Gold & Precious Metals

Gold goes to new highs; we continue to encourage "golden" insurance - ALERT

- A German banker once told us that gold normally trades like a commodity. However, when investors lose confidence in currencies, because the pool of gold is so much smaller than the pool of currencies, demand for gold can effectively become unlimited. We believe the European version of “QE” is generating serious currency worries and led today to the breakout of the gold price above the previous intraday high at $1,226/oz.

- We see this breakout as significant: The market might have welcomed the European’s latest solution to the Greek crisis with a weaker gold price. If the gold price had fallen, bears could have pointed to a “double top” in the chart, and this could have contributed to a period of weakness for the metal.

- Gold bullion or the equities? We feel investors should have the ability to participate in both markets. When gold is performing well, the gold equities offer leverage. Today while the gold price moved up by 2.4%, the gold equity index (HUI) appreciated by 6%. However, if gold is simply moving sideways, the gold equities can lag the metal. Additionally, if gold (or any commodity) is perceived to be spiking higher, it’s quite likely that the equities will lag the commodity price. With the 1979/80 spike to $800/oz being in excess of $2,000/oz in today’s dollars, we feel we have some time before this becomes an issue.

- Of our coverage list, Overweight gold stock Kinross was up 7.7%, Goldcorp +6.3%, Newmont +4.9%, Barrick +4.5% in today’s trade.

- We continue to see silver as “high beta” gold. Silver itself was up 4.4%, and our favorite silver equity, Silver Wheaton, was 8.1% higher on the day.

- We see gold as an insurance policy for portfolios. We do not wish for very high precious metals prices because that would indicate serious trouble for other parts of the global economy. However we continue to encourage investors to have some precious metals (or equities) in their portfolios as a real hedge that is less likely to draw the negative attention that short positions did in late 2008. And shouldn’t require government backing if the writer of the hedge instrument can’t perform.

- We continue to like our Overweight gold and silver equities. Newmont (NEM), Goldcorp (GG), Kinross (KGC), Barrick (ABX) and our silver pick Silver Wheaton (SLW). Note we wrote in a little more depth on the precious sector last night in a note titled “Looking forward and wrapping models for Q1 results.”
Companies Recommended in This Report (all prices in this report as of market close on 11 May 2010)
Barrick Gold (ABX/$45.88/Overweight), Goldcorp Inc (GG/$46.20/Overweight), Kinross Gold (KGC/$18.71/Overweight),
Newmont Mining (NEM/$58.20/Overweight), Silver Wheaton (SLW/$20.76/Overweight)

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Barrick Gold (ABX) Price Chart

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.
Goldcorp Inc (GG) Price Chart

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J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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Kinross Gold (KGC) Price Chart

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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Newmont Mining (NEM) Price Chart

Date | Rating | Share Price ($) | Price Target ($) |
--- | --- | --- | --- |
30-Oct-08 | OW | 25.90 | -- |
16-Jan-09 | OW | 37.12 | 49.00 |
02-Mar-09 | N | 41.63 | 46.00 |
08-Apr-09 | N | 42.62 | 43.00 |
14-May-09 | N | 42.96 | 47.00 |
03-Jun-09 | OW | 48.52 | 55.00 |
14-Oct-09 | OW | 47.68 | 65.00 |
04-Nov-09 | OW | 46.48 | 66.00 |
18-Dec-09 | OW | 47.63 | 63.00 |
07-Apr-10 | OW | 53.27 | 64.00 |
28-Apr-10 | OW | 53.26 | 70.00 |

Silver Wheaton (SLW) Price Chart

Date | Rating | Share Price ($) | Price Target ($) |
--- | --- | --- | --- |
29-Jan-07 | OW | 10.25 | -- |
16-Jan-09 | OW | 5.53 | 9.00 |
28-Jan-09 | OW | 6.45 | 12.00 |
08-Apr-09 | OW | 7.61 | 13.00 |
14-May-09 | OW | 8.85 | 12.00 |
03-Jun-09 | OW | 10.87 | 13.00 |
14-Oct-09 | OW | 14.24 | 18.00 |
18-Dec-09 | OW | 14.63 | 20.00 |
07-Apr-10 | OW | 16.95 | 21.00 |

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*Percentage of investment banking clients in each rating category.
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