

# Bullion Weekly

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## Bullish

- The dollar breaks lower
- Funds are buying commodities
- Rallies in other markets look stretched

## Bearish

- Risk appetite is growing
- Redemptions seen in Gold ETFs
- Gold holdings in ETFs is falling

## Outlook

<b>Short Term</b>	Tackle resistance	\$960/65
	Move up to tackle	
<b>Medium Term</b>	highs at	\$1,006
<b>Long Term</b>	Set new highs above	\$1,050

### Last Week:

- The pick-up in the broader markets' risk appetite sent gold and silver prices to respective lows of \$925.90 and \$13.19 in mid-week before rebounding on Friday as the dollar index broke below the June lows of 78.33. Gold's correlation with EUR/USD stood at +0.93 last week, suggesting the inverse relationship to the dollar holds strong.
- Bullion ETF flows were mixed. Holdings in the largest gold fund (SPDR) fell 13.7t, the sixth weekly decline. But holdings in the largest silver fund (iShare) rose 1.96 million ounces to a record 283.83 million ounces. Fund activity on the futures was little changed, with the net fund position on gold easing, while silver edged higher.
- Gold's dip below \$930 per ounce did entice some physical buying interest, although volumes remained low, reflecting high local prices and the weaker macroeconomic picture. A statement from the Bombay Bullion Association reinforced the current demand picture suggesting India would import as little as 10t of gold in July, less than half the 24t imported in July of last year. Imports in the first half totalled 51.6t, down 63% on a year ago. GFMS also forecast resurgent scrap flows in the second half of the year that could again blunt upside price moves in gold.
- The latest CBGA (Central Bank Gold Agreement) data shows that, with less than two months remaining of the current five-year agreement, members have sold just 140t of a possible 500t. The IMF announced midweek that the planned sale of 403.3t of gold will take place under a new CBGA that is being negotiated.

### The Week in Numbers NYSE-Liffe

Gold Aug	Mon 27	Tue 28	Wed 29	Thu 30	Fri 31	Week*
High	960.00	957.40	940.40	936.60	957.80	960.00
Low	948.00	934.00	924.60	928.50	932.30	924.60
Close	953.60	938.80	927.00	934.90	953.60	0.00
Silver Sep						
High	14.100	14.072	13.723	13.576	13.956	14.100
Low	13.744	13.591	13.178	13.292	13.376	13.178
Close	14.000	13.744	13.260	13.482	13.941	-0.059

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

### The Week Ahead:

Precious metals rallied strongly last Friday on renewed dollar weakness. Risk appetite in the wider markets appears to have remained buoyant after equities closed with hefty monthly gains. Renewed risk appetite was again evident this morning, as capital pulled out of the dollar towards commodity currencies and other higher yielding assets. It was down 1% against all the G7 currencies this morning as the US Dollar index hit a new low of for the year. Continued dollar weakness should be positive for bullion in the week ahead.

The development of a EUR/USD trading range has very much kept gold in a broad range so far this summer. Today, however, the EUR/USD hit a two-month high and is only 0.0035 from a new high for 2009. If the cross can break higher, it could be enough to unlock gold from its summer range and force it towards \$1,006 again.

The market's focus should again be on the release US and eurozone economic data over the week. With lighter volumes over the summer months, we could see significant movement in the precious metal complex in the week ahead.

Date	Economic Agenda	Expected	Previous
<b>Tuesday 4th Aug</b>	EU PPI	0.20%	-0.2%
	US Personal Income	-0.9%	1.40%
	US Personal Spending	0.30%	0.30%
	US Pending Home	0.60%	0.10%
<b>Wednesday 5th Aug</b>	EU Retail Sales	0.30%	-0.4%
	US ISM Non-Manufacturing PMI	48.1	47
	US Crude Oil Inventories		5.1M
<b>Thursday</b>	BoE Interest Rates	0.50%	0.50%
	ECB Interest Rates	1.00%	1.00%
	US Jobless Claims	593K	584K
<b>Friday 7th Aug</b>	Non-Farm Payrolls Change	-333K	-467K
	US Unemployment Rate	9.60%	9.50%
	US Consumer Credit	-3.7B	-3.2B

**Focus** – US market regulators have featured heavily in the newswires over the past week as both the SEC (Securities Exchange Commission) and the CFTC (Commodity Futures Trading Commission) investigate market activities for possible signs of manipulation. The CFTC commenced its first major review of speculator activity since the Hunt brothers attempted to corner the silver market in 1979-80. Speculators have been blamed for record energy and commodity prices last year, with the commission aiming to toughen oversight on speculative positions of commodities of finite supply.

