

Bullish

- Dollar rally has paused
- Gold hitting new highs in euros and sterling
- Support was tested and held

Bearish

- IMF gold sales in focus again
- The trend in the dollar still remains to the upside

Outlook

Short Term	Build a base	\$1,075/1,100
Medium Term	Move back above	\$1,130
Long Term	Target	\$1,250-1,500

Last Week:

- Financial markets remained choppy last week, with risk appetite continuing to ebb and flow. The week's economic data releases and the development in the global economy dominated traders' focus, particularly the Greek debt situation.
- Close attention was paid to US Federal Reserve chairman Ben Bernanke's testimony to the House Financial Service Committee on Wednesday following the surprise increase in the discount rate in the previous week. But his reiteration that interest rates would remain low for an extended period boosted risk confidence.
- Gold echoed the mixed mood, testing initially to \$1,131 early on Monday when the return of Chinese participants after a national holiday triggered strong buying in Asia. But the absence of follow-through buying stalled the rally, with gold slipping steadily lower and eventually dipping to \$1,088.50 on Thursday as the EUR/JPY hit a one-year low below 120. Gold reclaimed \$1,100 later that day on rumours, later to be denied, that China had agreed to buy the remaining 191 tonnes of IMF gold.
- Lease rate were little changed over the week while gold option volatility eased, with one-month declining to 18.60 percent from around 20.75 percent. Despite being the world's fifth-largest producer of silver, we expect the devastating earthquake in Chile over the weekend to have a limited impact on the silver market.
- CBGA signatories sold just 1.6 tonnes of gold during the first four-and-a-half months of the first year of the latest agreement, data from the World Gold Council showed.
- The US CFTC has scheduled a public hearing to for March 25 examine trading of futures and options contracts in the precious and base metals markets.

The Week in Numbers NYSE Liffe US

Gold Apr	Mon 22	Tue 23	Wed 24	Thu 25	Fri 26	Week*
High	1131.40	1121.10	1108.80	1109.50	1119.30	1131.40
Low	1110.00	1098.80	1090.30	1088.60	1106.40	1088.60
Close	1113.30	1103.50	1097.50	1108.10	1119.20	3.10
Silver Mar						
High	16.54	16.423	15.972	16.130	16.500	15.972
Low	16.14	15.765	15.638	15.613	16.074	15.613
Close	16.22	15.875	15.937	16.063	16.511	0.100

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

The Week Ahead:

The primary driver of gold is likely to be the outcome of the Greek bond sale as well as how well markets digest the country's new austerity measures.

While reports of a bailout for Greece were denied by Angela Merkel on Sunday, the news that the Greek roadshow to Asia and the US has been postponed seems to indicate there is greater confidence of a resolution coming to the fore.

A sizable amount of EU and US data is due this week; if the recent trend of poor US figures continues, it may weigh on the dollar.

As we pointed out last week, gold prices in sterling and euro terms are pushing to all-time highs. We think this trend could persist until the issues surrounding Greece's debt crisis have been resolved and also until UK elections are held. Overall we think this week could be mildly positive for bullion, but we expect volatility.

Date	Economic Agenda	Expected	Previous
Tuesday 2nd March	EU PPI	0.7%	0.1%
	US Vehicle Sales	10.6M	10.8M
Wednesday 3rd March	EU Services PMI	55.0	54.5
	EU Retail Sales	-0.3%	0.1%
	ADP Employment Change	-9K	-22K
	ISM Non-Manufacturing PMI	51.0	50.5
	Beige Book		
Thursday 4th March	EU GDP	0.1%	0.1%
	ECB Rate Decision	1.0%	1.0%
	BoE Rate Decision	0.5%	0.5%
	Initial jobless Claims	474K	496K
	US Nonfarm Productivity	6.2%	6.2%
	US Pending Home Sales	1.60%	1.60%
Friday 5th March	US Employment Report	-35K	-20K
	US Unemployment Rate	9.8%	9.7%
	US Consumer Credit	-3.6B	-1.7B

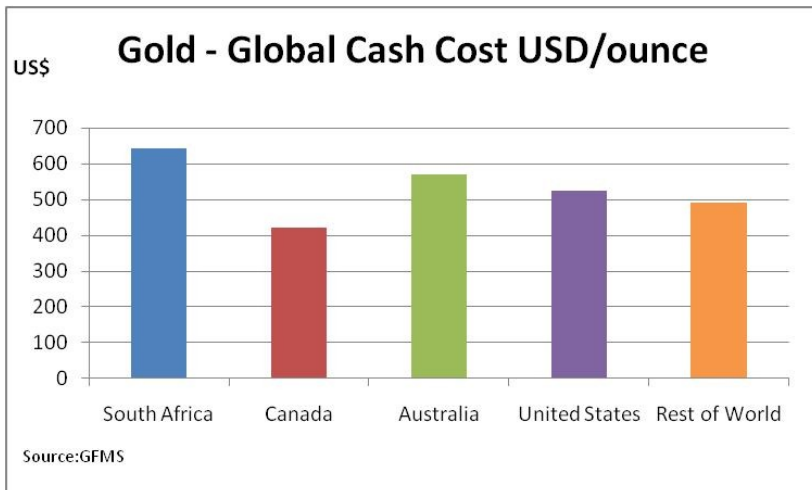
Focus – South African producers face increased costs

The South African mining sector was dealt a harsh blow on Wednesday when national energy regulator Nersa approved a 24.8-percent power tariff increase from state energy provider Eskom. The increase, which takes effect from April 1, precedes increases of 25.8 percent for 2011/2012 and 25.9 percent for 2012/2013.

