

Bullion Weekly

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Bullish

- Central bank diversification
- Dollar weakness continues
- Potential for more stress in the financial markets

Bearish

- If equities fall, bullion may initially sell off
- Short dollar trade overcrowded
- Potential for more profit-taking

Outlook

Short Term	Build a base	\$1,060/1,070
Medium Term	Move up to tackle highs at	\$1,120
Long Term	Set new highs above	\$1,250

Last Week:

- The bullion market found renewed bullish enthusiasm last week after the Reserve Bank of India announced late on Monday the purchase of 200 tonnes of gold from the IMF.
- After an initially muted reaction, the market quickly latched on to the fact that half of the annual sales allocation under the CBGA3 (Central Bank Gold Agreement) of 400 tonnes had been used and thus would not enter the market. Gold eclipsed its October 15 high of \$1,071 on Tuesday and remained bid for the rest of the week, peaking (albeit very briefly as strong selling emerged) at \$1,101.20 shortly after the release of October's non-farm payrolls and unemployment rate readings. Silver again proved more volatile than gold, rising 6.4 percent compared with gold's 4.75 percent but, unlike gold, failed to reach fresh multi-month/year highs. It stalled around the \$17.60 level, closing the week at \$17.34.
- Several other currencies hit multi-month highs during the week. Gold hit a seven-month high in euros, Canadian dollars and Swiss francs, a six-month high in the South African rand and a five-month high in Australian dollars.
- In broader markets, the Dow gained 3.2 percent, shrugging off Friday's higher unemployment figures and ending a two-week slide after the Fed outlined the criteria necessary for it to raise rates as well as better-than-expected productivity, manufacturing and home sales data. The dollar pared initial gains and then moved into negative territory, extending its decline as the RBI purchase news gave rise to renewed speculation of central bank diversification. The Dollar Index closed down 0.6 percent on the week. The EUR/JPY cross – a barometer of risk appetite – gained 0.6 percent. Fed rate expectations saw short-date treasury yields decline while the gap between two-year and 10-year notes widened to a four-month high.

The Week in Numbers NYSE-Liffe (mini-sized contracts)						
Gold Dec	Mon 02	Tue 03	Wed 04	Thu 05	Fri 06	Week*
High	1064.70	1088.40	1098.60	1094.70	1101.80	1101.80
Low	1043.50	1055.50	1080.40	1084.20	1086.50	1043.50
Close	1054.40	1085.30	1087.00	1089.10	1095.80	55.50
Silver Dec						
High	16.725	17.349	17.629	17.521	17.626	17.629
Low	16.330	16.246	17.105	17.232	17.269	16.246
Close	16.431	17.186	17.400	17.396	17.376	1.122
* week's high, week's low & change on week						

The Week Ahead:

After last week's run-up to new highs, the market looks in need of some consolidation. As we approach December and the end of the year, the dollar may well start to pick up some support as dollar shorts cover.

With a flurry of central bankers talking this week, we would not be surprised if efforts are made to try to stop the US currency's slide. At some stage, good US economic data may well start to underpin the dollar - the better the data, the more likely it is that inflationary fears will rise, which may force the Fed to take a more hawkish stance. Indeed, with strong equity and commodity prices, the US may feel the need to cool the rallies to suppress any fledging signs of inflation.

Date	Economic Agenda	Expected	Previous
Tuesday 10th Nov	EU ZEW Economic Sentiment	58.90	56.90
	FOMC Yellan & Tarullo Speak		
Wednesday 11th Nov	China CPI	-0.4%	-0.8%
	Buba President Weber Speaks		
Thursday 12th Nov	EU Industrial Production	0.6%	0.9%
	Initial Jobless claims	512K	512K
	ECB President Trichet Speaks		
Friday 13th Nov	EU GDP	0.60%	0.30%
	US Trade Balance	-32B	-30.7B
	UoM Consumer Sentiment	71.2	70.6
	UoM Inflation Expectations		2.90%

Focus – India buys IMF gold but it's not all good news

India's decision to buy 200 tonnes of IMF gold has dominated headlines over the past week and given rise to speculation of further official purchases and even that central banks, particularly those in Asia, could become net buyers – something not seen since the late 1980s.

