

Bullion Weekly

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NYSE Liffe
U.S.

Bullish

- The trend continues to new highs
- Market focuses on OTM options
- ETF and central bank buying

Bearish

- Market overbought in short term
- Dollar has tried to rebound; further attempts are likely
- Expect across-market profit-taking

Outlook

Short Term	Build a base	\$1,090/1,120
Medium Term	Move up to	\$1,250
Long Term	Target	\$1,500

Last Week:

- We noted in last week's Focus section that gold's rally could have further to run – and that is precisely what happened. Systemic risk appetite remained strong at the start of the week following buoyant growth data from Japan and supportive comments from APEC.
- Steady buying interest lifted the yellow metal to \$1,143.50 per ounce in Monday's after-market session before it consolidated on Tuesday as mixed dollar flows led to two-way trade. The rally resumed on Wednesday, with gold peaking briefly above \$1,150 before running into profit-taking and struggling to conquer \$1,145 amid speculation that risk appetite was overdone.
- Silver had a more upbeat week – an influx of investment and fund-related buying on Monday pushed it through previous resistance ahead of \$18.11 per ounce. It climbed initially to \$18.45 and eventually hit a 16-month high of \$18.85 as gold extended gains.
- In addition to last week's record highs in US dollars, gold hit an all-time high in Indian rupees and its best since July last year in the yen. It also hit a nine-month high in euros, sterling, Swiss francs and Canadian dollars; an eight-month high in roubles; and a seven-month high in the rand.
- Despite the continued push higher, gold lease rates eased are little changed. In contrast, option volatility levels have increased ahead of this week's expiration for the December contracts. One-month vol has tightened to 20.1 percent from 18.5 percent.

The Week in Numbers NYSE-Liffe						
Gold Dec	Mon 16	Tue 17	Wed 18	Thu 19	Fri 20	Week*
High	1144.50	1141.90	1153.20	1146.10	1151.20	1153.20
Low	1123.40	1128.00	1136.30	1129.80	1132.20	1123.40
Close	1139.20	1139.30	1141.70	1142.30	1146.80	30.10
Silver Dec						
High	18.442	18.490	18.875	18.568	18.550	18.875
Low	17.605	18.109	18.330	18.169	18.035	17.605
Close	18.394	18.387	18.404	18.442	18.444	1.068

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

The Week Ahead:

We expect a multitude of cross currents to drive bullion this week. The dollar resumed its downtrend today after St Louis Fed president Bullard said he favours the Fed seeking the authority to keep buying mortgage-backed bonds after the first quarter of next year.

In the near term, the December options expiration is likely to be crucial. There are considerable volumes of nearby OTM options centred on the \$1,200 strike. Delta hedging, or the unwinding of delta hedging should prices fail to reach \$1,200, is likely to prompt considerable volatility. OTC option expiry has also been brought forward to Wednesday because of the Thanksgiving holiday on Thursday.

Option activity is likely to dominate activity in bullion this week but all eyes will be on economic data because the dollar has tried to rebound recently (see dollar index chart, page 2). If a rebound starts, it could set the tone for a broad market correction. What is certain is lower liquidity because of Thanksgiving; options expiry is also almost certain to prompt more volatility in the bullion markets this week.

Date	Economic Agenda	Expected	Previous
Tuesday 24 Nov	US GDP	3.0%	3.5%
	US Consumer Confidence	47.6	47.7
	US House Price Index	0.2%	0.2%
	FOMC minutes	0.2%	0.2%
Wednesday 25 Nov	Durable Goods Orders	0.5%	1.4%
	Initial Jobless claims	500K	505K
	Personal Spending	0.6%	-0.5%
	Personal Income	0.2%	0.0%
	New Home Sales	408K	402K
Thursday 26 Nov	Buba president Weber Speaks		
	Japan National CPI	-2.2%	-2.3%
Friday 27	EU Consumer Confidence	-18	-18

Focus – A look at the fundamentals

Following the release of several important reports on precious metals last week, we thought it appropriate to review the current state of market fundamentals as well as a look at our expectations.

