



Silver Users Association

Washington Report

Volume 6, Issue 1

January, 2009

Market Watch: Silver Price

2007 Comex Spot Settlement

Month	High	Low	Avg.
January	16.95	15.17	16.05
February	19.81	16.30	17.66
March	20.69	16.81	19.16
April	18.31	16.50	17.48
May	18.24	16.121	17.01
June	17.62	16.46	17.01
July	19.18	17.25	18.07
August	17.48	12.80	14.48
September	13.46	10.46	12.22
October	12.72	8.79	10.39
November	10.46	8.80	9.78
December			
2007 Summary	15.50	11.47	13.38

This Month's Newsletter Sponsored by:



Association News:

- 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>
- **SUA Board Votes to Cut Dues by \$1,700.** Contact Paul Miller for news on the new 2009 dues structure and how you can get involved. Paul can be reached at (703) 930-7790 or at pmiller@mwcapitol.com

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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 Users Association Announces 2009 Leadership Team

At its 2008 annual meeting in Washington, DC this past November, the Silver Users Association elected its 2009 leadership team. "Let me say that I am thrilled we will keep the same officers in 2009. We've accomplished a lot in the past year and have set new goals for 2009 I know this team will achieve on behalf of our members," stated Paul Miller, executive director for the Silver Users Association.

"This organization has taken big steps in its continued development over the past couple years and to have this team continue in its leadership capacity is important. We have a bright Board of Directors, who I know will continue to work with this team to bring continued value to our members," added Miller.

President: Jon Potts, FidelityTrade Incorporated

First Vice President: Jack Gannon, Gannon & Scott

Secretary: John King, Gannon & Scott

Treasurer: Bill Hamelin, Ames Goldsmith Corporation

The Silver Users Association is a non-profit organization that was established in 1947 to represent the interests of companies that make, sell and distribute products and services in which silver is an essential component.

The Association's members employ more than 200,000 workers and process 80% of all silver used in the United States. Members include representatives from photographic, electronic, silverware, mirror and jewelry industries, producers of semi-fabricated and industrial products, and trading and service organizations responding to member needs.

President-Elect Obama's Cabinet: A Diverse Center-Left Team, Picked Quickly

Even since President Bill Clinton vowed in 1992 to appoint a Cabinet that would reflect the American public, presidents have been acutely sensitive to race, gender and regional balance when selecting their inner circle.

In choosing his Cabinet, President-elect Barack Obama successfully navigated the diversity gauntlet, judging from the generally positive comments that followed the near-daily news conferences he held during the past two weeks to introduce the nominees. If he erred in any respect, it was in over-representing one particular demographic: current and former members of Congress.

Full story can be found at: <http://www.cq.com/document/display.do?docid=2999989&sourcetype=6>

Cheney Gives Vigorous Defense of Bush Record and His Own

Vice President Richard Cheney on Sunday staunchly defended the Bush administration's record in Iraq, its authorization of electronic surveillance programs, and the use of a "robust" interrogation program as legitimate exercises of presidential power in fighting the war on terrorism.

Interviewed on "Fox News Sunday," Cheney also dismissed Vice President-elect Joseph Biden's assertion that he had dangerously expanded his own role, saying, "if he wants to diminish the office of vice president, that's obviously his call."

Biden repeated that criticism in a separate appearance on ABC's "This Week". Biden said that Cheney's "notion of a unitary executive, meaning that, in time of war, essentially all power, you know, goes to the executive, I think is dead wrong. I think it was mistaken. I think it caused this administration, in adopting that notion, to overstep its constitutional bounds, but, at a minimum, to weaken our standing in the world and weaken our security."

Cheney said he was not bothered by his low standing with the public as measured by polls, such as Fox News' Dec. 9-10 survey in which 61 percent viewed him unfavorably and 29 percent favorably.

Full story can be found at: <http://www.cq.com/document/display.do?docid=3000025&sourcetype=34>

Bush Announces Loans To GM, Chrysler

By acting Friday to send low-interest, short-term loans to General Motors Corp. and Chrysler LLC in return for concessions and restructuring, President Bush left the toughest questions about the industry's future to President-elect Barack Obama.

