

GOLD & SILVER Notes and Quotes

A monthly review of published articles, reports, and research on gold and silver

Demand Off, Price Up

Global gold demand in the first quarter of the year was down 5% from the high demand seen in same period in 2010, according to the World Gold Council's Demand Trend Report.

The demand, which totaled 1,097.6 tonnes has affected by the introduction of import taxes in India and high gold prices.

Gold demand value, however, increased 16% year over year, reaching an estimated US\$59.7 billion. The average price of gold in the quarter was US\$ 1,690.57, 22% higher than the average in Q1 2011.

Demand in the quarter was affected by increased demand in China, central bank purchasing and inflows from exchange traded funds.

Source: World Gold Council

Forecasts Price Rally

Gold will average \$1,740 in 2012. That's the median estimate of 11 analysts tracked by Bloomberg since March.

Barclays cut its outlook to \$1,716 in May, while Royal Bank of Scotland lowered its forecast to \$1,725, and ABN Amro Bank's prediction dropped to \$1,550.

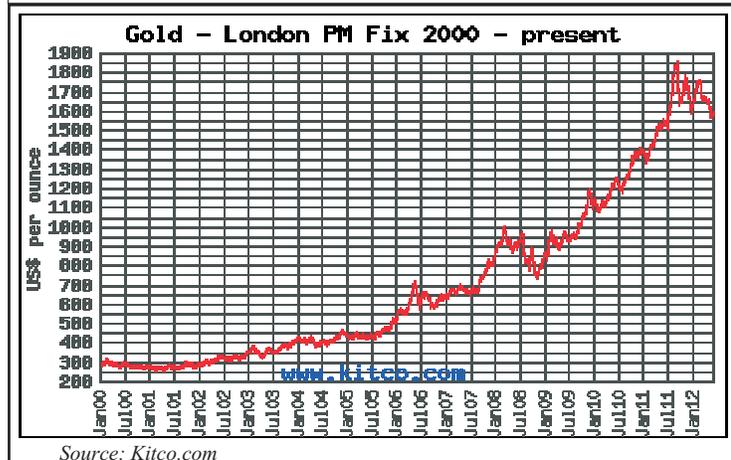
Morgan Stanley, seeing the European Central Bank pumping more money into the euro region, sees gold rebounding to \$1,825 this year and \$2,175 in 2013, while Goldman Sachs expects prices to rise to \$1,940 in 12 months.

Source: Businessweek.com

Investors Holding On.

Long-term gold investors appear to be holding on to the precious metal. The amount of gold held by ETFs has risen 2.5% since gold prices plunged from their highs of August last year.

Gold Closing Price – 2000 to Present



Source: Kitco.com

Despite gold being down 17% from its August high, bullish investors, including a number of hedge funds are betting on a reversal. Some investors cite a likelihood that the Federal Reserve will pump money into the economy in response to weakening global growth. Previous such moves by the Fed had driven investors to gold as a hedge against the falling dollar that resulted.

However, many others question whether gold will be able to add another year to its historic 11 year bull run. Several investment banks have revised their projections lower, and look for more weakness barring a resurgence of inflation.

Source: The Wall Street Journal (5/23)

NOTABLE QUOTE

Gold is the treasure, and he who possesses it does all he wishes to in this world, and succeeds in helping souls into Paradise.

Christopher Columbus (1451–1506)

Gold as Cash

The Federal Deposit Insurance Company has issued notice of proposed revisions in the measurement of risk-weighted assets of banks including one that allows banks to use gold reserves to mitigate derivative risk with a zero percent risk weighting. Essentially this counts gold to cash. Holding gold would be much better than Fannie or

Freddie bonds or other mortgage-backed securities.

The proposed rule making revises the measurement of risk-weighted assets by implementing changes brought by the Dodd-Frank Act and by incorporating the latest changes to the Basel III framework.

It's not at all clear that modern banks would welcome a return of gold as a riskless asset.

Source: WallSt.com

Silver Market in China

The Silver Institute has commissioned a study on the silver market in China. The study will focus on China's importance in the global silver market and will seek to identify emerging trends that could affect the silver price in the next few years.

Twenty years ago, China's demand for silver was only 3%. Today China accounts for 16% of the world's silver, making it the second largest consumer of precious silver metal in the world.

