

CROSSCURRENTS

(EDITORIAL FOR KITCO.COM'S "CONTRIBUTORS CORNER")

Gold and silver have been getting pushed and pulled from several directions in the past month. For the most part, these are favorable trends re-asserting themselves after a couple of months of doom and gloom. Some of that gloom is seasonal, and well over with now. It's wise to remember that most metals tend to perform very well in the period from November to February. Be cautious about buying into the burst bubble crowds arguments about commodities, especially during this period.

The best news for gold in the past couple of weeks has been its separation from the oil market. This is something we expected and predicted. We expect oil will continue to be challenged for a while yet since there still isn't sufficient evidence we will have a cold winter and inventory levels have been high. There are traders who trade baskets of commodities and who buy and sell a broad range of forward contracts simultaneously. They can still affect the gold price on days of especially large swings in the oil price but the big mover for the next few months will be physical demand for gold and the US Dollar.

The greenback is not having a good month and there is plenty of evidence things won't get better anytime soon. We've said before that we don't (yet) expect a US recession but there is so much evidence of weakness piling up that we can't see the Fed taking any sort of action for at least 2-3 meetings. There are still inflation concerns. Most of the market doesn't buy that, but with weak productivity and stronger wage gains cropping up the threat shouldn't be dismissed. We're not talking about a huge run up in inflation, but even an additional 1-1.5% will put the Fed in a tough corner.

Notwithstanding the happy talk of groups like the National Association of Realtors the housing numbers just keep getting uglier. This is good news for precious metals followers. Although we have said for a couple of years that we think gold, silver and other precious metals have entered a "true" bull market they will always be affected by the relative value of the Dollar. As long as weak housing numbers are coming out of the US the Greenback will struggle just to stay where it is. Even with the inflation concerns noted above we can't imagine the Fed risking a rate increase in this environment. Until the US economy starts looking stabilized there is no reason for traders to go long on the dollar. The trend is merely exacerbated by good news on the economic front from both Europe (especially Germany) and Japan. This news continues to strengthen the Euro and Yen and every step down for the Dollar adds more strength to Gold. In this environment, precious metals are the natural safe haven, and a preferred investment class.

The Dollar is currently breaking down technically and seeing 52 week lows. We may see renewed buying next week, but it's tough for even Dollar Bulls to be brave unless the economy generates some good news, and quickly. With the Dollar a short sellers paradise it makes no sense to be anything but long gold and other metals.

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David Coffin and Eric Coffin are the editors of the HRA Journal, HRA Dispatch and HRA Special Delivery publications focused on metals exploration, development and production stocks. They were among the first to draw attention to the current commodities super cycle and have generated one of the best track records in the business thanks to decades of experience and contacts throughout the industry that help them get the story to their readers first. Please visit their website at www.hardrockanalyst.com for more information.

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