The White House plan will provide \$13.4 billion in loans immediately from the \$700 billion financial industry bailout program enacted in early October (PL 110-343). That is an about-face from Bush's earlier refusal to use money from the Troubled Asset Relief Program (TARP) to aid the automakers. An additional \$4 billion will be made available in February, if Congress allows Bush — or the new Obama administration, depending on when the request is made — access to the second \$350 billion tranche of financial industry bailout funding.

Bush said the plan will "give automakers three months to put in place plans to restructure into viable companies, which we believe they are capable of doing." If they cannot put together such plans by March 31, 2009, Bush said, the companies would have to pay back their loans immediately.

But determining whether those plans are adequate will fall to the Obama administration. And following the Senate's failure to clear a \$14 billion House-passed auto bailout (HR 7321) last week, it remains unclear exactly what role Congress will play in the longer-term restructuring of the auto industry. While Congress has oversight over the financial bailout funding, Democratic leaders would be hard pressed to deny Obama the second \$350 billion installment of Treasury bailout funding.

Full story can be found at: <http://www.cq.com/document/display.do?docid=2999566&sourcetype=6>

Paulson Wants OK To Release Remaining Financial Bailout Funds

Treasury Secretary Henry M. Paulson Jr. said Friday that Congress should release the second half of the \$700 billion fund allocated to stabilize the financial sector, but he and other administration officials did not say whether President Bush will formally request the money before leaving office Jan. 20.

The imminent need to tap the remaining funds from the Troubled Asset Relief Program (TARP) was triggered by Bush's decision Friday to use \$17.4 billion from the fund for emergency loans to General Motors Corp. and Chrysler LLC. Treasury has only about \$15 billion in uncommitted funds from the first half of TARP, so administration officials say the second installment of the auto loans — \$4 billion for General Motors in February — would need to come from the second \$350 billion in the TARP.

"It is clear . . . that Congress will need to release the remainder of the TARP to support financial market stability," Paulson said in a statement. "I will discuss that process with the congressional leadership and the president-elect's transition team in the near future."

He did not say whether the Bush administration will request the money or leave the decision to the Obama administration.

Under the \$700 billion financial bailout (PL 110-343) enacted in early October, if either administration requests the final \$350 billion, Congress will have 15 days to vote on a resolution of disapproval. That measure would be considered under expedited rules, but it could be vetoed. That means it would require a two-thirds majority of each chamber to deny the administration the money.

Full story can be found at: <http://www.cq.com/document/display.do?docid=2999632&sourcetype=6>

Questions About Kennedy Recall Hillary Clinton's First Race

A hot topic of debate in New York and elsewhere in the country is whether Caroline Kennedy, political neophyte and daughter of the late President John F. Kennedy, has the chops to be a U.S. senator.

But it wasn't so long ago that New Yorkers were questioning the qualifications of another female Senate candidate with powerful connections and a universally recognized last name.

Back in 2000, skeptics dismissed then-First Lady Hillary Rodham Clinton's run for retiring Sen. Daniel Patrick Moynihan's seat, calling her a "carpetbagger" and criticizing her lack of legislative experience.

By Election Day, Clinton had silenced the critics and won the seat with room to spare, but now she will be leaving the seat open to be Secretary of State in President-elect Barack Obama's new Cabinet. Kennedy is considered a favorite to replace her.

The naysayers are once again out in full force, with debate raging in the media and blogosphere over Kennedy's credentials, or lack thereof.

One point of contention: Is history repeating itself or is the current battle for New York's Senate vacancy an entirely different phenomenon than in 2000?

Full story can be found at:

<http://www.cq.com/document/display.do?dockey=/cqonline/prod/data/docs/html/news/110/news110-000003000061.html@allnews&metapub=CQ-NEWS&binderName=latest-news-binder&seqNum=2>

CFTC Pick Worked to Exempt Credit Swaps

Gary Gensler, a veteran Treasury Department official tapped this week by President-elect Barack Obama to head the Commodity Futures Trading Commission, could face tough questions at confirmation hearings about his role in enacting a law exempting credit default swaps from regulation.

