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June 1, 2003
For markets of June 2nd

INDICATIVE LEASE RATES
Based on 30 day maturities

CLOSES

AUG GOLD 365.60
JULY SILVER 4.533
JULY PLAT 636.80

GOLD .00/.50%
SILVER .00/.50%
PLAT 5.00/12.00%

MARKET COMMENTARY

GENERAL COMMENTS:

The plot line continues in the gold market, where prices are dancing solely to the rhythm of the foreign exchange markets, where each movement in the USD has an overriding effect on the gold market. The gold market experienced a most volatile week, with prices careening around in a wild and frenzied fashion, with trading ranges of \$9 to \$10 seen every single day last week. Most of the trading was bounded on the lows by \$360 and the highs at \$370, although prices were seen a few dollars, both on the lows and the highs, outside of this trading range. **It was most apparent that speculative concerns were having their way with this market, and as such, volatilities dramatically increased.** Gold finished the week down by \$4.40, about halfway between the current bottom of the range and the top.

Increasing volatilities in the gold market calls for caution for the futures traders, and offers opportunities to the options traders. Futures traders should be scaling back the size of their trading accordingly, as just one contract on the exchange (100 ounces) can now change in value by \$1000 in just one day. Option traders, specifically sellers of options, should become just a bit more aggressive, as the volatility has made many of the out-of-the-money puts and calls quite expensive. All previous buyers of options (a strategy that I hardly ever recommend) should consider selling now that "vols" are so high. Volatility comes and goes in the gold market, and at this time, seems to be rather on the high side.

Silver, as expected by this commentary, also was lower on the week, falling by almost 11 cents. **We are now almost 40 cents off the recent highs seen on May 12th, just three weeks ago. In contrast, gold is \$14 higher.** Those who have believed in silver, those who harbored the illusion that silver would "shoot the moon" has yet again lost money to those traders who carefully follow historical precedents and trade from their intellect rather than from their emotions. But, now that prices have fallen, I must admit that I am **VERY friendly to the upside in this market** and would recommend it quite highly. Yes, there is the decided risk that we could go lower, perhaps back in the \$4.40's or so, but I believe the odds favor both selling out of the money puts and nibbling a bit and buying a bit of futures. This market has been rather easy the last few years, buy the dips and sell the rallies in the \$4.70's and \$4.80's.

The platinum market plummeted last week, to close down some \$26 (!) as Wednesday saw a decline from its opening near \$661 to trade as low as \$627.80 basis the July contract. **The major stimulus to this market was the decline of the Japanese Yen during the week, as investors in the Far East aggressively took profits, in Yen terms, from their holdings in platinum.** Over the many years that I have been watching this market, and as the greatest global trade in this metal occurs in the Far East, there really is a rather telling correlation between the Yen and the price of platinum, especially when the speculator/investor is deeply involved. Overall, **a falling Yen predicts a lower platinum price and conversely, a rising Yen generally signals a higher platinum price.** As an example, On April 30, 2001, platinum prices hit a low of \$590 per ounce and the June Yen contract traded as low as .8372. On May 27th, the July platinum contract traded at \$678.00 per ounce as the Yen had rallied to .8613. Yes, perhaps this example is rather extreme, as platinum moved some 15% as the Yen rallied by only some 3%. But still, a good trader must be carefully aware of these historic relationships.

The palladium market was the only precious metal to rise in value last week, up some \$2 per ounce. This market, after tracing out a bottom in the \$140's to low 150's, has been rising aggressively of late and the September contract closed at \$184.50, now some 20+% off its lows. I continue to like the upside in this market but believe that it will just slowly grind higher over time, but that there will certainly violent and vicious swings in prices. Those interested in more historical facts should consult my commentary from last week for a longer-term perspective.

In recent weeks, I have commented that there was the possibility that some Central Banks, who hold large quantities of USD as reserves just might consider reversing their positions, and adding other currencies or perhaps, although very unlikely, gold. The Russian Central Bank announced this week that it would keep part of their reserves in Euros, rather than USD. If this trend accelerates, the USD will have an even harder time maintaining its value, and thusly, the gold market will see higher prices. By the way, Russia produced almost 30 tons of gold in the first four months of this year, about 6% over that produced last year.

As expected, gold demand in India has fallen sharply, now that the "wedding season" is over and now that gold prices have rallied sharply. As per an Indian financial newspaper, demand in the city of Ahmedabad, a leading center for the gold trade, has fallen to 15-20 kilos per day and this demand is being met by scrapped metal. Earlier this month, demand was about 200 kilograms per day. While the fundamentals of the gold market are indeed damaged by such news, please consider that gold is now firmly entrenched in the speculator's hands, and therefore, such news of India will only have a longer-term impact.

I thought it might be fun to look at some longer-term perspectives in the gold market, without making much comment, just letting the facts speak for themselves.

****The value of gold jewelry sold globally has risen from about \$15 Billion USD in 1986 to just under \$30 Billion in 2000**, effectively doubling. Such demand topped out in 1996 and 1997 (when the equities markets were screaming higher and the "wealth effect" was most evident) at about 35 Billion USD.

