



Silver Users Association

Washington Report

Volume 4, Issue 3

March 19, 2007

Market Watch: Silver Price

2007 Comex Spot Settlement

Month	High	Low	Avg.
January	13.51	12.13	12.83
February	14.69	13.33	13.95
March			
April			
May			
June			
July			
August			
September			
October			
November			
December			
2006	14.05	9.88	11.66

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This Month's Newsletter Sponsored by:



Association News:

- SUA is pleased to announce that it has partnered with the International Precious Metals Institute at its June 9-12 conference in Miami. The SUA will be hosting a Silver Section at the conference. To learn more, please call Paul Miller at (703) 930-7790 or e-mail him at pmiller@mwcapitol.com
- 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 2007 Dues by \$1,700.** Contact Paul Miller for news on the new 2007 dues structure and how you can get involved. Paul can be reached at (703) 930-7790 or at pmiller@mwcapitol.com

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

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Gannon and Scott complete line of precious metals and speciality products, enables them to bring full-service refining to a new level. Having precious metals refining facilities in Phoenix, AZ and Cranston, RI, they are able to provide geographic advantages for customer service on both coasts. Both facilities are in full compliance with the regulations issued by the EPA, Department of Transportation and local environmental management offices.

John Gannon has been a long time member of the Silver Users Association and valued member of its leadership team. Gannon & Scott has routinely sponsored SUA events and has been very active in directing the organization's focus. We are proud to have them as members and thank John and his team for their valued support of the Silver Users Association.

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In The News:

Silver Users Association Welcomes New Members

ScotiaMocatta, part of Scotia Capital and a division of The Bank of Nova Scotia, is a global leader in precious metals trading and finance, with roots dating back to 1671. We are the Chairman of the London Silver Fixing and are a leading market-maker with operations worldwide.

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The METALOR Technologies Group, based in Neuchatel in Switzerland with subsidiaries in 15 countries over the world, is active in the field of precious metals processing and advanced materials. More about Precious metals at METALOR.

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House Votes to 'Disapprove' U.S. Troop Buildup in Iraq

The House officially went on record Friday against President Bush's latest buildup of U.S. military forces in Iraq, as the Senate remained deadlocked over when and how to proceed with a similar resolution.

After more than three days of debate, a non-binding House measure (H Con Res 63) criticizing the troop surge was adopted 246-182. It drew support from all but two Democrats and from 17 Republicans.

The resolution "disapproves of the decision of President George W. Bush announced on January 10, 2007, to deploy more than 20,000 additional United States combat troops to Iraq." But it also promises that "Congress and the American people will continue to support and protect" U.S. troops serving in the conflict.

House Speaker Nancy Pelosi (D-CA), declared, "The passage of this legislation will signal a change in direction in Iraq that will end the fighting and bring our troops home." But Minority Leader John Boehner (R-OH), called it a "first step down a treacherous path — a path that, if followed, will endanger Americans for generations to come."

Senate Stalled

The situation in the Senate was much more complicated. Party leaders were locked in a battle of wills over whether the Senate would be allowed to vote not only on a measure identical to the House resolution but also on an alternative by Judd Gregg (R-NH), that would promise not to curtail funding for deployed forces. Republicans want a vote on the Gregg measure but Democrats do not.

Republicans on Thursday balked at a resolution that would enable the Senate to depart for a weeklong Presidents Day recess. Majority Leader Harry Reid (D-NV), promptly scheduled a cloture vote Saturday on a motion to proceed to the Senate version (S. 574) of the House Iraq resolution. Most Republicans were expected to vote against limiting debate, as they did the last time Reid tried to force consideration of an anti-surge measure only.

Reid's decision to schedule a Saturday vote caught some of his colleagues by surprise. At least two, Democrats Patty Murray (D-WA) and Barbara Boxer (D-CA), had already left Washington and had to fly back across the country to participate in the roll call. "Tomorrow will be the test," said Majority Whip Richard Durbin (D-IL), offering no apologies for keeping the Senate in session on a holiday weekend. "Our soldiers are going to war on Saturday to do their job."

Durbin also warned that the anti-deployment resolution would not simply disappear if Republicans continue to prevent a direct vote on it. He said similar language would be offered as an amendment to virtually every bill moving in the Senate.