That decision has been blamed by many for contributing to the current financial crisis. As Treasury under secretary for domestic finance, Gensler helped broker a deal on the Commodity Futures Modernization Act of 2000 (PL 106-554), which governs trading in energy and agriculture futures, that exempted credit default swaps from regulation.

Critics link those financial products, which are insurance-like derivatives contracts, to the destruction of the nation's largest insurer, American International Group Inc.

Gensler's advocacy for the legislation is bound to come up in his confirmation hearings before the Senate Agriculture Committee, where Chairman Tom Harkin, D-Iowa, plans to move legislation that would mandate federal oversight for all credit derivatives, particularly credit default swaps.

"Mr. Gensler, like any nominee for the CFTC, will have to assure the Agriculture Committee and the Senate that he has the outlook, approach and commitment to restore openness and integrity to our financial markets based on what we now know about the operations and transactions in these markets," a spokeswoman for Harkin said Friday.

Full story can be found at:

<http://www.cq.com/document/display.do?dockey=/cqonline/prod/data/docs/html/news/110/news110-000002999740.html@allnews&metapub=CQ-NEWS&binderName=latest-news-binder&seqNum=3>

Stimulus Price Tag Keeps Mounting, Alarming GOP and Blue Dogs

A rush by competing constituent groups continues to push up the cost of the emerging economic recovery package, prompting alarm among Republicans and some Democrats in Congress.

As negotiations continue between the transition team of President-elect Barack Obama and Democratic leaders on Capitol Hill, a senior Democratic aide said Friday that Obama aides and party leaders were now talking about a package costing between \$650 billion and \$750 billion.

Retailers and some small businesses have called for a payroll tax holiday to spur consumer spending. Democratic constituent groups have pushed for tax breaks aimed at low-income families and incentives to encourage a range of industries from alternative fuels to construction and telecommunications.

The emerging proposal is expected to incorporate funding for infrastructure, aid to the states, incentives for expansion of broadband Internet access and tax breaks aimed at spurring consumer spending. "Lots of numbers all over the place because the package is not final yet," said one top Democratic aide.

At a news conference in Chicago Friday, Obama declined to put a price tag on his own vision for the economic recovery package. "I'm not going to give you a number because we're still making these evaluations," he said. But he made clear he would push for a big package. "We're going to have to be bold when it comes to our economic recovery plan," he said.

Full story can be found at:

<http://www.cq.com/document/display.do?dockey=/cqonline/prod/data/docs/html/news/110/news110-000002999699.html@allnews&metapub=CQ-NEWS&binderName=latest-news-binder&seqNum=7>

Obama Names Top Financial Regulators

President-elect Barack Obama on Thursday chose veteran regulator Mary Schapiro to lead the Securities and Exchange Commission as he promised a broad overhaul of financial oversight.

"We are going to have to greatly strengthen our regulatory apparatus and update it from what worked for a 20th century financial system so that it works in a 21st century financial system," Obama said.

Schapiro, the chief executive of Financial Industry Regulatory Authority, the largest non-governmental regulator for U.S. securities firms, is now slated to take over an agency that has been faced with the glare of an unfriendly spotlight over the past week following the arrest of an investment manager that defrauded clients of an estimated \$50 billion.

"The alleged scandal at Madoff Investment Securities has reminded us yet again of how badly reform is needed when it comes to the rules and regulations that govern our markets," Obama said at a news conference in Chicago.

Bernard L. Madoff, the 70-year-old hedge fund manager who served as an SEC advisor, was arrested Dec. 11 for allegedly running one of the most extensive — and expensive — Ponzi schemes in American history.

The SEC has come under fire for ignoring numerous warnings about Madoff's dealings. Current SEC Chairman Christopher Cox directed a full internal review on the agency and said Tuesday that he was "gravely concerned by the apparent multiple failures over at least a decade to thoroughly investigate these allegations or at any point to seek formal authority to pursue them."

