

Bullish

- Uncertainty in financial markets
- Sovereign risk reappears
- Pick-up in geopolitical concerns

Bearish

- Market started to correct
- Funds are taking profits
- Technical picture looks weaker

Outlook

Short Term	Consolidate	\$1,315-\$1,365
Medium Term	Get back above	\$1,400
Long Term	Head higher	\$1,500

Last Week:

- Ireland's formal application for financial aid from the EU and the international community initially gave risk appetite a lift last week but the boost proved fleeting - concerns of debt contagion to other peripheral EU members, notably Portugal and Spain, weighed on risk sentiment. In addition, geopolitical tensions increased sharply when North Korean artillery fire hit a remote South Korean island, killing several.
- Bullion prices remained upbeat thanks to increased demand for safe-haven asset types, with gold reaching a one-week high on Tuesday of \$1,382.50 per ounce. It traded largely sideways on Wednesday, with trading on Thursday thin while US markets were shut for Thanksgiving. But it underwent a sell-off at the end of the week, closing with a modest 0.7-percent gain after dipping as low as \$1,351. Silver closed down 2.2 percent on the week after Friday's correction.
- Gold traded to a five-month high in euro terms and a four-month peak in Australian dollars thanks to the recovery in the US dollar; the EUR/USD fell more than three percent across the week.
- Coin sales remain robust as investor demand for precious metals intensifies - silver remains in vogue in particular, with sales of the US Mint Eagle up more than 50 percent from last year.
- Vietnam has extended the period in which traders are allowed to import gold to 31 days from 14; the decision is designed to allow the local gold market to "continue stabilising".

The Week in Numbers NYSE Liffe US						
Gold Dec	Mon 22	Tue 23	Wed 24	Thu 25	Fri 26	Week*
High	1367.00	1381.90	1380.60	Holiday	1372.60	1381.90
Low	1348.60	1357.10	1368.60	Holiday	1347.40	1347.40
Close	1358.30	1378.20	1374.30	Holiday	1365.80	13.30
Silver Dec						
High	27.863	27.730	27.566	Holiday	27.250	27.863
Low	27.090	27.055	27.128	Holiday	26.556	26.556
Close	27.481	27.611	27.581	Holiday	26.703	-0.464

* week's high, week's low & change on week

The Week Ahead:

The past couple of weeks have been tumultuous and there is little reason to expect any change this week. Markets are likely to remain focused on the EU debt crisis, US data and any signs of increasing tension on the Korean peninsula.

Although markets could have expected some sort of relief rally after Ireland hammered out a bailout deal with the EU/IMF, investors seem unwilling to give EU decision makers the benefit of the doubt after they decided not to deal with the major insolvency issues within the union.

This has left Portuguese and Spanish bonds vulnerable to further losses - the EU meeting yesterday did nothing to strengthen the defensive line around Portugal, Spain and Italy.

Of the host of US data due this week, investors will look predominantly to employment and inflation-related data, the most of important of which is the US non-farm payroll numbers on Friday.

This could be a crunch week for gold - if fears over EU solvency do not translate into a positive gold dollar correlation (as they did in May) or if Korean tensions unwind, there could be further downside retracement in gold.

Date	Economic Agenda	Expected	Previous
Tuesday 30th Nov	EU CPI Flash Estimates	1.9%	1.9%
	EU Unemployment Rate	10.1%	10.1%
	Chicago PMI	60.10	60.60
	US CB Consumer Confidence	52.80	50.20
	ECB Tchet Speaks		
Wednesday 1st Dec	Fed Chairman Bernanke		
	China Manufacturing PMI	54.90	54.70
	EU German Retail Sales	0.01	-1.7%
	EU Manufacturing PMI	55.50	55.50
	UK Manufacturing PMI	54.90	54.90
	Challenger Job Cuts		-31.8%
	ADP N/F Employment Change	70K	43K
	Revised N/F Productivity	2.4%	1.9%
Thursday 2nd Dec	ISM Manufacturing PMI	56.30	56.90
	US Total Vehicle Sales	12.1M	12.3M
	EU PPI m/m	0.4%	0.3%
	EU Revised GDP	0.4%	0.4%
	EU Interest Rate & Statement	1.0%	1.0%
	US Initial Jobless Claims	425K	407K
	Pending Home Sales	-0.9%	-1.8%
Friday 3rd Dec	EU Final Services PMI	55.20	55.20
	EU Retail Sales	0.4%	-0.2%
	US Employment Report	143K%	151K
	US Unemployment Rate	9.6%	0.10
	ISM Non-Manufacturing PMI	54.7%	54.30

