www.preciousmetalstockreview.com 11 January 2009

Obama Nations Dreams Crushed by China

It was a rather slow week in the gold company news sector but the mine closures and spending cuts continued. Lower prices are the major factor in this trend and are reducing supply to levels I never thought we would be seeing at this stage in the bull market. This ensures the next leg up and ultimately the final price peak will be higher than I expected and it should also extend the length of this precious metals bull market.

The DOW was down 4.82% on the week with the NASDAQ losing 3.71% and the S&P falling 4.45%. Up in resource rich Canada the TSX faded a tiny 1.61% and the TSX Venture exchange gained a huge and relieving 7.35%. It looks like the smaller gold and silver stocks have hit rock bottom and are bouncing. Many in the sector have rebounded quite impressively and many to the tune of 100% or more. While valuations remain very low chasing the equities is not in my game plan. We may, and should, continue up from here but I have been burned too many times to count and am expecting a pullback before deploying any more capital.

The HUI gave back 7.26% after making huge gains over the past couple of months and the XAU followed dropping 7.21%. My recent strategy of investing in majors has paid off handsomely to date. I think the majors will consolidate some more giving me another chance to pick them up before they head much higher. At hopefully the high point I will be getting out of them entirely and refocusing almost entirely on the junior and exploration sector where huge gains can be realized if the right equities are bought.

Metals review

The big gold story this week was the rebalancing of its weightings in the DJ-AIGCI index and the S&P GSCI. While frustrating and causing obvious selling that is the way the gold market has been for years. It seems every time we are about to rally something like this come out of left field and slows the onset of the rally by a few weeks or so. This index rebalancing makes no sense. Why would you decrease one of the only components which gained on the year? Gold's weighting should have increased. Roughly $75 billion is invested in both indexes and will force selling of gold contracts. Let`s hope fresh buying can offset the selling. From what I am seeing there is a strong interest in gold today and mostly in the physical realm. Our time to shine is close.

Nevertheless gold is still in a bull market and will soar in 2009. Looking up at the chart gold lost only 2.79% with a strong showing late in the week. The price action must break out off the lower highs, lower lows pattern before we see a major rally.

RSI remains quite strong on this chart and bounced off 50 smartly. The moving averages are heading higher now and the price is using the 20 day average as support. The Fibonacci levels are proving tough to overcome so far and will also signal good strength once taken out.

MACD has crossed over bearishly from healthy levels and has a nice uptrend in place. The MACD momentum oscillator is showing weakness. Slow STO must bounce shortly off about the 35 level to show strength in this market.

Silver fell 1.48% this past week but has risen slowly and steadily recently. RSI continues to rise steadily and is now above 50 and headed higher. The price action has been between the 100 day and 20 day moving averages as of late. $11.80 is important resistance and when bested will give a strong buy signal. MACD has also been rising nicely and is finally back in positive territory but momentum looks to be fading. While not confirmed it is something to keep a close eye on. Not that technical analysis is the be all or end all when fundamentals are this strong but the more tools at our disposal the better.

Slow STO has marked three higher lows recently and looks ripe to write the fourth into the history books soon. I don't know if silver will go higher or lower next week but I do know over time it will be many orders of magnitude higher. My thoughts remain unchanged; accumulate as much physical as possible while the price is low. Taking delivery of a futures contract is the cheapest method of purchasing physical gold or silver today, but is getting more difficult to do very quickly. Possibly in the very near future it will not be possible so if you have any desires to take delivery now is your chance. Please contact me at postmaster@preciousmetalstockreview.com if you need to be pointed in the right direction.

Platinum has put in a confirmed bottom and is once again trading higher than the price of gold. Platinum gained a respectable 6.21% on the week and is continuing its march higher. So far in this move platinum has broken through any sort of resistance as if it was not there at all. Let's see how it fairs at the next line where the 100 day moving average and drawn in resistance lines meet at $1,055.

RSI is strong and entered overbought territory recently. This can persist for some time and is not a sell signal by any means. The moving averages are being taken out easily with only, the 100 day remaining. MACD just moved above 0 and has been looking strong for a while now and remains very healthy with momentum mirroring its action. Slow STO is flat and neutral. Being above 80 may be a sign of some consolidation to come but the way price has been behaving I wouldn`t bet on it.

Palladium was basically unchanged this past week falling a paltry 0.21%. I want to see the price move above $200 for at least three days before I am confident in calling a bottom. $200 is proving very tough resistance but the uptrend is holding fast and closing in on the $200 level. RSI has moved above 50 and but is heading back to test that level and must hold it. The moving averages are pretty flat except the 20 day which is hooking up nicely.

MACD is at 0 and bullish with momentum looking great too. Slow STO has marched strongly up giving higher highs and higher lows, and possibly about to do it once again.

Fundametals Review

There are so many reasons why the USD is going to fall if not be worthless in the future and gold and silver will rise but perhaps the most important is the fact that the warning shots being fired by China are getting closer and closer to their target. The US has been running a trade deficit for years now and the prime financier has been China. This will end. There were several stories out this week which represent the most important points to make on the week, not to belittle my other points but this is huge.

