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May 26, 2003
For markets of May 27th

INDICATIVE LEASE RATES
Based on 30 day maturities

CLOSES

JUNE GOLD 368.80
JULY SILVER 4.647
JULY PLAT 664.00

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

MARKET COMMENTARY

GENERAL COMMENTS:

As noted in recent commentaries, **the USD continues to exert the primary influence on the movements in price of the gold market.** With the Euro up over 1% for the week, now approaching and almost certainly soon eclipsing all-time highs, with the USD down over 2.25% for the week, gold was up about \$14 per ounce as investors and speculators were noted rabid buyers. Silver, on the other hand, succumbed to its historic fate of continually disappointing those who believe in its fanciful inevitable rally, fell by about 15 cents for the week, closing in the low \$4.60's. Please note that it was the only precious metal to have lost ground during the week. **With the USD continuing it's death spiral** (with the help of comments by our Treasury Secretary), platinum continued its recent rally to close up \$18 or so for the week. The best performer in the asset class was palladium, which after tracing a technical bottoming formation for weeks on end, erupted to higher prices to close up \$23 per ounce, a gain of over 10% for the week.

Aided by the acceleration of the depreciation of the USD, and previously oversold conditions, gold prices have now achieved a \$60 rally in just 6 weeks or so, with nary a downward correction. From a technical perspective, this market is now rather overbought, and is now vulnerable to a minor correction, or sell-off, in price. **It appears to me that we seem to have revisited the recent gold rally, where prices were propelled skyward by investor/speculative interests, with commercial and industrial interests waning rapidly.** Unlike the foreign currency markets, unlike the bond and interest rate markets, gold is still a COMMODITY, and not quite a currency, as it does not garner, as of yet, the investor interest necessary to prolong significant rallies. **Physical demand for gold still provides the needed price support for a pattern of higher low prices in this secular bull market.** With the wedding season in India now past, with gold now entering a time period of cyclical weakness, it is likely, but FAR from certain, that a bit of price retracement, or perhaps a period of consolidation, is now destined. But, the fate of the gold market depends more upon the movement of the USD than all else, at present. If the dollar continues its death dance, the gold market will, in my opinion, simply under perform but will still rise. While this commentary correctly forecast a sharp decline in price when last we reached the current price levels in gold, this time is much different. Given the current macroeconomic and geopolitical conditions, gold could fall to the high \$340's to low \$350's at worst.

The silver market has broken down significantly over the past weeks, now some 30 cents off its highs, even with gold very strong. Again, over the past weeks, speculative interests were avid buyers while the commercial interests were willing sellers. Time and time again, the emotionally driven specs hoped for a breakout in prices, and yet once again, they were denied their fantasies as historical precedent proved more reliable. There is perhaps a bit more downside to the silver price, but not a whole lot. It will be time to buy silver when the discouraged speculators finally resign themselves to their losses and sell, and when the commercials begin to buy. Recommendations will follow below.

Owing to quite bullish news from General Motors on their prospective use of palladium in their production, this market continues to rally, and rally considerably. Reports have circulated that this firm is ready to move back to palladium usage in their catalytic converters due to it's now favorable pricing. I would expect to see more news of this type in the coming months and continue to be quite friendly to the palladium market over the very long-term. Norimet, the concern responsible for Russian sales, predicted that palladium will possibly trade as high as \$250 by the end of this year.

With thanks to my friends at Canaccord Capital for doing the underlying research, I looked at some quite interesting long-term statistics in regards to the palladium market.

	PLATINUM PRICE	PALLADIUM PRICE	AS A % OF PLATINUM
30 year average	\$387.59	\$169.70	44%
20 year average	433.13	209.07	48%
10 year average	435.02	298.74	69%
5 year average	474.97	453.01	95%

While the past few years have seen a wild palladium market, with prices approaching the \$1100 price level, only to fall by 85% subsequently. It would appear that, **OVER THE LONG RUN**, that the palladium price should trade at roughly a 45%-50% **AT WORST** as a discount to the platinum price. Based upon the London Fix on last Friday, palladium is trading at 26% of the platinum price, appearing to be vastly undervalued. Theoretically, it could double in value, achieving a 48% discount, before becoming even correctly valued. But these shifts in relative value can take years, or perhaps longer, for these relationships to revert back to the mean, or averages. While I am still quite favorable to the palladium market, investors must be willing to hold positions for the long-term. But with contangos in palladium quite minimal, and sometimes non-existent, carrying such positions comes with little cost for time. The futures market is perfect for such positions and investors looking to establish, or increase, positions are asked to call our offices for more discussion. This market is not for the feint of heart, nor for the undercapitalized investor, as wild swings can and do happen with regularity.

