Bullion Weekly

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Bullish	Bearish
• Signs of more quantitative easing • Equities overdue a correction • Economic growth likely to spur inflation	• Dollar starts to bounce • Redemptions in gold ETFs continue • Funds get longer

Outlook

Short Term	Consolidate	$943/38
Medium Term	Move up to tackle highs at	$990/1,006
Long Term	Set new highs above	$1,050

Last Week:

- Growing risk appetite continued to drive gold and silver last week – both metals reached their highest in two months while US equities posted their fourth consecutive weekly gain. Economic data and the improving macro-economic picture largely determined market direction, with the focus the July non-farm payrolls released on Friday, which showed the loss of 247,000 jobs compared with a forecast fall of 320,000.
- Gold was supported above $950/oz across the week, posting a high of $971.80 but closing little changed in reaction to a rebound in the dollar. Silver considerably outperformed gold, ending the week up 5.1%; consequently, the AU/AG ratio traded to a seven-week low of 64.42. Silver is being bought for its industrial uses as well as a dollar hedge.
- Some explanation for gold's relative strength in July emerged last week: AngloGold Ashanti – the world's second-largest producer – announced it had covered 1.4 million ounces of its hedge book.
- Physical interest remained very limited last week, particularly in India where poor monsoons widened the rainfall deficit to 28%. Poor rainfall hits crop production and in turn further weakens jewellery demand; buyers are already struggling with high local prices.
- Net speculative holdings rose 15%, data showed, as fund/CTA players continued to boost their long exposure.

The Week in Numbers NYSE-Liffe

Gold Dec	Mon 03	Tue 04	Wed 05	Thu 06	Fri 07	Week*
High	966.00	972.60	971.20	974.50	968.00	974.50
Low	954.50	953.40	961.20	957.30	955.30	953.40
Close	959.80	969.50	966.60	963.10	959.80	0.00
Silver Sep						
High	14.463	14.763	14.835	15.038	14.887	15.038
Low	13.985	14.019	14.570	14.444	14.505	13.985
Close	14.254	14.678	14.764	14.645	14.660	0.406

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

The Week Ahead:

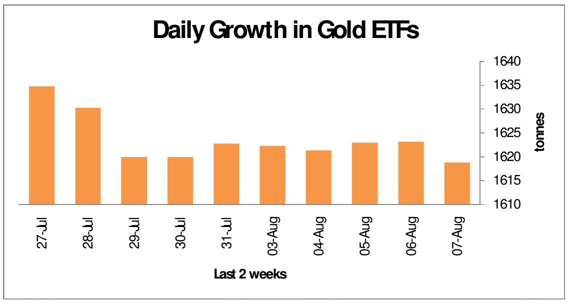
After the release of better-then-expected US non-farm payroll data, the dollar strengthened considerably, thus reducing the dollar's immediate vulnerability at least for a while. The market reaction to the sharp rebound in the dollar is now likely to be the main feature this week.

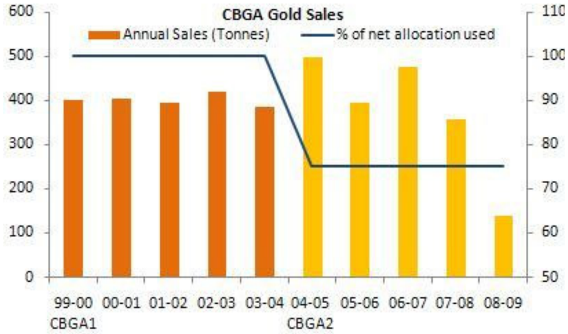
Trading this week may well be considerably choppy – due for release are CPI data in the US and Europe and CGPI in Japan. The FOMC statement on Wednesday will be closely watched – although there is unlikely to be any change in policy or to the tone of the communiqué, we note that there has been talk of the Fed possibly extending its buying of US Treasuries beyond its $300 billion ceiling. Any extension of quantitative easing could, in theory, be very bullish for gold, although not necessarily in the short term.

With increasing confidence that the recession in the US may be ending, we feel that safe-haven buying may wane, which could be a negative for gold until either inflation fears pick up or corrections in equity markets prompt safe-haven buying once again. Friday is likely to be an important day for bullion as CPI and inflation expectations data are released.

