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This Week's Winner, Gold!

The battle for the heavyweight championship is raging into the later rounds. Gold is winning the fight to date, and scored a convincing win last week staying above the mythical $1,000 level as quadruple witching came and went with a flurry that missed it's mark.

This weeks flurry will be provided by the G20 meeting. I am becoming more confident that gold can breakout into the sacred all-time high ground this week. Once it does, expect a major move much, much higher, very, very quickly as every single short futures contract will be underwater forcing shorts to run for cover.

It's curious that gold is near it's all-time high, the world's largest nations are meeting this week and the IMF has just approved the sale of 403 tonnes. It has the feeling to me that the Chinese are behind gold's strength, and if they do not get the IMF's gold, will push gold over the tipping point. The western bankers and politicians view gold at an all-time high as very bad. The populous does also, but they don't generally understand it.

Gold is a safe-haven, and true store of wealth. The high price is sending a message to wealthy individuals that something is not right. This coming week has all the markings the be the most exciting week for gold's history, ever.

Enjoy the show.

Metals review

Gold managed to eek out a 0.14% gain for the week which was no small feat. The two year chart shows just where we are very well. The recent move above the two orange resistance lines is powerful. In my view the big support line is $990 then $960 (not marked). I was quite nervous this week as the quadruple witching day came and went with an eery whimper. The next thing on my calendar is the G20 meeting this week. Gold could move either way, but historically strength is not prevalent during these and other high finance affairs.

The daily chart here shows the indicators quite overbought and the MACD hooking lower slightly but not showing a sell signal as of yet. All three moving averages are quite a ways below the price and will likely not be called upon for support for a quite some time.

I've been mentioning the Commitment of Traders Reports (COT) recently and this past weeks reports was nothing short of spectacular. The main opposition, large financial institutions, so called commercials, continued to oppose the rise in price strongly. The group reduced long futures contracts by 3,460 and increased the short futures position by a stunning 10,404. The group is now long only 81,382 and short an amazing 366,043 futures contracts.

An easy to read table of the gold and silver COT's can be found here.

Here is the thing. At these lofty, near all-time high levels not many shorts are in the money. Once an all-time high is reached it means every single short contract is underwater putting tremendous pressure on the shorts. Unless the price falls soon, an explosive move higher will ensue. It's time to be watching and ready to trade at the drop of a hat if you are so inclined. However, my core position is tucked away safely for several more years.

I cannot overstate the importance of that fact. Every single short contract will be at a loss, with gold at an all-time high. How long do you think the paper loss will be tolerated before being covered? We may well see a run much higher than I am looking for technically because of the huge short position that will need to be covered to a large degree.

Someone, likely the Chinese and their friends, is opposing the short pressure. It's near the tipping point now. It seems like the long interest in gold are just moving gold up and keeping it up enough to suck in as many shorts as possible before pushing gold over the edge and drawing in fresh short term momentum traders as well as panicking the shorts. My stance is cautiously very bullish right now in light of the G20 meetings this week.

Silver faired a bit better rising 1.37% for the week and closing the week off at $17 on the nose. It does trouble me that silver is not confirming the gold breakout by moving to recent highs above $21. If gold does indeed breakout very soon, then silver will likely have a few $1 up days to move above $21 just to catch up to gold.

The up-trend channel is beautiful, but the price is near the top of that channel. Sometimes silver follows gold, and sometimes gold follows silver. This time I think it will be silver following gold. If gold breaks above it all-time high the up-trend channel for silver should become null and void.

The daily chart is overbought but moving out the weekly and monthly charts which are not shown, the tremendous amount of bullish momentum can be more easily seen. On those charts this move looks to be only at the beginning.

The silver COT is much the same as gold's. The commercials decreased long futures by 1,252 and increased shorts by 4,273 leaving them net long 24,923 futures contracts and short 86,849 contracts. While the silver situation is not as explosive in terms of the COT as gold since gold is near it's all-time high, it still remains precariously on the edge of a huge short squeeze.

Platinum had a nice week rising 1.37% and holding perfectly in it's up-trend channel. The indicators are showing some overbought readings on the daily chart. It could go either way here but the downside should be limited to $1,200 and the upside limited to near $1,450.

However, I think the upper half of the up-trend channel will become the new channel that platinum spends the majority of it's time in. Time will tell. The moving closest averages are all positive but about $100 lower.

