CPM Group

Market Commentary

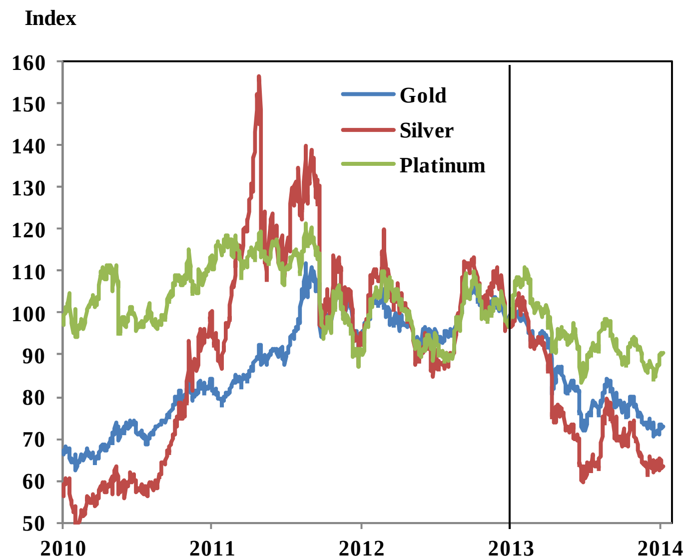
No. 1 ■ 14 January 2014

This Is The Time

The following text is excerpted from the Precious Metals Advisory Vol. XXVII No.1 published on 9 January 2014.

Gold, Silver, and Platinum

Daily, Indexed to 100 on 2 January 2013, Through 9 January 2014



The prices of precious metals, many other commodities, and mining company equities have been hammered down over the past two years. Many investors have fled these markets and assets, accelerating their departure in 2013, even as other stalwart investors remained significant buyers of these metals. Both equity and debt financing for mining projects and companies has dried up.

Shorter term investors were heavy gold sellers in 2013. Many of them were momentum traders selling as prices fell, and others who were more opportunistic investors. Some unknown portion of the investors fleeing the gold market were recent inductees into the gold investing community, having bought gold for the first time in the run up in prices from around 2006 into 2011. Other, longer term, investors continued to buy large volumes of gold, taking advantage of the lower prices caused by the exit of novices and shorter term investors. Investors added around 29.7 million ounces for the full year on a net global basis: That was a lot of gold, although it was off sharply from an estimated 39.0 million ounces in 2012 and 41.0 million ounces in 2011.

A strange dichotomy emerged in the silver market last year. Investors continued to stock up on silver coins, smaller silver investment products, and silver ETF shares, while larger investors sold perhaps around 50 million ounces of 1,000 ounce bars.

Platinum and palladium suffered with gold and silver. Stale-bull liquidation by long-term platinum and palladium investors has been the most significant weight on metals prices since September 2011. However, the pattern of selling shifted in 2013. In late 2011 and throughout 2012 these investors took advantage or repeated spikes higher in platinum and palladium prices to sell, pulling back from disposals whenever prices would subsequently fall back. In 2013 the sellers apparently grew tired or impatient, selling almost regardless of price levels.

In the gold market, about one-quarter of investment demand evaporated. This represented those shorter term investors who base their investment posture price trends and cyclical economic developments. With prices falling, some of them sold. Others sold because stock prices were rising. Still others sold because the world financial system had not collapsed and hyperinflation had not laid waste to the world, as they were promised by their gold shamans. Similar declines were seen in silver, platinum, and palladium. It is critical to realize that if only one quarter of the investors left the market, sold, or stood aside, that left three quarters, or three times as much, investment demand still on the long side of these markets. These longer term investors look beyond a period of cyclical economic improvements and cyclically weak gold and silver prices, focusing more on the fact that all the problems that caused 2007 – 2009, let alone 2011, and 2001, remain in place, some have worsened, and the probability of another major economic bout of trouble is 100%: It's just a matter of timing.

A Change Is Going To Come

All of this may change in 2014. Precious metals prices and mining shares may remain under downward pressure initially in 2014, but **prices have fallen to what may prove to be cyclical lows**. After a period of stabilizing

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prices, investors may begin to re-enter these markets as buyers, lured by a combination of economic and political conditions that are still hostile to real economic progress and the simple fact that these metals and share prices are at extremely attractive low levels from a longer term perspective.