Date	Economic Agenda	Expected	Previous
Tuesday 11th August	German CPI	-0.1%	-0.1%
	US Nonfarm Productivity	5.20%	1.60%
	Unit Labour Costs	-2.2%	3.00%
Wednesday 12th August	Japan Corporate Goods PI	-8.9%	6.6%
	EU IP m/m	0.40%	0.50%
	US Trade Balance	-28.4B	-26.0B
	US Crude Oil Inventory		1.7 M
	FOMC Rate &	<0.25%	<0.25%
Thursday 13th August	EU GDP	-0.5%	-2.5%
	US Retail Sales	0.50%	0.60%
	US Initial Jobless Claims	540K	550K
Friday 14th August	EU CPI	1.40%	1.40%
	US CPI	0.00%	0.70%
	US IP	0.10%	-0.4%
	UoM Consumer Sentiment	68.6	66.0
	UoM Inflation	0	2.90%

Focus – The ECB caught the market slightly off guard on Friday when it announced earlier than expected that 19 member banks had agreed to a new Central Bank Gold Agreement (CBGA).
The third CBGA will start on September 27 and will limit gold sales to 400 tonnes per year, which is expected to include the 403 tonne of sales proposed by the IMF - although formal confirmation is still pending.
Gold was muted in response, drifting slightly lower, although most traders welcomed the news. The announcement was a "clear endorsement of gold's role in today's global economic and financial architecture and a reflection of the success of the previous CBGAs", the World Gold Council said.
Official holdings have been steadily declining for several years as central banks realign their assets, with global reserve holdings down almost 3,700 tonnes since the start of the century. But we believe that most central banks are near the end of their disposal programmes, with the Swiss National Bank, for example, stating it has no further sales plans in the near term.
Others, possibly learning from the UK's sales in 1999/2000, will carry out sales at a measured pace to limit market disruption. Indeed, with China's reserve holdings surpassing $2 trillion, we could soon be at a point where central banks become net buyers.
With the likes of China and Japan holding large dollar reserves and some looking to diversify these reserves, it may well be that some of the IMF gold sales are bought off-market by the likes of China. Overall, a third CBGA is not seen as a bearish factor for gold prices.





Other observations

- Combined Gold ETF holding dropped 3.9 tonnes last week
- Combined Silver ETF holding climbed 24 tonnes last week

Technical Analysis - Gold

Gold has traded within a $46 range but failed to close over $954 over the last two weeks, the weekly chart shows. Gold opened at $954 this week, which means that its next trend is likely to be determined by whether it closes above or below this level.
The weekly stochastics look neutral to bullish at the moment, while the RSI looks neutral. This reinforces the idea that gold is at a pivotal juncture – it could trend either way in the short term.
The daily chart presently indicates some momentum weakness and, with this in mind, there could be some near-term consolidation down towards $943-$938 before gold attempts to rally higher later in the week.

Technical Analysis – Silver

Silver closed positively last week but in doing so closed with a large overhead shadow, the weekly chart indicates. This indicates that there is overhead selling pressure.
This week, silver opened a little lower than last week's close, which indicates increased bearish momentum. The metal has found some short-term support from the 23.6% Fibonacci level [$14.42]. A breach here would likely see the metal move lower.
The weekly stochastics look bullish at present while the RSI looks neutral. Silver has the opportunity to retrace towards $14.11-$14.06, we believe, but we expect good scale-down buying once again to turn prices higher. We then think that the metal will look to target $15.05-$15.58.

Conclusion – Gold and silver extended their gains last week, which is bullish, especially with gold making multiple forays above key resistance at $965/oz. The fact that a rebound in the dollar has knocked gold lower is unsurprising but, it the weaker dollar also puts downward pressure on equities and industrial commodities, we think gold will soon attract safe-haven buying again. And if the dollar is bouncing on brighter prospects for US growth, inflation could pick up, in which case both gold and the dollar could rally.

Trader Talk:
"If this ancient store of value is not worried about actual inflation, what is keeping it awake around the 24-hour trading clock as its refuses to relax its vigilance?" A Rowley, The Business Times

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