

## Bullish

- Risk appetite picked up last week
- Sovereign debt concerns remain
- A base seems in place at \$1,100/oz

## Bearish

- Dollar is trending higher
- Tighter monetary policy could spook the markets
- ... and increase opportunity cost

## Outlook

<b>Short Term</b>	Build a base	\$1,075/1,100
<b>Medium Term</b>	Move back above	\$1,130
<b>Long Term</b>	Target	\$1,250-1,500

### Last Week:

- Bullion was busy last week, as were markets generally. Greece's debt problems prompted volatility, as did the Federal Reserve's decision to start to unwind some of its emergency measures, raising its discount rate by 25 basis points on Thursday - the first increase since June 2006.
- Economic data proved generally positive, suggesting continued improvements in US and EU manufacturing, European economic sentiment and the US housing market.
- The European STOXX 50 Index gained 4.4 percent over the week and the DJIA climbed three percent. Currency flows were mixed, however; the dollar index gained 0.4 percent after hitting an eight-month high.
- Gold looked to the euro for direction but again proved more resilient to dollar strength, with the Gold/EURUSD correlation easing to 0.47 from 0.68 in the previous week. Buying lifted gold above \$1,100 on Monday, a level that provided a base across the week - it rose to challenge but failed to conquer technical resistance around \$1,125-\$1,127. Silver tracked gold higher, regaining some lost ground, with the AU/AG ratio easing 2.4 percent.
- The big news was the IMF's announcement late on Wednesday that it would shortly initiate the on-market phase of its gold sales programme. The IMF has 191.3 tonnes of gold remaining for sale following off-market purchases by the Reserve Bank of India, the Bank of Mauritius and the Central Bank of Sri Lanka.
- The Reserve Bank of Russia announced a 3.1-tonne increase in holdings over January.

### The Week in Numbers NYSE Liffe US

Gold Apr	Mon 15	Tue 16	Wed 17	Thu 18	Fri 19	Week*
High	Holiday	1121.70	1128.40	1123.70	1127.10	1128.40
Low	Holiday	1101.00	1105.70	1101.20	1101.70	1101.00
Close	Holiday	1118.90	1119.90	1118.00	1122.30	36.30
Silver Mar						
High	Holiday	16.214	16.293	16.245	16.503	16.214
Low	Holiday	15.649	15.869	15.715	15.760	15.649
Close	Holiday	16.135	16.089	16.047	16.411	0.611

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

### The Week Ahead:

Until a plausible bailout is thrashed out for Greece, the situation in the eurozone has little potential for improvement, as shown by the CDS premiums on Greek debt.

There are two key events that are likely to drive risk sentiment this week. The first is Greece's 10-year notes bond issue; if it goes badly, it is likely to increase downward pressure on the euro.

The second is Federal Reserve chairman Ben Bernanke's semi-annual congressional testimony; if this speech takes an increasing positive view on US growth, this could boost the dollar at the expense of the euro.

A considerable volume of other important data is also due for release.

All in all, we expect the euro to remain under pressure, which is likely to keep gold priced in sterling and the euro on an upward trajectory, even though they may first need to consolidate.

Date	Economic Agenda	Expected	Previous
<b>Tuesday 23rd Feb</b>	US Consumer Confidence	55.0	55.9
	Richmond Manufacturing Index	0.0	-2.0
<b>Wednesday 24th Feb</b>	Japan CSPI y/y	-1.1%	-1.5%
	German GfK Consumer Climate	3.2	3.2
	EU Industrial Orders	-1.2%	2.7%
	Bernanke & Geithner Speaking		
	New Home Sales	350K	342K
<b>Thursday 25th Feb</b>	EU Consumer Confidence	-17	-16
	Initial Jobless Claims	466K	473K
	US Durable Goods Sales	1.60%	1.00%
	Bernanke Speaks		
<b>Friday 26th Feb</b>	EU CPI	1.0%	1.0%
	US Preliminary GDP	5.60%	5.70%
	Chicago PMI	59.30	61.50
	UoM Consumer Sentiment	74.0	73.7
	UoM Inflation Expectations		2.70%
	Existing Home Sales	5.51M	5.45M