Palladium rose 3.40% for the week but is at a strong zone of resistance right now dating back to a year ago. I think this metal will be seeing a consolidation here and take a few attempt to break through the $310 level. But it's all very healthy and good. Not much else to say about this technically perfect ascent.

Fundametal Review

The Central Banks Gold Agreement is coming to an end this month and the new one will begin immediately thereafter. The total allowed sales will be 400 tonnes rather than the old agreements cap of 500 tonnes which is a far cry from the official gold sales this year, which are around 150 tonnes. Just in time for this new agreement, the IMF has now approved the sale of 403 tonnes of "their" gold.

The sale is to loan cash to poor countries and shore up their balance sheet. However many of these "poor" countries hold a large gold and mineral resource in the ground. A report came out recently confirming my view that simply allowing the gold price to rise, or trade freely, would benefit these countries tremendously, as a spinoff from investments in mining projects.

The announced approval is interesting in more ways than I can get into here. One is that the gold is not actually held by the IMF, but pledged by member countries. Will they be too keen on handing over the pledged gold? Or would they rather just pony up the cash? Heck, they may not even have the gold! See GATA's wealth of evidence on that front.

If the gold is physically pledged then who would be the buyer? I mentioned in a recent article that the huge announced hedge book closing by the world's largest gold miner could be covered by this sale easily. I also mentioned that the Chinese want this gold and if it came to a bidding war for physical gold I don't see them hesitating to pay a hefty premium.

The only conclusion I can come to is that China will get the gold. They may be required to pay a premium, but if they do not get it, there will be hell to pay. Remember, China has been the equivalent of the bank, to the US. If your banker want you to do something you generally do it promptly and not argue, especially if you are in debt to them, if you want your cordial relationship to continue.

This weeks list of biggest losers can be found here, and has a difference I don't recall seeing often. The two failed banks were actually taken over by a "healthy" bank in an FDIC administered deal.

Let's think about this for a second. Rather than the FDIC spend what little cash they have remaining they administered a takeover deal. Sheila Bair said; "The Federal Deposit Insurance Corp. is considering tapping a Treasury Department line of credit as the agency examines ways to replenish a reserve fund depleted by 92 bank failures this year". It seems the FDIC is coming up with more creative ways to deal with failed banks rather than spend what they have left, then go into debt.

This link, while unverified, mentions that "the Government has the manpower to shut down only 3 or 4 per week, although hundreds need to be closed down. When a bank is closed, you need manpower FOR EACH BANK BRANCH to clear out all employees, secure the vault, secure the books, secure the cash and guard the door, plus all the bean-counters to go over the books." Makes sense to me.

Joseph Stiglitz, who's won a Nobel Prize for economics said the US has failed to fix the underlying problems which got us into this crisis. The problems are bigger than in 2007 before the crisis began according to him, a thought I wholly agree with especially considering the commercial and Alt-A mortgages which you will be hearing much more about as the leaves turn. Don't even get me started on the derivative mess. The article is a must read, full of sound words you can bank on, unlike those coming out of the usual bunch.

Zimbabwe, in the spring, allowed miners to reap profits in outside currencies which are not yet ravaged by hyperinflation, sparking a move to reopen mines and further growth. This past week the President there, Robert Mugabe, urged foreign miners to come back and invest in the country which is quite mineral rich. The major issue of foreign companies not being able to hold more than 49% of a company operating in the country is on the list of amendments to make in the mining law very soon.

Once that is passed I may be more apt to invest in the country. I came across a company operating there which is selling for about $30 per oz that I may have to look into in the future if positive developments persist. It seems like it's a new dawn for the troubled country in terms of attracting outside investors.

Zimbabwe also announced that gold output this year is expected to hit 4.5 tonnes in contrast to the 3 tonnes produced in 2008. That's a good start.

This past weeks Denver Gold Forum had many stories originate from it. Most are things we've talked about in this letter in the past such as increasing investor demand, increased central bank buying, eventually, if not already, becoming net buyers, and the decline in gold supply as well as the difficulty the majors are having in replacing their reserves. Exploration is becoming more and more important, mainly because there just aren't that many deposits delineated.

It's incredible that just a few years ago you would be lucky to be able to hear the presentations of companies at shows such as this a few days after the fact, if at all. The delays kept getting shorter, this year you could listen to it live. You gotta love the way technology is changing our world. On the other hand information overload is a major and increasing issue in our lives today. Finding that balance is tough. Listening to at least select company presentations at the link above is a must.