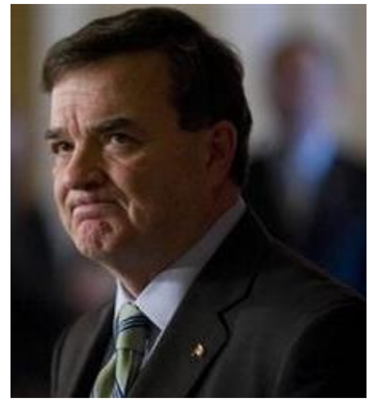
Let's begin with President elect Obama's warning of trillion dollar deficits for years to come. China has financed a good portion of the deficit to date, this may end. Who do you think will lend the government this money? Do you think countries will accept an IOU, treasury, knowing their own financial situation is in distress while knowing the possibility of a default by the USA is a real possibility? Where will they borrow this money from? It`s not like the good 'ol days when they went to the American public since they are beyond tapped out and are losing their jobs at an astonishing rate. I link to a movie later on which is full of great stats but the most ominous is the long warned about baby boomers retirement which is here. The amount that will add to the deficit makes it simply unreasonable to expect anything but a bankruptcy of those programs or massive rewriting of the rules. It's every man and women for themselves.

Already the first three months of the US fiscal 2009 year saw $408 billion more spent than taken in. At that rate the yearly deficit will be $1.632 trillion over 60% higher than Obama is predicting. That is if things stay the same and don't continue to deteriorate. Expect a higher deficit is what I am saying.

The rate treasuries and most bonds are paying today will surely book a loss after inflation and taxes are taken into consideration. The risk of default is real as well. Other nations are taking advantage of the low interest rate environment today. The Philippines and Turkey kicked off this new occurrence this week by issuing $2.5 billion in bonds. The bonds pay much higher rates than US treasures, 5% to 6% more. Looking at many of these economies makes one wonder why cash rich nations wouldn't want to invest in higher yielding assets since the risk of default may actually be lower in these historically risky nations than the historically safe USA.

China is becoming more prudent in so many ways as of late including possibly regulating foreign investment of $100 million or more to strict guidelines and evaluation. I don't blame them since they have been duped too many times recently. This could affect mining in a huge way, but it is not likely since they are still looking to accumulate wealth and stockpiles of commodities for the future.

China is also soon to implement a pilot project whereby their currency will be used in international trade rather than the USD. This is the beginning of the end. If the program runs smoothly the USD will soon be an extinct relic. This is the most serious warning and threat by China yet.



Jim Flaherty in Canada warned flat out of hard times and many job losses for Canadians on Friday. Just look at that face during the press conference. His expression tells it all and is a breath of fresh air compared to the smug looks of DC insiders, and more recently scammers like Madoff. While that is not what people want to hear, it is better than being lied to as has been happening in the US for so long. They can still barely acknowledge the crisis they are in. My rule of thumb has long been to do exactly the opposite of what US officials are telling you. If anyone else had lied to your face so many times you would not listen to them.

While China is one of the only countries whose gold output is actually rising, it will not be enough to offset the declines in other countries. November figures show China's production only rising by 2.14% to 246.51 tonnes. It is a certainty now that China will be 2008's number one gold producer. It is also certain that total 2008 supply has fallen when compared to 2007 and taking a quick glance at the 2008 CPM Gold Yearbook it appears as if supply will have fallen to 10 year lows at a time of major worldwide financial crisis and increasing investor appetites for physical gold.

On the last point a major brokerage tells of their richest clients wanting exposure now to physical, not paper, gold. Most clients want "a portable asset in their house" according to the article. That tells me they will not be fooled into investing into pooled accounts or the like which have been highly criticised and in some cases proven to not actually hold the gold but still charge the fee for holding it. $1,150 is the target given for gold by June 2009.

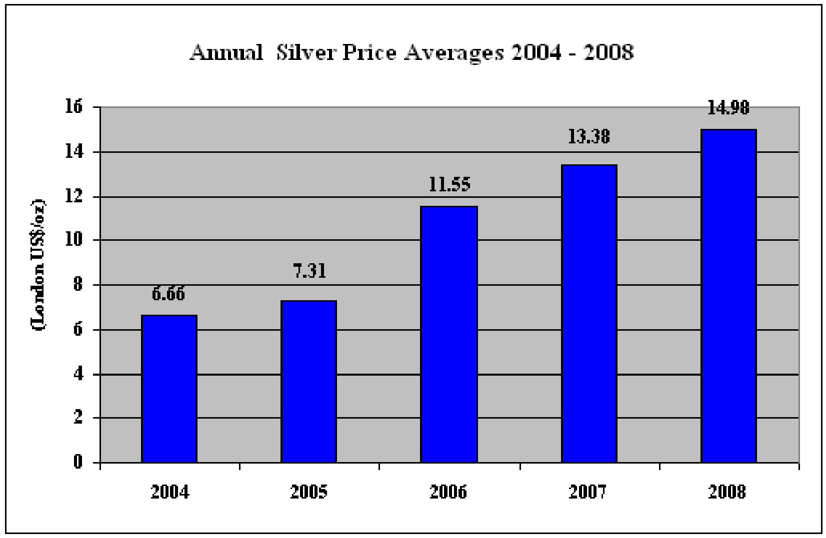
Physical demand is still strong and growing while sources are diminishing. For immediate delivery expect to pay a high premium. For a delivery off of the exchange of a futures contract expect to be persuaded to the contrary. Many new reports are coming in regarding that fact. Apparently to take delivery of mini contracts now you must tender three contracts as opposed to one recently and always in the past. This is a sure sign that smaller denominated bars are beginning to run short. This tells me demand is strong while supply is weak for the smaller bars. There are also many unconfirmed reports of bars being assigned to multiple people. Again, this is unconfirmed but definitely something worth watching for.