According to the latest release by the authoritative Johnson Matthey, the platinum market remains in a chronic deficit between supply and demand. Demand grew last year, by 5%, to a new high of 6.54 million ounces, while supplies rose by only 2%, to 5.97 million ounces, leaving a structural deficit of 570,000 ounces. While they project demand to fall slightly in 2003, they still foresee this deficit continuing. As such, they project a trading range of \$590 to \$690 for this year. The demand for platinum has surpassed its production for the last 5 years, and will most probably continue for at least a few more years, as greater usage is likely in catalytic converters.

In an interesting aside, the famed speculator, Mr. George Soros, admitted to the world that, "I have to disclose that now have a short position against the USD because I listen to what the Secretary of the Treasury is telling me". He noted that he is buying the Euro, The Aussie Dollar, The Canadian and New Zealand currencies, as well as **GOLD**. While this famed hedge fund manager now longer has the clout that he had in years past, his admission is fascinating. Not being one to disclose secrets, he is either hoping to encourage other speculators to follow his lead to either help his position, or skeptically, to encourage them to take over his positions as he

exits. Or, perhaps he is thinking so long-term that he just doesn't care. With Warren Buffett probably still the owner of 130 Million ounces of silver, with Bill Gates invested in a silver mine, and now with George Soros publicly admitted to buying gold, just perhaps we could see the average investor begin to realize that gold has been the best performing asset class over the past few years.

Earlier this week, USA forces announced that they appear to have seized \$500-\$800 Billion USD worth of gold in Iraq. The drivers of the stopped truck were told that their cargo was bronze ingots and were told to drive it into a city near Syria. The results of the assays of their cargo have not been released as of yet. When the gold market sold off last Thursday, this was used as the rationale, which I found to be quite humorous.

Liberalization of the precious metals markets in China continues at a blistering pace. The Shanghai Gold Exchange has confirmed that platinum trading may begin in June of this year. And, four large commercial banks are planning to provide facilities for individual investors wishing to trade in gold. These accounts will be "fiduciary" accounts, in which investors can trade in and out of the gold market, but will not allow actual physical delivery.

On to the Commitment of Traders reports, as of May 20th, for both futures and options:

GOLD

Long Speculative	Short Speculative	Long Commercial	Short Commercial
76,518	12,832	87,426	189,745
+24,234	-1,589	-7,385	+20,744
	Long Small Spec		Short Small Spec
	64,875		26,243
	-2,408		-4,714

During the reporting period, where prices rose by over \$16 per ounce, open interest shot up by over 23,000 contracts to almost 315,000 contracts outstanding. **Large speculative concerns were the noted buyers, while commercials were the largest sellers.** Commercial selling must be taken as a flashing red signal that the physical market is not robust, that gold is not being demanded by the industry, and as such, is a distinct warning to the bulls. Please remember that commercials are not speculators, and that they increase their short positions when their inventories, or other similar considerations, increase. Now, the question arises is whether investment or speculative buying is not only enough to keep gold prices at current levels, but energetic enough to force prices higher. Historically, this has not been the case. All in all, I am looking for a brief respite to this wave of the bull market, or perhaps just a consolidation at roughly current levels. Recommendations to follow.

SILVER

Long Speculative	Short Speculative	Long Commercial	Short Commercial
41,558	7,956	20,455	79,352
+985	+1,171	-3,094	-899
	Long Small Spec		Short Small Spec
	31,094		5,798
	-600		-2,981

During the relevant week, silver prices were down by just 5 cents, as open interest barely budged. Please note that the market subsequently dropped sharply, and, it is no surprise when perusing the above statistics. The spec longs were quite high, still buying more, as the commercials were selling. Time and time again, this is the "modus operandi" of the silver market, with the speculators buying at the top and selling at the bottom, and the commercials graciously

accommodating them. I would still surmise that there is more long liquidation still to be done, and that prices could decline moderately from current levels. Recommendations will follow below.

PLATINUM

Long Speculative	Short Speculative	Long Commercial	Short Commercial
3,342	91	1,741	6,203
+629	-197	-520	+547

Platinum rallied some \$22 during the week as the large speculative commodity funds returned to the market. Commercials were sellers into the rally, but it still appears that platinum could indeed rally a bit further. But when the large spec longs are finished buying, we go down again in a never-ending replay of history, where the commercials keep picking the pockets of the specs.

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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