The BNP Paribas Fortis Financial Gold and Hedging Report, compiled by VM Group, released on Thursday, showed a significant drop in the global hedge book of 3.3 million ounces during the third quarter to 11.5 million ounces. Barrick cut a further 1 million ounces in early October and forecast that the hedge book to fall below 10 million ounces by the end of the year, the report also pointed out.

The WGC's Gold Demand Trends report compiled by GFMS was released on Thursday. It showed the general effects of rising metal prices on buyers' purchasing power; however, from our perspective, the report highlighted the key shift in the identity of buyers. Jewellery demand has dropped 20 percent in the 12 months ending September compared with a 69-percent increase in identifiable investment demand.

As we have noted previously, record prices have seriously dampened jewellery buying. This is clearly evident once this report is broken down, with sales in two of the three largest centres – India and Turkey – down 42 percent and 55 percent respectively.

As shown in the accompanying chart (right), we expect jewellery demand to continue to fall in the remainder of this year – it will total less than 2,000 tonnes for 2009 as a whole – and remain weak in 2010 as fabricators satisfy a good proportion of their gold requirements through the collection of scrap. The economic climate will also lower demand from the electronics sector, we believe.

But we anticipate demand from ETF-type products to exceed 600 tonnes this year and 500 tonnes next year while inferred demand will remain strong as investors seek to offset inflation concerns while shunning fiat currencies.

Other observations

- The combined gold ETFs position climbed 3.5t last week
- The combined silver ETFs position climbed 252t last week
- The net fund long gold position dropped 2,363 contacts

Technical Analysis - Gold

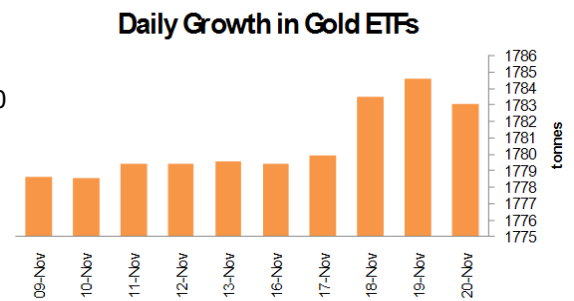
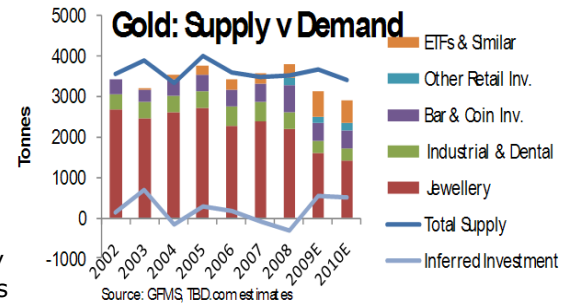
Gold opened on a very positive up gap this morning. The stochastics and RSI look bullish; while they can sustain these bullish positions for an extended period, they are now also ripe for a correction.

The weekly moving averages are not providing any immediate support. Since gold has little trendline support (trendline support is at \$1,156-\$1,100), it is therefore slightly exposed. Overall, while gold has decent upside potential, we think it faces increased downside risks. We remain positive but advise caution and vigilance.

Technical Analysis – Silver

Silver opened bullishly today after ending last week above the large symmetrical triangle formation and the 76.6% Fibbo level. This suggests medium-to-long-term upside targets of \$20.73-\$21.36.

The stochastics and RSI both look positive this week. Silver has decent trendline support at \$17.52, \$17.61, \$17.67 and \$18.09. Overall, we think that silver's outlook remains bullish but a bad close for gold could weigh on the metal.



Conclusion – Gold prices gapped higher last Monday and did so again today. With all eyes on option declaration today and OTC options on Wednesday, trading is likely to be very volatile. With the market expecting a bullish outcome, which has so far been the case, we would not be surprised to see it end in weakness – if high option strikes are called, there will be a lot of new longs in at high price levels.

Trader Talk:

"There's nothing in the cards from a monetary policy angle that could persuade me from being a dollar bear in 2010"
- Jens Nordvig, managing director and head of G-10 currency strategy at Nomura International Plc in New York

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