Observers of the China market believe that silver demand will continue to grow significantly over the rest of the decade and will become increasingly important to the global market. The report is expected to be released in October.

Source: The Silver Institute

Updates Resource Estimate For El Gallo Complex

McEwen Mining has issued an updated resource estimate for the El Gallo Complex in Sinaloa State, Mexico, where Phase 1 production is scheduled to begin in the third quarter.

The measured and indicated silver resource in the complex was increased to 53.1 million ounces, a 33% increase over the previous resource estimate reported in February, 2011. The inferred silver resource, based on a number of new veins discovered in the past two years was increased to 31 million ounces.

The measured and indicated gold resource was reported as 566,508 ounces, and the inferred gold was increased more than a 1000% to 271,081 ounces.

The updated resource estimates is the result of new drilling conducted by McEwen Mining between November 2010 and April 2012 (approximately 100,000 meters).

Source: McEwen Mining Inc.

Price Down...Demand Up

The gold price fell 6% over the past month as the euro zone crisis intensified – its worst month of May since 1982, according to Juan Carlos Artigas of the World Gold Council.

Indeed after a decade of gold price growth, the last six months have seen a sudden about turn, with gold being officially declared in a “bear market.”

But demand for gold is still high—demand grew by 16% over the past 12 months, with global sales reaching \$59.7 billion.

Gold demand globally hit 1,098 tonnes in the first three months of the year. The World Gold Council cited increased investment in the precious metal in China, as investors continue to hedge against feared inflation. Jewellery demand in China also increased to 156.6 tonnes – 30% of the global appetite. China was the largest jewellery market for the third consecutive quarter.

Source: The Telegraph

Metal vs Stock Price

While gold's price had dropped 14% by the beginning of June, since its peak last August, the share price of major

gold mining companies were down by around 20% to 40%.

There has been a widening disconnect between gold and the stocks of the companies that produce it. Gold has outperformed gold mining stocks in six of the last seven years. And, since the end of September 2000, gold has returned 471% while the S&P/TSX Global Gold Index's total return was 233%.

Looking at the four largest gold miners, higher gold prices helped their collective operating margins expand to 43% in 2011, from 12% in 2002, according to data from S&P Capital IQ. In the past decade the four companies generated an aggregate \$47.5 billion of operating cash flow. But, they reported a net capital expenditure bill of \$43.4 billion. In addition they spent some \$19.1 on net acquisitions. Over the decade the mining companies paid \$6 billion in dividends, equivalent to 13% of cash flow.

Source: The Wall Street Journal

Betting on Reversal

Gold may be down 17% from its high last August, but some bullish investors, including hedge funds, are wagering on a reversal this year. They are buying into options that will deliver profits if gold spikes over the next couple of months. Others are holding tight to exchange traded gold funds.

These investors cite a higher likelihood that the Federal Reserve will launch a new round of stimulus in response to weakening global growth.

Prior to April and May, people assumed the probability of quantitative easing was reduced because of strength of U.S. economy, which had dragged gold prices down. “The odds have gone up because of the turmoil in Europe, and weaker data in the U.S. said Stuart Quyint, senior investment manager at Brinker Capital. Brinker boosted its holdings in gold-backed ETFs eightfold.

Longer term gold investors appear to be hunkering down. The amount of gold held by ETFs has risen 2.5% since gold prices plunged from the August highs.

Source: The Wall Street Journal

Investors Adding More Silver

Investors will probably buy an additional 750 tons of silver through exchange traded products backed by the metal this year, Barclay Plc projected. This would reverse a 793-ton decline in 2011. Investors are holding a total of 17,575.7 tons of silver in ETPs, valued at about \$16.3 billion, according to data compiled by Bloomberg.

Source: Bloomberg.com

Sees Return to Quality

The market is trading on nothing but “hopes and prayers,” analysts outside the U.S. said after Wall Street posted its best one day performance in early June.

Oliver Dasbarres, director at Barclays in Singapore said the gains were unlikely to be sustained. Philip Silverman, Managing Partner, Kingsview Management, said “The only thing that investors should be looking to add is gold, which will benefit from further monetary easing.

