Bullion Weekly

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Bullish

- Continuing weakness in the dollar
- US creditors continue to diversify away from the dollar
- Stronger oil prompting inflation fears

Bearish

- If equities fall, bullion may initially sell off
- Will central banks intervene in the dollar?

Outlook

Short Term	Consolidate gains	$1,043/1,071
Medium Term	Move up to tackle highs at	$1,071
Long Term	Set new highs above	$1,250

Last Week:

- Last week proved to be a tale of two halves. Dollar weakness and rising risk sentiment further boosted equities and commodities on Monday and Tuesday with the CRB Index surging more than 5 percent on Wednesday as crude oil jumped to a fresh 2009 high of $82 per barrel, as did both the DJ Industrial Average and S&P500 – which traded above 1,100 points for the first time since October 3 last year. Investors appeared more cautious throughout the remainder of the week after several key economic indicators, including Chinese and UK GDP, US PPI and German Ifo Business Climate, came in below expectation.
- Gold and silver were largely rangebound during the week, with both consolidating at the top of their recent ranges. Gold traded in a $20 range between $1,048 and $1,068. Silver traded $17.25-96, failing to conquer technical resistance ahead of $18 per ounce but forming a potentially bullish pennant chart formation.
- ETF investment holdings rose a net 38.5 tonnes in the third quarter to a record 1,732.5 tonnes, according to data from the World Gold Council. This is far short of the almost 150 tonnes added in the second quarter. The WGC also reported positive Diwali jewellery sales in India, up 5.7% from the previous year.
- Gokhran – a Russian state trade body – may sell up to 45 tonnes of gold into the London Bullion Market before the end of the month, according to various reports. This goes against the current buying programme by the Russian central bank and has been largely discounted by the market.

The Week in Numbers NYSE-Liffe (mini-sized contracts)						
Gold Dec	**Mon 19**	**Tue 20**	**Wed 21**	**Thu 22**	**Fri 23**	**Week***
High	1066.90	1068.90	1065.70	1062.40	1068.50	1068.90
Low	1048.80	1052.50	1048.20	1052.00	1050.50	1048.20
Close	1058.10	1058.50	1064.00	1058.60	1056.20	4.80
Silver Dec						
High	17.880	17.950	17.825	17.834	17.972	17.972
Low	17.270	17.430	17.290	17.367	17.465	17.270
Close	17.629	17.565	17.822	17.545	17.723	0.299
* week's high, week's low & change on week						

The Week Ahead:

Consolidation dominated the bullion market last week so investors will probably look to the economic data releases for direction this week

Due for publication in the week ahead is US third-quarter GDP on Thursday. The consensus is for a 3 percent annualised rate – anything either side of this number will move markets. Interest rates will remain extremely low for the foreseeable future (the consensus is for the second quarter of 2010), the Fed has previously said, but strong third-quarter GDP could raise expectations that monetary policy will normalise earlier than is presently anticipated, which would certainly alter the outlook for gold and silver. As such, the Fed's response to this data will be the primary driver for the dollar and thus the bullion markets.

Aside from GDP data, personal spending, durable goods, personal income and employment costs data is due. These will offer a clear outlook on whether the consumer is ready to start spending yet.

Date	Economic Agenda	Expected	Previous
Tuesday 27th Oct	Geithner Speaks		
	Consumer Confidence	54.1	53.1
	Richmond Manuf. Index	14	14
Wednesday 28th Oct	Japan Retail Sales	-1.5%	-1.8%
	German Prelim CPI	0.1%	-0.4%
	US Durable Goods	1.2%	-2.6%
	US New Home Sales	443K	429K
	Crude Oil Inventories		1.3M
Thursday 29th Oct	Japan Ind. Production	1.1%	1.6%
	EU Cons. Confidence	-17	-19
	US GDP	3.1%	-0.7%
Friday 30th Oct	Japan Overnight Rate	0.1%	0.1%
	EU Flash CPI	-0.1%	-0.3%
	UoM Cons. Sentiment	70.1	69.4

Researched and Analysed by the bulliondesk.com E-Mail: press@thebulliondesk.com

Focus – What are analysts forecasting?

With gold's rally extending into uncharted waters, we thought it would be interesting to see what analysts are forecasting for 2010.

