



Silver Users Association

Washington Report

Volume 3, Issue 4

April/May 2006

Market Watch: Silver Price

2006 Comex Spot Settlement

Month	High	Low	Avg.
January	9.85	8.82	9.18
February	9.84	9.10	9.52
March	11.62	9.71	10.40
April	14.50	11.67	12.63
May			
June			
July			
August			
September			
October			
November			
December			
2005	9.0	6.43	7.32

In This Issue:

- Silver ETF makes market debut...at last
- Chairman Manzullo: Fed's Interest Rate Hike Wrong Prescription to Reduce Rising Energy Costs
- Chairman Manzullo: Fed's Interest Rate Hike Wrong Prescription to Reduce Rising Energy Costs
- RR&O Subcommittee Hearing on the Procurement Assistance Programs at the SBA
- Issues in Brief
- European Union To Renew Sanctions Against Precious Metals
- California Fax Ban Overturned
- Looking for the Silver Lining
- Industry Calendar

This Month's Newsletter is Sponsored by:



Association News:

- **SUA Spring Meeting to be held May 23-24, 2006 in Washington, D.C. at the Army-Navy Club. Call now for information (703) 930-7790.**
- SUA has created a new industry event calendar. Please send us the dates of your meeting so we can include it on our website.
- Press Releases: Please send us your press releases and/or company announcements, so that we can include them in SUA's monthly newsletter.
- Web Site: Visit our web site at: <http://www.silverusersassociation.org>
- Join SUA today and save 50% for new members!

Note:

- Please send us any updates to your company profile so that we can update our records and web site.
- If you are interested in sponsoring the newsletter, please e-mail Paul Miller today at pmiller@mwcapitol.com

Silver ETF makes market debut...at last

iShares Silver Trust Each opens on Amex exchange Friday after getting go-ahead from regulators; one share will be worth 10 ounces of silver.

April 28, 2006: 10:27 AM EDT

CNNMoney.com

NEW YORK (Reuters) - Trading in the first ever investment fund backed by silver launched Friday on the American Stock Exchange, according to Amex and the security's developer, Barclays Global Investors.

The iShares Silver Trust, with the trading symbol SLV (Research), launched when the market opened at 9:30 a.m. ET. and was trading at \$131.10 a share shortly after the opening bell.

Members of Barclays iShares group will ring the opening bell at the exchange to kick off the listing of the long-awaited exchange-traded fund.

The Securities and Exchange Commission on Thursday removed the last regulatory obstacle to the innovative fund, which will let investors track moves in silver bullion without the hassle and cost of storage, insurance and transport.

"Because the silver-backed ETF will be listed on a major stock exchange, shares in it are easily traded like any equity investment," said Michael DiRienzo, executive director of the Silver Institute in Washington.

"This investment vehicle will give a wide-range of investors the opportunity to diversify their portfolio with exposure to silver."

The ETF will be backed by bullion stored in vaults in allocated accounts. Each share will be worth 10 ounces of silver.

Silver prices have risen as much as 67 percent this year on expectations that the ETF would lift demand for the metal, which is used in jewelry, photography and dentistry.

After years of weak silver prices, the market has become one of the best performers in commodities in recent months.

U.S. silver futures hit a 23-year high last week at \$14.69 per ounce, but slipped more than 9 percent on Monday following profit-taking. In early trade Friday, benchmark July silver rallied 3 percent to \$12.99, up 40 cents.

Chairman Manzullo: Fed's Interest Rate Hike Wrong Prescription to Reduce Rising Energy Costs

On Wednesday, March 29, House Small Business Committee Chairman Donald Manzullo criticized the Federal Reserve Board for errantly raising interest rates to stem inflation caused primarily by high energy costs.

In an ostensible attempt to head off inflation, the Fed on Tuesday again raised interest rates on short term borrowing based partly and substantially on the high cost of energy.

The result of raising interest rates, however, is to slow economic growth and discourage consumer spending. The Fed wrongly and incredibly believes that raising the consumer interest rate on gas charged at the pump will reduce the price of petroleum and discourage manufacturers from using energy at a time they need to ramp up production to recover, Chairman Manzullo said.

Consumption of energy is not caused by cheap interest rates but by other factors such as increased world-wide demand, inability to meet need, and in some cases the possibility of gouging by energy companies and oil producing nations, he added.

"A hike in interest rates increases the price of energy, hinders the ability of small businesses to secure the capital they need to grow and create jobs, and makes U.S. companies less competitive overseas at a time of record trade deficits,"

Chairman Manzullo said. "Raising interest rates to stem the price of energy is like raising telephone taxes to lower the price of gasoline. They have nothing to do with each other."

Chairman Manzullo Urges Chinese Officials to Give U.S. Manufacturers a Level Playing Field for Trade

On Thursday, March 30, U.S. House Small Business Committee Chairman Don Manzullo (R-IL) urged a group of Chinese officials this week to start opening their country to more U.S. goods and services to narrow the trade gap and improve business relations between the two countries.

