JMSR Junior Mining Stock Report
A technical overview and forecast of the junior mining sector

June 16, 2008

Juniors still waiting for their white knight

So far in 2008, the banking sector has stolen most of the attention away from the investment world. Banks have by far garnered more than their fair share of ink as the financial press turned its collective attention to the plight of the banking system following the credit crisis of 2007 and the bail-out efforts of the Federal Reserve this year.

It was easy for the mainstream investor to lose sight of what was happening in the mining stock sector in view of the chaos within the banking world. Even now the banks seem to be obscuring the spotlight from the PM mining industry.

If recent activities and reports are any guide, however, that may be about to change…

A recent Reuters news wire article highlighted the new interest that banks are taking in the mining sector. Here's what Reuters had to say about it, in an article entitled, "Banks target mining finance amid credit crunch":

"After the collapse of the subprime sector, banks were seeking other areas regarded as safer, and mining fitted the bill, with high metals prices and buoyant long-term demand expected from China and India, even if the United States and Europe fall into recession.

"'People flee the scene of the crime first, and then they look for other places to put their money, because there's still a lot of liquidity sloshing around the system,' said Jeff Stufsky, managing director and global head of mining and debt solutions at BNP Paribas.

"'We're experiencing this ourselves, as a very active bank; there is an exceptionally strong appetite and capacity available for mining finance.'"

The article continues, "Banks, however, were only looking for top-notch projects with strong management and were avoiding high-risk areas."

"Strong projects were becoming rarer as the global commodities boom created a shortage of skilled managers and geologists, while projects encountered delays due to restrictions by governments, rising costs and environmental concerns.

"'For the first time ever, I have been getting calls from banks saying: 'Do you know of any (mining) projects to invest in?', which I have never known to happen. That just shows you that debt is available,' said Michael Lynch-Bell, partner in charge of mining and metals at accountants Ernst & Young.

This is where the new-found interest in mines by banking interests concerns us as junior mining stock traders and investors. The bankers and analysts quoted in the article emphasized that only the high quality blue-chip mines would be the major recipients of new bank loans. Project finance available to the junior sector was said to be restricted, especially for start-up firms developing new mines.

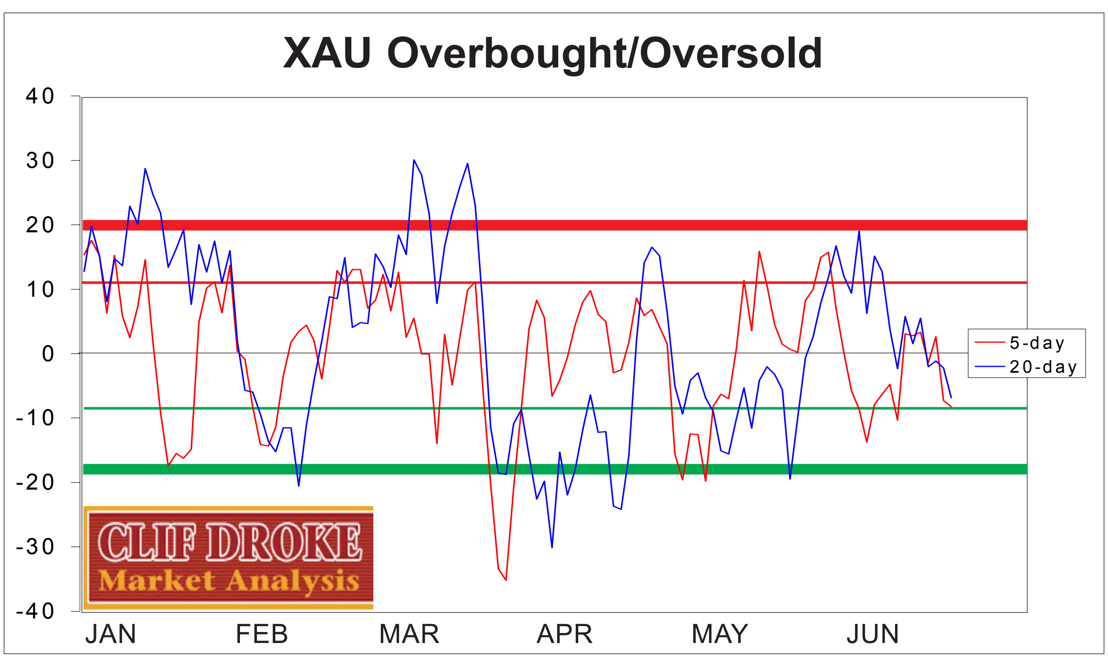
Once again, it seems, the small mining investor has been ignored by the big money folks who like to throw their financial clout behind only the most established (and in some cases, maxed out!) areas of the financial markets. For over a year junior mining stock investors have been waiting for a sign that a major recovery is on the horizon. Thus far that expectation has been disappointed as financing deals for new exploration have been few and far between.