Right now, bargain hunters are waiting to see how low prices will fall before they buy. Once prices stop falling and show signs of rising again, bargain hunting could be quite significant in boosting metals and share prices off of their bases.

CPM Group warned of such a down-draft as we have seen over the past two years, quite explicitly, starting in late 2010. We wrote that 2011 might prove the cyclical peak in a secular bull market for a wide range of commodities and commodities oriented investments. By this we meant that prices could stop rising in 2011, fall and then consolidate for a couple of years, and later, beyond 2014 or 2015, start rising again, in a longer term continuation of the bull market that began in 2000.

Our rationale for calling for such a peak was a combination of trends: Prices were very high, and had been pushed up by wide spread buying. Some of that buying was from the investors mentioned above who were new to precious metals. Some of them were buying because they were convinced that the global financial system and political structure was about to collapse, and that hyper-inflation and economic chaos would ensue. In 2010 and 2011 we expressed the seemingly heretical view that while economic and political conditions were bad, neither a total failure of the global financial system nor hyper-inflation were about to follow. In that environment, the value investor instinct in us said that gold and silver were grossly over-valued. As some of these investors realized the world was not ending, we expected them to bail out of precious metals. They did.

In early May 2011 we wrote that the cyclical peak for silver most likely had been made at the end of April, just shy of $50. In late 2011 we stated that we thought the cyclical peak for gold had been achieved in September. We also stated, repeatedly, that we thought prices could fall into 2014, and then spend a year or more consolidating before rising again beyond 2015. Our broad expectations have not changed, but have been conditioned by market developments, including price movements, since then.

The pain of falling commodities asset prices may continue into the second or even the third quarter of 2014,

The Markets In 2013

	31-Dec-12	31-Dec-13	Change
DJIA	13,105.37	16,576.66	26.5%
S&P 500	1,426.27	1,848.36	29.6%
NASDAQ	3,019.51	4,176.59	38.3%
Oil	91.64	98.42	7.4%
EUR/USD	1.3218	1.3766	4.1%
Gold	1,676.20	1,205.50	-28.1%
Silver	30.45	19.44	-36.2%
Platinum	1,545.00	1,371.00	-11.3%
Palladium	708	713	0.7%

CPM Group

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but **the bulk of the declines appear to be behind these markets at this time**. By September or October CPM Group expects reviving investor interest in precious metals, some other commodities, and mining equities to be moving prices higher once more. The increase may be slow at first, but it may be the beginning of another longer term upward move.

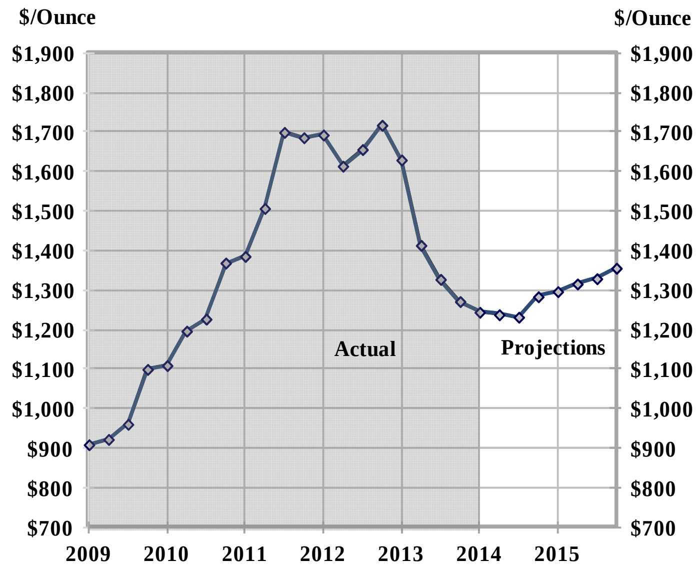
On 15 June 2013 CPM Group issued what it called a 'qualified buy recommendation' on gold. Gold was down to $1,390 at that time. We qualified the idea that it was a good time to start buying gold as a long term investment with two provisos. First, we said that we thought prices were likely to fall further in the next couple of weeks (we thought to around $1,240), so that buying on 15 June at $1,390 was not what we had in mind, but rather that longer term investors might start thinking about buying gold again in the near future. (We were wrong, of course. Gold fell to $1,179.40 on 28 June.) The second qualifying clause was that we did not expect gold to run away to the upside after hitting any low, but rather to move sideways for a couple of years before resuming a longer term ascent. A sideways move might not be so bad, we said, considering that broader stock markets should be expected to fall sharply from their current record highs during the next couple of years, and owning bonds in a rising interest rate environment would be just as bad as owning stocks, if not worse.