Chairman Manzullo, who has chaired the U.S.-China Interparliamentary Exchange since 1999, moderated meetings between members of the U.S. House and China's National People's Congress (NPC) during Round 8 of the Exchange in Washington, D.C. on Wednesday.

During the meetings, Chairman Manzullo told the Chinese officials that the U.S. Congress is readying several pieces of legislation to punish China if it does not stop manipulating its currency, which gives Chinese companies a 15-40 percent cost advantage over American businesses. Chairman Manzullo also said China must also crack down on piracy of American intellectual property and stop subsidizing its industries.

"The American people and Congress grow more restless day by day as the trade deficit between our two countries continues to widen at record levels and more and more jobs are outsourced to China," Chairman Manzullo said. "I strongly urge China to take action so our companies can compete on a level playing field. This will go a long way to narrow the trade deficit and improve relations between our two countries."

Chairman Manzullo also discussed ways the United States government is contributing to the trade deficit with China and efforts he is taking to promote more U.S. exports into China. Specifically, Chairman Manzullo said the Administration needs to reform its visa process to allow more Chinese business leaders to come to the United States to purchase American goods and services and to reform and update our nation's export control laws.

RR&O Subcommittee Hearing on the Procurement Assistance Programs at the SBA

On Thursday, March 30, Representative Todd Akin (R-MO) chaired a Regulatory Reform & Oversight (RR&O) Subcommittee oversight hearing on the procurement assistance programs of the SBA. Below is a copy of the opening statement of Chairman Akin:

"Most of you know that small businesses are the backbone of our economy. Most, if not all, large businesses started as small businesses. Small businesses are often times the driver of innovation in both products and services. The federal government plays an enormous role in promoting the growth of this sector as the consumer of goods and services that small businesses provide. In fact, it is the stated policy of Congress that the federal government should purchase 23 percent of their goods and services from small businesses. Furthermore, the Small Business Administration oversees procurement assistance programs for small businesses that are owned by the disadvantaged, women, veterans, or located in Historically Underutilized Business Zones.

In the past, small businesses have expressed concern that SBA and other federal agencies were not providing sufficient nor effective procurement assistance. In addition there have been concerns that large businesses have received the benefit of small business contracting goals and policies.

With a new associate deputy administrator for the Office of Government Contracting and Business Development at the SBA, this is the time for a new review of the government's small business procurement policies. This hearing will examine whether or not federal procurement assistance programs are in fact helping small businesses compete in the

fiercely competitive and complex contracting environment. Are the SBA's and other federal agencies' programs and efforts sufficient to assist small businesses in finding real procurement opportunities? Also, the subcommittee will explore innovative ideas and recommendations to improve and enhance assistance to small firms that want to do business with the federal government."

Issues in Brief

On Wednesday, March 29, the House Judiciary started to "mark-up" the Workplace Goods Job Growth and Competitiveness Act of 2005 (H.R. 3509), which was introduced by Representative Steve Chabot (R-OH), who also serves on the Small Business Committee, that would place a 12-year limit on product liability lawsuits against manufacturers of equipment used in workplaces, at construction sites, and on farms.

Two amendments were dealt with and the remaining seven pending amendments are expected to be considered sometime next week. This issue is of particularly importance to small manufacturers because one product liability lawsuit could easily bankrupt a company as it did for one firm located in the Congressional district represented by House Small Business Committee Chairman Donald Manzullo (R-IL). Rockford, Illinois used to have Mattison Technologies, a manufacturer of large grinder machines that once employed 150 workers.

In 1999, Mattison went bankrupt because it could not pay a \$7.5 million product liability verdict on a machine built over 50 years ago. In fact, on the day the company closed, Mattison Technologies received another legal notice informing them that they were being sued for a machine built in 1917.

On Wednesday, March 29, the House Budget Committee approved their version of the Fiscal Year 2007 budget resolution, which provides a blueprint for all federal spending next year, by a vote of 22 to 17. Overall, the House budget resolution provides for \$2.732 trillion in total budget authority for FY '07, which represents an increase of \$22 billion over FY '06. Total discretionary spending, of which spending on the SBA is included, would rise 3.6 percent from FY '06 levels to \$873 billion. This increase could accommodate the President's request for a 7 percent increase in defense, 3.6 percent increase in homeland security, and a near-freeze in non-security discretionary spending but the ultimate distribution will be determined in the appropriations process.

