

Caution Reigns

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The January market dip was focused on profits taking. Good results in various sectors brought selling, but not sell-offs. It is evidence that caution still reigns at the start of the new decade and isn't really saying much else, for now. It does indicate wealth preservation after the '08 Crunch is, and likely will continue to be, the focus of "Boomers" who are nearing the end of their working lives. How long they are good with clipping low interest coupons is the next question on the table.

It took a while for this sentiment to make its way into the **copper** space, but the red metal's price is now giving ground after having an extraordinary 10 month run. The 40 cent price decline has been quick, but is only an 11% drop from the peak early in January. There has been about a 3% gain to LME stockpiles since the price decline began in earnest. It is too soon to make much of this, but we still think it likely copper will move through support in the high \$2s and could test the \$2.50 area.

A price decline to that level would be near 30% and could generate headlines about both copper bubbles and the peril to the broader economy. It would be a larger % than we thought was needed to test the market, but so far we have just seen froth blown off the market top; the mid \$2s was the expected pull back when we got concerned about copper moving above \$3.

The froth built in part due to the weak greenback, and it was US\$ strengthening that finally tugged copper prices lower. That and speculators shifting away from the metal on some impressive gains. The US\$ strength was generated by further moves to tighten lending in China and fear of sovereign defaults in Euroland. Currency fluctuations will continue influencing copper's price for the next while. Has this been a bubble?

Price and supply gains in tandem do fit the basic definition. However, we wouldn't call the current LME stockpiles in the 15 days of supply range a major "oversupply" even though they represent the largest margin we have seen for about a decade. Copper's broad mine supply is typically well balanced to demand, and barring a major supply disruption it will take a while to eat through the excess stocks. But, we are talking about a short run phenomenon. "Bubble" is getting bandied about a lot lately. It should be reserved for markets in which supply excess built over a long period, and that will take a long time to repair because of systemic damage.

We have enough after-bubble markets to deal with that we don't need see more in normal market overreach. We may not be quite ready to jump into copper's deep end just now, but the enthusiasm for its market has simply

been because it is healthy.

In fact, amidst the concern about what direction the global economy is taking, a rare drama is unfolding in metal's smelting arena. Codelco and BHP have both recently negotiated lower charges from East Asian copper smelters, low enough in fact to render the smelters marginal. It has usually been the smelters that dictate charges, so this is the tail wagging the dog.

The combination of a near term smelting overbuild in China and a mid term concern by all smelters about a lack of mine supply is at play here. For those of you who glaze over when we talk about century old trends, or even millennia old trends (ok, one of us just joined the glazing), it is just this sort of shift that we are looking for.

While the supply concerns are most prominent in the copper subsector, they do apply to other metals. The bottom line impact for HRA readers is that smelting companies are seeking out direct links to deposits. This will be a growing source of funding projects, and mean more take-overs in due course. It will also mean more focus on that part of the sector from us going forward.

Gold is rebounding nicely, in line with shifting sentiment for the greenback. The down tick in this market has also been about profits taking, at least in part. That currency traders going long the Dollar was able to cap gold more quickly than it did copper is still the most interesting bit of news to come from the recent trading.

How the next while plays out is still subject to diverse opinion, as it should be during such a major shift global of economic weightings. The US\$ is still being viewed as both a safe haven by some even while others focus more on the need for the greenback to soften longer term so the US can generate a positive trade flow. Every bit of good economic stat has bond traders weighing whether it results from commerce or stimulus at work, and pondering whether the appetite for low interest T- bills can continue.

Conspiracy theories abound about "someone" holding the equity markets up. We find this ironic; the US Treasury is quite happy to see equity markets pull back and drive buyers into the Treasury market.

Debt troubles in Europe continue to generate currency swings and talk of (of course) a gold bubble. Default in Euroland would lift the USD, but bears should remember gold is a popular reserve asset lately too. The endgame could be better for bullion than most expect even in a default scenario.

We doubt a comfortable trend line will be obvious for a while yet. The one assumption gaining currency is that China's growth is central to sorting out the way ahead, and that some concern about its rapid rise in bank borrowing is warranted. Even while reminding again that this borrowing is from

domestic savings, we have to agree. So apparently do Chinese officials.

A recent musing we heard spoke about a "hard landing" in China, but even this bearish stance meant a growth rate of only 6%. Not reason to drop the wheels in our book, but still a caution since it speaks to the difficulty of what to focus on during the major shift that is underway. That shift is accelerating, and this means uncertainty that will continue to roil markets. This lack of clarity as much as anything else should keep gold on an uptrend. We are certainly looking at base metal players, but gold will remain our main focus for the time being.

O-RINGS IMPACT

Through yon window breaks... one of two *LiveCity* prefab venues springing up to entertain Winter Olympic visitors to Vancouver. Through other panes is the corridor linking the two sites, along which regular eating and drinking venues are gearing up to run 24-7. Two of the seven road arteries that service downtown, and run past stadium and arena, have already been shut down. A third will be closed this coming week. Ticket holders have been told to show up 2 hours early.

The city is asking downtown workers to stay home if they can, or at least to keep cars off of the road. Most who watch the markets would find that easy enough to do even though they tend to travel outside of the main traffic flow times for the most part at any rate. This is not, however, being pointed out to complain.

Vancouver is blessed. To the beauty of its natural setting and the calm of its denizens are added links that have helped shelter it from the worst of the economic storm that has battered many cities on its side of the dateline. The city benefits richly from the flow of global commerce. And yet Vancouver seems underwhelmed by the Olympic flow heading its way.

It seems, unfortunately, that security overrides the spirit of youthful competition in the post modern age. That does not sit well with a very open city. The month just ended is the warmest January on record, which is adding a degree of concern despite its impacting only one venue for which snow is being motored in. More chaff for the naysayers in a city that also respects individuality and the right to express opinions. The naysayers won't, however, be in charge midmonth.

After the gloom and doom of the past few years the world could use a party. We hope the XXI Winter Olympics provides a blow-out one. Once the willing have donned their party clothes we expect Vancouver to shift into event mode. We will be doing some of that ourselves.

HRA is not putting a gone for lunch sign on the door, nor will the city. But the record volumes the Venture exchange has continued to rack up could ebb some, at least during highlight events. That could make for some interesting

trading in our end of the pond. Worth keeping in mind, during the intermissions. Good luck & bon chance.

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