Gold prices have declined in recent months, as investors have sold it along with other risk assets,” Silverman told CNBC Asia's Squawk Box,” gold will now gain on a flight to quality.”

Burkhard Varnholt, Chief Investment Officer and Head of Asset Management at Sarasin Bank, told CNBC he believes that gold will gain because of its status as an alternative currency. “I think gold ultimately will hit \$2,000 and there are two reasons behind that,” Varnholt said. “One is continued central bank buying from those who are looking to diversify out of euro zone dollars and because investors are concerned about fiscal recklessness.”

Source: CNBC

Weak Rupee Hurts Gold

A decline in India's currency, the rupee, has kept domestic gold prices high and Indian consumers on the sidelines. The weakness in Indian demand for gold jewelry has impacted world gold prices. India accounts for 27% of the world's demand for gold jewelry, according to the World Gold Council. The weakness of the rupee is countering the fall of the dollar price of gold, and acts as a drag on demand in the world's biggest market, said Jeffrey Rhodes, at INTL Commodities DMCC. The key to gold demand in India is the price in rupee terms, he said. Weaker demand in India leaves more supply on the global market.

Source: The Wall Street Journal (5/14)

Lexam VG Gold Exercises Option

Leam VG Gold Inc. has exercised its option to acquire a 60% ownership interest in Goldcorp's Paymaster Property in Timmins, Ontario.

Goldcorp has six months to elect the Back-In-Right to acquire an additional 30% from Lexam VG Gold.

The Lexam VG Gold exploration effort has concentrated on the portion of the property hosting the Paymaster porphyry. This exploration was successful in outlining near surface gold mineralization.

Source: Lexam VG Gold

Tanzania Production Rises

Tanzania's gold production rose to 40.4 tonnes in 2011 from 35.6 t a year earlier, after mining companies invested in higher output, according to its central bank.

The east African state, Africa's fourth largest gold producer, behind South Africa, Ghana and Mali, said exports surged 47% to \$2.226 billion from gold exports last year.

Tanzania's biggest foreign exchange earner, gold accounted for 59.1% of the country's total non-traditional exports last year.

African Barrick Gold, AngloGold Ashanti and Resolute Tanzania are the major gold producers, in Tanzania. Large scale goldmines have invested around \$3-billion in Tanzania over the past decade, according to the government

Source: Mining Weekly



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Gold Miner ETF Rebounds

The \$8.9 billion Market Vectors Gold Miners ETF (NYSEArca:GDF) was up 23% from its May 16th low, in early June.

Gold Miner ETFs have been outperforming gold prices since Mid-May. This is counter to the long established trend that had miners badly lagging bullion.

The gold miner ETF, "drew some bullish option activity as traders focus increasingly on precious metals," said OptionMonster co-founder John Najarian.

These options flows are not surprising given that GDX recently bucked the overall market trend and is now starting to breakout after a prolonged period of underperformance to spot gold prices," said Paul Weisbruch at Street One Financial.

Source: *efftrends.com*

Silver to Rally

Silver prices will rally to average \$35 -40 an ounce in the fourth quarter, the third highest on record, according to the median estimates of 11 analysts compiled by Bloomberg.

Silver, the most volatile metal tracked by Bloomberg rose twice as much as gold in the first four months of the year, as confidence had mounted that the global economy would skirt another recession.

"A greater amount of confidence in the global economy generally means higher growth and that means more silver demand," said David Jollie, an analyst at Mitsui & Co.

Source: *Businessweek.com*

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Short Takes

India Demand Down

India was the only market to experience a downturn in demand this year. High gold prices and the introduction of an import tax curbed buying appetites. Jewellery demand fell 19% and investment demand fell 46%.

Source: *The Telegraph*

Holding On

Billionaire investor George Soros raised his stake in the SPDR Gold Trust, according to a filing reflecting first-quarter holdings. Paulson & Co., the hedge fund founded by billionaire John Paulson maintained its investment in the ETP last quarter. Steven A. Cohen's SAC Capital Advisors LP cut its holdings.

Source: *Businessweek.com*

Central Bank Adds Gold

Central banks continue to diversify out of the euro and the dollar, and add gold to its reserves. Kazakhstan central bank deputy chairman Bisengaly Tadzhiyakov said the bank plans to raise its share of gold in its international reserves to 15%. "We have already signed contracts for 22 tons," he said. It was reported that the central bank buys all the gold produced in Kazakhstan and hold 98.19 tons.

