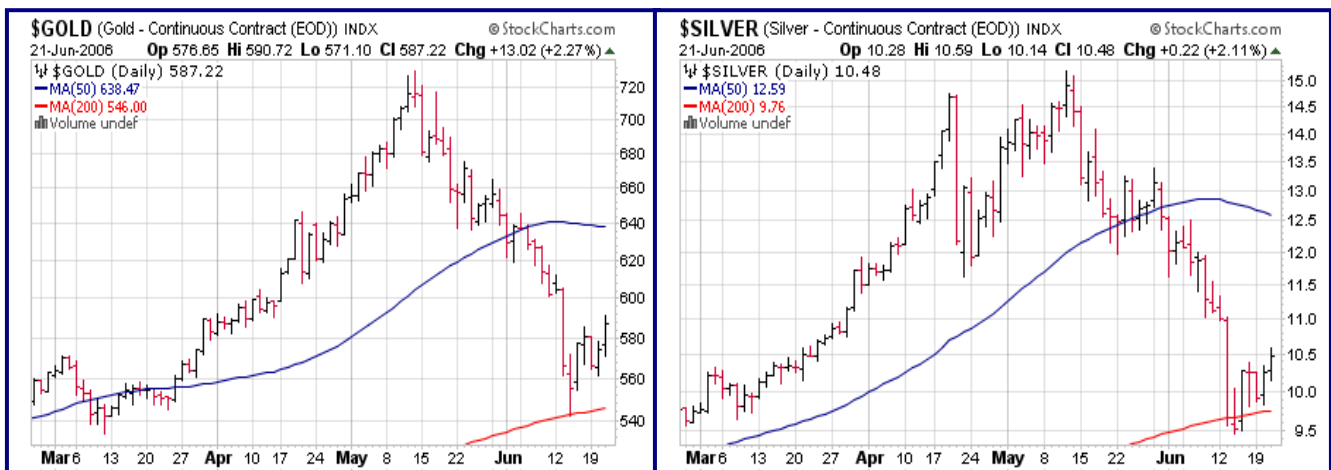


## Wholesale vs. Retail

For anyone who visits this site on a regular basis the charts below needs no introduction. We can probably dispense with the usual “gosh that was ugly!” comments too. We just went through a major pullback, but we stress again that it was a pull-back, not an overall market top, especially for gold and silver. We talked in our last comment about the effect of Ben Bernanke’s moral suasion. In the days following that, his hawkish anti-inflation rhetoric was echoed by virtually every other Fed board member, voting and non, as well as most of the heads of the world’s central banks. The central banks in several jurisdictions backed their words with rate increases and plenty of dire warnings of their own.

Not surprisingly, the effect of all the doom and gloom was more selling in all markets, with commodities hit particularly hard. Most things have now found a bottom, though we still expect a quiet summer and there is potential for the major markets to pull things lower with them. We sent out an alert to subscribers on the night of June 12<sup>th</sup> which seems to have caught the bottom nicely – we hope. That alert was prompted by a strong down spike in several markets, but especially gold and silver. The scale of the move in gold was big enough and reversed quickly enough to look like classic capitulation selling. The real question is, selling by whom?



While fear was quickly overcoming greed in all markets in the past few weeks, there were a number of markets that were particularly hard hit. Based on the deluge of “we told you so” articles in the mainstream financial press, you’d be forgiven for thinking you’d seen the end of a “bubble market” in commodities of all types. We think they are wrong about that and that they don’t understand what has driven these markets thus far. Do we think there was no speculation in the commodities markets? Of course not. There was plenty of spec money, much of it hedge funds, and much of that arrived in bulk during the past three months. Hedge funds leverage and the market of choice for cheap money to leverage with has been Japan for the last several years. When Fed governors started scaring with inflation talk the Bank of Japan was doing its bit by

warning that the era of zero interest was near an end and starting to tighten its own money supply. This led to the immediate unwinding of hedged positions world wide and the markets where the hedge funds were most heavily invested took it on the chin. As nasty as the charts above look they are stronger than those for a number of emerging market exchanges that were driven down 30-40+ percent by waves of fund selling.

The commodity markets were due for a pullback in any case but the situation was made a lot worse by panic selling and momentum trading much of it driven by the same funds doing momentum driven buying a month earlier. We think the scale of some of the price moves, with gold as poster child, speaks to hedge funds panicking. This is not surprising since many of the thousands of hedge funds out there are really just momentum junkies and indexers in drag that hope to make up with leverage what they can't accomplish with original ideas. Even given how thinly some metals markets are traded it takes some volume to generate a \$65 swing in a matter of hours. That's probably where much of it came from.

Additional proof of that was delivered earlier this week with the news that, contrary to the expectations of the "dead bubble" crowd, most gold and silver ETFs had more funds invested than a month ago. Apparently the great unwashed showed more common sense than the fund managers and were buying both gold and silver on weakness. That, we stress, is how the trading tends to go in bull markets, not in collapsed bubbles.

We still think enough technical damage was done to all but guarantee a slow market for the next quarter and we are still concerned about how smoothly the US real estate market, which IS a bubble in many areas, resolves itself. That said, it looks like a good summer for bargain hunting in a market that many not provide many more chances to buy cheap.

**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](http://www.hardrockanalyst.com) for more information.**