Focus – Silver poised for record-breaking year

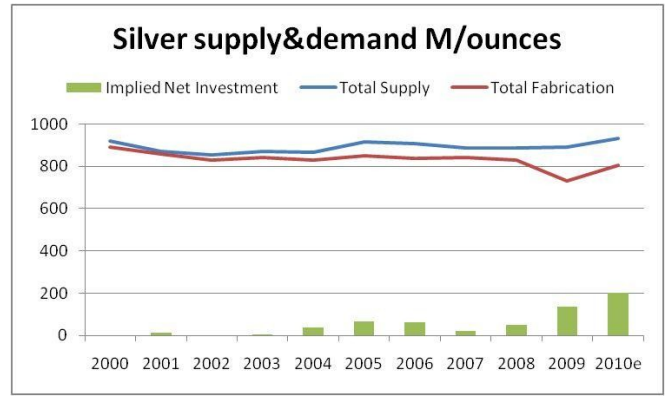
Commodity prices are poised to close the year with solid gains as the rebound in macroeconomic conditions boosts demand for raw materials. As of Friday's close, the CRB Index was up six percent, while copper was up 12 percent and corn almost 30 percent.

Bullion prices are no exception, with silver currently up more than 50 percent and palladium almost 70 percent. Gold, while poised for its ninth consecutive annual gain, is lagging behind somewhat although is still up a substantial 24 percent.

Given the strength of the precious metals and the very volatile landscape for financial markets in the year ahead, it is no surprise to see some very bullish price forecasts for 2011. Silver is no exception - GFMS published its interim silver market review last week, forecasting the metal to trade above \$30 per ounce and set a new all-time annual average price around \$28, easily surpassing the all-time high of \$20.98 set in the 1980s.

Looking at the fundamentals, the report forecasts a five-percent increase in total supply this year, ending three years of stagnation; it expects mine supplies to rise three percent largely because of increased supply from Mexico and scrap supplies to rise 10 percent as recycling of industrial and jewellery material intensifies. The strong price appreciation this year is also expected to yield an increase in state sales, although they would remain below the average levels of the past 10 years.

On the demand side, photographic use will continue to decline, with GFMS expecting an 11-percent fall. But it expects jewellery, coin and industrial demand to grow, with investment demand forecast to hit a record 6,500 tonnes this year and surpass that total next year, benefiting from substitution due to record gold prices.



Technical Analysis – Gold

Gold closed well on Friday, which has helped to disguise some of the weakness on the chart. The stochastics and RSI look neutral-to-negative.

Gold closed below the 21 DMA and 50 DMA. It has trendline support at \$1,352-\$1,305-\$1,237 and trendline resistance at \$1,379.

The most striking element of the chart remains the development of a bearish 'head and shoulders' formation. This pattern will be validated by a close and a failed retest of the neckline (the black line on chart) at \$1,338. Equally, the pattern would be invalidated by a decent close above \$1,390.

With this in mind, we are neutral in the short term. We would turn negative on a close below \$1,338 but would equally turn positive on a close above \$1,390.



Technical Analysis – Silver

Silver closed negatively on Friday and over the past week as a whole. It has trendline support at \$26.39-\$25.89 and trendline resistance at \$27.91-\$27.41. Other support is at \$26.61 (the 23.6%)-\$26.58 (the 21 DMA), while other resistance is at \$27.58-\$27.72-\$27.93-\$28.19. The stochastics and RSI look neutral.

Silver showed a lack of upside momentum last week and today looks no different. Prices remain trapped between long-term support and short-term resistance. One of these will have to give way soon.

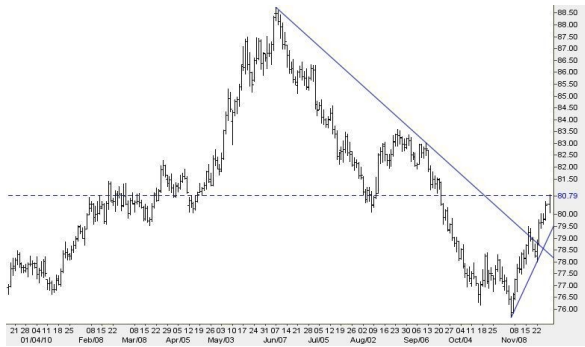
With this in mind, we are neutral in the short term. We would alter this on a bullish close above \$28.00 but we would equally look to turn bearish in the short-to-medium term on a close below \$26.39.

