Bullion Weekly

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January 18, 2010

Bullish

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

Bearish

- Dollar's rebound might resume if China data disappoints
- 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:

- Gold and silver gapped higher at the start of last week as risk appetite returned strongly after data showing Chinese exports grew 17.7 percent in December and follow-through buying after the weaker-than-expected payrolls reading on Friday, prompting speculation that the Fed will maintain historically low interest rates. The jump in exports – trouncing the forecast rise of four percent – makes China the world's largest exporter. But concerns of asset bubbles prompted the People's Bank of China to take steps to curb excess speculation, including allowing treasury yields to appreciate and raising the bank reserve ratio 0.5 percent to 16 percent. The net effect was consolidation in commodities across the rest of the week, while disappointing results weighed on equities.
- The dollar index finished down 0.2 percent while the Dow Jones Industrial Average closed just eight points lower. Gold fell 0.6 percent across the week, peaking at $1,162.10 per ounce on Monday and dropping as low as $1,118.80 on Wednesday. Silver closed unchanged after trading in a range of $18.15-18.91, while the AU/AG ratio dipped to 60.91, its lowest in 12 weeks.
- The US Commodity Futures Trading Commission said it will consider imposing position limits on precious metal contracts, widening its scope from energy products. The matter will be discussed at a public forum in March.
- South African total mineral production fell 1.6 percent in November, with gold production down 4.9 percent. The country has now slipped into third place in the gold production ranks, dropping behind Australia. It lost the top spot to China in 2007.

The Week in Numbers NYSE-Liffe US

Gold Feb	Mon 11	Tue 12	Wed 13	Thu 14	Fri 15	Week*
High	1162.20	1158.60	1138.80	1146.70	1144.30	1162.20
Low	1149.00	1124.00	1118.50	1130.80	1126.40	1118.50
Close	1151.30	1129.40	1137.50	1143.70	1130.40	-8.60
Silver Mar						
High	18.922	18.748	18.699	18.737	18.612	18.922
Low	18.570	18.200	18.225	18.470	18.403	18.200
Close	18.670	18.247	18.553	16.651	18.441	-0.012

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

The Week Ahead:

Focus this week will be split between fourth-quarter earnings results and economic data releases. Results due this week include those of Goldman Sachs, Citigroup, IBM, and General Electric – should they be met by the same scepticism that was evident last week, bullion could come under pressure again.

Chinese data will be in sharp focus, with the release of fourth-quarter GDP figures on Thursday expected to herald the return of double-digit growth. Annual consumer price inflation data is also due for release. Anything too inflationary here could prompt capital flow back into the dollar, which would be bearish for bullion in all but yuan terms.

The release of the preliminary January Purchasing Managers survey for the eurozone is also due on Thursday. With the forecasts positive, negative data could push the dollar higher and force bullion lower, especially in light of the Greek debt crisis, which is weighing on the euro.

All in all, with worries about Chinese inflation, concern over Greece's debt burden and fourth-quarter results set for release, this week will more than likely prove a choppy one for bullion, with the risk to the downside.

Date	Economic Agenda	Expected	Previous
Tuesday 19th Jan	JPY Household Conf.	40.3	39.5
	EU ZEW Economic Sent	48.2	48.0
	US TICS	30.3Bn	20.7Bn
Wednesday 20th Jan	UK MPC Minutes		
	US Building Permits	0.59M	0.59M
	US PPI	0.1%	1.8%
Thursday 21st Jan	CNY GDP	10.5%	8.9%
	CNY Industrial Production	19.6%	19.2%
	EU Flash Manuf. PMI	52.1	51.6
	US Oil Inventories		3.7M
Friday 22nd Jan	UK Retail Sales	1.3%	-0.3%
	EU Industrial Orders	0.6%	-2.2%

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Focus – Bull trend to continue, analysts say

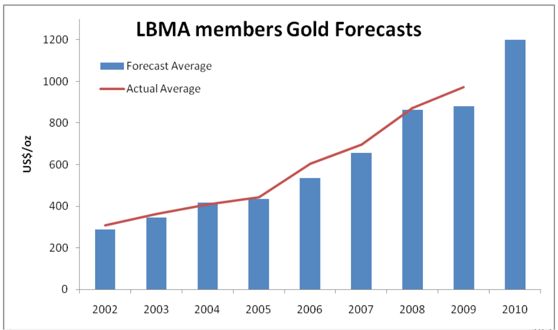
Gold looks set for another strong performance this year, according to European market commentators, as the London Bullion Market Association (LBMA) published the results of its annual survey of analysts. The 26 analysts surveyed forecast gold to average $1,199 per ounce over the two gold fixings, a rise of 23.25 percent from last year's average of $973.