In a reminder of the public's opposition to the buildup in Iraq, an antiwar group, Americans Against Escalation in Iraq, planned visits Friday to the offices of several Republican senators to pressure them to vote in favor of cloture on the Iraq measure.

Final House Debate

The House debate drew to a close with passionate remarks from members of both parties. Although the resolution did not espouse a withdrawal of U.S. forces, Republicans called it a sign of U.S. retreat from the fight. That, some argued, would only embolden U.S. adversaries and demoralize U.S. military personnel. "I urge my colleagues to stand with the marines, soldiers, sailors and airmen and vote down this resolution," said Boehner, to a hearty round of applause from Republicans.

Sam Johnson (R-TX), a former POW in Vietnam, compared the resolution to the antiwar protests of the 1960s, which he said had hurt troop morale and strengthened the enemy. "To our troops we must always remain faithful," he said. He received a standing ovation from both sides of the aisle that lasted until he rose from his chair in acknowledgement. Democrats were equally ardent in arguing that a buildup of the U.S. military presence in Iraq is fruitless in the middle of a civil war there.

"We're no longer willing to suspend judgment and trust 'the decider,'" said Alan Mollohan (D-WV), using a term Bush has employed to describe himself. Ike Skelton (D-MO), the Armed Services chairman and a cosponsor of the resolution, said the state of U.S. military readiness is declining as a result of the nearly four-year-old Iraq War. "It worries me deeply," he said. Skelton had the last word in the marathon debate, saying: "We must send the White House a message that it cannot ignore."

Senate Defeats Iraq Withdrawal Resolution, Adopts Troop Support Measures

Senate Republicans defeated a Democratic resolution calling for redeployment and eventual withdrawal of U.S. troops from Iraq, language that could soon resurface during debate on the war supplemental funding bill. By a vote of 48-50, senators on Thursday voted down a binding resolution SJ Res 9, sponsored by Majority Leader Harry Reid (D-NV), that would have begun scaling back the Iraq mission within four months of its adoption. It also would have set a goal — but not a requirement — that combat troops be pulled out by March 31, 2008. Under terms of the debate, 60 votes were required for adoption.

The Senate instead voted overwhelmingly in favor of two non-binding, more benign resolutions that essentially said the Senate supports U.S. troops. Democrats and Republicans accused each other of being on a dangerous path that could end in ruin. "Giving notice [of withdrawal] to the other side is a guarantee of defeat in Iraq and a guarantee that we'll have these problems back in the homeland," said Minority Leader Mitch McConnell (R-KY). "It is exactly the wrong way to go."

Democrats said the troops' mission should be limited to counterterrorism, training Iraqi forces and protecting U.S. assets. "The idea of policing a civil war is something we don't need to be doing anymore," said Chuck Schumer (D-NY). "Republican senators are caught. . . . They're caught between a president who sticks to these policies and a constituency that knows this policy is wrong."

Democrats knew Reid's controversial resolution had little chance of succeeding. The vote was an attempt to put pressure on Republicans to support limits on the Iraq War, or face the prospect that a "no" vote could come back to haunt them during the 2008 elections. It was not the first time, and it will not be the last, Democrats said.

Building Pressure

Anti-war voters, who helped give Democrats a congressional majority last November, are eager to see results. But the razor-thin Democratic margin in the Senate makes it difficult for them to push aggressive measures that can overcome a filibuster. The carefully constructed Reid resolution was the result of a compromise between caucus liberals who wanted to set a withdrawal date and conservatives who wanted it to be a goal so it would give the president flexibility.

Meanwhile, Republicans are torn between supporting President Bush and voter dissatisfaction with the war, which will make them vulnerable to Democratic pressure. Democrats have few options now but to squeeze Republicans until their support for the war erodes or until voters topple more GOP members next year. Gordon H. Smith of Oregon, who is near the top of Democrats' list of senators to defeat in 2008, was the only Republican to back the Democratic resolution.

On the other hand, one red-state Democrat up for re-election in 2008, Mark Pryor of Arkansas, voted against it. Nebraska Democrat Ben Nelson, up for re-election in 2012, joined him. Republicans had blocked the Iraq debate before, angry that their alternative proposals would not be considered under the terms they sought. But after Democrats painted them as obstructionists, Republicans decided they could argue successfully that Democrats were endangering national security and endorsing retreat.

