

# Bullion Weekly

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## Bullish

- Gold breaches resistance at \$1,006
- Dollar remains under pressure
- ETF & fund buying pick-up

## Bearish

- If equities fall, bullion may dip
- Stronger economic data could support the dollar
- Potential for profit-taking

## Outlook

Short Term	Establish a base above	\$1,006
Medium Term	Move up to tackle highs at	\$1032.50
Long Term	Set new highs above	\$1,050

### Last Week:

- Equity jitters and speculation that the US economy remains vulnerable to "adverse shocks" has triggered a surge in flight-to-safety demand for precious metals over the past week, pushing gold through the psychologically important \$1,000 per ounce mark to an 18-month high, while silver also hit its highest in more than a year.
- Both metals opened last week in much the same mood as the previous few weeks: largely rangebound with thin holiday market conditions prevailing. Gold traded at \$944-\$960 initially and silver at \$14.55-\$15.05 until the middle of the week, when a weak ADP employment reading (298,000 compared with the forecast 250,000) and minutes of the August FOMC meeting gave rise to increased nervousness ahead of the non-farm payrolls data on Friday. Gold rallied initially to \$980, reaching \$997.60 on Thursday following a large build in SPDR ETF holdings. Gold cleared both \$1,000 and the February \$1,006 high this morning (Tuesday). Silver pushed to a 13-month high of \$15.34 on Friday and has extended to \$16.80 this morning. As a result, the AU/AG ratio has broken the June 3 low of 60.73 and was last at 59.93.
- The gains in gold have also led to an increase in short-term option volatility: one-month is up from 23.5% to 26% and three-month volatility climbed to 27.5% from 26% while one-year volatility is unchanged – although the forward curve is considerably flatter.
- Gold maintained its correlation to the EUR/USD cross, which stood at +0.97 last week
- The funds' net long position on gold rose by 1,519 contracts; the net long silver position gained 5,299 contracts.

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

Gold Dec	Mon 31	Tue 01	Wed 02	Thu 03	Fri 04	Week*
High	962.10	958.50	982.10	999.50	998.20	999.50
Low	944.40	947.70	952.80	976.30	986.70	944.40
Close	953.00	957.20	978.60	997.80	997.00	44.00
Silver Sep						
High	14.900	15.070	15.430	16.260	16.303	16.303
Low	14.524	14.640	14.900	15.395	15.850	14.524
Close	14.900	15.035	15.324	16.265	16.263	1.363

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

### The Week Ahead:

Markets as a whole look set for a busy few weeks as US traders return from holidays and look at asset allocations for the remainder of the year. Interest rates will be under scrutiny – the Bank of England, Reserve Bank of New Zealand and Bank of Canada set base rates. Energy prices could see some turbulence as OPEC members meet while speculators remain cautious of position trading restrictions. Economic data will continue to drive systemic risk appetite and in turn broader market flows. The latest Fed Beige book should provide clarity on region economic activity. Will improving US economic indicators start to underpin the dollar? Recently, the focus appears to be on a weakening dollar – its appeal to investors has diminished given the scale of US budget and current account deficits. Interestingly, gold has posted an average monthly increase of 5.2% in September over the past decade. Having cleared February's high and with a market short gamma due to large above-market option positions, the yellow metal could be poised for some big price gaps higher.

Date	Economic Agenda	Expected	Previous
Wednesday 8th Sept	Japan Leading Indicators	81.9%	79.9%
	German CPI	0.20%	0.20%
	OPEC Meeting		
	Beige Book		
Thursday 10th Sept	Japan CGPI	-8.3%	-8.5%
	US Trade Balance	-26.8B	-27.0B
	BoE Rate Decision	0.5%	0.50%
	US Initial Jobless Claims	555K	570K
	Crude Oil Inventories		-0.4M
	Geithner Speaks		
Friday 11th Sept	UoM Consumer Sentiment	67.1	65.7
	UoM Inflation	-1.0%	-1.7%
	Fed Budget Balance	-172.3B	-180.7B

## FOCUS- Gold and silver spot price versus gold mining equities

We have made a comparison between the performance of the spot bullion prices against five listed gold stocks (see table on right) from a pre-Lehman Bros collapse period until now to gauge how gold and silver have performed compared with gold equities.

The first striking element is that an investor would be 15.4% better off holding spot gold than spot silver over this period. The second observation is that gold equities are up 8.8% more than spot silver. The fact that gold exposure has offered better wealth preservation over the last 14 months is of interest.

