



### Jeffrey M. Christian Managing Director, CPM Group

In 2006, Barron's magazine reviewed Jeffrey Christian's best selling book *Commodities Rising* with the quote, "One of the brightest and independent-minded analysts." Jeffrey founded and is the Managing Director of the CPM Group, which publishes advisories, annuals on gold, silver and precious metals, and which resourceINTELLIGENCE recommends to any serious investor. Jeffrey and the CPM Group are also advisors to numerous central banks and the metals industry.

**Resource Intelligence:** Last summer we talked about stimulus packages around the world and what impact they were having on the ailing global economy. Have you got an update for us?

**Jeffrey Christian:** The stimulus program has done a lot to try to pull the US and global economies out of the recession. People are calling it the "great recession", which is a pretty good name for what we've experienced, I think.

In the United States, by the end of 2009, only about 30% of the stimulus money had been allocated. China passed their stimulus bill in February and immediately started spending it and as a result Chinese GDP is probably going to grow by about 8% on a real basis for 2009. I think that the stimulus has really done a lot to help stabilize the financial market and to keep the recession from evolving into something much more severe.

**RI:** What happens once the stimulus spending lever is removed?

**JC:** First off you have to understand there is fiscal stimulus and there is monetary stimulus. They may get removed at different times and different ways. Frankly, I'd pay a lot more attention to the monetary stimulus. I think that it's in place. I

don't think the US is going to add to its monetary stimulus. At some point we should be seeing a stronger US economy that will apply some upwards pressure on interest rates and on inflation. The Fed will probably begin selling bonds and when it does interest rates will probably rise further. Our expectation is you might see a small increase in the middle of this year, but probably the bulk of the interest rate increase won't occur until 2011.

**RI:** Is there any chance of a W-shaped recession?

**JC:** There is a real chance of a second dip into a new recession and I think the risks of that occurring are perhaps greater than any time since 1981, which is the last time we had a double dip recession. In some ways it is a very similar situation. I think that if we avoid political crises—and by political crises I mean either stalemate within the US government or a Middle Eastern crisis, perhaps precipitated by the US confrontation with Iran—I think we'll avoid a second dip in the recession.

**RI:** 2009 was a bit of a Wild West show in the markets. Is that a portend to 2010 and the decade?

**JC:** It depends radically on which commodities and which markets you are looking at. I think the stock market is going to be more volatile over the next few years than it has been. The oil market definitely will be. One of the things people don't realize, and again you see this in comments in Washington, the volatility of oil prices during the increase, up to the point where it got to 147, the volatility of oil prices actually deteriorated to really low levels between 2003 and early 2008. The oil price was rising but it was rising in a very steady pattern and people in the oil industry kept looking at this and saying what is going on here that the oil price is rising to record high prices day after day in a very non volatile fashion. Now the volatility has picked up and I think that the volatility in a number of the commodity markets, for example platinum, palladium and some of the base metals, possibly even gold and definitely

silver, will be higher than it has been in the last decade.

**RI:** What are the major commodities supply and demand factor that will be going on in 2010?

**JC:** Going through the precious metals, I think silver, platinum and palladium prices will probably rise. We may see silver as high as \$20-\$22 in the first four months of this year. After that it could come off a little but we think it's going to stay very high. I believe our average price projection for 2010 is around \$17-\$18 an ounce, so around current prices, but with the possibility of a spike higher.

Platinum and palladium are used in the auto industry. They're very illiquid markets. We now have the US-listed ETFs for platinum and palladium, which have physical backing. We think that platinum and palladium prices will be very strong throughout the year. They'll rise in the first part of the year along with silver and gold but then we think they will continue to rise in the second half of the year as the auto industry on a global basis, especially China, India and the United States continues to improve and recover.