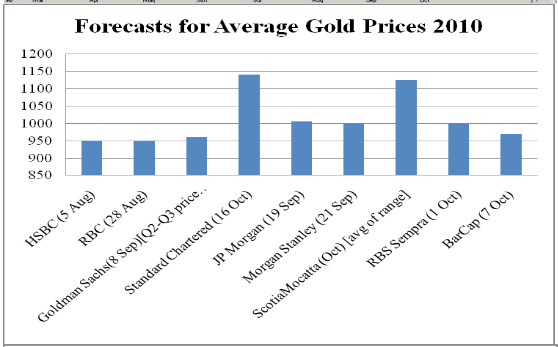
Most see dollar weakness and the fact that gold is primarily priced in dollars as a key driver, as is the yellow metals' capacity as a hedge against the risk that fiat currencies are devalued. Prospects for inflation are also seen as a driver – analysts seem to think that governments will be slow to rein in liquidity.

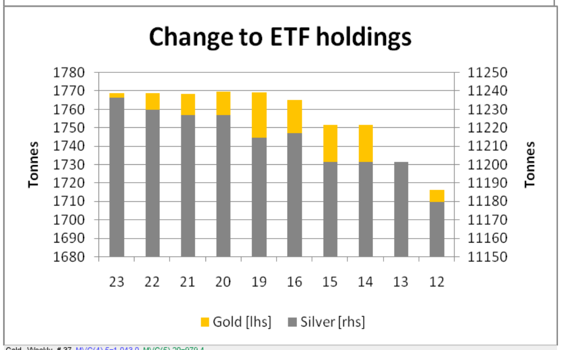
Analyst forecasts for average prices vary but, surprisingly, are broadly within a $200 per oz range. Forecasts made over the past few months – the earliest dates from August –range between $950 per oz and $1,140 per oz, with RBS-Sempra believing that a price of $1,000 per oz will be viewed as normal rather than abnormal. ScotiaMocatta sees prices trading within a $850-$1,400 per ounce range (the average of this range is $1,125 per oz), Standard Chartered raised its average price forecast for 2010 to $1,140 per oz, while Deutsche Bank sees gold trading above $1,100 per oz.

But although prices pushed above $1,000 per ounce for the third time on September 7, some banks still expect averages to below $1,000. Barclays Capital has forecast an average of $970 while Goldman Sachs sees prices trading around $960 in the second and third quarters of next year.

Interestingly, the range of forecasts is not that wide – it seems that banks are relatively conservative compared with some of the more outspoken forecasters who are looking for gold prices to challenge their 1980 highs on an inflation-adjusted basis, which would now be closer to the $2,280 per oz.

The chart opposite shows forecasts and the dates the forecasts were made. Please note that not all entries are actual forecasts.





Other observations

- Combined gold ETF holdings increased 3.7 tonnes last week
- Combined silver ETF holdings climbed 19.1 tonnes last week
- Fund net long position in gold climbed 3,740 contracts

Technical Analysis - Gold

Gold closed neutrally last week, forming a pennant continuation pattern that presages a material breakout should it closes above $1,067 or below $1,050. A pennant is usually a continuation pattern and so it should be bullish. The stochastics and the RSI are holding up well in the bullish ranges, which again is encouraging.

Overall, we are positive in the short to medium term but still wary of the risk of a downside correction in the near term.

Technical Analysis – Silver

Silver formed a bullish Harami formation last week, which is positive for the metal this week. Silver has also formed a pennant formation – if can break above the upper pennant trendline [$17.80], it will be very bullish.

Silver is well supported from an internal up trendline [$17.22]. The stochastics and RSI are both holding up well in the strong buying ranges, which again looks positive for the metal. With this in mind, we are neutral positive in the short to medium term but again have not ruled out a downside correction.

Conclusion – Given the economic data scheduled for release this week, we think the precious complex will be pushed out of its consolidation range and back into directional trading. We think there is a greater chance of bullion breaking higher then lower but with the end of the month (and of the year for some institutions) at the end of the week, the risk of dollar-driven profit-taking remains present.

Trader Talk:
"[Gold] is the only currency whose production is going down, and not up"
Bradley George, Investec's head of global commodities.

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