That view still prevails at CPM Group. Our expectation is that **gold** may well hold above $1,180, although short spikes below that, even to $1,100, cannot be ruled out. We do not expect prices to fall to $1,000 or lower, as some now write; we will write a bit more on those views at the end of this section. On a quarterly average basis, gold prices might decline into the third quarter, even without making new intraday lows.

Our price expectations for **silver** are a bit more negative. We think the lows around $18.53 in late June 2013 may hold, although here too one should not rule out intraday spikes lower, possibly even into the $16.50 - $17.50 range. Prices may bounce around $18.50 - $22.00 over the course of 2014, with less of a pick up toward the end of the year than we envision for gold.

Platinum prices present an interesting future in our views. Prices are too low on a long-term basis, although the on-going selling by stale-bull investors could keep price around current levels through much of 2014. At some point we would not be surprised to see a sharp revaluation of platinum to higher levels; our best guess at this point is that such a move could occur in the final four months of this year.

Gold Quarterly Average Price Projections to Q4 2015



Equities

Despite the overwhelmingly negative commentary on precious metals mining shares, the reality is that this probably is the best time to invest in quality gold and silver mining equities since around 2005. Equity values have fallen to unsustainably low levels. Management at many companies meanwhile has come to understand that it needs to manage and grow its companies in sober, sensible fashion, that they cannot wait and expect ever-rising metals prices to cover sloppy decision making. Weak management is being shaken out and replaced by managers who understand the need to focus on profits and dividends instead of growing the number of ounces produced regardless of the total and per unit costs.

There are obvious risks for investors, who need to be able to carefully choose which companies appear to have management capable of and qualified to manage complex mining operations in disparate places, but unless one believes the unsupportable idea that all mining operations will close down, there will continue to be a mining industry, and well run mining companies will see rising profits and share prices from the current cyclical lows. This may be the best buying opportunity for the coming decade.

This Is The Time (cont.)

A Final Point

We will note that other market commentators are calling for lower prices for gold, silver, and precious metals mining equities. We are fully aware of this.

Many of these commentators are the same ones that in late 2011 and early 2012 were saying they expected gold to breech $2,000 in 2012 or 2013, running to $2,400 or higher, just as CPM Group was writing that our market intelligence and analysis were suggesting that prices had peaked in September 2011 and were likely to decline over the next few years. In many cases, these commentators base their market views on price charts: If prices are rising, they are bullish, and if prices are falling they are bearish.

Few of them undertake any detailed analysis of gold's fundamental trends and the statistical relationships between gold prices and various macroeconomic and financial market trends. None of them produce the detailed research into gold, silver, and platinum group metals that CPM Group's analytic team maintains. One major trading bank wrote in late 2011 that the price of gold would head to $2,400 or higher in 2012, based on the historical relationship between real U.S. Treasury note interest rates and gold prices. This was surprising to us, since the historical statistical relationship from 1990 through 2012 between these two price series (interest rates are the price of borrowing) has been -1%, hardly a high enough correlation on which to base a price projection for gold.

So, we are fully aware that our market and price expectations for 2014 run contrary to what may be called the consensus view of further sharp declines. It did not bother us that we stuck out and were right in 2012, or at any of the other times when we called turning points in price directions. It does not bother us now. It is not that we are contrarians. We are value investors. When prices get too high, and are not supported by good fundamentals and supportive economic and political developments, we say 'sell.' When the opposite is true, we believe it is time to buy. We believe 2014 will be the time to buy.