

Bullion Weekly

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Bullish

- Gold closes in on the \$1,032.50 highs
- 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	Consolidate gains	\$1000/974
Medium Term	Move up to tackle highs at	\$1032.50
Long Term	Set new highs above	\$1,050

Last Week:

- Dollar weakness fuelled further asset divergence into commodities and equities last week as the Dollar Index broke below chart support at 77.85 and the August low of 77.42 to post its lowest in almost a year at 76.45. Both the Euro and Japanese Yen hit multi-month highs while the CRB Index gained 1.4%, the Dow Industrial Average 1.7% and the S&P500 2.5%.
- While neither metal performed as strongly as the week prior (gold up 1.1% v 4.1% & silver up 3.1% v 9.9%) both metals did set new highs for the year with silver touching \$17/oz on Friday while gold cleared the psychological \$1000 level in addition to surpassing the February high of \$1006.10.
- Data to September 8th showed a massive influx of speculative buying last week in both gold and silver. The net speculative long in gold surged by 28% - an increase of almost 200-tonnes - to an all-time record. Silver longs recorded a similarly large increase with net exposure up 16%. Changes in daily open interest suggest those positions could be even larger in this week's release.
- The gold/silver ratio moved to its lowest in a year at 59.05, breaking the June low of 60.73.
- Volatility levels increased last week as prices swung higher. 1 month lease rates in both gold and silver eased while 1 year rates tightened marginally.

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

Gold Dec	Mon 07	Tue 08	Wed 09	Thu 10	Fri 11	Week*
High	Holiday	1009.70	1005.00	999.50	1013.80	1013.80
Low	Holiday	992.60	988.70	976.30	996.60	976.30
Close	Holiday	999.40	997.10	997.80	1006.00	9.00
Silver Sep						
High	Holiday	16.674	16.699	16.600	16.850	16.850
Low	Holiday	16.300	16.300	16.250	16.690	16.250
Close	Holiday	16.493	16.433	16.657	16.686	0.420

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

The Week Ahead:

Markets have started the week on a negative note following last week's decent gains. With the release of important data due this week, and triple witching this Friday, we think there is room for increased volatility in the precious metal markets.

With equities renowned for poor performance in September, and gold's average return in September of 5.25% [over the last decade], we could see the current gold/equities positive correlation tested in the remainder of the month. As such, with triple witching occurring on Friday, this could be a likely point for some market turbulence and possible market correction.

This week we see further information on inflation levels and this seems more likely to be bearish for gold and silver. Furthermore this week's release of TIC Long-Term Purchases data, will aid investors in determining the foreign demand for US Treasuries, after seeing a secular decline in the dollar last week. Today, however, the US and China have entered a full blown trade row, over the Washington's 'rampant protectionism' over the import of Chinese tyres, and the implication of this seems to be a stronger dollar for the moment. Overall we think this will be an important week for markets in general, and thus the precious metal sector.

Date	Economic Agenda	Expected	Previous
Tuesday 15th Sep	EU ZEW Economic Sentiment	57.8	54.9
	US Retail Sales	1.80%	-0.1%
	US PPI	0.0	-0.9%
	Empire State Manufacturing Index	15.20%	12.1
	Fed Chairman Bernanke Speaks		
Wednesday 16th Sep	EU CPI	-0.2%	-0.2%
	US CPI	0.40%	0.00%
	US Current Account	-92 B	-101B
	TIC Long Term Purchases	60.3B	90.7B
Thursday 17th Sep	US Housing Starts	0.59M	0.58M
	US Initial Jobless Claims	554K	550K
	US Philly Fed Manufacturing Index	8.10	4.20
Friday 18th Sep	German PPI	0.10%	-1.5%