Over the past eight years, the average price forecast has enjoyed a mixed degree of accuracy (see chart, right) compared with the actual average, ranging from as little as 1.1 percent out in 2008 to a wide-of-the-mark 13 percent in 2006; however, the overall trend has been firmly on the ball.

Our forecast for 2010 falls in line with the LBMA average but is perhaps slightly more bullish– we expect gold to average $1,240 and potentially testing as high as $1,420 as broad investment diversification drives the market against a backdrop of inflation concerns and diversification from fiat currencies.

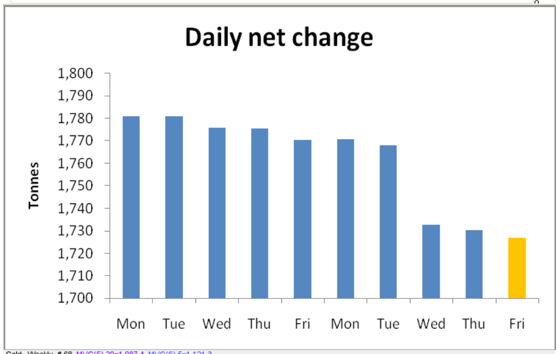
The completion of producer buyback programmes, central bank purchasing and strong domestic demand from China should also provide a solid fundamental backdrop.

The broad outlook for silver is equally bullish, as is our own. The forecast from LBMA members is for the metal to average $19.02 across the London fix. We expect silver to average slightly higher at $19.25 and trade between $13.25 and $25; however, our outlook is by no means the most bullish, with at least two analysts forecasting it will trade as high as $30 this year as record gold prices drive investors to cheaper alternatives.



Other observations

- The combined gold ETFs position dropped 7.9t last week
- The combined silver ETFs position dropped 3.5t last week
- The net fund long gold position climbed 7,870 contracts
- The net fund long silver positions climbed 4,190 contracts



Technical Analysis - Gold

Gold closed negatively last week, closing the upside gap formed at the start of the week. Trendline support is seen from two long-term trend lines [$1,099/$1,055] while resistance is seen from a short-term down line [$1,151]. Gold has support from the 5WMA [$1,121] but a close below this level would be bearish.

The RSI is trading sideways while in the stochastics the K% line is close to crossing the D% line, a potential bull signal. A failure to cross, however, would be bearish in our view. Overall, we think gold will trade choppily this week. Although it has the potential to rise, a failure to do so could offer a negative downside target of $1,103 [23.6% Fibo]-$1,055 [UTL].

Technical Analysis – Silver

Silver mirrored gold, closing negatively last week after an initial gap higher. It has risen this morning, indicating sentiment is still stronger here than for gold. Silver has trendline support at $18.45-$18.15-$16.93 and resistance at $18.84-$19.31-$19.47-$20.19.

The metal managed to close above the 76.6% Fibo [$18.34], which is positive. The stochastics look mildly positive today, as does the RSI. The overall outlook is positive but there are still hefty headwinds to be overcome if silver is to close above $19.

Conclusion – With index rebalancing and hedge-fund asset allocation mostly complete, the dollar looks set to resume as the primary provider of direction for precious metals. This week could be crucial for short-term direction, with weak data from China potentially curbing risk appetite, as could deepening fears over European sovereign debt. ETF redemptions are a possible sign investors are anticipating a short-term pullback. But with rising inflation fears in India and China, we believe dips will be limited by good volumes of scaled-down investment demand.

Trader Talk:

"China's policy response to the economic crisis, while securing a swift and impressive turnaround in economic growth in 2009, now threatens to create unintended risks to growth in 2010-11 in the form of higher inflation" - Asian Development Bank

To learn more about trading gold and sliver on NYSE Liffe US
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