

# Bullion Weekly

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## Bullish

- Gold closes in on the \$1,032.50 highs
- Risk sentiment supported by data
- Concerns mount over US deficits

## Bearish

- Funds running large long exposure
- G20/FOMC could trigger USD rally
- Potential for profit-taking

## Outlook

<b>Short Term</b>	Consolidate gains	\$1000/974
<b>Medium Term</b>	Move up to tackle highs at	\$1032.50
<b>Long Term</b>	Set new highs above	\$1,050

### Last Week:

- Systemic risk appetite showed no let up last week as investors and speculators swarmed into riskier, better yielding asset classes, particularly equities and commodities. Many stock indices set new 2009 highs, including the Hang Seng, FTSE 100, Dow Jones Industrial Average and S&P 500.
- The CRB Index posted a weekly gain of 3.5% but while the precious complex enjoyed a strong week not all sectors were as buoyant as fundamentals overruled speculative buying.
- Gold filled many news headlines as the yellow metal built on the previous weeks breach of the February \$1006 high. The yellow metal hit an 18-month high of \$1024.25 during Thursday's European session. Silver hit a peak of \$17.67 at the same as gold set its high, with the AU/AG ratio dipping to 57.86 as a result, it's lowest since August 15<sup>th</sup> last year.
- Gold maintained its close inverse relationship with the US Dollar last week as the Gold:EUR/USD correlation stood at +0.96. However at several points it did appear gold was leading the EUR/USD cross, as a result triggering weakness in other USD pairs. Numerous pairs hit multi-month highs including EUR/USD, USD/CAD, USD/SFR and USD/JPY.
- The IMF formally endorsed the sale of 403.3 tonnes of gold on Friday. Reports have already circulated that China may consider purchasing the IMF gold, while data from the Central Bank of Russia showed that they had added a further 9.3-tonnes of metal during August.

The Week in Numbers NYSE-Liffe (mini-sized contracts)						
Gold Dec	Mon 14	Tue 15	Wed 16	Thu 17	Fri 18	Week*
High	1010.60	1011.50	1022.60	1026.00	1019.50	1026.00
Low	994.00	993.70	1007.70	1010.90	1006.00	993.70
Close	1001.00	1006.30	1020.30	1013.60	1010.10	4.10
Silver Dec						
High	16.85	17.080	17.554	17.689	17.390	17.689
Low	16.34	16.449	17.041	17.214	16.730	16.340
Close	16.63	16.989	17.429	17.250	17.066	0.356

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

### The Week Ahead:

Two key events take place this week, both of which have the potential to dent risk appetite and trigger a correction across commodity and equity markets.

Firstly the FOMC meets Wednesday and while the consensus is for the Fed to keep rates on hold there will be close scrutiny for any dissident's on the committee suggesting a rate increase.

The following day will see the start of the two-day G20 meeting. Given topics of debate such as forcing banks to augment their capital buffers to better account for risk, and limitation on banks trading and investment abilities markets will be skittish to say the least.

The build in long exposure in riskier assets is cause for concern and any sell-off in equities would no-doubt have a knock-on effect on the precious metals, however with the likelihood of divergence from the policy of market stimulus unlikely it may be more a case of buy-the-rumour-sell-the-fact.

Date	Economic Agenda	Expected	Previous
<b>Monday 21st Sep</b>	US Leading Index	0.8%	0.6%
<b>Tuesday 22nd Sep</b>	US HPI	0.5%	0.5%
<b>Wednesday 23rd Sep</b>	EU Manuf. PMI	49.8	48.2
	EU Services PMI	50.5	49.9
	Geithner Speaks		
	Federal Funds Rate	UNCH	<0.25%
<b>Thursday 24th Sep</b>	JPY Trade Balance	0.18T	0.19T
	US Initial Jobless	548K	545K
	FOMC Evans Speaks		
<b>Friday 25th Sep</b>	US Durable Goods	0.3%	5.1%
	US UoM Cons Sent	70.1	70.2