And then gold is the most nuanced commodity. Our expectation is that gold prices will be strong for the first four months of this year. We wouldn't be surprised to see prices move to a new record. The current record is about \$1,228, which was set in early December 2009. It could go back up there, it could go to \$1,300 or even \$1,400 in a spike. But if we are correct on the economy and the global economy continues to improve over the course of 2010, and if the US economy continues to improve over the course of 2010 and investors catch on that we're not going into a double dip recession, but that we are in fact moving into an economic recovery you could actually see the gold price peaking in the first four months of this year, on a cyclical basis.

I think that the gold price towards the end of 2010 will be around \$1,100, maybe \$1,150. Basically where we are today, but I wouldn't be surprised to see record prices between now and then.

**RI:** Are ETFs a good place for an unsophisticated investor to invest in precious metals?

**JC:** I think they are. I think they offer several things. There are tax disadvantages relative to futures if you're a shorter term or more trading-oriented person. But if you are a novice to precious metals or less sophisticated, it's a very good place to go in. You buy it, the leverage is basically one to one, because you're buying an ounce of gold. Actually it's a little less—it's about 1.99 leverage because there is the cost of the ETF which we do know reduces the cost of the holding every year. But it's basically a very simple place. You don't have to worry about the contract expiring, you don't

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have to worry about rolling over, you don't have to worry about leverage, you don't have to worry about margin calls, so I think that from that perspective the ETFs are very good.

**RI:** Within this market milieu, we have literally thousands of viewers who are heavily invested in juniors, producers, developers in the resource sector. Given the scenario that you're painting, which stage companies would you say are going to give you the biggest bang right now?

**JC:** Well, obviously the juniors. The exploration and development companies are going to give you the biggest bang, but they're also the riskier places. Personally, I own some AngloGold Ashanti and I own some Goldcorp. Those are both very large, well established companies that I think are relatively well run, but I also own a number of smaller exploration and development stocks. It's a difficult place because you have to be very careful in choosing companies that have a greater probability of success relative to probability of failure or stagnation. But definitely your greatest capital gains potential comes from the juniors.

**RI:** Let's talk about South Africa. It's the worlds largest producer of platinum and they're having trouble just keeping the lights on at night. What's your call on about what's going on in South Africa?

**JC:** I mentioned earlier that we think that platinum and palladium prices will continue to rise throughout the year, almost regardless of what happens to gold and silver and what happens in the economy. There are three

sets of reasons for that. One is the automotive demand for platinum, palladium and rhodium is expected to be strong. The second one is investment demand is expected to be strong and with the advent of US-listed ETFs it makes it easier for people to invest in physical metal. The third reason that we expect platinum and palladium price to rise is that supply will be constrained. South Africa has a lot of problems but quite frankly South Africa is one of the better jurisdictions in which to mine platinum and palladium in the world right now. You've got a situation where you do have electricity problems and unfortunately the South African Government has chosen a path which is more perilous than we would have liked.

The South African industry is facing a number of problems. Electricity may well be the worst of it. But then if you step back and you say, well where else is it mined?

**RI:** What do you look for in a prospective miner when you are evaluating credit risks?

**JC:** Personally, I put the biggest onus on the management. I really want good management and by good management I mean experience, proven track record, and I'm not looking for just mining people. If you look at the gold sector some of the best gold mining companies in operation today were created and developed by non-mining people. What I really look for is a company with some level of financial sophistication. I want to see a CFO and a treasurer who really understand things. I want to see a really well developed financial plan, as well as an overall business plan. Management is the first thing I look at. The second thing I look at is the properties. Quite frankly, if you have good management they can go off and search for better properties than they have in their portfolio. If you have bad management you could have a really great property and it's probably not going to move forward.

**RI:** Do you think investors should be fully invested in markets?

**JC:** Right now I am still heavily invested in cash and cash equivalents. I think that most of my clients are still in that position too. Investors should be preparing to increase the percentage of their portfolio in equities and corporate bonds.

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**~Managing Director Jeffrey M. Christian**