This time, Democrats allowed a vote on the one resolution Republicans wanted: a non-binding measure S. Con. Res. 20 sponsored by New Hampshire Republican Judd Gregg, stating the Senate's commitment to not taking away funding for troops. It represented GOP efforts to put pressure on Democrats not to use appropriations power to limit or end the war, a path favored by some party liberals. Despite Democratic leaders' attempts to dissuade their caucus from voting for the Gregg resolution, it was adopted, 82-16.

Prior to that vote, the Senate adopted, 96-2, a Democratic resolution touted as an improvement to Gregg's measure. Sponsored by Patty Murray of Washington, it would express support for funding troops in the field and for medical care after they return from combat — a reference to the furor over the care some veterans received at Walter Reed Army Medical Center.

The Gregg and Murray resolutions also differ in their introductory sections. The Gregg resolution states that, under the Constitution, the president has "the authority to deploy troops and direct military campaigns during wartime." The Murray resolution states that the Constitution gives Congress and the president "shared responsibilities for decisions on the use of the armed forces of the United States, including their mission." Murray said the Gregg resolution would turn Congress into "an ATM for the president's war plan." McConnell dismissed the Murray resolution as an attempt to give Democrats political cover to vote against the Gregg resolution.

Spending Bill Could Be Next Front

The agreement on the Gregg resolution early Thursday opened the door to the first full debate on Iraq in the Democratic-controlled Senate. McConnell said Democrats could have gotten the same agreement last month during negotiations over a resolution S. Con. Res. 7, sponsored by John W. Warner (R-VA), that criticized President Bush's Iraq troop buildup. Democrats at the time called the Gregg resolution a "distraction" and refused to allow its consideration under the 60-vote threshold Republicans sought for the Gregg and Warner measures. That prompted Republicans to block the overall debate.

McConnell said Reid told him the redeployment and withdrawal language would return as part of the fiscal 2007 supplemental appropriations measure, which Senate appropriators will take up March 22. The House Appropriations Committee approved a supplemental spending plan Thursday that includes a timetable for withdrawal from Iraq. Reid has said only that it is possible his resolution's language could be attached to the supplemental. But he characterized the resolution as part of a "process" to confront the president and Senate Republicans on war policy.

Republicans would not say whether they would block the supplemental if it included Reid's language. The White House has already threatened a veto. "If it's a must-pass bill, it certainly shouldn't be junked up with language like this," McConnell said. Kay Bailey Hutchison of Texas, an appropriator and chairwoman of the Republican Policy Committee, raised the possibility of a bridge funding bill, should redeployment language bog down debate on the supplemental.

Trade Threats to China Will Further Complicate Existing Problems, Official Says

Taking punitive steps to force changes in China's trade practices could backfire diplomatically and economically, a former Clinton Treasury official warned Senate Finance Committee members earlier this month.

Lawmakers in both parties are frustrated with China and with the Bush administration's actions to resolve trade concerns with the fast-growing Asian power. They've introduced a number of bills in recent weeks that would have the United States take a harsher line against China. "The one appearance that is absolutely unacceptable to the Chinese is that they make change based on a threat from the outside," warned Lawrence H. Summers, a Harvard professor who served as President Bill Clinton's Treasury secretary from mid-1999 to 2001. "So I think the unfortunate truth is that threats will get their backs up and will make it less likely that we will see changes that we want to see."

At a hearing on the administration's trade agenda, Summers cautioned that U.S. belligerence over currency or legislation that automatically imposes tariffs could shake fragile capital markets, inflicting harm on the U.S. economy.

On March 7, Senate Finance members Jim Bunning (R-KY), and Debbie Stabenow (D-MI), introduced the latest measure challenging China's currency practices. The bill S. 796 seeks to make it easier for the United States to impose retaliatory tariffs against countries found to be manipulating their currency. The sponsors make no secret that it is aimed at China, which experts agree actively suppresses the value of the yuan. Much of the bill's language focuses on China's alleged abuses.

Meanwhile, Senate Finance Chairman Max Baucus (D-MT), and ranking Republican Charles Grassley (R-IA) continue to work with Chuck Schumer (D-NY), and Lindsey Graham (R-SC), on their own currency bill.