FOCUS- Changing dynamics as Barrick to close hedge-book

The world's largest gold producer – Barrick Gold Corp. – made the surprise announcement last week that it would close the remainder of its hedge book, funded through a \$3bn share offering, in order to take advantage of the "increasingly positive outlook on the gold price". While this has no doubt added to the bullish euphoria as gold reclaimed the \$1,000 level it may be worth taking with a pinch of salt. Firstly, Barrick states an open hedge position of 93-tonne (3M/ozs) compared with 168-t (5.4Mozs) reported at the end of June, suggesting a sizeable chunk has already been covered. It should however be supportive for a while longer as the rest of the hedge is unwound. Another side effect of the Barrick news could be to speed-up the pace of buy-backs of others with committed hedge exposure, primarily that of AngloGold Ashanti which has a delta-adjust open position of 136.8-tonnes (4.4Mozs) according to the latest Global Hedge Book Analysis. However, the Barrick news could mark the beginning of the end for de-hedging which has been a bullish factor in the market since 2001. Having de-hedged for almost a decade now we doubt producers will actively hedge again for a while, other than what is required for project finance, but once the de-hedging is done, the potential for hedging if prices extend their gains will then become a factor for the market to worry about along with profit taking by ETF holders and fund longs.

Other observations

- Combined Gold ETF holding climbed 4.2 tonnes last week
- Combined Silver ETF holding climbed 31.1 tonnes last week
- Fund net long position reaches a record high of 902 tonnes
- Scrap flows expected to surpass 1,212 tonnes seen in 2008

Technical Analysis - Gold

Gold moved to a 17 month high last week and it managed to close over \$1000 on both daily and weekly charts. This is bullish for the metal on a three week and medium term view. This week gold prices have started on a weaker footing, breaching \$1000. Looking at the stochastic indicators the fast line is attempting to cross below the slow line which would suggest a slowing in buying pressure. If they do cross lower we would expect to see the metal test \$990 to \$974, if a downside cross is avoided gold could well move on to challenge the highs. As long as the metal remains above \$974-\$971 on a weekly close, it will remain bullish in the medium term. Support: \$992, \$987, \$983, \$974-\$971. Resistance: \$1007, \$1011, \$1015, \$1032.

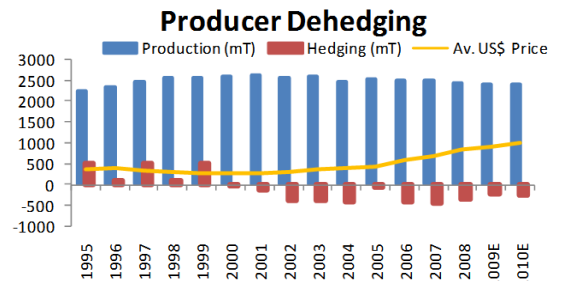
Technical Analysis – Silver

Silver closed bullishly last week with prices entering the band of overhead supply dating back to the summer of 2008 that runs between \$16.25 - \$18.35, see left hand side of chart. They also climbed through the 61.8% Fibonacci retracement line of the last year's sell-off, which is at \$16.44. Prices now seem to be consolidating either side of that line, a close below here this week would look negative. Presently the stochastics are also looking to cross lower which would suggest they are falling out of the strong buying range. If this happens we could see the metal move back to \$15.20, otherwise expect prices to consolidate in last weeks trading range. Overall expect consolidation above \$15.20 this week. Support: \$16.04-\$15.54-\$15.20. Resistance: \$16.83-\$16.96 [DTL] \$17.20.

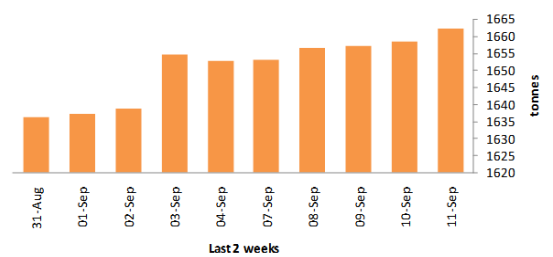
Conclusion – Bullion prices have accelerated higher in recent days and weeks and prices now seem set to consolidate for a while. The acceleration of fund and ETF buying suggests sentiment is running high and that maybe enough to send prices on gold to new highs, but we would be wary of the markets until they have had time to consolidate. Any correction in equities could pull bullion down initially as the market moves into risk reduction mode. However, once bullion has had time to consolidate we would look for further gains.

Trader Talk:

"We can't get rid of the dollar, but we can hedge dollar weakness with commodity holdings," said Lena Komileva, head of G7 market economics at Tullett Prebon."



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