Where then will the financing come to allow the junior mines to begin the next big upswing we've all been patiently waiting for all these months? All indications point to the acceleration of a trend that has already been underway for some time, albeit slowly: joint ventures and takeovers with other exploration companies and especially with mid-tier and major producers. As recently as this week we've seen more evidence that this trend remains alive as deals continue to be announced. The bigger deals have been scarce of late but more are coming and eventually the more established producers will be forced to take a hard look at the junior mining sector for continued growth. Junior mining investors' patience will eventually be rewarded.

Short-term Outlook

The XAU gold/silver index closed with a 1.26% gain on Friday, June 13, to end the week at 175.46. The Amex Gold Bugs Index (HUI) closed with a 0.31% gain on Friday to end at 398.32.

The XAU 5-day and 20-day price oscillators are both in an oversold position as of Friday's close. This alone doesn't guarantee that the correction is at an end and that a rally is imminent, but it does strengthen the underlying support for the XAU. With the 60-day internal momentum indicator for the gold stocks scheduled to reverse higher this week, there's also a good chance that the gold stocks will follow this indicator along its upward path in the near term. We'll look at this a little more in depth later in this report.



The latest COMEX gold futures price (August '08) closed at $873.10 on Friday, June 13. Gold has been under some selling pressure lately and is now testing a critical near-term support at the $860 level. As you can see by the trend line in the following chart, if gold breaks below $860 it would only increase the overhang in resistance that gold has to contend with in the near term and wouldn't be very favorable for a positive outlook in the second half of June. My reading of the gold stock momentum indicators suggests that the second half of June will be mostly favorable for the mining stocks, so it stands to reason that the gold price should stay above the $860 benchmark in order to ensure this positive outlook. We'll need to monitor this level in the coming week.

Once gold stabilizes and confirms support, the main overhang of supply/resistance is between the $900 and $915 levels. A close above $915 would be a sign of strength from an intermediate term standpoint, as opposed to a merely short-term signal.