That effort began last year, when Schumer and Graham pushed a bill that would slap China with punitive tariffs unless the yuan appreciated significantly. The lawmakers backed off at the urging of Treasury Secretary Henry M Paulson Jr. and are now working with committee leaders to find a solution consistent with World Trade Organization (WTO) rules, Baucus said.

Off the Fast Track

At a hearing recently, several witnesses, chosen to represent different perspectives on trade, praised the Bunning-Stabenow bill, illustrating that concern over the issue extends beyond Capitol Hill. Much of the hearing focused on the fight over the renewal of so-called presidential "trade promotion authority," which expires June 30. Known as fast track, the law ([PL 107-210](#)) requires an expedited up-or-down congressional vote, without amendment, on trade deals.

Most of the witnesses said the authority should be renewed because of the benefits of trade to the U.S. economy. But they offered no easy answers on how to change the authority to win sufficient support for renewal. They also talked about the complex problems brought on by globalization and trade. Andy Warlick, who runs a textile business in North Carolina, voiced skepticism about renewal. His state has lost thousands of textile jobs in recent years. Bob Baugh, executive director of the AFL-CIO Industrial Union Council, expressed strong opposition to the current law. He touted the labor federation's alternative proposal, which would greatly expand Congress' clout in the process.

Baucus floated several potential ways to beef up enforcement of trade pacts, a frequent concern raised by critics of the administration. Summers praised the idea of installing an enforcement office at the U.S. trade representative. He said

putting that office in the Department of Justice would be “unwise.” Stabenow and Graham have introduced legislation S. 445 to set up a trade prosecutor inside the trade representative’s office that could recommend taking cases to the WTO.

After Blocking Tax, Spending Limits, Senate Budget Writers Approve 2008 Plan

The Senate Budget Committee approved the fiscal 2008 budget resolution on a party-line vote Thursday, after defeating a string of GOP amendments that sought tighter limits on tax increases and spending.

The resolution, crafted by panel Chairman Kent Conrad (D-ND), would spend about \$18 billion more in fiscal 2008 on domestic discretionary spending than President Bush proposed in his budget. It also envisions nearly half a trillion dollars in additional revenue over five years. The panel approved the measure, 12-11.

Most of the new revenue would go toward reducing the deficit, yielding a \$132 billion surplus in fiscal 2012. In that year, Bush’s budget would yield a projected \$9 billion deficit, as scored by the Congressional Budget Office. Conrad’s proposed budget envisions about \$150 billion more in spending over five years than Bush’s budget, enough to ward off cuts to programs while providing major spending increases for education, veterans’ benefits and children’s health care.

Panel Republicans complained that the increase for domestic discretionary spending, which Democrats pegged at 4.2 percent, exceeded the inflation rate. They also criticized the plan for not setting aside room to extend tax cuts set to expire at the end of 2010. Conrad argued that his budget resolution assumes that those tax cuts can be extended and that the alternative minimum tax can be modified to curtail its reach, but both must be offset. He suggested that closing tax loopholes and improving tax collections could accomplish that.

Conrad also noted that revenue continues to exceed expectations. “You may not need to do anything to reach the revenue forecast in our budget,” he said, though he added that he would continue to personally insist on pay-as-you-go offsets for tax cuts. Republicans, meanwhile, argued for greater fiscal restraint and concrete steps to cut the growth of entitlement spending, which Conrad avoided. The failed GOP amendments called for saving tens of billions of dollars by slicing payments to Medicare providers and increasing Medicare prescription drug premiums for seniors with income of \$80,000 or more a year and couples making \$160,000 or more.

Conrad said he supports the concept of slowing entitlement growth but maintained that should be done as part of a separate, bipartisan effort rather than in a budget resolution that is unlikely to have much Republican support. “I don’t think either party can do this on its own,” Conrad said. Conrad noted how close he expects the vote will be when the budget resolution advances to the Senate floor next week, given the narrow Democratic majority. “I can’t lose a single vote,” he said.

Conrad and New Hampshire’s Judd Gregg, the panel’s ranking Republican, have agreed on a proposal for a 16-member bipartisan commission that would examine ways to slow entitlement growth and overhaul tax policy, and address proposals aimed at closing massive projected unfunded liabilities. The commission would have to report a plan to Congress by Sept. 1, with a floor vote by Sept. 20, Conrad said Thursday.