Trader Talk:

“Investors are still very concerned about what happens next, what happens to other countries, what happens to the euro... Europe is a story with legs. An Irish bailout might be a good short-term event. However, it's an ongoing negative”
- Richard Sichel, chief investment officer at Philadelphia Trust Co

Market Drivers

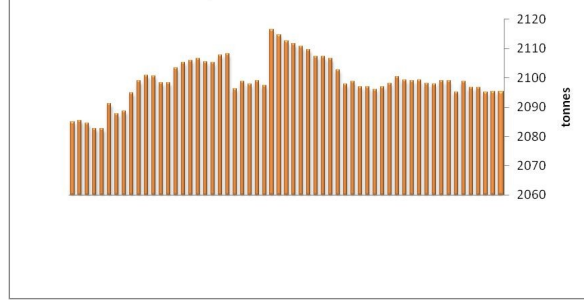
Dollar Index



The dollar index continued to climb last week while EU debt issues weighed on the euro and geopolitical events boosted the dollar. With the rebound in the dollar looking strong, we would not be surprised if this provided further headwinds for bullion. But should geopolitical tensions escalate, gold could rise too.

ETFs

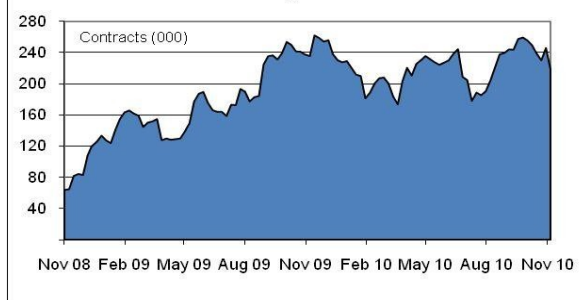
Daily Growth in Gold ETFs



The chart says it all - the ETF holdings continue to flat-line amid both redemptions and buying. Redemptions have taken place in the larger ETFs in London and the US, while iShares and the ZKB ETFs saw small gains. Interestingly, the combined silver ETF position dropped a net 80 tonnes last week.

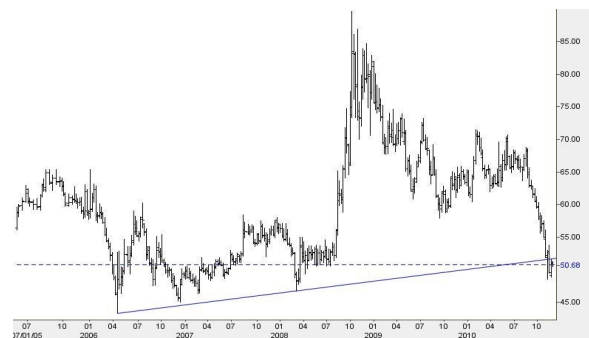
Funds

Gold Net Long Fund Position



Due to the Thanksgiving holiday, the latest funds data have not been released. But given further bouts of weakness, further liquidation selling would not be surprising.

Gold : Silver ratio



The correction in the precious metals has seen silver prices fall at a faster rate than gold so the gold:silver ratio has climbed slightly and is back above 1:50. We would not be surprised if the ratio climbed further, which would make us wary of silver at present.

Conclusion – Gold and silver have been consolidating at lower numbers and, given the uncertainty in the financial markets, it looks as though the market is in a risk reduction phase, which is likely to weigh on bullion prices too.

But the uncertainty in the financial markets could quite easily become a bullish factor for gold so we expect it to head higher again before too long. Still, there may be a retest of underlying support between \$1,330 and \$1,315 first.

Silver is likely to sell off more than gold after outperforming the latter on the upside (as the gold:silver ratio shows) but, like gold, we would expect silver to follow gold higher once it runs its course to solid support.

Although the dollar is benefitting from the euro's troubles as well as growing geopolitical concerns, should buying return to gold - especially if it is driven by a pick-up in geopolitical issues - we would not be surprised if gold and the dollar rise in tandem again.

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