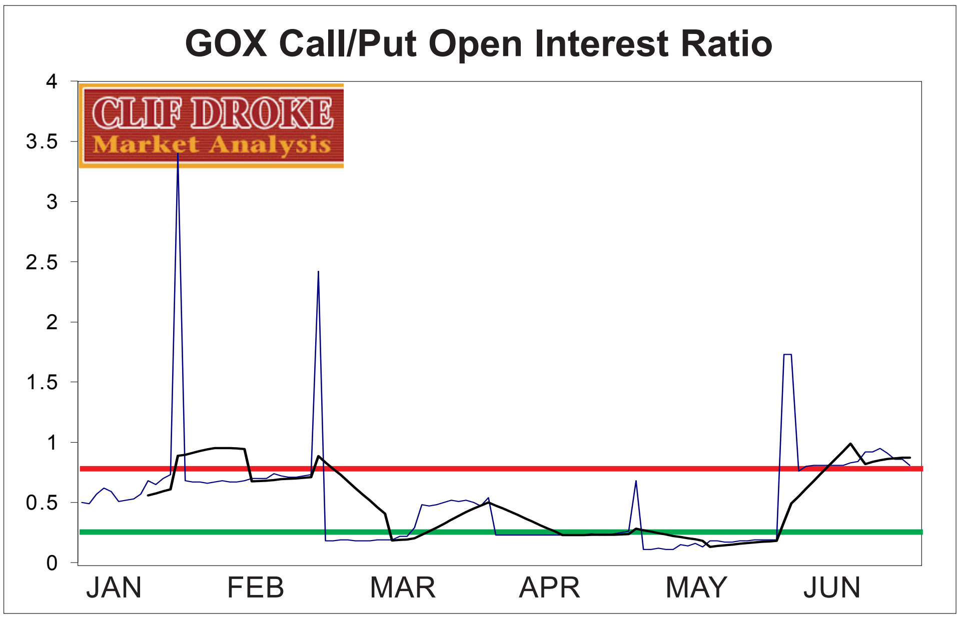
On the gold stock front, two of the three leading indicator stocks closed above their 15-day moving average on Friday. The two stocks were Freeport Copper & Gold (FCX) and Inmet Mining (IMN:TSX). Whenever two of the three leading stocks (the other being Platinum Group Metals), close above the 15-day MA it usually means the XAU index will follow suit by closing above its 15-day MA in short order. The 15-day trend line for the XAU intersects at the 180 level and the XAU closed on Friday at just above the 175 level, so the XAU in less than 5 points away from achieving this target.

What concerns me most is not the 180 level, which is an achievable upside target for the XAU in the immediate term. To me, the pivotal resistance that signifies the barrier between the XAU being in the hands of the sellers compared to the buyers is the 185 level. The 185 level is significant as a pivotal resistance since it was quite simply the last near term high the XAU made earlier this month. From a chart reading standpoint, the XAU needs to overcome 185 on a closing basis to break the resistance and show that buyers have regained control. We can be much more confident of the prospects for the gold and silver stocks as we head into summer once the XAU closes above 185.

For the Amex Gold Bugs Index (HUI) the pivotal resistance to achieve a interim buy signal is the 435 level. HUI is currently 37 points away from this target. Closing above 435 would not only put the HUI index above its latest peak but would also constitute a breakout above the important 60-day moving average.

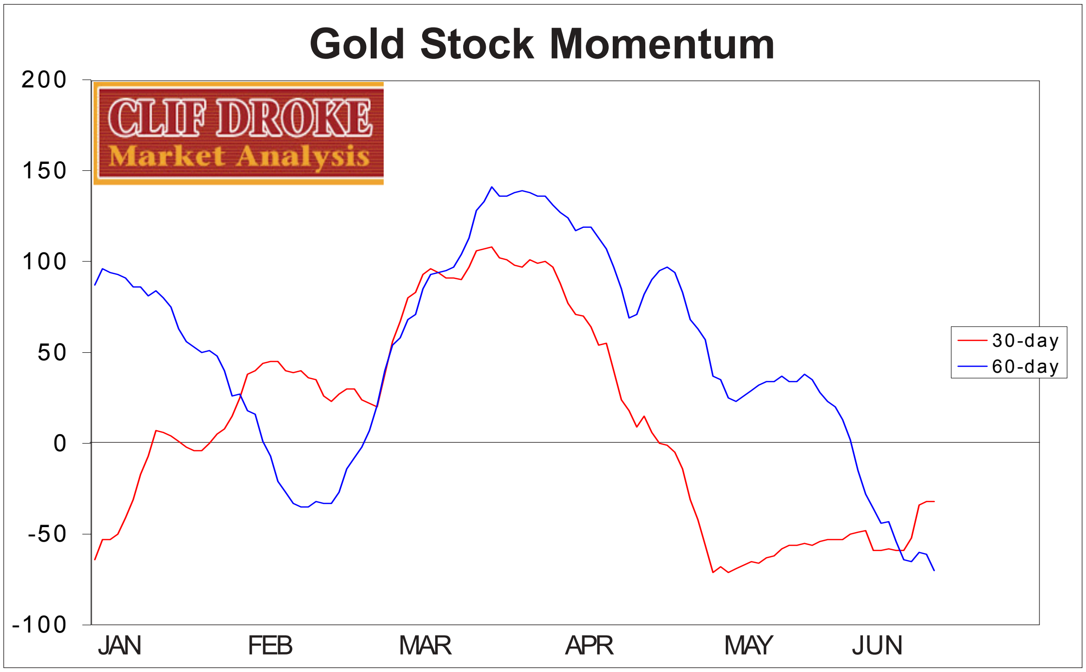
Market leaders aside, it would be prudent at this time to ask what the "smart money" gold stock traders are doing. To do that we turn to the CBOE Gold Index (GOX) put/call open interest ratio. This important ratio has been giving a bearish reading since May 19, which was just one day before the XAU peaked. The GOX ratio, which measures what the "smart money" traders are doing, showed that they were heavy put buyers beginning on May 19 as the ratio spiked from 0.19 to a whopping 1.73.