The House budget resolution also includes a "rainy day" fund of \$4.3 billion to cover future large-scale natural disasters. In the area of mandatory spending (i.e., Medicare, Medicaid), the House budget resolution accommodates \$1.486 trillion in spending, an increase of 3.8 percent over FY '06 levels. Finally, the House budget resolution includes a relatively modest \$6.8 billion in savings in mandatory spending over five years that can be accomplished and protected from a Senate filibuster through the budget reconciliation process. Last year, Congress passed a budget reconciliation package of \$39.5 billion in mandatory spending cuts spread over five years.

European Union To Renew Sanctions Against Precious Metals

The European Union is about to renew certain trade sanctions against the United States, apparently beginning in the middle of May, by imposing a 14% tariff against certain products. These sanctions were first applied two years ago, lasted several months, and were then suspended by the EU while the U.S. Congress sought to resolve the underlying dispute. I will not describe that underlying dispute, which is unrelated to our industry.

The EU had been granted authority by the World Trade Organization to retaliate against the United States by imposing added tariffs against any products exported from the United States to the EU member countries. The EU is again exercising that authority, under the impression that the Congress will not conform its law to the WTO decision. That impression is apparently correct. I participated last Thursday in a meeting of an Industry Sector Advisory Committee in

Washington, and was told that there is little or no likelihood of action by Congress that will delay or defer the new imposition of sanctions.

As before, the EU has selected certain products that have no relationship to the underlying dispute, but which are apparently based upon their political impact in certain Congressional areas, and these products include some articles of or containing gold, silver and platinum. I am reluctant to provide descriptions in this email, because the official but brief EU descriptions may encompass products of which I am unaware, and I do not want to mislead any of you as to the applicability or non-applicability of the sanctions.

The EU regulation is attached, and it contains a list of harmonized code numbers for the selected products. If you export to the EU, you should check your exports against these numbers. The EU descriptions for these numbers can be checked at http://europa.eu.int/comm/taxation_customs/dds/cgi-bin/tarchap?Lang=EN.

The sanction against these trade categories will be a 14% tariff, beginning, according to my briefing in Washington, in the middle of May. If your exports will be subjected to the tariff, you should be in contact with your counterparties in the EU and make suitable arrangements.

California Fax Ban Overturned

A California federal court on February 27 overturned that state's law restricting business faxes, sending the U.S. Chamber and the nation's small businesses a resounding victory. The U.S. District Court for the Eastern District of California ruled that the fax ban undermined existing federal law by regulating interstate fax transmissions.

"Because of this victory, businesses nationwide will be spared the unnecessary costs and bureaucracy of navigating what would have been grossly conflicting federal and state laws," says Stephen A. Bokat, executive vice president of the National Chamber Litigation Center (NCLC), the Chamber's public policy law firm. NCLC served as co-counsel in the case.

Bokat adds that the court's decision sends a message to other states. "I hope that this court decision will give pause to other states thinking about ignoring federal law and unfairly restricting legitimate business communications."

The legal challenge arose last fall after the California Legislature passed a fax ban requiring businesses to obtain prior express consent before sending commercial faxes to their customers. California's law directly conflicted with the federal Junk Fax Prevention Act, which waives the prior consent requirement in cases where the fax sender and the recipient have an established business relationship. Having to obtain prior express consent before sending a fax would have imposed significant costs on businesses, especially smaller ones, attempting to do business with California residents or entities.

Soon after the California law passed last year, NCLC filed a preliminary injunction motion asking the District Court judge in Sacramento to block the law from going into effect. The Chamber fought the case on the grounds that the California Legislature had disregarded the U.S. Constitution, which makes federal law supreme when it conflicts with state law.

"The federal law was enacted for good reason after careful consideration of the competing values at stake," explains Amar Sarwal, NCLC litigation counsel. "The California court's decision restores the appropriate balance of sensible regulation."

Looking for the Silver Lining

By [Lawrence Carrel](#) Published: May 3, 2006
SmartMoney.com

Following months of anxious waiting and speculation, **the** iShares Silver Trust debuted on the American Stock Exchange on Friday at \$129 a share. Because the exchange-traded fund trades like a stock, average investors now have a convenient way to own the precious metal without opening a futures account or hoarding bars under the mattress. Each share of the ETF, which had climbed 11% during the first three trading sessions, represents 10 ounces of silver. The fund's expense ratio is 0.5%.

As highly anticipated as the new ETF has been, does it make sense to jump into silver at a time when commodities have experienced their biggest rally in a quarter century? The price of silver has tripled over the past three years, and just two weeks ago it hit a 23-year intraday high of \$14.69 an ounce. Silver closed Tuesday at \$14.11.

"No question, it's a legitimate concern," says Michael Cuggino, president and portfolio manager at the Permanent Portfolio Family of Funds. "If I was getting in for the first time, I would wait for the market to consolidate a bit. It's trading at a multiyear high going back to the 1980s." The Permanent Portfolio Family of Funds invests in silver and other commodities in some of its funds.