As a practical issue, proposals to include entitlement cuts in the budget or explicit instructions to raise taxes would likely have sunk the resolution on the Senate floor. After objections from Democrats, Conrad earlier had to drop a plan to cut \$20 billion from war spending in fiscal 2008. Given the support for war spending from independent Joseph I. Lieberman of Connecticut, who caucuses with the Democrats, such an attempt had no realistic chance.

Republicans have faced similar difficulty in recent years, particularly on the Senate floor, where amendments to the budget resolution have typically added billions of dollars in new spending. Members of both parties also offered budget placeholders for various legislative proposals, provided that the legislation does not add to the budget deficit. Such placeholders are typically included in a budget resolution without producing legislation.

Among the placeholders included Thursday as amendments were funds for immigration reform, mental health parity, long-term care, benefits for wounded soldiers, child care, a health care overhaul, health information technology and upgrades to veterans' benefits.

Republicans also proposed a firewall to prevent appropriators from cutting defense spending in order to increase funding for domestic programs. John Ensign (R-NV), pointed out that appropriators have repeatedly sliced billions of dollars from defense to boost funding for domestic programs, only to restore the cuts weeks later in supplemental legislation. "We should not be playing phony budget games," Ensign said. Democrats defeated the firewall, though Conrad noted that his budget included a smaller firewall to prevent appropriators from shifting war funds to other accounts. Conrad also included a 60-vote point of order against designating spending as emergency and not subject to budget caps.

Republicans also debated Conrad's plan to provide up to \$50 billion over five years to expand the State Children's Health Insurance Program (SCHIP), which Conrad contends could be enough to cover every uninsured child in the country. Republicans sought to limit SCHIP enrollment. The Bush administration, meanwhile, continued to register its displeasure with the Democratic-written budget. "The budget resolution reported by the Senate Budget Committee today assumes a significant tax increase, which is the last thing our economy needs as we work to extend the current expansion," Treasury Secretary Henry M. Paulson Jr. said in a statement.

Administration's Latest Economic Assumptions Called Slightly Optimistic

The economic assumptions underlying the Bush administration's fiscal 2008 budget proposal anticipate more growth and slightly more inflation than comparable congressional and private forecasts. Economists said the differences are minor, but that the budget's rosier economic assumptions help the administration portray an improving federal fiscal situation. "I'd call them slightly tinted glasses, not completely rose-colored," said James Horney, senior fellow at the left-leaning Center on Budget and Policy Priorities.

In what has become an annual rite of the budget season, critics of the \$2.9 trillion proposal suggested the administration was using gimmicks to project a balanced federal budget by 2012. The Concord Coalition, a nonpartisan budget watchdog group, said it was concerned that "certain key policy assumptions used by the administration to project a swift decline in the deficit are not realistic."

The president's budget was faulted for not accounting for expected modifications of the alternative minimum tax beyond 2008, for assuming enactment of substantial cuts in Medicare physician payments, and for counting on domestic discretionary spending increases smaller than the inflation rate. It also likely does not reflect the full cost of military action in Iraq and Afghanistan beyond 2008. "This budget is a dubious attempt at fiscal responsibility, ignoring many of the costs that have driven our nation to record deficits," House Ways and Means Chairman Charlie Rangel (D-NY), said in a statement.

The discussion of the administration's economic assumptions was more muted and marked a departure from years past, when the White House was accused of offering overly conservative economic estimates. In those years, when the economy performed better than projected the administration could take credit for beating the pessimistic projections.

For fiscal 2008, the administration is projecting economic growth beyond the estimates of the Congressional Budget Office (CBO) and the Blue Chip Consensus, an average of 50 top private-sector forecasters. The president's budget assumes that the gross domestic product (GDP), the total economic activity inside the United States, will grow by 2.7 percent in 2007, compared with CBO's estimate of 2.3 percent and Blue Chip's 2.4 percent. Similarly, average GDP growth during the 2007-2012 period is expected to be 3.0 percent according to the White House, slightly ahead of the Blue Chip Consensus' 2.9 percent estimate and CBO's 2.8 percent.

