

## High Beta

You can't accuse the resource markets of inducing boredom in the past 4-5 months. It's surely been a bit too exciting for some which could lead to some drag going forward, particularly with the earlier stage explorers that require a measure of faith to be purchased in the first place.

Only a couple of weeks have passed since we discussed the reasons we thought the general strategists were dead wrong about commodities in general and metals in particular. We've rarely seen so much negative sentiment in a market with so many positive fundamentals. Contrarians will note, we hope, that these should be considered positive signs. The herd tends to be wrong about these things most of the time. (Note: excerpted recent editorials on the metals market can be found [here](#) and comments about the continuing role of China, India and other fast growing nations on the demand for commodities can be found [here](#).)

Notwithstanding continued demand and shrinking inventories the analysts calling the end of the bubble were legion. Apparently, the people trading most physical metals didn't get the memos. A number of metals (notably nickel and zinc, as we predicted) have seen new highs and most others are very close. Gold and silver are struggling due to gold's recent shadowing of a weaker oil price, but we expect better things from them too. Most general strategists are still very negative and self congratulatory. Apparently they follow different metals markets that display much lower prices than London, Nymex and Comex.

The ultimate source of all this negativity is open to question. We're not generally fans of conspiracy theories and we don't hold to any in this case either. One thing we will say however is that it never seems to occur to business journalists and market strategists that the people they talk to might be "talking their book". That's odd, since the same interviewers talking to; say, the editors of the *HRA* publications will assume we're talking about stuff we own. Often we do and we make no apologies. We've got paying customers and if our later comments induce someone to buy stock our readers have accumulated at lower prices so much the better. Wouldn't hedge fund managers and those on the buy side hoping for lower prices give their unit holders and clients the same benefit? We certainly hope so.

The base metal side of the market has already taken a strong upward turn, lead by producers with developers now pulling up the rear. We think explorers will follow but there is more emotion in the higher risk higher beta issues and they are being more heavily influenced by the general negativity about metals. We noted recently there time might be the only cure. A set of strong earnings reports from the base metal producers – and they will be very strong for Q3 - will help improve sentiment and so will continued stable to stronger metal prices. It should be obvious to all that the predictions of disaster were premature but we don't expect strategists to lose their prejudice against metals that easily. They

will keep spinning that tale until the evidence is overwhelming that the stance is ridiculous. The other factor that will help is the consummation of several base metal mergers which will free up some more institutional money. This will happen over the next 2-3 weeks.

And gold and silver? Gold is still following oil and oil has been no friend to gold bugs lately. The good news is that we have entered one of the strongest periods of the year for physical gold demand and will soon be in one for oil and gas as well. The market is not taking OPEC seriously these days so it will take a week or two of cold weather to settle energy markets down. It's possible we'll have a repeat of last year's weather, but not likely. That was one of the warmest winters on record and the current year's hurricane season already shows we've got a different pattern. Strengthening energy prices will help lift gold and silver but the real move will come when they separate from oil. There have been some signs this is beginning to happen in the past few sessions. Watch for gold to move above \$610 and stay there and look too for a number of consecutive days of price divergence between gold and oil. Either event should be taken as a positive sign.

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**Box 85909, Phoenix AZ , 85071**  
**[hra@publishers-mgmt.com](mailto:hra@publishers-mgmt.com) <http://www.hardrockanalyst.com>**  
**SUBSCRIPTIONS 1-800-528-0559**