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May 18, 2003
For markets of May 19th

INDICATIVE LEASE RATES
Based on 30 day maturities

CLOSES

JUNE GOLD 354.90
JULY SILVER 4.790
JULY PLAT 645.90

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

MARKET COMMENTARY

GENERAL COMMENTS:

As the USD continues to falter in the world markets, irritating a good deal of analysts who have foretold of at least some reprieve or pardon for this morbidly ill currency, **the precious metals continue to benefit and post new higher prices**. Gold prices were up on the week by \$6, and are now attempting to penetrate massive technical chart resistance at the \$355 to \$360 price levels. Silver, no longer favored by this commentary at recent price levels, saw rather heavy selling from professional interests and was rather unchanged, down by ½ of one cent. This commentary turned rather neutral to bearish on the silver market over the past few weeks, as silver prices have been at these lofty levels on many occasions in the past, and have subsequently failed. As remarked before, it is best to trade with the odds rather than against them, and better to have objectively noted past behavior of a market than to succumb to the emotions of hope, fear and greed.

With the markets of the Far East once again operative, after a spate of holidays, the platinum and palladium were also nicely higher, as forecast by this commentary last week. Platinum was up almost \$16 per ounce, basis the July contract, while it's ugly sister, palladium, keeps tracing out a bottom and was up \$4.35 for the week.

The gold market is completely abuzz with the talk of new exchange traded products, promoted or encouraged by the World Gold Council. **It is almost universally thought that the introduction of such securities will certainly contribute to investor interest and will be the salvation of the market hope that one day, global investors will step up to the plate, checkbooks in hand, to drive the gold market higher**. Some of the talk, and the subsequent hype and tout in the financial press, would have you believe that investors are simply holding their breath, salivating prodigiously, waiting to write checks. **As in most cases of this type, it appears to me to be vastly overrated.**

A case in point. The Australian listed "Gold Bullion Limited", the first regulated fund of this type, has only had sales of A\$33 million, and the total gold now being stored for its owners totals less than 2 tons. Yes, while there is some rationale that due to the particular nuances of this fund (for example, it is traded in Aussie \$1's, but come on now, that risk is easily hedged by sophisticated investors), it must be said that the results have not been all that shining, and admittedly, most of the buying has come from overseas investors, again, not all that optimistic.

While the details of the new ETF (exchange traded fund) have not been officially released, nor has the fund received approval by the regulatory agencies, there are some perturbing issues that immediately jump up. If one assumes that all the “pieces” of the puzzle come together well, that the fees charged by the fund are reasonable, that the counter party risks are minimized, etc... there is still the nagging tax question. **In the USA, physical gold ownership is considered a collectible, not an investment vehicle, and is TAXED AS SUCH.** So, theoretically (unless a waiver is obtained from the Internal Revenue Service), all long-term holdings of this fund will garner a tax obligation of a minimum of 28%, rather than the 20% received from holding a security long-term. Now, in the futures market, all gains are taxed at a 60% long term/40% short-term rate, making (**again!!**) this market more efficient than the proposed “new wheel” of the ETF. All markets seek efficiency, all investors seek efficiency, liquidity, and low costs, and it is questionable that the new ETF, even if all other details work out favorably, will be the salvation that so many in the industry hope for.

Now, truth be told, this new EFT may indeed be more efficient and more favorable for the smaller investor in gold (less than 1 Kilo or 32.15 ounces) than any other alternative. What this will accomplish is that a portion of the success of this new ETF will come as a result of the cannibalization of the gold coin market. Small investors, seeing greater efficiency and a lower cost structure, may decide to buy this fund, rather than purchase coins. But, of course, there will be still be those investors who delight in having their gold in their hot little hands, and these buyers will never be dissuaded from buying coins. I expect that the introduction of this ETF will be met with much anticipation and whoopla, and will have a most modest success over time, with some of the sales coming from those switching from the coin market. I realize that I am rather alone in my opinions, but I would take absolute delight in being proven wrong. It is just that I fail to understand how a new product, with less cost and less tax efficiency, sold by stockbrokers (who have no love nor understanding of the product), can compete with a proven market of greater efficiency. By the way, in its filing with the regulators, the World Gold Council noted that it would scrap the entire program if gold held, after one year, is less than 1 million ounces. I thought this rather amusing, as about twice that amount of physical gold is currently held by Comex depositories in New York.

Next, putting aside that this ETF may be currently being sued by a major financial institution for alleged intellectual property infringements, please note that the fund **WILL NOT be tracking the gold price.** The net asset value will be determined, **ONLY ONCE A DAY**, based upon the London P.M. gold fix. Investors, seeing a large rally, will be unable to take any advantage, until perhaps the following day. **This is most certainly a fatal flaw** when compared to the futures markets, where liquidity is available about 22 hours a day.