Australia is set to surpass both South Africa and the US as the world's second largest gold producer. As new mines come on stream it will catapult the country into that prestigious position. Australia is booming in this regard, and was one of the lucky countries to have escaped falling into recession status. I've long said the Australian Dollar is a favourite place to hold some cash, this just reinforces that view.

I had the distinct pleasure and honour this week to be invited to contribute to Mr. Eric King's website King World News. Bear with me for a few minutes if you will. I first heard Mr. King fairly early in the century on Jim Puplava's radio show, one I never miss, at financial sense. I knew right away that this guy was something special and I listened keenly to his words, and more importantly was amazed at his cool-headed, down to earth fact-based, realistic approach to markets and life in general.

Unbeknownst to him, he's been a mentor to me through his interviews. I've on occasion mentioned others I hold in high regard and whom I consider to be integral to my never-ending learning and development. Mr. King is at the top of that list.

Back in the day Mr. King was the focus of the interviews, but as time moved on and more and more requests for "we want more Eric King" surfaced, he began to host the odd interview or whole show on occasion at Mr. Puplava's site. Requests began to surface for him to write a newsletter or whatnot to share his incredible knowledge and inferences. Eventually, he kind of gave in and now has the site mentioned above.

Mr. King is a trader, fundamental master and chart reader who rival's anyone. It is his way of giving back to the community by opening this site. Mr. King has unselfishly put his trading on hold to get this site and interviews up for people absolutely free. The site has no sponsors or revenue streams. He is doing this out of the goodness of his heart and deserves much more kudos than he's received to date.

Of course my favourite part of the site is his incredible interviews. He interviews names from Dr. Anna Schwartz, to Jim Rogers, to James Turk and James Dines. This week he will be interviewing another gentleman I hold in the highest of regards, Mr. Jim Sinclair. Go to his site and check out some of the other interviews, I promise you will not be disappointed.

For your pleasure and enjoyment this interview Mr. King did with James Dines in 2008 is my all-time favourite. His more recent interviews with Mr. Dines can be found on his website and are very, very good as well.

Sorry to rant on like a tween hopped up on coke and candy, but what I really want is to say thank you to Mr. King for the wealth of information you've provided me and to countless others over the years. And thank you for considering me worthy of joining the other much greater writers and minds than my own at your site.

Sorry about the rant. It's time to go slightly retro and crank up the speakers. It was a dark and smoky night in Central Park. One of them rare nights in history where the stars aligned. Late September 2003 was the time, gold was only touching $400 and silver a mere $5. How times change. The Dave Matthews Band did a rendition of the classic Neil Young song "Cortez the Killer". Amazing hardly sums it up. Enjoy.

While you're enjoying that song this article on the huge fleet of empty and idle ships hiding off Singapore casts a light on some of the ramifications of this economic crisis. Why this isn't in the mainstream media is obvious. They don't want you to know about it since it would cast a shadow of doubt and suspicion on the talk of recovery.

Interest in gold is quiet by the general public. Several other analysts and newsletter writers also tell me their business is nothing like it should be with gold so high and about to break out. There was more interest when gold corrected below $900 from it's first time above $1,000. Amazing. And bullish.

There are rumours that China may halt exports of gold and silver in the future, something I hinted at a few weeks ago. I don't think they will have to go to that extreme though. As long as they can convince, and that will be easy, the populous to buy gold and silver I can't imagine anyone wanting to sell their metal for years to come, or maybe ever. Heck, if pig farmers in the countryside have begun to accumulated physical copper, gold and silver will be easy.

China continued their trend of using their reserves to invest in the future and real things. The country has partnered with Venezuela to invest $16 billion in an oil exploration project in the Orinoco River area. This, just days after Russian oil companies signed a $20 billion JV to develop the Junin 6 deposit in the same region. This triangle of countries makes up a troublesome, and powerful force.

The new Japanese Prime Minister Yukio Hatoyama's recent election win is also a troubling change for the US and friends. He has so far been quite vocal about opposing several initiatives with the US including a, yet to be built US base in southern Okinawa, as well as criticizing "American wars". I just don't see things getting much easier on the world front for the US. However, I noticed a big announcement last week when Canada's Prime minister Stephen Harper, was visiting with President Obama. I should have more to say on that in a few days.

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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