Mining legend Peter Hambro says there are legitimate reasons for gold to reach $1,500 to $2,000 in 2009. Coming inflation is cited as the major reason for his expectations and I couldn't agree more.

The 5th year of the CBGA (Central Bank Gold Agreement) has seen only 48 tonnes sold to date. *According to the figures, the 15 signatories to the accord disposed of 497.2 tonnes of the 500-tonnes allowance during the first year, 395.8 tonnes in the second year, 475.8 tonnes in the third year and 358 tonnes in the fourth year".* The agreement is on track to sell only about 200 tonnes this year and that would mark sales as the lowest during the program during this the final year.

Indian demand figures are still uncertain for 2008 but are estimated to be between 450 and 800 tonnes, which does us no good. GFMS is estimating it at 720 tonnes down from 862 tonnes in 2007. 2009 is said to be a low import year as well, but time will tell on that front.

Uganda is further attempting to attract investment by completing airborne survey which would outline potential metal deposits. Currently 80% of the country has been mapped out making exploration much less risky and costly.



The silver institute issued a press release this week showing the bull to date price appreciation of silver. Although the price is down sharply from the 2008 highs the average is up on the year. I expect this trend to continue, and accelerate.

A sign of the times comes in this article describing the crash of the automated unemployment system in NY. More than 10,000 people were trying to access the system per hour causing it to crash and be down ahead of the weeks filing deadline. Technology is great as long as the limits are not broken and they clearly were in this case. The whole system may have to be revamped in NY and many other cities to accommodate the coming tsunami of job losses. At least some people will get jobs fixing the system!

Here is a nice story of a mining town in Nevada experiencing a boom today. They say their area's economy runs countercyclical to the rest of America because it is a town largely focused on gold mining. It's an omen and the same stories will be told by gold and silver investors over the years to come.

A thirty minute version of a new documentary outlining some of the problems facing America today and even worse in the future can be found here and is well worth a view but if you want the whole thing then the weekend of January 10th is your lucky weekend. CNN is airing the full version both on Saturday and Sunday. Details can be found here.

From our good friends over at GATA and lemetropolecafe here is a silver miner comparison chart. There are simply no words to describe the undervalued prices found in many silver miners today. If you believe in the gold and silver story as I do, there is no better time to get involved in these stocks. For a chance to take a look at the stocks I am invested in click here.

Denita, a very smart realistic woman wanted me to talk about her inquiry this week. She is worried about a bank holiday coming which is a very real possibility. Also she is worried about her equity holdings because of this. She wishes she had more physical assets and may be looking to find some more. I have long advocated for GoldMoney.com and have no affiliation with them, if you cannot source the physical yourself at a reasonable cost.

My response is that the solvency of your broker is more important than worrying about your equity holdings. I believe if a bank holiday were to occur, as long as your broker makes it through your precious metal equities would reopen much higher than they closed either in a new form of currency or the old. I also advise that holding at least your core holdings in certificate or book entry form is a good idea in most cases. I do have faith in the system to some degree, but also do subscribe to the notion of looking out for number one. A balance must be found and every individual is different.

Finally a shameless plug, Denita also raves about her returns since subscribing to my service. I am happy that she is happy, and very proud that she is so worried, cautious and taking steps to protect herself whether they are needed or not. A few extra cases of soup and beans in the pantry can never hurt anyone, and will not be wasted regardless of what transpires. Please think long and hard about how fragile our lifestyle is and take whatever steps you feel comfortable with and deem appropriate, especially if you have a young family.

Although this http://www.youtube.com/watch?v=k6Y_ncOVlDw video is from the fall I still get a kick out of it and find it appropriate as Mr Bush prepares to finally leave the white house, enjoy. And here are some of his more famous bumbles that always make me laugh http://news.bbc.co.uk/1/hi/world/americas/7809160.stm.

Two more quick videos this week, one serious first from Ron Paul is a must see http://www.youtube.com/watch?v=HUQo5QQSlys and a hilarious parody from Australia is also a must watch. It may take a couple of viewings to catch all the quick phrases but its value is timeless, just be sure to watch to the very end! http://www.youtube.com/watch?v=NIfH0vY2ANA&eurl=http://whatreallyhappened.com/&feature=player_embedded.

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