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Capitulation?

The correction we've been concerned about for the past couple of months has dropped the TSX Venture Index, our proxy for resource stocks, 16% in a week. There was really no place to hide since the broader market wasn't faring much better. Weak US economic stats were followed by a core CPI number for April that shocked the market and had everyone hitting the sell button. The Dow is back where it was a month ago, after what looked like a longer term double-top to some technicians, and NASDAQ is again red for the year. The main cause was the 0.3% core CPI gain for a second month in a row, which has traders thinking the Fed will keep hiking rates. They may add another 25 basis points at the last meeting before the summer break, though the general weakness of other economic readings could stay their hand. Fear of rate hikes strengthened the Dollar (briefly), which hurt precious metals. And fears that the Fed would overdo things lead to selling of oil and of base metals. But Thursday felt like a capitulation day, the day of heaviest selling that flushes out weak players but also marks a bottoming, and Friday seemed to confirm that.

Copper and **Zinc** both lost about 10% of their price in a week, which is not really that much considering what the six month charts look like. There is potential for more downdrafts, but the tight copper inventory and still falling zinc inventory make both of these metals dangerous to short. They are either likely at or close to near-term bottoms. **Gold** and silver markets are easier to play both sides of and a lot of speculative money was washed out them last week. The Dollar resuming its decline should stabilize bullion. Our previously noted caveat on **silver** that a lot of spec money going long ahead of the new ETF could make for a race to the exits has proved right. The "sell on ETF news" gave silver the biggest drop for the week (16%) and it may remain soft for a few more days, but we expect a bottoming before month's end.

Where from here? We think most metals are close to if not at trading bottoms. The same is probably true for better metals producers and explorers. This sell off was not a surprise per se, and may best be thought of as an early summer sale. There could well be further down drift during the northern beach season, but last week was hard enough on good stocks that picking gainers is doable. It will take results to move stocks higher and some of the more crowded exploration sectors (uranium comes to mind) will see increasing differentiation between companies with good results and the merely mediocre. Companies that generate new finds, or have strong finds and orderly rather than parabolic charts should be the first to recover.

One company that has been a pleasant surprise is **Globestar Mining (GMI-V, *closing at $1.04*)**. GMI better than held its price during a bad week but, as importantly, it traded over 1.6 million shares which is many times its normal volume. We recommended GMI a number of times at about half the current price, but it's always been frustrating to trade due to lack of volume. Though it has 50 million shares out a large percentage in are the hands of a few players. GMI spent a long time in the $0.50-0.70 range. That began to change two weeks ago on announcement that the project loan for its Cerro de Maimon (C-M) copper-gold VMS project has been approved. The project is fully permitted and should only require about $10 million in equity on top of the arranged debt. The study completed last year estimates a six year mine life with a 1300 tonne/day sulphide circuit for copper-zinc production, and a 500 t/d oxide circuit for gold-silver production that generates an NPV of $140 million at the study's "high metal price assumptions" that are in fact about 40% below today's spot prices. The real upside for Cerro Maimon is its being in an under-explored belt within the Caribbean's highest concentration of mining infrastructure, so its well positioned to benefit from discoveries that would spread its capital repayment period (see Everton).

That piece of good news was added to with the release on Monday of drill results from the **Cumpie Hill nickel in laterite zones**. GMI released results from 31 auger holes and 25 diamond drill holes that were drilled at roughly 100 metres centers along the crest of Cumpie Hill that are excellent. 22 of the 25 diamond drill holes reported intersections of +1% nickel, with better holes including **18.3m @ 1.7% Nickel in Hole 11** and **16.8 m @ 2% nickel in Hole 12,** both of which bottomed in mineralization. The drilling tested an area of roughly 450 by 1000 metres which remains open in a couple of directions, that is within the existing mine lease for the C-M deposit. A quick eyeball average of the results shows an average thickness of about 10 metres with an average grade in the 1.5% range. This gives the Cumpie Hill area the potential for +200 million pounds (+100,000 tonnes) of nickel. What makes the results of particular interest is Cumpie Hill's location 8 km from the Falconbridge's Falcondo nickel in laterite processor (Falcondo sold C-M to GMI). It is in fact far closer to the plant than the zones Falcondo is mining, and Cumpie Hill grades are much higher than the run of mine Falcondo grade. While we are not usually big fans of companies trying to find "ore for the mine next door", this situation is unique. Permitting would be minimal as would infrastructure costs, but as importantly a combination of DR law restricting the overall size of holdings plus Falcondo's place as a swing producer has allowed GMI to pick up a large part of the prospective nickel trend.

Falconbridge is a little distracted at the moment since it is at the centre of a four company love fest. Whoever owns Falconbridge in a couple of months will have paid a lot for it and something like Cumpie Hill could help bulk up the bottom line easily. So there is a quick sales potential from that, and the price tag could equal GMI's market value, and that would be very useful to a company just moving to development with C-M. This is aided by the very real potential to view Cumpie Hill as a starting point for one of Falconbridge's rivals to establish it own DR plant, possibly by being good enough to stump up some capital for the new power plant that is to be built for the Pueblo Viejo gold development that will be going on next door. These facts are not lost on the brokers who cover GMI. They have been buying all the stock that comes available at the $1.00 level. Beating them to some of it could generate a good gain in a flattish market. A long wait for this story to mature makes it a very likely candidate to see gains taken elsewhere come into its market now that is can be seen very simply as undervalued to both its peers and its earnings potential (well done, Bill.) Our outlook is therefore that since GMI is likely to continue moving higher as stock is cleaned up at each level, it should be viewed as a summer ***buy as both a copper-gold and nickel hedge.*** ***http://www.globestarmining.com***

Regards for now – David Coffin and Eric Coffin

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