

## ***prospector asset management***

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February 9, 2003  
For markets of February 10th

### INDICATIVE LEASE RATES Based on 30 day maturities

#### CLOSES

APR GOLD 370.50  
MAR SILVER 4.650  
APR PLAT 673.60

GOLD .00/.50%  
SILVER .00/.50%  
PLAT 8.00/15.00%

## **MARKET COMMENTARY**

### **GENERAL COMMENTS:**

It was a wild and volatile week in the precious metals, as **those precious metals that are currently wearing the mantle of “industrial metals” came under severe selling pressure** as the market now judges that any global economic recovery is not as likely as previously thought. Consequently, silver plunged 21 cents per ounce (highly correlated with copper prices which also fell by 4% during the week), and palladium, which shed about \$8.50 in value. **But the market action was very different for the precious metals with a “monetary” nature**, with the gold market violently moving to the \$390 price level as the bull market in global tension peaked, only to plummet some \$20 from its highs to close up 60 cents for the week. Platinum, while still volatile and still seeing significant demand from the Far East, added \$14.50 to the price. This commentary has been strongly recommending platinum and last week justified our persistent bullishness.

The gold market is suffering a major disconnect from its fundamental supply/demand conditions at present. **With gold being the first and safest refuge for investment capital in times of geopolitical and economic tension**, investors and speculators have piled into this market to virtually historic records, and have rocketed prices in the last month. On the other hand, **the physical market is simply awful, with the ACTUAL product unloved and unwanted**. All of the action is in the futures and derivatives marketplaces and the psychology of investors and speculators, and their actions derived there from, are now establishing the global gold price. Gold, unlike its characteristics in years past, is now behaving like a monetary instrument, a currency, a barometer that seems to accurately quantify the level of fear and tension inherent in these unstable times.

This is neither good nor bad, neither bullish nor bearish. It is just what is occurring at present. And, as such, it makes the gold market quite difficult to forecast as the emerging news and headlines are difficult to forecast. Careful and thoughtful examination of the underlying supply and demand fundamentals of the gold market is almost totally useless at present as such investigations may only yield some information as to how far gold can go down until actual physical demand reemerges and prices stop declining. From a **fundamental** perspective, gold is drastically overbought. But from a monetary perspective, it could be dramatically undervalued dependent upon your view of the coming events in the coming weeks. Fundamentals are easily

quantified, global tension and investor psychology is much less easily pinpointed. To reiterate a continuing theme, **ALL DEPENDS ON THE NEWS**.

If fundamental analysis has little value at this time, then technical analysis now reigns. **The charts seem to be the only way to quantify the gold market.** Technical support and resistance levels, careful analysis of other technical indicators such as moving averages, stochastics, and relative strength studies, are now the only tool to “objectify” the market. Investors and speculators must now pay very careful attention. Again, as volatility and uncertainty has reached new higher levels in the precious metals markets, it is recommended that traders both cut back on the size of their positions and use rather tight stop-loss orders. There is very considerable risk being long or short. Investors, on the other hand, can rest a bit easier knowing that while gold may have a sharp decline if “peace” breaks out in the world, that gold is in a secular bull market and that time will eventually see significantly higher prices than present values.

I must admit more than a bit of surprise at the nature of the silver market. In years past, silver wore two “hats”, it was partially an industrial metal and partially a monetary metal sought by investors and speculators and fairly well correlated with gold prices. These last months, silver has been a total “dog”, refusing to rally even as gold has risen some \$70. Until silver shows some life, until prices can stage a convincing rally over the technical resistance level of \$5.15, silver remains a “trading” market, where you buy dips and sell rallies. With the declines of the silver price last week, it is recommended that speculators begin to sell some out of the money puts. Clients of the firm are asked to call for specific recommendations for their accounts.

The platinum market has graciously fulfilled our expectations on the upside, as fundamental news and fears of a supply shortage combined with aggressive buying in the Far East has given us 23-year highs. This is the time to lighten up on long platinum positions, or sell them entirely, to re-enter the market on a hoped retracement. Palladium is still just forming a base in the \$250 to \$270 range, and offers excellent long-term potential. I would not add to existing long positions until prices convincingly surpass the old highs at \$275.

