CPM Group

Market Alert

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Timing Producer Hedging

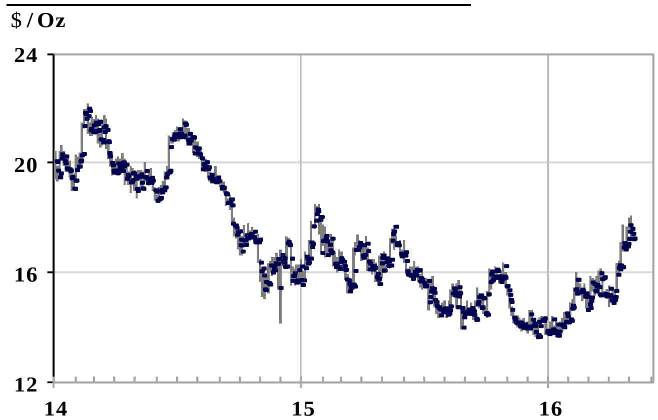
As gold and silver prices fell inexorably late last year numerous gold and silver mining companies began to reconsider their anti-hedging postures. They began to discuss effectively hedging their precious metals price exposure using CPM Group's hedging strategy that provides a floor price, keeps most of the upside for the producers, and typically have no up-front premium.

As prices rose over the past five months management at many companies have backed away from the idea of financially managing their companies' exposure to the prices of their products. That may be a mistake, and prices may soften over the next few months. Gold and silver may not fall back to their December lows, but they could decline significantly for a variety of reasons, including seasonally weaker fabrication and investment demand. Also, the velocity of the price increases in gold and silver since December was fueled by massive short covering and historically large fresh long position building; both of which are now in place and unlikely to continue. The upward price pressure from such buying and short-covering is behind the market now.

Seasonal price patterns sometimes get overruled by fundamental trends and economic conditions, but not typically. That is why they exist.

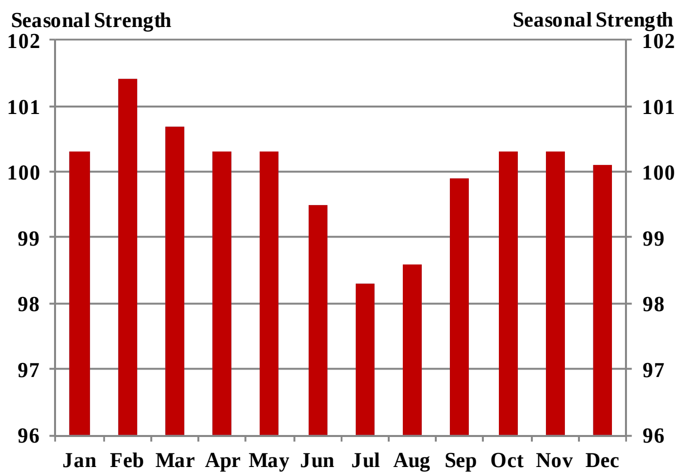
Gold Prices: 1 January 2014 to 13 May 2016

Silver Prices: 1 January 2014 to 13 May 2016



Monthly Gold Price Seasonality

Historical Average Since 1992



Note: data is adjusted to give greater weighteing to more recent data.

Monthly Silver Price Seasonality

Historical Average Since 1992