During the past week ratio has been pulling back, albeit gradually. This is the start of a bullish development if it continues. It was seen as high as 0.95 last Friday, then 0.91 on Monday before falling again to 0.86 on Tuesday. On Thursday it registered 0.81. That's still a little too high for comfort but once the ratio pulls back to a reading below 0.70 we'll have confirmation that the smart money options players have backed off on their bearish bets and are showing more enthusiasm for the gold shares.



Taking a look through several of the actively traded gold stocks, I have to admit that the chart patterns alone don't inspire very much confidence that this market is in strong hands (neither, for that matter, does the GOX ratio we discussed above). What we need to see for this market to regain its "legs" and turn around is for internal momentum to make a strong improvement. And that will occur as soon as the 60-day GS HILMO indicator turns around, presumably next week.

Concerning gold stock internal momentum, we've seen already that the dominant short-term 30-day momentum indicator (GS HILMO) has turned up and should continue to rise based on the forward rate of change. As we touched on earlier in this report, the important 60-day momentum hasn't turned up yet, however, and this has created the drag on the gold stocks that we've had to suffer through lately. Based on the rate of change projection, it will bottom at the beginning of next week and then turn up gradually, accelerating its upside in later June and into July. When this happens it should create upside pressure for the gold stocks as previously discussed. Below is what the 30-day and 60-day GS HILMO indicators look like as of the latest week.



Mining Stocks

Let's keep our small speculative position in Bayswater Uranium (BAY:TSXV, 0.38; BYSWF:OTC) as long as the TSXV symbol stays above 0.35 on a closing basis. This is essential to keeping the turn-around potential intact. The chart suggests Bayswater can turn around by later this summer in response to the turnaround in the uranium stock sector momentum as previously discussed. Earlier this week Bayswater announced that it has registered a Form 20-F with the Securities and Exchange Commission in order to provide greater access to its equity market for its shareholders and investors in the U.S. The company is also allowing its employees, officers and consultants to purchase up to 14.2 million of common shares in the company at a price of $0.45 per share for a period of five years, subject to regulatory approval. In a separate development, Bayswater announced this week it has

entered into an option/joint venture agreement with Otis Capital Corp. whereby Otis can earn up to a 75% interest in Bayswater's Kilgore Gold Project, Clark County, Idaho, and two additional gold properties, Hai and Gold Bug located in Lemhi Counties, Idaho. The Kilgore land position is covered by 150 federal lode mining claims, HAI is covered by 7 claims, and Gold Bug is covered by 9 claims.

Birch Mountain Resources (BMD, 0.44) is another of those juniors whose decline in recent months looks to have been overdone. BMD took a huge hit last August, falling from its 2007 high of just under 4.00/share to a recent low of 0.38/share. Since November '07, BMD has tested the 0.50 benchmark level three times. The first test in November was on trading volume of just under 2 million shares. The second test of the 0.50 level occurred in late December and was on volume of above 2 million shares. This showed that selling pressure hadn't quite exhausted from within BMD and that a lower low was likely to come. Sure enough, BMD penetrated below the 0.50 level support earlier this month; however, the volume of trade has significantly dropped. This indicates the selling pressure has been exhausted for the most part. We should see BMD gradually build support and strengthen from here in the coming weeks and months. High risk speculators can lightly purchase some BMD shares at current levels, stopping out if the 0.40 level is violated on an intraday basis.