Source: *fxstreet.com*

Bull/Bear Cycles

Gold mine production in 2011 reached a record 2,700 metric tons, a 20 percent rise from 2008, a year that followed a five year decline in which gold mines produced the lowest output in a 12 year period.

The plunge in production came as gold had become fully entrenched in a powerful bull. The rising price had spurred an exploration cycle, and we began to see the fruits of this cycle in 2009, and the full effect last year.

Russia Buys 14 Tonnes

Russia's central bank bought another 14 tonnes of gold bullion in May, according to data from the Interfax agency Thursday.

That takes net purchases by the official sector to almost 150 tonnes for 2012 so far, based on data compiled by the World Gold Council market development group.

Rubicon's New CEO

Rubicon Minerals Corp. shareholders were introduced to the company's new president and COO, Mike Lalonde, at the Annual General Meeting on June 27. He was introduced by CEO David Adamson, who will become Chairman of the Board, following a six month transition period, after which Mr. Lalonde will become CEO.

Rubicon is now focused on sinking the Phoenix shaft to the 610 foot level and the construction of the mill at its Phoenix Gold Project, in Red Lake, Ontario. It also reported ongoing optimization studies of the Preliminary Economic Assessment.

Mike Lalonde said: "I am excited with the opportunity and challenges presented to me and look forward to advancing the world class discovery to potential production. The Phoenix Gold Project is one of the very few projects in the world which is funded and permitted and located in a safe political jurisdiction."

Prior to joining Rubicon, Mr. Lalonde was Director of Underground Projects for Goldcorp, Inc., responsible for guiding the construction and development of underground mining projects internationally, including management of the development of the Cochenour project in Red Lake. Earlier he was General Man-

ager of Goldcorps Red Lake Gold Mine in Red Lake.

Source: Rubicon Minerals

Singapore Drops Tax on Precious Metals

The exemption of precious metals from the seven percent goods and services tax by Singapore, to go into effect October 1, is a recognition by the government that investment grade gold, silver and platinum are essentially financial assets. They are actively traded similar to financial instruments such as stocks and bonds, that are currently exempt from the tax, said Mr. Satish Bakhda, of Singapore company registration specialist Rikvin. The exemption of precious metals will facilitate the development of a refined trading cluster in Singapore. It will also ease the compliance costs for the local gold industry by removing documentary requirements to substantiate export of precious metals.

Source: PRWeb.com

About Marston Webb

Marston Webb International (MWI) has been associated with the precious metals industry, and has represented gold and silver mining companies and associations, in the international investment and financial markets, for more than 30 years.

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Companies To Watch

McEwen Mining Inc. (TSX:MUX; NYSE:MUX)

High growth, low cost, mid-tier silver and gold producer in the Americas. 49% interest in Minera Santa Cruz silver and gold mine in Argentina. Developing El Gallo complex in Mexico. Exploring promising properties in Argentina and Nevada.

www.mcewenmining.com

Lexam VG Gold, Inc. (Frankfurt:VN3A) (otcqx:LEXVF)

Developing four gold projects located in the heart of the world class Timmons gold camp.

www.lexamvvgold.com

Rubicon Minerals Corporation (NYSE.A: RBY; TSX:RMX)

Rubicon Minerals is a well funded gold exploration company, focused on its high-grade gold discovery in the Red Lake, Ontario, gold camp, which hosts Goldcorp's world class Red Lake mine.

www.rubiconminerals.com

Oro Mining Ltd. (TSX.V: OGR)

A gold and silver exploration-mining company with advanced stage projects in Mexico, headed by senior development management with historic success in the region.

www.oring.com

Quaterra Resources (NYSE Amex: QMM; TSX VENTURE: QTA)

An exploration company focused on making significant discoveries in North America. It is focused on developing a portfolio of gold, silver, copper and molybdenum assets.

www.quaterra.com

New Carolin Gold Corp. (TSX-V: LAD)

A exploration and mining company developing the Ladner Gold Project, including mining sites in the under-explored Coquihalla gold belt in Southern British Columbia.

www.newcarolingold.com

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