The administration's inflation projections slightly outpace comparable estimates. The budget assumes inflation of 2.1 percent for 2007 and an average of 2.4 percent for the period through 2012. CBO's figures are 1.9 percent and 2.2 percent, while the Blue Chip Consensus forecasts 2 percent inflation for 2007 and a five-year average of 2.3 percent. Gus Faucher, director of macroeconomics at Moody's Economy.com, said the administration's economic assumptions "look pretty reasonable" despite the minor differences with other estimates. Faucher said Moody's Economy.com also projects 2007 GDP growth of 2.7 percent. But Horney said the discrepancies, while appearing minor, can alter the overall fiscal picture. "A slight tick up on one figure can make a big difference," he said.

A small increase or decrease, particularly in GDP growth, can have significant reverberations. The White House Office of Management and Budget said annual economic growth of 1 percentage point less than forecast — with stable unemployment levels — would add \$689.4 billion to the government's accumulated deficit during the five-year budget window. On the other hand, if inflation and interest rates are a point higher than expected, the deficit would be reduced by \$490.1 billion over the same period.

An accelerated growth forecast works in favor of the administration, which has said it wants to eliminate budget deficits by 2012. Faster GDP growth would result in more tax revenue, while corresponding increases in inflation and interest rates would add to tax receipts as taxpayers earn more. OMB Director Rob Portman called the assumptions "in line" with outside forecasts and painted the 2.7 percent figure for 2007 GDP growth as "below most outside forecasts and market expectations."

The economy grew by 3.4 percent in 2006, including a greater-than-expected 3.5 percent in the fourth quarter, despite a steep decline in the housing market that had been the main engine driving the economy in recent years. The Federal Reserve declined last week to increase or reduce the short-term interest rate from the current 5.25 percent, content that the economy may have reached a middle point where it is not growing too quickly to cause inflation, but enough so that there is no worry of a recession.

At the same time, there are potential trouble spots. A recent Commerce Department report revealed that the nation's personal savings rate in 2006 was the lowest in 73 years and that the public spent more than it took home for the seventh straight quarter. The situation in the housing market continues to worry economists, and recent surveys of manufacturers suggest optimism in the business community may be waning.

Foreign Investment Review Bill on the Way Soon

The Senate Banking, Housing and Urban Affairs Committee has kept the business community guessing about which changes it will propose to the workings of a secretive government panel. But committee Chairman Chris Dodd (D-CT), says the wait could be over by mid-April.

Lawmakers in both chambers have pledged to finish an overhaul of the Committee on Foreign Investment in the United States, which reviews proposed foreign investments here.

The chambers passed measures last year, but conference negotiations failed. Business groups supported the House bill but hated aspects of the Senate measure. The hope was that Dodd would introduce a bill they liked better. But Dodd said Tuesday he "happens to like [the Senate] bill we did last year."

Still, Dodd said he's considering changes the Bush administration and the business community want and may hold hearings to get their views.

In the meantime, the House has already passed a measure H.R. 556 similar to last year's legislation.

Silver ETF Update

Thanks to our good friends at Mitsu Global Precious Metals, we are able to bring you our monthly Silver ETF Update.