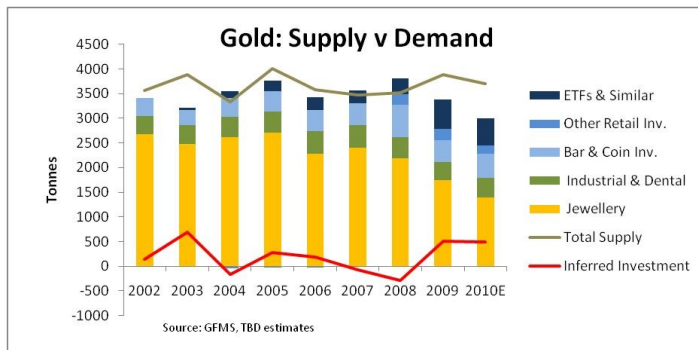
## Focus – Gold driven by shifting fundamentals

Statistics published by the World Gold Council last week showed a further shift in market fundamentals in 2009 with investment-related demand driving the market further while rising prices saw jewellery purchases fall and scrap flows increase.

Total identifiable gold demand fell 11 percent last year to 3,385.8 tonnes, the Gold Demand Trends report – compiled by GFMS – showed. Although the gold price was higher across the year, the US dollar value was on a par with 2008 levels. Jewellery demand slumped 20 percent year on year and electronics-related demand fell 16 percent because of high local gold prices and the bleak economic picture at the start of 2009. But an economic recovery in Asia and the US coupled with improved cash liquidity prompted steady quarter-on-quarter growth.

Investment demand grew strongly as investors sought to diversify away from fiat currencies. Identifiable investment demand rose seven percent – there was strong demand for official coins and particularly ETF products. There was also growth on the supply side: mine production climbed six percent as new projects came on stream while dehedging stepped up during the fourth quarter to total 257 tonnes over the year. The pace of official sales slowed considerably, with fourth-quarter disposals of just four tonnes; however, the 11-percent increase in the average gold price triggered a 27-percent increase in scrap material sales.

Given the changing market and the broader geopolitical and macroeconomic environment, we expect gold to become increasingly reliant on investment demand for price gains. Inflation/deflation concerns and low-to-near-zero interest rates are conducive to strong investment demand for now but, given our expectation of further supply growth – primary and scrap – and the erosion of jewellery demand, gold could face stronger headwinds in the next few years. This will be even more prevalent if market fears recede and the need for safe-haven assets starts to wane.



## Other observations

- Gold priced in euros reached a record high of €830 per ounce
- Gold priced in sterling hit £730 per ounce, closing in on December's £735 high
- Gold and silver ETF investors and funds increased their holdings
- George Soros' Soros Fund Management LLC more than doubled its holding in the SPDR Gold Trust in the fourth quarter



## Technical Analysis - Gold

Gold closed positively last week - it is now in touching distance of the top of downside flag formation [\$1,134]. Put simply, we think gold could make significant medium-term gains on a close above this level but, should it fail to close above this level, we think it will again target \$1,098-\$1,091-\$1,075-\$1,062-\$1,046.

The stochastics remain constructive for now and the RSI is pointing higher, which is bullish.

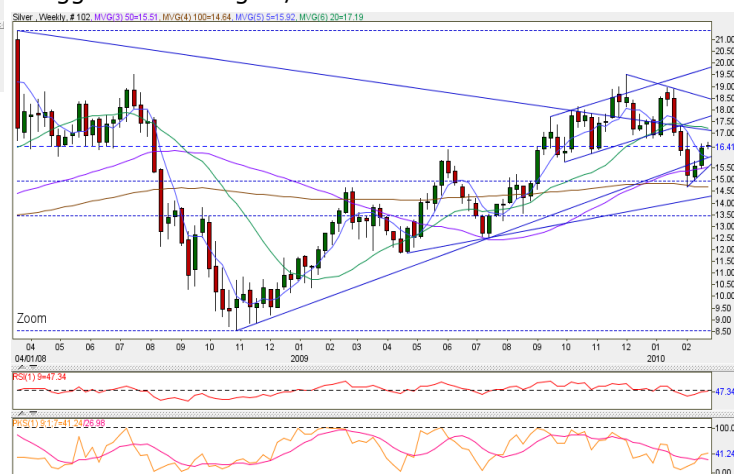
The euro has been overlaid on this gold chart – as we can see, the euro has been under pressure in the past three weeks while gold has recovered, which seems to suggest that the gold/dollar correlation has weakened.

