

Bullion Weekly

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11th January 2010

Bullish

- Dollar rebound falters
- Potential for heightening of geopolitical tensions
- Bargain hunting

Bearish

- Dollar's rebound might resume if US data continues to improve
- Have the markets taken on too much risk again?

Outlook

Short Term	Build a base	\$1,070/1,120
Medium Term	Move up to	\$1,250
Long Term	Target	\$1,500

Last Week:

- Markets kicked off the first week of 2010 positively, with commodities in particular buoyed by improving economic indicators as well as an influx on fresh investment and fund-related demand ahead of index rebalancing. After a weak start to the year, the dollar edged higher again on Wednesday, triggering some softness in bullion. But the weaker-than-expected non-farm payrolls figure for December led to further dollar weakness again. The Dow rose 1.8 percent over the week while the S&P500 was up 2.7 percent. In commodities, the CRB Index climbed 2.6 percent while unusually cold weather across much of the northern hemisphere prompted a 4.25-percent rise in crude oil prices. Gold gained 3.6 percent while silver rose an impressive 9.6 percent, with the AU/AG ratio pushing below its December low of 62.32. Both metals have opened higher this week, with gold above \$1,150 per ounce, while the ratio is on course to challenge the November 18 low of 60.92.
- Data from the Bombay Bullion Association showed a rebound in Indian jewellery purchases in December, with imports rising to 32 tonnes just three tonnes in the equivalent 2008 period. The picture for the full year is less positive, however, with imports down 45 percent from 452 tonnes in 2008.
- Gold imports to Turkey, the fourth-largest jewellery market, fell 77 percent last year to just 38.45 tonnes. The country imported just 5.6 tonnes of silver last year, down from 73.6 tonnes in 2008.
- But the bull trend in bullion will continue this year, according to a poll of LBMA analysts, who see the mean fix average for the yellow metal at \$1,199. Their mean average forecast for silver is \$19.02.

The Week in Numbers NYSE Liffe US						
Gold Feb	Mon 04	Tue 05	Wed 06	Thu 07	Fri 08	Week*
High	1124.60	1129.90	1140.90	1139.20	1140.00	1140.90
Low	1094.30	1115.10	1117.60	1128.80	1109.60	1094.30
Close	1118.60	1118.70	1136.60	1132.70	1139.00	-8.30
Silver Mar						
High	17.592	17.895	18.236	18.359	18.516	17.592
Low	16.866	17.505	17.771	18.073	18.065	16.866
Close	17.452	17.803	18.168	18.325	18.453	0.184

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

The Week Ahead:

US earnings season is here again. The market appears to expect good results but we would advise caution - any big misses could turn investors rise-averse, we believe.

Overall, the most important theme for the week ahead will be dollar direction and how the currency reacts to both economic and earnings news. Anything that hints of sustainable growth and a stronger labour market is likely to be interpreted as bringing forward the end of loose monetary and fiscal policy, which in turn is likely to be bullish for the dollar

As equities and commodities continue to rally, we generally think that the correlations between trends and assets of 2009 could begin to break down. This, in turn, could make the dollar and therefore bullion prices more vulnerable to increased volatility.

Date	Economic Agenda	Expected	Previous
Tuesday 12th Jan	Japan Economic Sentiment	34.2%	33.9%
	US Trade Balance	-6.9B	-7.1B
Wednesday 13th Jan	US Crude Oil Inventories		1.3M
	US Beige Book	4.0	1.0
	Federal Budget Balance	-84.9B	-120.3B
Thursday 14th Jan	Japan CGPI yoy	-3.8%	-4.9%
	ECB Rate Announcement	1.0%	1.0%
	US Retail Sales	0.4%	1.3%
	Initial Jobless Claims	438K	434k
Friday 15th Jan	EU CPI	0.9%	0.9%
	US CPI	0.20%	0.40%
	NY State Manufacturing index	11.2%	2.6%
	US Industrial Production	0.70%	0.80%
	UoM Consumer Sentiment	73.7	72.5
	UoM inflation Expectations		2.50%

Focus – Commodities shine over the noughties

December 31 marked the end of 2009 and the noughties, a decade in which globalisation reached another level. It heralded the digital era with the birth of iPods, blogs and twitter, saw the Western World launch its war on terror and gave rise to the biggest upheaval in the financial world since the Great Depression.