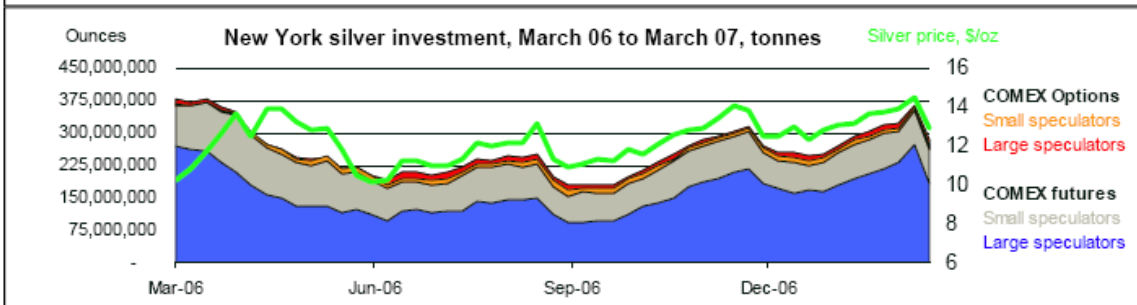


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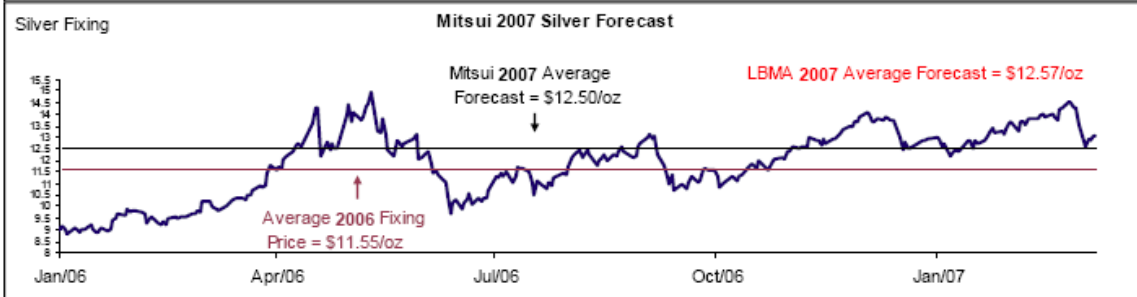
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Silver 2006: The Year in Figures		Silver 2007: The Year to date in Figures	
Average:	\$11.55	Average:	\$13.33
High:	\$15.17	High:	\$14.58
Low:	\$8.71	Low:	\$12.21
Average Lease Rate:	1.37%	Average Lease Rate:	0.57%

Market Update: As the New Year progressed, Silver extended over the \$13/oz area briefly. However, as Gold and the base metals complex came under pressure, Silver gave back its gains and fell to a low of \$12.07/oz spot on the 8th January. Taking direction from a strong Gold market, Silver rallied with firm momentum, pushing through the \$13/oz level once again and quickly testing \$14/oz at the end of February. The metal reached the year's high of \$14.58 on the 26th February. However, as wider liquidation spread across global markets, triggered by a 9% fall on the Chinese Stock Exchange, Silver investors liquidated positions significantly and the metal suffered a 50% retracement on its recent rally. As the panic selling continued, Silver fell to a low of \$12.60 on the 5th March. In recent days, as concerns persist regarding the unwinding of Yen carry trades and growing apprehension from the fall out of the US sub-prime market, Silver remains below the \$13 area while the market remains influenced by external actions. On the ETF front, despite the expectation of an inactive market towards year-end, the Silver ETF added a further 9 Moz on the 21st December. This action, reflecting an 8% increase, left total Silver ETF holdings at 121 Moz. Investors liquidated 3 Moz on the 16th January and a further 3 Moz on the 24th of the month. This action was short-lived and from this date investors have consistently added to their holdings. The ETF increased by 5.5 Moz on the 9th February and by a further 1 Moz on the 21st February to leave total ETF holdings at 126 Moz. Despite the recent sell off in exchange investment, ETF holdings have been resilient in the face of a volatile trading environment and the iShares Silver contract now stand at 128.9 Moz. While lease rates tightened to 0.92% mid-December, they have once again fallen back to 0.55% in the one month period, indicating that increased investor interest in the ETF product has not had a significant impact on market liquidity.



Exchange Investment: The graph above illustrates the extent of the build-up in the Silver long position since early 2007. Between the 2nd Jan and the 27th Feb, the net long Silver position increased by 116.2 Moz. The latest CFTC data from the 6th March shows that Comex investors cut their long position significantly following Silver's sharp correction at the beginning of March. This decline of 85.8 Moz, or 24%, is the largest net fall since the week of the 5th July, 2005, a time when Silver was trading at \$6.89/oz. The current volatile trading environment suggests that further liquidation is a real possibility.



Mitsui Silver Forecast 2007: Over the course of 2006, Silver benefited strongly from rallies experienced in other precious and base metals. Silver is largely expected to take direction from Gold in 2007, however there are a number of clouds on the horizon for the white metal. While investment demand for Silver is growing, as indicated by the Silver ETF, there is a question of whether we have reached saturation. Further, the basic supply and demand fundamentals are not positive. Growing mine production and the threat of global economic weakness on industrial demand are negative factors that Silver may face. The Silver price enjoyed a near 60% increase on the average 2005 price. We do not expect this trend to continue. A more muted average Silver price is appropriate for the forthcoming year, with bias to the downside. With these issues in mind, an average price of \$12.50/oz is estimated for 2007. As shown in the graph above, this is very much in line with the average price as estimated by 25 billion analysts in the annual LBMA forecast.