It will also consider whether or not index traders, swap dealers and ETF managers fall within the speculative category.

Observers expect limited changes, with position limits applied on an aggregate basis across all markets (exchanges and OTC). The commission is likely to demand evidence that positions are held for "bona fide hedging" purposes and will almost certainly revisit the classification of traders as either commercial or non-commercial and could see firms required to distinguish trades between the two for reporting and regulating purposes.

While well intentioned, these measures often fail to achieve their desired objectives or, worse yet, lead to unintended consequences. For example, position restriction could increase price volatility by greatly reducing market liquidity and depth instead of modulating substantial price fluctuations.

Even if restrictions are introduced to, say, the energy markets, the impact could be far reaching. Should commodity basket funds have to cut their energy exposure, the reweightings could then affect other commodities – including bullion – in their baskets (see *composition of commodity index baskets* chart).

### Other observations

- Combined Gold ETF holding dropped 12.8 tonnes last week
- Combined Silver ETF holding climbed 130 tonnes last week

### Technical Analysis - Gold

Looking at the daily chart, gold has already pierced Friday's high and that of the previous rally, which is bullish in the short term. The stochastics on the daily chart are also very bullish; again, this is supportive. Looking at overhead resistance, gold needs to break through \$959, \$960 [23.6% Fib level] and \$965.

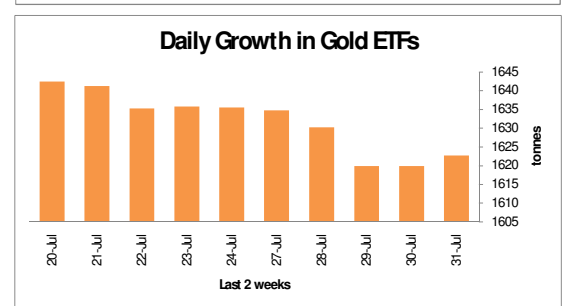
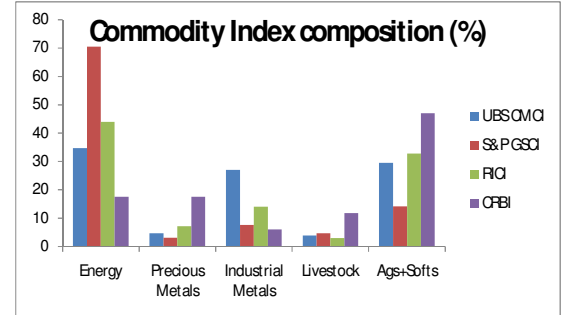
If it can breach these levels, we could see gold move towards \$990-\$1006 in the near term. Should it fail to overcome these levels, however, it could fall and retest support in the \$942-\$925 area as it consolidates.

### Technical Analysis – Silver

Looking at the daily chart, silver has opened and formed a breakout gap to the upside. If this pattern holds, it implies that silver is at the beginning of a bullish run higher. Since today's open, the metal has moved higher and pierced the primary up trendline [\$14.43]; if it can close over this level tonight, it could be very bullish.

The stochastics look bullish too with the K% line [faster line] at 99. Silver's primary target is \$14.42 [23.6% level]. If it can break above that level, it should look to target \$14.75-\$15.01. If silver fails to breach these levels, it move back to consolidate in the \$13.64-\$13.28 range.

**Conclusion** – Gold and silver tested support levels last week. They held and are now resuming their rebounds. With the dollar heading lower again, bullion prices look set to push ahead with their advance and, with key resistance at \$965 now within easy reach, a run up to challenge the \$990 and \$1,006 levels looks likely. With other markets raging ahead, corrections look overdue – when these are seen, demand for safe havens is likely to grow, thereby potentially boosting bullion prices further.



#### Trader Talk:

"The GDP report was filled with underlying weakness. Without the consumer participating, the US economy will have a difficult time rising out of recession." Kathy Lien, director of currency research at Global Forex Trading

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