****From 1991 to 2002, mine production has been increasing at a snail's pace, but has just surpassed 2500 tons per annum, while gold demand has ranged from 3000 tons per annum to a high of about 4200 tons in 1997, and approaching 3500 tons for the 2002 year.** The "structural deficit" of this market has been met by official gold sales from Central Bank reserves, scrapping of metal, and forward selling aided by the gold lease market.

****Central Bank sales of gold has varied in size over the years, with perhaps only 40 tons sold in 1994 to a high of over 600 tons sold in 1992.** Over the past three years, these sales have been running at about 550 tons per annum, as Central Bankers have effectively sold into the rally in the gold market.

****Central Bank lending of gold was as low as about 30 tons of gold in 1991, to rocket as high as close to 500 tons in 1997, but for the last two years, the market has seen Central Banks calling back their loans and we have seen a substantial reduction in the gold being lent out. In 2001 and 2002, the gold leasing “pool” decreased by 100-150 tons per annum.**

****Contrary to public perception, the public holds most of the gold in the world, rather than the Central Banks of the world. Of the 145,200 tons above ground, Central Banks control 29,600 tons. Jewelry (some of which truly is “investment” rather than adornment) comprises about 73,400 tons, and private investment is approximated at 22,200 tons.**

Perusing such “bottom-line” fundamentals is important for the investor/speculator, as it becomes most clear that the trends are decidedly bullish. And, if you add in what is occurring in today’s world, from a geopolitical and financial perspective, it only makes it more so. OK, I lied a little, I did comment on the statistics above.

I was interested in seeing a chart of the purchasing power of gold in Britain dating from 1596 to the present, put together by the World Gold Council. While there were many variances from the geometric average, and such deviances sometimes lasted for a hundred years, it appears that now, **the purchasing power of gold in England IS JUST ABOUT the same as it was 400 years earlier.** My apologies to all the 400 year olds in England who already knew this.

On to the Commitment of Traders reports, as of May 27th, for both futures and options:

GOLD

Long Speculative	Short Speculative	Long Commercial	Short Commercial
79,105	9,051	76,774	179,014
+2,586	-3,781	-10,652	+10,731
	Small Long Specs		Small Short Specs
	75,723		43,538
	+10,848		+17,295

In a week where prices were, more or less, unchanged, open interest declined by about 13,500 contracts. **ALL segments of the speculative market, both the professional traders and the small speculators were buyers. Both segments of the commercial trade were MAJOR SELLERS.** This must be considered a clear indication that the market price is being determined by speculative forces only, and is a most decided signal that this market could experience a rather vicious sell-off if conditions warrant. If the USD decides to rally, we could go sharply lower as speculators liquidate their long positions. Selling by the commercials demonstrates (as in actual physical demand in India), that the actual physical market is not healthy at present. As such, while I would not recommend short positions in a market that is obviously in a long-term bull market, I could not be bullish at this time. Traders holding long positions should be using rather close stops, and recommendations will follow.

SILVER

Long Speculative	Short Speculative	Long Commercial	Short Commercial
37,267	6,070	17,887	72,575
-4,291	-1,886	-2,568	-6,777

In direct contrast to the gold market, the commercials in the silver market were net buyers as the speculative concerns were sellers. **Again, the speculators were buyers at the highs and sellers at the lows.** As the commercials are buying, showing the health of the physical market, I am forced to be bullish. **Those holding long gold positions might be better moving into silver instead.** Please call our offices for recommendations and possible strategies that might be suitable for your account and risk/reward profile.

GOLD RECOMMENDATIONS:

Expected trading range \$355/\$358 to \$374.00

As noted above, I am now somewhat unfriendly to the gold market, but just very slightly. I do not envision a decline of any significance. We have had a very significant rally, and perhaps, it is time for us to rest a bit. This posture must be altered if the USD changes to a very considerable amount. I would be looking to sell relatively short-term put options, to increase our long position, on any dip to the high \$340's or low \$350's. Clients of the firm were active sellers of the August \$340 put.

Good technical support exists around the \$358-\$362 price level and there is technical resistance at the \$370 to \$372 price level. **Day traders should pick their points carefully and use rather tight stops, and selling rallies near the recent highs seems appropriate.** This market appears to now be in a consolidation phase, or may perhaps go just a bit lower. Watch the foreign exchange carefully for direction.

SILVER RECOMMENDATIONS:

Expected trading range \$4.48 to \$4.65

Our recent recommendations of being short this market worked splendidly. I only wish that I had done in size instead of very lightly. Prices have now come down to levels I find most attractive. I would be a seller of the July \$4.50 put and would buy a bit of futures, as well. If silver rallies into the mid \$4.60's, I would sell covered calls, lets say the July \$4.75's. Day traders should be buying dips in this market, with rather loose stops.

Position traders, and traders who follow our recommendations, are now long silver and short the puts. I expect a rather treacherous market, but would not be worried if prices go a bit lower. These prices are attractive.

PLATINUM RECOMMENDATIONS:

Expected trading range \$635 to \$660

Traders who follow our newsletter recommendations made out like bandits, as prices just collapsed after reaching our sell target recommendation at \$673 to \$675. OK, I got lucky. I would immediately cover all short positions and look to get long in the high \$620's to the \$6.30's. Use a \$610 stop.

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