While this has obviously had a bullish impact on gold prices in the short term, there are some possible side effects that may not be immediately obvious.

As has already been witnessed this year, four-digit US dollar gold prices and record rupee-denominated prices have seriously eroded jewellery demand globally and particularly in India. In turn, given forecasts for further price appreciation, there may be another surge of scrap metal into the market as there was in the first quarter of this year when 566 tonnes was sold, almost equalling total mine supply, according to the WGC's Gold Trend report.

For India in particular, the RBI's purchase and subsequent price reaction could open the floodgates to a significant flow of scrap metal, with the population sitting on an estimated hoard of around 20,000 tonnes in jewellery, coins and bars.

India's purchase and the possibility of further central bank diversification may also work in the favour of the rest of the complex, particularly the cheaper ones. In the jewellery market, for example, buyers may switch to items of a lower karat gold content or even avoid gold altogether, substituting into other precious metals such as silver or palladium. Investors could also be tempted into other members of the precious family as rising gold prices lower their ability to gain exposure.

Other observations

- Combined gold ETF holdings gained 3.19 tonnes last week
- Combined silver ETF holdings climbed 4.1 tonnes last week
- Fund net long position dropped 458 contracts

Technical Analysis – Gold

Gold closed very bullishly last week as prices moved into uncharted waters. This stochastics still look bullish this week, although the indicators are now in overbought territory. The 5-week moving average (WMA) offers support at \$1,071. Trendline support is seen at \$1062-\$1,046 while resistance is seen at \$1,109-\$1,120.

Overall, gold looks bullish in the medium term (with a target of \$1,200), with further gains to be expected in the short term accompanied by some consolidation. Its near-term targets are \$1,120-\$1,150, while support is seen at \$1,197-\$1,190-\$1,180 - \$1,071-\$1,062 [UTL].

Technical Analysis – Silver

Silver closed well last week, forming a Harami reversal pattern. It opened below the primary downtrend line at \$17.95 this week. The stochastics are trying to cross higher and, with K% line already in the strong buying range, this could be bullish.

Silver closed above the 61.8% Fibo level [\$16.44] last week and therefore the next upside target is the 76.6% Fibo level [\$18.34]. It has resistance at \$17.79-\$17.96-\$18.11-\$18.34. Overall, silver appears to have the potential to target \$18.34 this week.

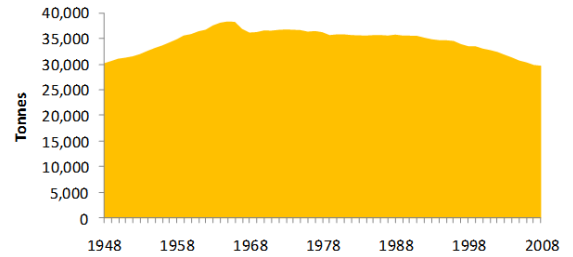
Conclusion – Gold raced to new high ground on the IMF sales, which, first, removed the possibility of 200 tonnes of gold being sold on the open market and, second, showed that central banks were indeed taking action against continuing dollar weakness. Overall, we remain bullish for gold – we think that quantitative easing will continue to devalue the dollar but we would not be surprised to see some short-covering by dollar shorts ahead of the end of the year, which could well lead to some trend reversals across the markets.

Trader Talk:

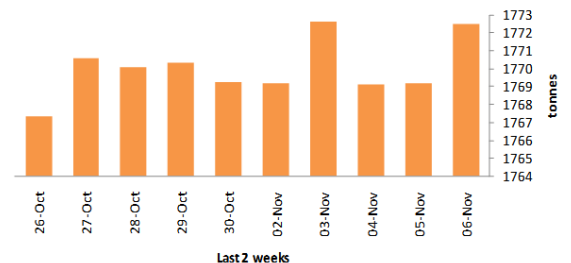
"India was a surprise. We knew that China and Russia were buyers but to have India jump into this is very positive for gold. Many central bankers are worried about the dollar so they're looking at alternatives"
- Joe Foster, manager at Van Eck International Investors Gold Fund



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