## Technical Analysis – Silver

Silver closed positively last week – it has now moved off its lows and is challenging resistance from the 61.8% Fibon level [\$16.44].

The stochastics look slightly more constructive as does the RSI but neither appears bullish.

Silver has trendline resistance at \$17.11 and trendline support at \$15.51. It could move up towards \$16.74-\$16.95-\$17.11 in the short term, we believe, but could subsequently retreat towards \$16.00. A move under \$16.00 would offer \$15.44-\$14.92 [50% Fibon] as possible targets.



## Trader Talk:

“When savvy investors like George Soros put a whole hunk of money into the top gold ETF – and the smart Chinese Sovereign Wealth Fund, CIC, does the same – that gives some great credibility for gold as an asset worth hanging onto in the current environment” - Lawrence Williams

## Market Drivers

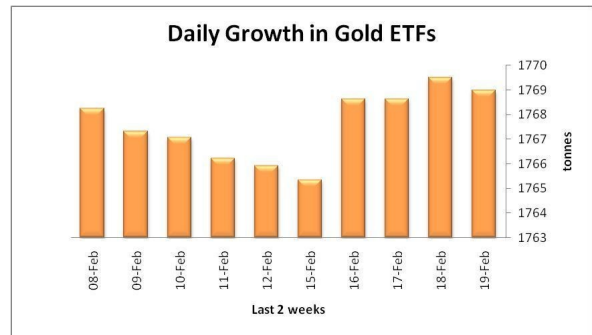
### Euro



The euro's decline against the dollar has extended as Greece's debt problems weigh on the eurozone currency.

There seems to be no end in sight for the strong downward trend in the euro.

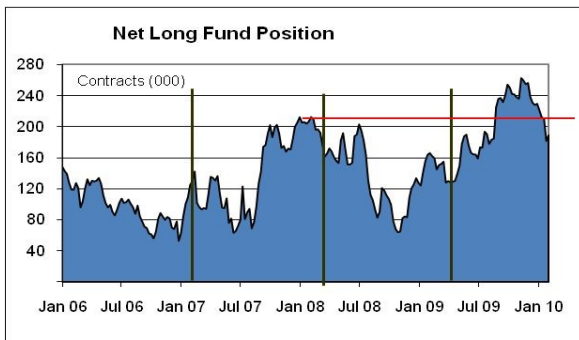
### ETFs



Investor confidence seems to have returned, with solid support around \$1,100 per ounce and a pick-up in buying across the ETFs.

Combined holdings in the silver ETFs climbed 91.4 tonnes last week.

### Funds



The drop in the net fund position halted last week, with the net long position climbing 7,339 contracts, mainly on short-covering.

The fund net long silver position gained 2,103 contracts.

### Gold Silver Ratio



As expected, the rebound in bullion prices has seen the ratio start to pull back.

Silver tends to outperform gold when the market is trending.

**Conclusion –** Gold had a volatile time last week but two tests of the \$1,100 level held, suggesting good support is in place. In addition, it is noteworthy that gold prices, although dragged lower by bouts of dollar strength, are not under constant downside pressure and each new higher level in the dollar is not reflected in a lower level in gold. With oil back at \$80 per barrel and with considerable uncertainty over some sovereign European debt, investors are right to be nervous and we therefore feel that bullion prices will remain well supported. Indeed, it is interesting to see that the euro price of gold is at record highs and sterling prices are not far behind. Overall, we feel the level of risk in the financial markets has picked up again and expect diversification from fiat currencies into gold to continue.

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