Yes, investor demand in the USA may be spurred, but please remember that **US investors bought only 22 tons of gold in 2002, down from 25 tons in 2001, even though the bull market in geopolitical fear and dread was at its all time highs.** As the noted Andy Smith of Mitsui was quoted, “we are talking froth on very small beer here”. And for those who forecast gold prices rising in excess of \$1000 per ounce because of the introduction of the fund, I say, show me. And, I will wager that each of them also forecast that gold would reach this level years ago due to their predictions of massive Japanese buying (remember the hype back then?). **As always, the gold business relies way too heavily on irrational hope rather than historical precedents, rational thought, and carefully considered logical thought.** We are in a multi-year secular bull market in gold, of that I am certain, and the above thoughts and opinions do not alter my forecast.

OK, just one more example of the excessive and irrational touting that occurs in this industry. Do you remember just a year or two ago, that some analysts (and some very prominent ones at that) were warning of a massive “melt-up” of gold prices, perhaps into the thousands of dollars per ounce of gold, as global bullion bankers and gold producers were forced to cover their supposed huge short positions if gold prices reached a certain level? Wow, what ever happened to that?

OK, just one more for fun. I am sure all of us remember how the year 2000 computer bug was going to catapult gold prices. Yes, I am guilty of giggling at this moment. Or maybe chortling.

There is also gobs of talk in the market that the Chinese government may soon allow a greater facility, through the Shanghai Gold Exchange, for individual investors to buy gold as an investment. The Central Bank of China continues to show greater reserves of gold, probably in a show of providing adequate liquidity to the new exchange. There is still great hope that China may indeed prove to be a major demand center, but the hard numbers are still not quite there. It will take time, and patience. Frankly, I am quite surprised that the pace of liberalization has been as rapid as it has been.

While investment demand for gold still falters, gold producers have maintained their avaricious buying by scaling back their hedge books. The outstanding global producer hedge book fell by 146 tons in the first quarter of this year, as per GFMS. To quote “the scale of de-hedging was such that it has been driven by buy-backs as well as scheduled deliveries and restructuring”. **I find it most telling, and really ironic, that the biggest buyers in the world are the biggest producers.** It is now crystal clear that the greatest, most significant, influence on gold prices reaching the ridiculous level of about \$250 a few years ago was the overhedging by gold producers. They were most certainly their own worst enemy.

Lastly, as forecast in months and years past, the National Union of Mineworkers wants more money in their new contracts. South African mining concerns have been rather beleaguered of late, both with the rising Rand (their costs are in Rands, and their income in USD), and with the imminent new payment of royalties to the government that are based upon gross receipts, and not net income. I am sure that the gold mines will end up paying something to the NUM, and, as such, will only make mining in that country less efficient, and less profitable. Look for production levels of gold to fall over the very long term.

On to the Commitment of Traders reports, as of May 13th, both futures and options:

GOLD

Long Speculative	Short Speculative	Long Commercial	Short Commercial
52,285	14,421	94,810	169,001
+4,183	-469	+2,225	+7,305
	Long Small Specs		Short Small Specs
	67,283		30,957
	+8,737		+8,310

During the week of rising price levels, where open interest was up by almost 22, 000 contracts (a rather impressive amount), the bulk of the action was just the interplay between the small speculators, where the long speculators bought just about as much as the short specs sold. I tend to heavily disregard such action, as the small speculators are rarely right on the market and are not knowledgeable. **More importantly**, although not in numbers really statistically relevant, **the commercials were net sellers, demonstrating that the physical market is not as healthy as a raving bull would like to see.** This must be considered a very small warning to the bulls, but as the gold market is tracking, in lockstep, the foreign exchange markets, not a red flag. Professional and large hedge fund activity was rather muted.

The gold price is right against major technical resistance at current levels, and the professionals know it. With India now past its “wedding season” and with the cyclical for gold somewhat negative, with industrial demand weakening, the short commercials are forced to add to their gold positions as their inventories rise. But it all depends on the USD. I see the numbers as very, very slightly bearish, but really not enough to act on. Recommendations will follow below.

SILVER

Long Speculative	Short Speculative	Long Commercial	Short Commercial
40,573	6,786	23,549	80,252
+5,021	-1,970	-1,123	+7,250

With prices rising during the relevant period, with open interest rising as well, we see the “death knell” for silver, once again. **As we approach the \$4.80’s and the \$4.90’s, the large speculative funds are SERIOUS buyers, hoping beyond hope, for a breakout of the long trading range that has plagued this market for so many years.** We have seen these prices so many times before, and each time, this market has failed. The short commercials were most accommodative and sold silver to all of the large speculative concerns. While the speculators could be right, I doubt it...as historical precedent shows them to be “marks”. The commercials rule this market and the odds strongly favor that they are right again. I would absolutely follow the lead of the commercials and would NOT want to be long at current prices. Recommendations to follow.

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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