Central Fund of Canada (CEF, 12.16) appears to have established support above its low from early April at the 12.00 area. We've avoided CEF up until now due to relative strength considerations but it looks like CEF should be able to feed off the 30-day momentum ascent in the near term. Speculators can nibble on CEF at these levels but be quick to stop out trades if the 12.00 level is violated on an intraday basis. Near term resistance starts at the 13.00 level and extends to about 13.50, a natural profit-taking zone. For in-and-out traders only.

Speculators may wish to lightly purchase some Quaterra Mining (QMM, 3.25) at current levels, which is now trading under its new Amex symbol. QMM has tremendous long-term potential and remains one of our most favored long-term portfolio stocks. Near term, QMM has been volatile and the going in the weeks ahead is likely to be bumpy. My interim upside target for QMM is the 4.00 resistance area, which will hopefully be achieved this summer. On short-term trading positions, we'll allow downside leeway to slightly below 3.25 on a closing basis before stopping out.

Another actively traded junior mining stock working on an interim bottoming pattern is Rubicon Minerals (RBY, 1.26). RBY has been lively of late on the announcement of its recent gold drill results at its Phoenix Gold Project. RBY is strictly a speculative play since the consensus earnings-per-share estimates aren't supportive of a long-term move yet. We finally saw RBY move to slightly above its key resistance at 1.50 as we were hoping for last month. Traders were previously instructed to take some profit when this area was reached as RBY is strictly an in-and-out proposition at this point. The chart pattern holds out the promise of a move to the 1.75-1.80 area *if* RBY can stay above the 1.25 support level in April (where the 60-day and 90-day moving averages converge in the daily chart). Stop out trades in RBY if $1.25 is broken on a closing basis.

Taseko Mines (TGB, 4.75) was previously reviewed TGB as a turnaround candidate and since then TGB has risen from its early February correction low of 3.50 to a new 52-week high of 6.40 on March 13. Raymond James recently rated Taseko a buy in estimating the company's net asset value at 9.26. Raymond James asserted that Taseko was the most inexpensive stock relative to its net asset value among actively traded copper producers. For calendar 2008, analyst consensus projects Taseko's EPS an extremely high 1.36. The company's latest quarterly results were above average. TGB still has a strong earnings and valuation backdrop and we're still on an intermediate term buy signal for TGB. We recently took some profit on TGB and the stock was last reviewed as being overbought two weeks ago; since then has pulled back below the 60-day and 90-day moving averages, which whipsawed us out of our remaining trading position. It appears to be on its way to closing above the 90-day trend line once again and when it does we'll re-enter a small buy position in TGB. The next close above 5.15 will give us the speculative buy signal. We'll retain our buy signal on TGB as long as it remains above the dominant interim 90-day moving average intersection at 5.00 on a closing basis.

In-and-out traders can buy some TNR Gold (TNR:TSXV, 0.25) in anticipation of an increase in the share price to the 0.33-0.35 resistance area. On Friday, June 13, TNR announced that it has extended the area of its copper mineralization 400 meters further to the north, on the portion of the property that TNR optioned to MIM Argentina Exploraciones S.A. Drill hole AZ-08-37A encountered 112 metres of 0.98% copper within a larger zone of 217 metres of 0.77% copper. This hole represents the largest interval of primary copper mineralization identified on the property to date. Take some profits on the next run-up to the 0.35 level and be mindful of a possibly substantial increase in resistance as the 0.40 level is approached.

Last month we looked at the positive impact that the reversal in uranium stock internal momentum was exerting on previously "oversold" uranium stocks. One of these stocks was Uranium Power Corp. (UPC:TSXV, 0.41) which has since enjoyed a strong, quick rally from early May low of 0.27 to its latest high of 0.51 in late May. Take some profit in UPC if you haven't already. Exit remaining trading position if 0.40 is violated on a closing basis.