## Focus – Inflation adjusted Gold

With gold looking set to challenge its record high at \$1,032.50/oz, now seems an opportune moment to see where prices might go next. To help in this matter we will look at other assets and compare these to gold. For example if we adjust previous annual average prices of gold for inflation, then we see the average in 1980 when prices peaked at \$850 and averaged \$614.50 that year, the adjustment for inflation would be equivalent to an average of \$1,362/oz and a peak of \$1,884/oz. Likewise if we look at gold in terms of oil, then the long term average of the gold:oil ration is 15. ie for 1oz of gold you can buy 15 barrels of oil. Basis this ratio then with oil at \$70/barrel, gold should be around \$1,050, which it is close to. If you compare gold to the Dow Jones Industrial Average in the early 1930's and in the 1980's when the financial markets were in turmoil, the ratio got down to below 5 - it is currently around 9.7. As such there does seem to be a good argument to say the ratio will fall further, which means either the Dow will fall or gold will rise. More likely we will get a mixture of both. With the Dow at 9,800 a ratio of 5 would suggest gold at \$1960. If the Dow double dips to 7500 that would suggest gold at \$1500. So looking at gold in inflation adjusted terms or relative to the Dow in times of financial crisis, it does look as though there is more upside potential for gold.

## Other observations

- Combined Gold ETF holding climbed 13.98 tonnes last week
- Combined Silver ETF holding climbed 6.1 tonnes last week
- Fund net long exposure in gold increased 5.5% to 952 tonnes
- Fund net longs in silver jumped 10%, exceeding 10,000-tonnes

## Technical Analysis - Gold

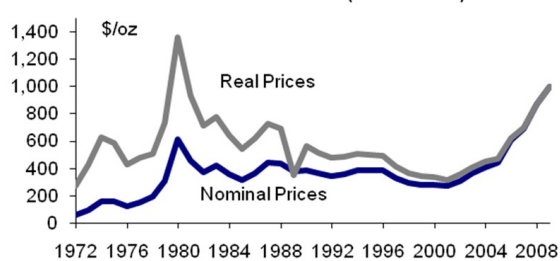
Last week gold closed forming a long legged Doji and this is suggestive of indecision in the market. If the metal closes negatively this week, then we see the completion of an evening Doji star reversal and this will be bearish. Presently the stochastics look a little bearish, as the K% line has fallen below the D% line. If therefore, we do not see a cross back over this week, it could signal a sell off. Overall we are neutral on the metal at present, but a close under \$989 would turn us bearish in the short term, whilst a close over \$1003.7 would allow us to become neutral positive again.

## Technical Analysis – Silver

Last week, Silver closed positively, and in doing so created a spinning top, which is a less than bullish pattern, that can be turned into a bearish evening star reversal if the metal closes negatively this week. Presently the stochastics look a little bearish, and if we do not see an upside cross soon, we could see the K% line fall lower and herald a sell off. Presently we are neutral on the metal but see a close under \$16.51 as a bearish turning point. If the metal can re-take \$16.80 on the close we will become neutral positive.

**Conclusion –** Gold soared to its best level in 18-months last week, but as the dust settles it has become clear that once above \$1015 the market gapped higher on option and technically driven buy stops rather than more genuine buying interest such as ETF investment demand (see above chart for monthly ETF flows). Given the scale of longs in the market and market sensitivity to Dollar and risk fluctuations we could be in for a turbulent week with both the FOMC and G20 meetings spurring long liquidation, as such we would urge caution.

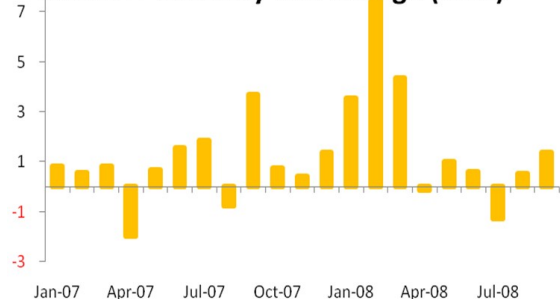
Gold  
Nominal v Real Prices (basis 2005)



Dollar Index



Gold ETF Monthly Net Change (Moz)



### Trader Talk:

"If they can't unwind [Quantitative Easing] without inflation, gold investors will win." - A Europe-based trader.

To learn more about trading gold and silver on NYSE Liffe US  
Please contact Jennifer Ropiak on +1 212 656 5145 or email [jropiak@nyx.com](mailto:jropiak@nyx.com)

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