When the StreetTracks Gold Trust, the first ETF to track gold, launched in November 2004, analysts warned that the price of gold might fall once the buying associated with the ETF subsided. StreetTracks Gold quickly rose to \$45.60 by Dec. 3, 2004, before retreating 9% to a tight trading range. The ETF's price didn't regain that early high for nine months.

Granted, gold has rallied mightily since September. It's a classic hedge in times of rising inflation, a serious fear as oil prices increase. Geopolitical concerns too play a part. Gold's status as a safe haven is gaining currency amid saber-rattling from Iran and fears of terrorism. In addition, because commodities don't move with equities, they offer diversification to a portfolio. Many portfolio managers now recommend investors hold between 5% and 20% of their assets in commodities. Silver usually rises along with gold, but there's been added pressure on silver prices because speculators bought ahead of the launch of the ETF, which holds the physical asset on deposit. Silver prices have soared 60% this year.

"Considering people are pulling money out of the dollar, I think silver is going higher," says James Turk, chairman of GoldMoney.com, an online marketplace for gold and silver. He expects silver to reach between \$16 and \$20 an ounce soon. "Silver is rising more rapidly than gold and will outperform over the long term. However, silver is more volatile than gold. It isn't for everyone."

Demand for precious metals is growing in Asia as economies there boom. Yet, supplies are tight. Mining companies failed to invest enough in exploration for both metals during the price slumps of the 1990s. In addition, silver has more industrial uses than gold. The jewelry, photography, dentistry, medical-devices and electronics industries all use silver.

Then there's the argument that the silver ETF itself has artificially inflated silver prices. Before the new ETF launched its creator, Barclays Global Investors, needed to buy 1.5 million ounces of silver to put on deposit, essentially taking that supply off the market. Since more ETF shares can be issued quickly to meet demand, even more silver bullion could exit the open market. After just three days of trading, the iShares Silver Trust held 32 million ounces. According to UBS, by the end of May 100 million ounces of silver could be out of circulation and on deposit because of the new ETF. CPM Group, a New York commodities research and consulting firm, puts the total demand for silver this year at about 814 million ounces.

"We're in a bubble. I think the price of silver would be \$10 or \$11 an ounce if not for the ETF," says Jeffrey Christian, managing director of CPM Group. "New investors shouldn't look at silver as a long-term investment but as a speculation, and be very careful."

Christian says both silver and gold are close to seasonal peaks, but not cyclical peaks, because the factors stimulating demand are not going away. CPM expects prices to calm down over the summer on profit-taking, then move higher from December through next April as demand regains strength.

"You could see it peak a year from now," says Christian. "If the world economy remains extremely unsettled, then gold and silver will go up as things get worse. But, if the world becomes a better place, then gold and silver will deflate. And historically things get better more often than worse."

Over time he says supply and demand will come back into balance. High prices give mining companies more incentive to boost exploration, which increases supply. At the same time, those prices hurt demand as the metals become too expensive for individual and industrial consumers.

"There's the perception that ETFs are safer than futures, but they're not," says John Conolly, vice president of Advantage Futures, a commodities broker based in Chicago. "Right now, I would be more comfortable if the market traded at \$11 to \$11.50. I think \$14 is quite inflated and that this rally is fueled by speculation. Individual investors are exposing themselves to dramatic volatility, and if they get in they need to do it for the right reasons and with their eyes open. It's a very speculative market. They need to be ready to move in a heartbeat, because it can go away in a heartbeat."

2006 Industry Calendar of Events

February

February 1-6 AGTA Tucson GemFair
Tucson Convention Center
Tucson, Arizona

March

March 5CPM Group 2006 Silver Reception
The Royal York Hotel
Toronto, Canada

March 12-14 MJSA Expo New York
Jacob Javits Convention Center
New York City

March 22 IPMI New England Chapter Dinner Meeting
Squantum Club
E. Providence, Rhode Island
Speaker: Jeffrey Christian, CPM Group Topics: China & Market Commentary

April

April 26 IPMI New England Chapter Board Meeting
Squantum Club
E. Providence, Rhode Island

May

May 23-24 Silver Users Association
Army-Navy Club
Washington, DC

May 24 IPMI New England Chapter Annual Meeting & 16th Jewelry Design Competition
Location TBA

June

June 3-7 JCK Las Vegas
Sands Expo & Convention Center
Las Vegas, Nevada

June 10-13 IPMI 30th Annual Conference
JW Marriott Resort
Las Vegas, Nevada

June 7 IPMI New England Chapter Board Meeting
Election of Officers
Squantum Club
E. Providence, Rhode Island

October

October 24-25 Silver Users Association (Date Still Pending)
Army-Navy Club
Washington, DC

November

November 9 MJSA Annual Meeting
Kirkbrae Country Club
Lincoln, Rhode Island

- If you would like to have your industry event included on the SUA website calendar, please e-mail your information to pmiller@mwcapitol.com

