

Explosive Rise in Gold Mining Shares Has Been Coming – Now We Know Precisely When

By Adrian Douglas

The gold price performance has been quite spectacular of late. It has resisted some incredibly intense bear raids. The HUI, while having stabilized, has not pushed to new multi-decade highs on the strong gold showing. The Café indicator suggests that sentiment for the gold mining sector is at a very low ebb.



You can see from the 5 year graph of the HUI that in the last 2 years the HUI has traded in a range between 180 to 250. This is hardly anything to get excited about is it? Well, some people are getting VERY excited about the future performance of gold mining shares. These people also seem to know exactly WHEN the mining shares will explode upwards.

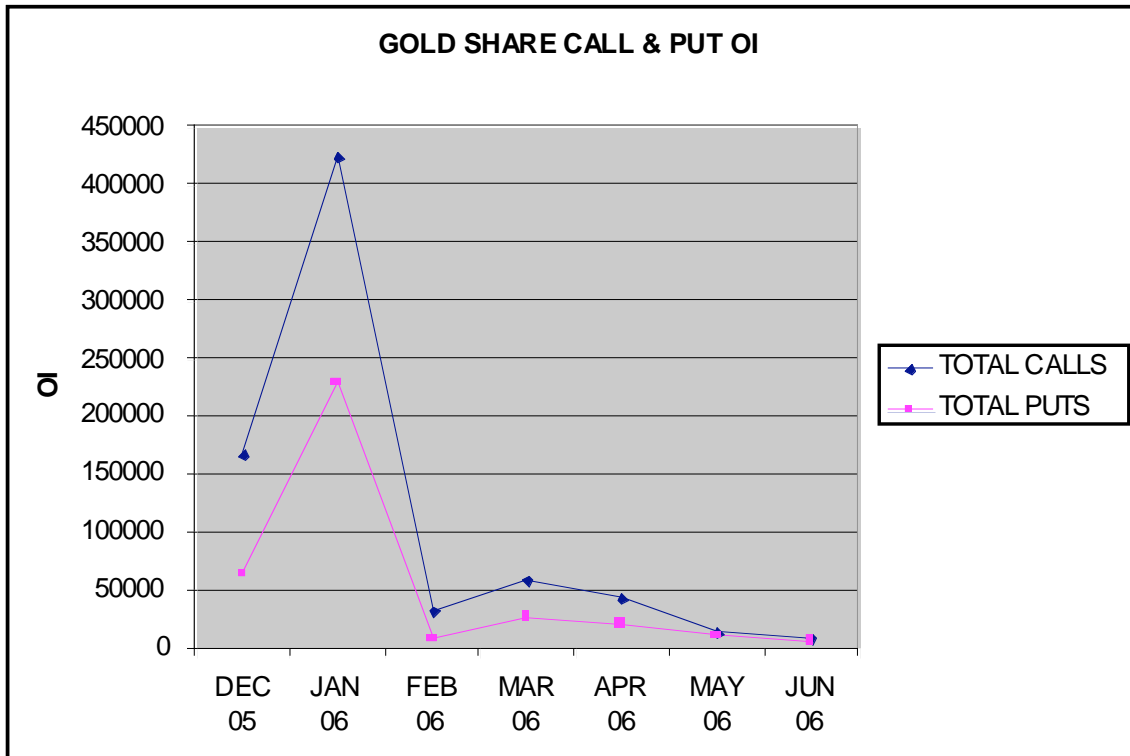
I was casually looking through the Open Interest in the options on a variety of mining shares and I was astonished by what I found. Below in tabular form you can see the Open Interest in Call options and Put options for most of the widely held mining companies. Many of these companies are components of the HUI index.

What grabbed my attention is that there is a massive open interest build in January 2006 in almost every mining stock. So this is not just a few speculators making a play on a specific company because they expect some good company specific news. There is an across the board huge speculative play. This is a most curious development because who ever is involved in this speculation has not

made a significant purchase of the underlying equities otherwise we would have seen the HUI move much higher. Someone or some entities are making a stealth move on the mining sector.

