

SILVER, PGMS WILL OUTPERFORM GOLD

## BMO forecasts gold, silver, and PGMs to do 'very well' next few years

BMO Global Commodity Strategist Bark Melek says global growth is reigniting industrial metals, as silver and PGMs are expected to outperform firm and stable gold.

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RENO, NV -

After a very strong 2009, BMO Capital Markets Global Commodity Strategist Bark Melek, forecasts gold and other precious metals are "projected to do very well over the next several years."

Melek suggested that silver, platinum and palladium will outperform gold "as they benefit from quasi-money status and their high usage in industrial applications as manufacturing recovers.

In his analysis published Wednesday, Melek anticipated "more upside than downside risks" after the substantial correction in commodity markets last month.

### GOLD IS EXCELLENT HEDGE

"Gold will likely be kept firm into 2010 and 2011 by a relatively weak greenback, record-setting U.S. fiscal deficits, rising inflation concerns and higher jewelry demand, which has been hit hard by the recession," Melek advised.

BMO Research believes "gold is an excellent hedge and will remain stable," and remains "quite comfortable with the \$1,150/oz price forecast over the next two years."

"The key drivers for the precious metals group are the U.S. dollar, the competitive currency devaluation concerns, an eventual move toward a higher inflation environment, and improvements in jewelry and industrial demand as the world pulls out of recession," Melek suggested. "The end to producer de-hedging, central bank net buying after a very long pause, and concerns that excessive U.S. and European government debt may lead to future monetization are additional key drivers for the outlook."

### SILVER, PGMS OUTPERFORM GOLD

Meanwhile, Melek said demand rebound and sluggish supply are prompting PGMs and silver to outperform.

In his analysis, Melek noted silver supplies were flat last year, platinum availability fell more than 10% and palladium supply declined 4%.

"With demand for industrial silver rebounding sharply in 2010, likely around 19%, as global industrial activity and auto production move into recovery mode, supply/demand fundamentals look set to tighten materially in 2010," he said.

"Given that platinum consumption is projected to jump about 8% in 2010 (auto catalyst consumption moving up some 9%) and palladium demand about 10% (auto catalyst consumption moving up some 20%), PGM supply/demand fundamentals are set to tighten materially as well," Melek advised.

Noting that North American auto inventories are quite low and plants previously closed are reopening, Melek said current demand for metal should be good as plants restock. "This implies strong prices for industrial precious metals, placing them among BMO's top commodity picks."

"In addition, given that silver and the PGMs behave like both precious and base metals, they should benefit from the strong gold market and the increase in industrial activity across the globe. As such they should outperform gold," Melek predicted.

He also suggested there will be "considerable upward price pressure well into 2011 due to lackluster mine site production, sharply higher power costs in South Africa and a relatively high currency in producing countries."

In his analysis, Melek noted that copper has jumped 165% from its low during the bad days of late 2008 and early 2009. Lead and nickel are up 150%, zinc has jumped 125% while iron ore is up 120%. Gold has jumped about 65%, platinum 100%, silver 105% and palladium just over 190%.

"These strong increases, which occurred in record time, demonstrate how investors' attitudes toward commodity-based investments have changed for the better once the economic cycle entered the recovery phase," he said.

## INDUSTRIAL COMMODITIES TO PERFORM VERY WELL

BMO Research expects industrial commodities "to perform very well into 2011, with most prices above the 2009 levels. The long-term outlook is projected to be quite favourable too."

"The key drivers for this relatively robust outlook are the return of double-digit growth in China, synchronized global growth in the rest of the developing world as well as in the G7, and the need for sustentative restocking spurred on by low inventories."

Copper, iron ore and met coal are BMO's top industrial commodity picks, based on strong demand in China coming from fixed asset and export growth. Melek suggested demand for copper and other metals and bulks (iron ore, metallurgical coal) will move higher "due to increased global industrial (U.S., Europe and Japan) production activity and firm capital spending."

"These factors along with low inventories held by manufacturers, wholesalers and retailers should prompt strong current consumption and restocking."

A jump in steel production across the industrialized world and China, exacerbated by tight supplies should benefit iron ore and metal coal, according to BMO.