Bullion Weekly

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Bullish	Bearish
• The overall big picture • US creditors continue to diversify away from the dollar • Potential for more stress in the financial markets	• If equities fall, bullion may initially sell off • Short dollar trade overcrowded • Potential for more profit-taking

Outlook

Short Term	Build a base	$1,024/1,030
Medium Term	Move up to tackle highs at	$1,071
Long Term	Set new highs above	$1,250

Last Week:

- Investment markets remained in a volatile mood last week as traders and investors awaited the release of key economic data from the US to gauge the health of the world's largest economy, potentially setting the tone for direction in the short to medium term.
- Although third-quarter GDP beat expectations, coming at 3.5 percent compared with a forecast 3.2 percent, there was a gradual decline in risk appetite, with equities and commodities declining amid speculation the current rallies may have overrun in relation to the broader economic recovery and that the stronger data could prompt earlier-than-expected interest rate increases.
- While the correlation between gold and the EUR/USD cross declined to 0.49 from 0.89 in the previous week, the strong tone in the greenback prompted by speculation of central bank intervention, applied additional downward pressure on precious metals. Spot gold closed the week down almost one percent, hitting a mid-week low of $1,027 per ounce after failing to find sufficient support around $1,038/40. Silver again proved the more volatile of the two metals, falling 7.8 percent over the week as speculators curbed their long exposure. The AU/AG ratio consequently bounced to 64.11 from 59.59 on a closing basis.
- Despite the sharp jump in the VIX volatility index, Friday's ATM option volatility levels in precious metals are little changed. One-month gold volatility is trading at 16.8 percent compared with 17.6 percent last week. One-month silver is currently at 34 percent compared with 33.7 percent.

The Week in Numbers NYSE-Liffe (mini-sized contracts)

Gold Dec	Mon 26	Tue 27	Wed 28	Thu 29	Fri 30	Week*
High	1060.80	1044.10	1042.50	1048.30	1049.20	1060.80
Low	1038.20	1033.00	1026.50	1028.10	1035.50	1026.50
Close	1042.80	1035.70	1030.90	1047.30	1040.30	-15.90
Silver Dec						
High	17.794	17.235	16.808	16.703	16.752	17.794
Low	17.020	16.510	16.120	16.187	16.156	16.120
Close	17.080	16.536	16.238	16.660	16.254	-1.469

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

The Week Ahead:

The dollar outlook will undoubtedly be the primary driver of bullion this week. With the US currency strengthening recently, there is a good chance of discovering whether this is anything other then upside relief from an overcrowded short dollar trade.

The Federal Reserve's $300 billion asset purchasing programme ended last Friday; it will therefore be interesting to see how Treasury demand from domestic and foreign investors responds to the change in the demand dynamic. The central focus this week will be Wednesday's FOMC announcement. There is some talk that the Fed will change its statement to avoid seeming to promise that the federal fund rate will stay very low for an "extended period". So any sign of confidence from the Fed could be bullish for the dollar and bearish for the precious metals complex, we believe.

If the Fed's statement is unaltered, there is a good chance that bullion will trade positively in the second half of the week.

Date	Economic Agenda	Expected	Previous
Tuesday 3rd Nov	Buba president Weber Speaks		
Wednesday 4th Nov	EU Services PMI	55.4	55.3
	ISM non-Manufacturing PMI	51.6	50.9
	Crude Oil Inventories		0.8M
	FOMC Rate Decision	<0.25%	<0.25%
Thursday 5th Nov	EU Retail Sales	0.3%	-0.2%
	BoE Rate Decision	0.5%	0.5%
	ECB Rate Decision	1.0%	1.0%
	Initial Jobless claims	519K	530K
	Non Farm Productivity	6.1%	6.6%
Friday 6th Nov	G20 Meeting		
	US Non Farm Employment Change	-173K	-263K
	Unemployment Rate	9.9%	9.8%

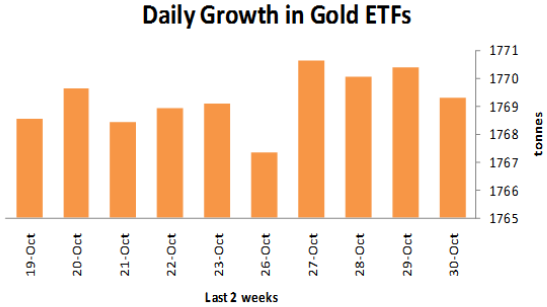
Focus- US Treasuries remain in demand

Equity and commodity markets are approaching a point at which the old adage “what goes up must come down” comes into play, we think. That is not to say that we have changed our longer-term bullish outlook – but the rally has run its course and a period of consolidation/correction would be healthy to maintain the overall trend, we believe.

The question is: what reaction could we see in gold should a deeper correction emerge in equities? Clearly, gold has been moving more in line with risk sentiment over the past few months so could well fall – initially, at least – if equities do so. But in general, we attribute much of the interest in gold and into broader commodity baskets as an indication that investors have more confidence in physical or physically backed assets than paper instruments and, indeed, fiat currencies. In which case, how deep could gold fall?

When gold spiked to $850 in January 1980, the run-up and the subsequent fall were very fast - it dropped 40 percent in value in the next six weeks. In contrast, when gold hit a high of $1,032 last year, the correction took place over three weeks but the price fell just 15 percent. Even when Lehman Bros filed for Chapter 11 bankruptcy protection, gold’s decline was more measured, falling 11 percent in the subsequent six weeks while the Dow would remain under pressure until March, losing almost 40 percent of its value.

Given the background threat of inflation and delicate state of the global economic recovery, we expect any correction in gold to find good support. Despite the absence of strong jewellery demand, we expect gold to establish a base around $985-1,005 per ounce.



Other observations

- Combined gold ETF holdings gained 1.2 tonnes last week
- Combined silver ETF holdings climbed 131.9 tonnes last week
- Fund net long position dropped 8,330 contracts
- India’s imports 153t versus 387t in the year to date

Technical Analysis - Gold

Gold closed negatively last week, forming an internal hammer formation that might be positive, but gold will need to close above $1,060 per ounce to confirm this. The stochastics crossed lower last week but the K% line is attempting to cross back above the D% line today, which would be bullish. Gold has trendline support at $1,037 and resistance at $1,063. It has pierced back through the 5WMA – a close above here would be positive. Overall, we are neutral but a break above $1,063-$1,071 would change this. Equally, a move back below $1,032-$1,026 would force us to become negative.

Technical Analysis – Silver

Since silver closed bearishly last week, we would expect to see some consolidation at set levels today. The RSI looks neutral but the stochastics look bearish. Silver has made some good gains today, indicating the presence of buying pressure at set levels. It has tentative trendline support at $16.20 and trendline resistance at $17.47-17.64. Support is seen at $16.11, $15.75 and $15.20 while Resistance is seen at $16.77, $17.14 and $17.37. Although we think that silver will consolidate within last’s week range [$17.37-$16.11] this week, it still looks vulnerable at these levels.

Conclusion – Gold has retreated after a strong rally to fresh record highs last month, which is not surprising, especially as physical demand from the jewellery industry remains dismal. We remain bullish for gold in the long term and, with no quick fix to the world’s economic woes, we feel the overall trend in the dollar will remain negative, although there are likely to be bouts of dollar strength along the way. There may well be some dollar strength and bullion weakness in the run-up to the end of the year, we believe.

Trader Talk:

“There is little doubt that the overall picture for gold remains very healthy. Production remains constrained and that's not going to change. We now have numerous countries actively looking to manage their currency damage. This has to be good for gold”
AngloGold executive Mark Lynam

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