The possibility of a strike continues at Norilsk, the giant precious and base metals producer in Russia. Although some talks have occurred, a resolution has not been reached and one labor union will be going on a one hour strike today. And, its leaders have also initiated a hunger strike in their demands for higher wages, longer vacations, and the better disclosure of information by the company. Although such news is certainly supportive of the price, it is only somewhat so.

Gold production in Russia continues to expand as that nation exploits its vast natural resources, often with the aid of Western firms. In 2002, Russia produced 170 tons of gold and analysts expect 200 tons per annum in the next two to three years.

Before we look at the Commitment of Traders Reports, lets just quickly glance at the Bullish Consensus:

GOLD	89% from 89% on January 28 <sup>th</sup>
SILVER	62% from 65%
PLATINUM	91% from 87%

These readings are very, very high as one only RARELY sees a 90% uniformity of opinion in these markets. I believe that such statistics highlight the danger of going with the crowd. From the perspective of contrary opinion, **if 89% of the market believes that gold is going to continue to rise, then it seems as if there are very few left to buy.** As such, ask yourself how can prices can continue to rally IF there is no compelling new reason to buy. Again, all depends on the news and the emerging headlines.

The COT's, as of February 4<sup>th</sup>, both futures and options combined:

GOLD			
Long Speculative	Short Speculative	Long Commercial	Short Commercial
106,450	31,344	74,557	214,806
+10,898	+444	+3,860	+18,840
	Small Long Spec		Small Short Spec
	97,149		32,006
	+2,375		-2,152

As open interest climbed by a whopping 213,792 contracts, reaching the highest level of open contracts since January of 1981, long speculators continue to add mightily to their long positions, as short commercials were, basically, the only sellers. The commercials are very short here, hedging their inventories and other long commitments in this market. Speculative concerns are now long over 203,000 contracts, the equivalent of 20.3 Million ounces of gold. **This equates to a long position (not net long, however) of about 631 tons of gold, about ¼ of total annual global production.** This is the largest position that I ever remember. And, please remember that Comex is only one exchange, other investors and speculators are heavily long on the other exchanges, and the over-the-counter market may dwarf these statistics.

It is more than evident that everyone is standing on the same side of the boat here, and, as such, is a flashing red light for caution. As news events of the impending war will dictate short-term movements, such an imbalance in the composition of the market could create incredible volatility. And with volatility comes risk. I strongly recommend the use of close sell stops on positions in this market based upon technical chart-based support and resistance levels. These levels will be noted below.

SILVER			
Long Speculative	Short Speculative	Long Commercial	Short Commercial
50,278	6,438	18,303	95,655
+2,303	-305	-1,304	+2,935

As silver prices were virtually unchanged during the relevant time period, and as open interest rose by 2,768 contracts, **speculative longs added to their positions only to get totally crushed with the sharp declines in prices seen later in the week.** Again, the commercials were exactly right in this market. Commercial interest, more or less, reflects the activities of the physical marketplace and when they add to short positions, it demonstrates the lack of demand in the physical market. As silver is trading on its fundamental merits, with scarcely any notion of demand from its “monetary” or safe-haven component, fundamental supply/demand considerations still rule this market. It goes up when prices are low and physical demand for industrial use is good, and declines when prices are high and physical demand wanes. The perfect example of a trading market.

With prices now down sharply from the highs, it makes eminent sense to begin to get long this market again, in a small way. Lets begin by selling some out-of-the-money puts. Recommendations are listed below.

PLATINUM			
Long Speculative	Short Speculative	Long Commercial	Short Commercial
5,212	1,150	937	6,561
-411	-32	+256	+15

As Nymex, in platinum, is probably the least traded global marketplace, these statistics show us very little. Prices have risen to 23-year highs and, in my opinion, are a bit “frothy” at these levels. Please understand that they may indeed go sharply higher, but at these prices there is added risk from long positions. I would rather wait for a retracement to buy again.

**GOLD RECOMMENDATIONS:**

**(positions and recommendations are available to clients and subscribers only)**

**SILVER RECOMMENDATIONS:**

**(positions and recommendations are available to clients and subscribers only)**

**PLATINUM RECOMMENDATIONS:**

**(positions and recommendations are available to clients and subscribers only)**

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