Going deeper, gold's absolute high/low volatility during this period, expressed as a percentage of the present price, is 31.7% while the combined total of the selected equities is 78.9% and silver 55%. This further indicates that, while the gold spot price has provided stronger returns, it has done so with a less volatility.

Averaging out the stocks from their all-time highs and indexing them, they are on average 34.7% off their all-time highs, while silver is 23.1% below its high and gold 2.7% under its highs. As such, we would conclude that gold is best if seeking safe-haven protection, while silver and gold equities might offer stronger returns if the bullion rally continues.

## Other observations

- Combined gold ETF holding climbed 20.05 tonnes last week
- Combined silver ETF holding dropped 13.3 tonnes last week
- Turkey's July imports were 12.5 tonnes compared with 48 tonnes a year ago

## Technical Analysis - Gold

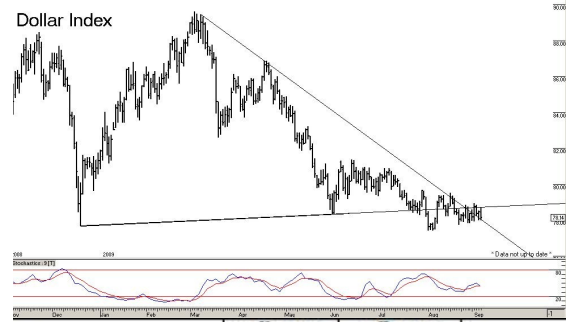
Gold's breakout of the previous three-month symmetrical triangle offers an upside target of up to \$1,049. Gold's close last week, along with the RSI and the stochastics, have confirmed the strength of this trend. We are bullish for now think there is potential for further gains but much of this will depend in the near term on how the metal closes tonight on the daily chart.

Prices have breached the targets of \$1,000 and \$1,006, allowing us to view \$1,014-\$1,032 as the next upside targets. Given the psychological importance of \$1,000, a close above this level on a daily and weekly basis will be important to the sustainability of this rally. Failure to achieve this could push the metal back to \$990-\$970 in the first instance.

## Technical Analysis – Silver

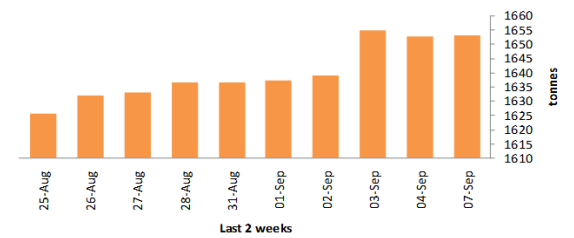
Last week's close confirmed the strength of the short-term uptrend. With the stochastics and the RSI looking strong, momentum is clearly with the bulls. Silver has pierced the 61.8% [\$16.44] Fibonacci level [from March 08 high to Oct 08 low] today; the next upside target is therefore the 76.6% Fibonacci level at \$18.04. With support from both trendlines and moving averages at \$15.54-\$15.12, we think that silver should trend higher. But when it does retrace, the move could be sharp. With silver outperforming gold on the upside, we feel that a sell signal on gold will signal an even better sell signal for silver. Overall, our upside targets are \$17.00, \$17.63 and \$18.04; we see support at \$16.25, \$15.20 and \$15.12.

**Conclusion –** Activity in gold started to mount last week and the push up through \$1,000 and \$1,006 looks nothing but bullish. There may be some pullback to test the level of support – but with the dollar under pressure and other markets possibly on borrowed time at these high levels, some of the smart money may well be moving out of those asset classes that have done well (but look overpriced) into the safety that bullion offers. We would not be surprised to see fresh record highs on gold shortly.



Gold Mining Stocks	1 <sup>st</sup> July 08	9 <sup>th</sup> Sept 09	Change
Gold Fields	12.33	13.63	9.60%
Barrick	45.09	40.04	-11.20%
Anglo Ashanti	33.53	42.49	21.10%
Harmony Gold Mining	11.98	10.68	-10.90%
Newmont Mining	50.15	46.23	-7.90%
Total Mining Stock [%] Change			0.70%
Spot Gold	931	1004	7.30%
Spot Silver	18.08	16.62	-8.10%

## Daily Growth in Gold ETFs



### Trader Talk:

"Reaching the \$1,000 mark once again shows that this price level is no longer the watershed for gold that it once was... Investors are turning to gold as they seek assets which preserve their wealth, whatever the financial weather."  
WGC CEO Aram Shishmanian

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