

# REVIEW &

## LAST WEEK

EDITED BY ROBIN GOLDWYN BLUMENTHAL

### MINER MEMO

## Silver-Exploration Firm Bets On Price Rise, Buys the Metal

It isn't every day a company is so convinced its product is undervalued that it purchases the stuff from somebody else while waiting for its own production to kick in—but that is precisely what Silver Standard Resources did last week.

Silver Standard, a Canadian silver producer which trades on the Nasdaq and the Toronto Stock Exchange, said it



Rising inflation, real negative interest rates, are good for precious metals.

Philip Klapwijk  
GFMS Ltd.

purchased 1.95 million troy ounces of silver on the spot market, using 20% of its \$71 million in cash and marketable securities to make the buy. "There continues to be an imbalance in silver supply and demand," Robert Quartermain, president, told *Barron's*. "We have excess cash, and we felt that silver prices in the long term would go higher."

That is also the view of Philip Klapwijk, executive chairman of GFMS, a London-based precious-metals research company that just announced results of the annual silver survey it conducted for the Silver Institute, a trade group.

"The grounds for higher prices...are very much investor- and speculation-driven," says Klapwijk. He expects to see silver—which recently fell back to about \$6.60 an ounce after spiking to a 16-year high of \$8.49 an ounce April 2—going above \$6 in the third quarter. "Rising inflation and continued negative real interest rates [make] a good environment for precious metals," he says.

However, Klapwijk also says—and the survey notes—that the conventional supply of silver was lower than fabrication demand for the 15th straight year, leaving a structural deficit of 72 million ounces last year. The average price of spot-market silver rose 21% in 2003 from 2002, while total fabrication demand shot up 16%, to 859.2 million ounces, driven by an improving global economy and the 8% surge in Chinese fabrication, which countered the 5% decline in photographic uses. Last year, China consumed a record amount of silver, which is used in electronic and other products.

Still, the Chinese, who were on the silver standard until 1935, have been selling silver since 1998, although no one knows how much stock is left. Klapwijk guesses that China, which has about half of existing government stock, has a two- to three-year supply left, if it wanted to go to zero.

### Wild Ride

Stocks zipped and zagged last week, with major-market indices taking an early dive on fears of rising interest rates and oil prices, but finishing the week almost unchanged. Although the Dow Jones Industrial Average had its first close below 10,000 this year, it ended the week down 1% from the previous week, to 10,013. The Nasdaq dropped 0.7%, to 1904, and the S&P 500 lost 0.2%, to end at 1095.

### Inflation Stirs

The consumer-price index rose 0.2% in April, below forecasts, after the 0.5% March rise. But the core index—the total CPI minus food and energy—gained 0.3%, and with the 0.4% March rise resulted in the fastest back-to-back increase since February 1995, notes Merrill Lynch's David Rosenberg. Although he maintains that core inflation is still at its lowest cyclical peak in 40 years, the data "basically cement the view" that the Fed will tighten rates by a quarter point next month.

### Chugging Along

Industrial production surged 0.8% in April, the biggest monthly rise since November and double the expected rate. Production fell 0.1% in March.

### Higher and Higher

Oil prices set a record on the New York Mercantile Exchange Friday, with the June contract settling at \$41.38 a barrel, after hitting \$41.56, the highest price in 21 years of trading. The surge comes amid continued anxiety about disruptions to oil supplies.

### Nortel Probe

The U.S. Attorney's office in Texas is conducting a criminal investigation of Nortel Networks, the company said, and it received a subpoena to hand over some financial statements and other records. The stock fell 6%, although no charges have been filed. Nortel said the probe doesn't trigger a debt default.

### DOW INDICATOR

Dow Industrials	10012.87	- 104.47
Dow World Index	182.05	- 3.89
30-Yr T-Bonds	5.50	+ 0.03

### MP Charged

The U.S. Army filed criminal charges against Military Police Cpl. Charles A. Graner in connection with prisoner abuses in Iraq. Disclosures about the scandal have jostled markets, among other things.

### Down They Go

Shares of BEA Systems crashed 22% Friday, to a 52-week low of \$8.35 a share, after it posted disappointing first-quarter sales.

### Upset in India

India's ruling party was routed by poor voters, leaving Sonia Gandhi, widow of a former prime minister, poised to take over. The Indian market sank on fears her allies would hurt economic reform.

### Big Deal

Citigroup will pay \$2.65 billion to settle claims by WorldCom investors, over alleged lack of due diligence in underwriting WorldCom bonds and analyst touting of the stock. Citigroup added \$5.25 billion to litigation reserves. Citi said it didn't participate in any fraudulent activities.

### Tobacco Reversal

Florida's Supreme Court will review a ruling by a state appellate court that threw out a \$145 billion verdict against the tobacco industry last year. The appeals court had decertified the class-action suit.

### Ballooning Deficit

The U.S. trade deficit widened to a record \$45.96 billion in March, much higher than the forecast and the \$42.12 billion revised deficit in February. The growing economy's rising imports fueled the change.

### Savagery

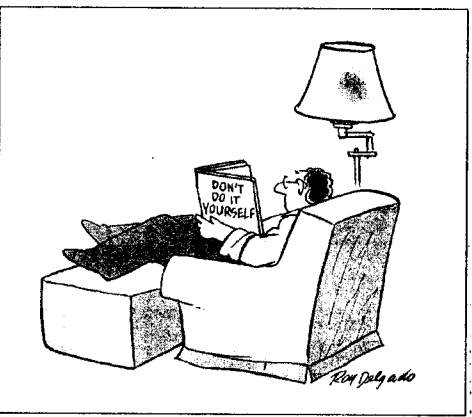
A U.S. civilian in Iraq, Nicholas Berg, was beheaded and a video of the murder shown on an Islamic Website. U.S. officials said terrorist Abu Musab al-Zarqawi was the killer.

### UBS Is Fined

The U.S. Federal Reserve fined UBS \$100 million for conducting currency transactions with countries like Iran and Libya that are subject to trade sanctions. UBS apologized.

### Drug Rehab

A unit of Pfizer agreed to plead guilty to criminal wrongdoing and pay \$430 million in fines to settle allegations it marketed anti-seizure drug Neurontin for unapproved uses.



Reynolds & Reynolds