CALLS								PUTS							
	DEC 05	JAN 06	FEB 06	MAR 06	APR 06	MAY 06	JUN 06		DEC 05	JAN 06	FEB 06	MAR 06	APR 06	MAY 06	JUN 06
ABX	20075	52428			13107				4467	29432			3953		
AEM	435		11441			574			21		2893			2172	
AU	1383	16846			2535				758	10549			2673		
GFI	2817	13908			2648				2210	6566			1149		
GG	3627	56522			15274				2794	26049			11522		
GLG	702	7573				1591			373	5546				1044	
GOLD	7977			2833					1794			503			
GSS		14647	4169			589				1598	262			210	
HL	12605			8943			1974		3156			1796			1852
HMY	702	20950	7367			2901			675	27205	2586			3116	
IAG	1802			235			50		43			99			4
KGC	3165		8902			4451			210		1939			2161	
MDG	2163	6075				2719			182	3340				1334	
NG	2038			1488			272		306			342			62
NEM	82692	147291		31734			4839		36680	77304		14528			3256
PDG	23727	73583		13505			1710		9458	37213		8992			765
RGLD	1460	13448			9647				545	3738			1955		
TOTAL	167370	423271	31879	58738	43211	12825	8845		63672	228540	7680	26260	21252	10037	5939

I have totaled the Open Interest for all mining stocks by month and plotted the calls and puts in the following graph.



The huge open interest build for Jan 2006 is quite clear. There is an increase in the Put OI also but on inspection these puts have a strike price that is in or very close to the current stock price. This means that these can be exercised on any dip in price while the calls are spread across a wide range of strike prices and are clearly looking for a big move.

Let's look specifically at Newmont, the world's biggest gold miner. NEM is currently trading at \$44 and has NEVER exceeded \$60 per share. There are practically no call options for Dec 2005 above \$60. However, in Jan 2006 a staggering 34,000 contracts out of a total of 147,000 are looking for a price of NEM to exceed \$60. There are 8300 contracts for a strike price of \$80! So no one thinks NEM can rise 36% to make a new all time high in December yet 23% of the Open Call Interest in January 2006 is speculating that NEM will make a rapid rise to a new all time high, and 6% of the investors believe it will reach \$80 or more! There are no other open calls for \$80 until Jan 2007. If someone was going to make such an aggressive speculation that Newmont could reach \$80 they would normally want to have time on their side and buy options that expire way in the future. There are 11,300 call contracts for an \$80 strike price open for Jan 2007; just 3000 contracts more than for Jan 2006. Whoever has bought Jan 2006 \$80 call contracts is very sure that Newmont is rising to high levels and it will happen within the next 2 months.

A stock like Newmont is not a turbo-charged, rocket-fueled little junior miner that can rise 30% in a single day on good exploration news. Newmont rises slowly. To generate this type of movement in Newmont the gold price would have to make an extraordinary move such as approach \$600/oz or more.

In the last month NEM has gone down \$2. The current darling of the Nasdaq market, GOOGLE, has gone up \$100 to trade at \$390 per share (+33%). You would think that a lot of investors would be expecting this performance to continue, especially considering that some analysts are calling for Google to reach \$450. The total call OI in Google for Jan 2006 is 99,611 contracts. This Nasdaq darling position is dwarfed by NEM call OI of 147,241 contracts. The OI that is betting on Google going any higher at all than the price today by Jan 2006 is only 23,392 contracts. There are 112,884 call contracts that are betting NEM is going higher by Jan 2006! Who ever is making that bet is not using Technical Analysis to make that gutsy call.

Goldcorp is trading at \$20. It has NEVER traded above \$22.5 and in Dec 2005 there are practically no speculators prepared to bet that this price will be achieved. In Jan 2006, however, almost half of the OI is betting that GG will not only make a new all time high but will trade significantly above it.

The Open Call Interest in Golden Star Resources (GSS) in Jan 2006 is a staggering 14,647 contracts. It is almost ten times bigger than the put OI. Speculators are very certain that GSS will make a very big move up by January.

You can see that the OI in the widely held mining shares spikes in January and then drops rapidly. This suggests that the speculators think they know that there will be a VERY LARGE move up in the gold price and consequently in the gold miners by no later than January 20, 2006. There are even large OI Call positions in the heavily hedged miners too, such as AU, ABX and PDG.

The massive across the board speculation in most mining share Call Options all targeting January 2006 without a corresponding investment in the shares of the HUI suggests that there is a very informed speculator or group of speculators in the market. The gold mining sector is very small, the only way to quickly control a very large part of the market without the purchases making the price go through the roof is through options.

I can guarantee that these positions are not being acquired by Joe Six-Pack the Day Trader.

We have known for some time that we could expect a massive move up into Phase 2 of the gold bull market. I think we now also know when.

Adrian Douglas