Full story can be found at:

<http://www.cq.com/document/display.do?dockey=/cqonline/prod/data/docs/html/news/110/news110-000002999102.html@allnews&metapub=CQ-NEWS&binderName=latest-news-binder&seqNum=17>

Former Dallas Mayor Obama's Choice for Trade Representative

Former Dallas mayor Ron Kirk, who emerged Thursday as President-elect Barack Obama's choice for chief trade negotiator, is something of an unknown quantity when it comes to trade policy.

A longtime aide to former senator and Treasury Secretary Lloyd Bentsen, D-Texas, Kirk ran unsuccessfully for the U.S. Senate in 2002 against Republican John Cornyn, and would bring substantial public policy, negotiating and lobbying experience to the job of U.S. trade representative. But he has not been a major presence on the trade scene.

With deep roots in Texas, Kirk — a pro-business Democrat like his mentor Bentsen — may bring a special perspective to dealing with U.S.-Mexican trade relations. During the presidential campaign, Obama worried free-traders by calling for the re-negotiation of the North American Free Trade Agreement.

Despite raising concerns about pending trade agreements with Colombia and South Korea and tough talk on China during the campaign, Obama has thus far selected Cabinet members who have generally favored pro-trade policies, including his pick for Commerce secretary, New Mexico Gov. Bill Richardson.

Full story can be found at:

<http://www.cq.com/document/display.do?dockey=/cqonline/prod/data/docs/html/news/110/news110-000002999226.html@allnews&metapub=CQ-NEWS&binderName=latest-news-binder&seqNum=12>

The metal's sustainability remains under question

Economic indicators and the tempo of industrial demand suggest that silver consumption will be severely curtailed in 2009. The ugly reality of a near global recession implies silver will struggle to rise above these acute pressures. For 2009 – while the metal will take strength from gold, its industrial aspects should over-ride its precious attributes.

Silver is regularly on the receiving end of purely speculative price journeys. In 2008, the lack of supportive fundamental attributes became irrelevant and to many market participants, the white metal looked on target to go all the way to \$25. 2009 will throw up an interesting journey for the white metal. Industrial metals face an uphill struggle, however will the investment faucet of silver prevent it from breaking the 2008 lows? The expectation is that silver will outperform gold on occasion throughout the year, however the longevity of this relationship is seriously questioned.

Demand Highlights

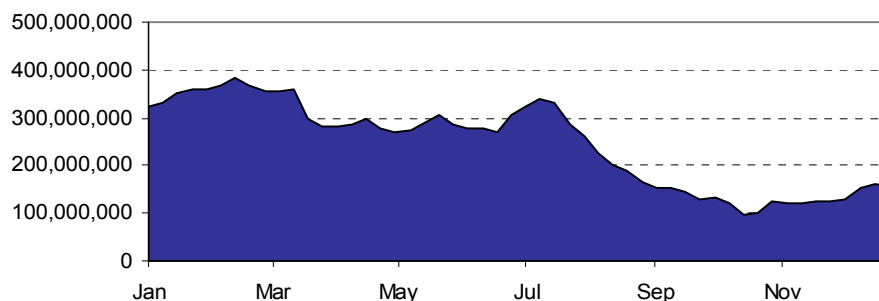
Investment Demand

The graph of open interest positions below, shows how investors and speculators effectively chopped their long exposure to silver throughout 2008. Forced deleveraging, disinvestment and a nasty change in sentiment to industrial metals left investors with very little option but to limit their participation in the market.

While the market anticipated significant ETF redemptions in the face of the colossal price drop that besieged the white metal over the months of H2—such an obvious reaction did not materialise. Indeed over the course of the year, global ETF holding rose by 72.8 million ounces or 38.5%. It certainly appears that these investors have not yet arrived at their pain threshold, despite a price drop to \$8.42 in October and significant paper losses.