The decision will have a dramatic impact on the nation's economy, pushing up domestic manufacturing costs, which in turn will fuel inflation that is already running at around six percent, as these costs are passed onto the consumer. Given extensive electricity requirements throughout the production and refining process, higher energy costs are likely to have a dramatic effect on the profitability of the country's metals companies, particularly its gold and platinum group metals producers.

Just more than half of all gold ever produced is from South Africa, estimates suggest, although its dominance of the gold sector has waned significantly. Production peaked in the early 1970s at more than 1,000 tonnes but slumped to 222 tonnes last year, making it the third-largest producer behind China and the US. Even before last week's tariff announcement, South Africa has the highest production costs globally (see chart above) due to increasing mine depths, falling ore grades, stricter safety regulations and an unfavourable rand.

Add in the potential cost implications of dramatically higher electricity prices and there may be a further decline in annual output as operators are forced to close more costly sites. In turn, South Africa may lose more ground as a global producer – China continues to consolidate its mining sector, while Russia and Peru both expect their domestic output to grow steadily.



Other observations

- Gold prices in sterling reached a record high of £740 per ounce
- Gold and silver ETF investors reduce their holdings marginally
- The AU/AG ratio eased 1.25 percent as a result, settling below 68:1.



Technical Analysis - Gold

Gold recovered well last week but closed negatively, forming an inverted hammer reversal formation. This will make it harder for gold to rally this week but the overall picture is little changed – a close above the down trendline at \$1,126, could have bullish ramifications (target \$1,162-\$1,195).

A failure to close above this level should force gold back to \$1,088-\$1,066, however. The stochastics look neutral, as does the RSI. Gold has some support from the 5WMA and 20WMA (\$1,109-1,102).

We are neutral overall but will look to turn positive on a close above \$1,126 or negative on a break of \$1,088.

Technical Analysis – Silver

Silver recovered well last week but closed in an inverted hammer reversal formation, which is negative.

The metal finally managed to close above the 61.8% Fib level [\$16.44] last week, which was bullish – but failure to close over this level this week could be a setback.

The stochastics and RSI both look neutral. Silver has trendline support at \$16.28-\$15.91.

We remain neutral overall while acknowledging that the metal could rally to \$16.95 before looking to come back to \$16.00-\$15.57.



Trader Talk:

"Perhaps Soros thinks gold is going to bubble but the bubble is going to last for a while and he wants to profit from it. We could have a bubble but gold can reach \$2,000 or \$3,000 before it's over" - Jeffrey Nichols, American Precious Metals Advisors

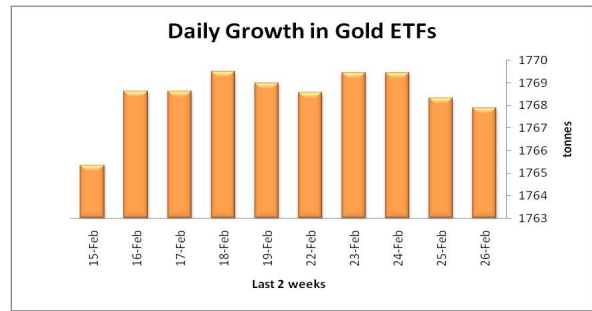
Euro



The euro dropped further last week but now seems to have found some support. While the dollar is not strengthening, precious metals seem to be able to get some lift but they come under pressure as soon as the dollar firms.

Any positive development over Greece's debt could trigger short-covering in the euro.

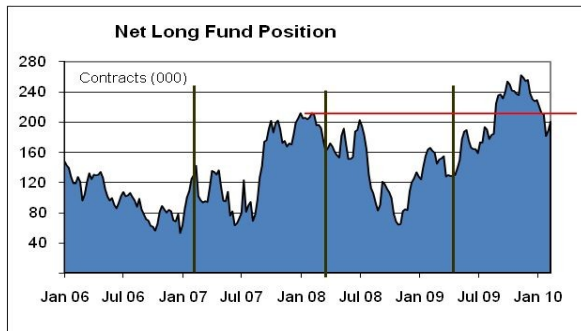
ETFs



Investor confidence has held up quite well during gold's volatile performance but the dips have not led to an overall rise in holdings. The combined holdings in the gold ETFs dropped 1.1 tonnes last week.

The combined holdings in the silver ETF's dropped 6.2 tonnes last week.

Funds



The net fund gold position climbed 11,764 contracts – longs added 8,391 contracts and shorts reduced their position by 3,373 contracts.

The fund net long silver position increased by 2,438 contracts, with 1,558 shorts covering and 880 longs added.

Gold Silver Ratio



As expected, the rebound in bullion prices has prompted the ratio to start to pull back.

Silver tends to outperform gold when the market is trending.

Conclusion – Gold was volatile last week but our overall conclusion is that prices tested support, which held. Fund buying has returned and, now that a base seems to be in place around \$1,080, we would not be surprised by more scale-down buying into dips. The euro also seems to have found some support; if there is any progress in tackling Greece's debt problems, the single currency is likely to rebound, which, in turn, is likely to support dollar gold prices. Conversely, if Greece's debt problems escalate, we would also expect gold to benefit, even if the initial reaction to a stronger dollar is a dip in the gold price.

To learn more about trading gold and silver on NYSE Liffe US
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