Some of the largest changes to the financial world in decades were made during the noughties – the creation of CFDs, ETFs and the like, for example, were a revolution in accessibility that opened up markets to a much broader base of investors.

As can be seen in the accompanying charts, one sector that has clearly benefited from these developments is commodities, where there has been a real groundswell of investment interest, with the CRB Index rising 23 percent over the past 12 months. Although the two-year performance is negative due to the correction in 2008, the index has risen 77.5 percent over the decade, with individual commodities enjoying even better returns.

As well as strong investment inflows, a shift in fundamentals has also been a driver of commodity prices, with the demand base for raw materials and foodstuffs rising dramatically on huge economic growth in the developing world.

Supply constraints have also been an issue, particularly for the metal and energy sectors, due to underinvestment in the 1990s and the considerable lag in bringing new facilities online. Among the metals, lead was the largest gainer over the decade, up almost 390 percent compared with gold's 281 percent, silver's 216 percent and platinum's 232 percent. Palladium, though, is down eight percent.

Other observations

- The combined gold ETFs position dropped 15.1t last week
- The combined silver ETFs position climbed 3.8t last week
- The net fund long gold position dropped 2,723 contracts
- The net fund long silver positions climbed 778 contracts

Technical Analysis - Gold

Gold closed on a strong note last week, forming a bullish engulfing reversal pattern. It has therefore opened on an up gap this week; if it can avoid closing this gap this week, it will be bullish. Gold closed above the 23.6% Fibbo level [\$1,098] and the medium-term uptrend line [\$1,135] last week, which is positive. The stochastics crossed higher and the RSI is about to enter the strong buying range.

Looking ahead, gold is approaching upside resistance at \$1,168-\$1,171-\$1,177-\$1,195. Overall, we remain positive in the short term but note some headwinds.

Technical Analysis – Silver

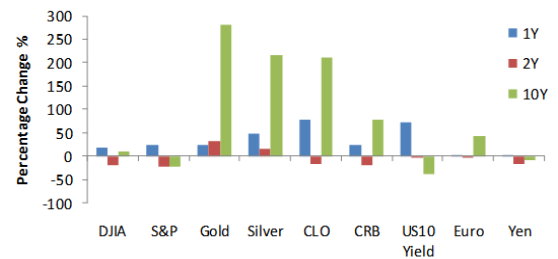
Silver closed bullishly last week, forming a bullish engulfing pattern. Like gold, the metal has opened on an up gap this week and, likewise, successfully avoiding a close of this gap this week would be bullish. Silver closed above the 76.6% Fibbo level [\$18.34] (March '08 high-October '08 low) last week, which was bullish. The stochastics also crossed higher last week, which is encouraging.

Silver has support from a long-term uptrend line [\$18.13], while resistance is seen at \$18.94-\$19.37-\$19.47. We remain bullish in the short term but note that \$19.47 has now turned prices low on two occasions (see chart, right).

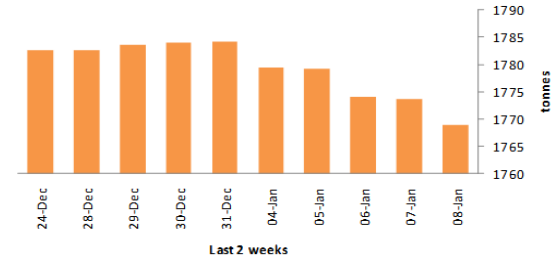
Conclusion – The dollar rebound in December hit gold and silver heavily; both are likely to react to dollar moves. With the December dollar rally failing to attract follow-through buying in January (so far), the market may think the down trend in the dollar will resume, in which case we would expect bullion to thrive. But we would be wary - the start of the year is often distorted by crosscurrents.



Market Performance: 1Y/2Y/10Y



Daily Growth in Gold ETFs



Trader Talk:

"The disappointing [non-farm payrolls figure] should have a lasting impact on the dollar because it will force traders to pare back rate hike expectations" – Kathy Lien, director of currency research at Global Forex Trading

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