country is moving to internationalize their currency by [issuing \\$880 million in yuan denominated bonds](#) in Hong Kong. This step brings them one more closer to having their currency used in trade settlement around the world. More significant is the fact that investors are willing to have the bonds settled in Yuan. That means they have trust in the currency and government. Although, it is only Hong Kong which is participating, it is a first step. One which must be taken before the second. One step at a time seems to be the Chinese motto these days and these are big and important steps.

In what to me, seems like a hoax the [Wall Street Journal reports](#) a congratulatory note to Ben Bernanke on being reappointed from the Chinese. The best part of it is the closing paragraph where they tell Ben not to worry by saying;

Perhaps you have seen reports that we Chinese are doubling our reserves of gold and buying other related metals. Please do not be alarmed. This is the normal process of diversification that any trillion-dollar creditor would take, just in case the Federal Reserve's definition of an "extended period" for monetary easing turns out to be even more extended than we already assume it will be. We will only be too happy to cease this flight from dollar assets when we observe your determination to tighten money; surely this must be why President Obama selected you over the distinguished White House economic adviser, Lawrence Summers.

South Africa's problems continue and will continue into the future. [Gold output from the country fell](#) a whopping 7.6% while total mineral production rose 4.8% in July year over year.

Well it's off to pick some apples and blackberries for the winter for me, and if I get lucky maybe catch a coho salmon once the pickings are complete. Enjoy the show this week, it will be spectacular.

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

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