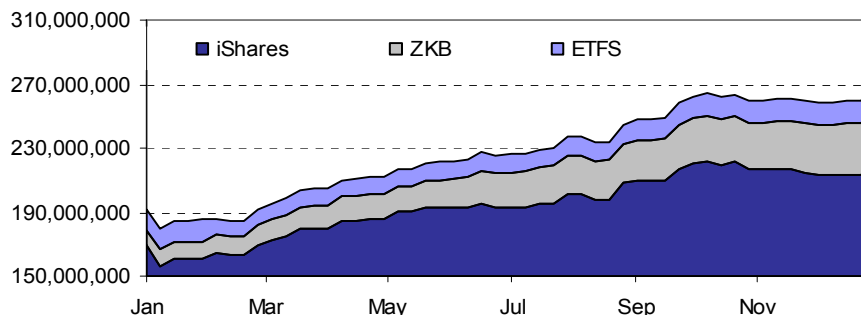
Chart 5: 2008 Net Long Global Silver Exchange Position

Comex Silver Ounces 2008



2009 will be a pivotal year for investor and hedge fund participation in the commodities market, and particular for those metals that are more fundamentally exposed to declining economic growth. It is difficult to foresee investors returning with the same vigour to the silver market as previous years have thrown up, and without this involvement, silver's price range over the coming year could be more subdued than we have become accustomed to in the past.

Silver Ounces 2008



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Chart 6: Depth of the Silver ETF Ounces 2008

The rush to own physical silver in India was very noticeable in the latter months of 2008, so much so that it contributed in great part to forward rates moving into backwardation. However coming at a time of rampant weakness across the precious sector, a silver rally based on tighter market conditions never materialised. This demand for silver, which was investment rather than jewellery related, is unlikely to be quite so strong in 2009. We estimate that the bulk of this appetite has been satisfied and will fail to become a permanent feature going forward.

Back in May when we issued our *Interim 2008 Forecasts* and before the true carnage hit world markets, we stated that 'if we are concerned about long term sustainability and potential, then we should place our faith in the yellow metal.' In light of how market conditions treated investors over the course of H2, this trading strategy could not have been more apt. Silver has provided the market with a number sharp price declines, and such nose-dives act as an important reminder to our market that silver is essentially an industrial based asset – unlike gold. Therefore when investment led demand lulls, silver can become extremely vulnerable to further downside corrections. This sentiment should guide investors over the course of 2009.

Industrial Demand

The industrial climate of 2008 has set the scene for what 2009 demand will bring to the market. Faced with declining economic growth across many economies, it is very difficult to be optimistic for any industrial metal over the coming months, and silver is no exception. As the pressures of transacting business in today's bleak world intensifies, at least during H1, silver consumption from the industrial sector is set to plummet severely. It is very difficult to pick an exact contraction, but a number of 10% or more would not be too alarming. For consumers who opt to lease the metal rather than purchase outright, the cost of borrowing will be dependant on the tightness across credit markets. However, with the expectation that metal liquidity will not be an issue, lease rates are likely to stay low and retrace back to 1% in the one month period if credit conditions ease.

Supply Highlights

While over a long term horizon silver supply is expected to incline sharply, another factor has emerged into the mix which should impact 2009 metal flow. With producers across the base metals complex responding in droves to the very obvious and intense price plummet across their sector, this activity could weigh considerably on silver mine supply in 2009. Silver production, in large measure a by-product of base metals, could decline over the year ahead.

Nonetheless, the overall supply / demand balance points to an elevated surplus this year as the demand components of the silver market contract in line with market conditions. Of course, surplus metal in the market typically lends itself to pressurised prices. However, the demand rush from the investor community will be a key deciding factor in this make-up and their ability to act as the sponge factor in the market will be paramount if the metal aspires to higher prices.

Silver – the way forward:

For 2009 – while silver will take strength from gold, the industrial aspect of this metal will over-ride its precious attributes. Strong safe haven demand from India was particularly furious in Q4 but this will likely be a short term event. Silver at various times will outperform gold, however the metal tends to move in extreme manners and as such steep moves to the downside are always a possibility. Strong demand will likely emerge at \$8, while producers may consider hedging possibilities around \$14. For the year ahead, a range of \$7.10 - \$14.05 is quite possible, with an average price of \$10.26.