

Bullion Weekly

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Bullish

- Equities look set to correct further
- Dollar remains under pressure
- Potential for safe-haven buying

Bearish

- If equities fall, bullion may sell off initially
- Dollar looks oversold in short term
- Potential for profit-taking

Outlook

| | | |
|--------------------|----------------------------|-------------|
| Short Term | Consolidate gains | \$1,000/974 |
| Medium Term | Move up to tackle highs at | \$1,032.50 |
| Long Term | Set new highs above | \$1,050 |

Last Week:

- Last week proved to be a tale of two halves, with risk sentiment initially strong as the Dow, S&P and Nasdaq set new 2009 highs and the US dollar hit fresh multi-month lows before reversing direction on Thursday and Friday after US housing and durable goods data proved weaker than forecast. Traders also pared back some of their long exposure ahead of the G20 meetings in Pittsburgh and the end of the month and the quarter this week.
- Gold continued to move on an almost tick-for-tick basis with the dollar. Consequently, the correlation with the EUR/USD cross stood at +0.94, with gold rising to hold ground between \$1,006 and \$1,019.90 initially before correcting to end the week down 2.6%. In similar fashion, silver initially moved into a \$16.80-17.30 range before sliding back below \$16 per ounce as gold declined.
- Interest from the physical gold sector has increased marginally as gold has corrected back below \$1,000, largely due to purchases relating to Eid al-Fitr celebrations. Premiums into Singapore are fractionally tighter but demand from India remains extremely sluggish, as high local prices and drought fears deter buyers. Lease rates in both metals have tightened across the week despite the continued decline in funding costs as three-month Libor set a new all-time low on Friday at 0.2525. The pullback in prices also saw one-month option volatilities for both metals drop around 3%.

The Week in Numbers NYSE-Liffe (mini-sized contracts)

| Gold Dec | Mon 21 | Tue 22 | Wed 23 | Thu 24 | Fri 25 | Week* |
|------------|---------|---------|---------|---------|---------|---------|
| High | 1008.30 | 1021.60 | 1020.20 | 1021.30 | 1000.40 | 1021.60 |
| Low | 995.50 | 1005.10 | 1007.40 | 991.60 | 985.60 | 985.60 |
| Close | 1005.00 | 1015.50 | 1014.80 | 998.60 | 991.40 | -18.70 |
| Silver Dec | | | | | | |
| High | 16.97 | 17.345 | 17.285 | 17.038 | 16.400 | 17.345 |
| Low | 16.53 | 16.860 | 16.724 | 16.140 | 15.962 | 15.962 |
| Close | 16.87 | 17.117 | 16.924 | 16.305 | 16.071 | -0.995 |

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

The Week Ahead:

The overextended shorting of the dollar over the past month could see the currency begin to correct, as overcrowded shorts attempt to cut their positions before the end of the month and the quarter. This could lead to dollar and hence bullion volatility this week, we feel.

Market uncertainty about the outlook for the US economy will remain ever-present, even if more positive economic data is seen, not the least because emergency government support for the markets will have to be unwound at some point and thus could fuel investor's fears. Much important economic data is due out this week – more than we can highlight in the table opposite – and while this week's data may bring further evidence of recovery, we think volatility in equities and commodities will remain the dominant theme.

With some long liquidation in gold and silver last week, the risk of a rapid sell-off has been reduced, we feel. As such, we believe that a move lower should begin to be supported by physical demand, especially as we approach the seasonally strong fourth quarter, which includes Diwali and Christmas.

| Date | Economic Agenda | Expected | Previous |
|-----------------------|------------------------------|----------|----------|
| Tuesday 29th Sep | Japan CPI | -2.3% | -2.2% |
| | EU Consumer Confidence | -21 | -22 |
| | US Consumer | 57.0 | 54.1 |
| Wednesday 30th Sep | EU CPI | -0.2% | -0.2% |
| | Chicago PMI | 52.10 | 50.00 |
| | US GDP | -1.2% | -1.0% |
| Thursday 1st Oct | US Initial Jobless Claims | 531K | 530K |
| | US Personal Spending | 1.2% | 0.2% |
| | Fed Chairman Bernanke Speaks | | |
| | US Pending Home Sales | 1.2% | 0.2% |
| Friday 2nd Oct | US Non-Farm Pay Rolls | -186K | -216K |

FOCUS – Just how much convincing do investors need?

With the imminent end of both the month and the quarter, we thought it appropriate to see how gold and silver have fared against various other asset classes. A quick glance at the accompanying chart throws up some striking and also interesting results.

First, the various quantitative easing programmes and improving economic indicators have greatly improved investor risk appetite. Both the Dow and S&P have had double-digit gains across the quarter and the year. Second, treasury yields are starting to fall again, with the yield on the 10-year note down 6% on the quarter, suggesting investors are still cautious and may be factoring in a little inflation protection. Third, the performance of commodities as a whole during the third quarter has been relatively poor compared with the year as a whole. The CRB Index, for example, is up 9.1% in the year to date but has gained just 0.2% in the third quarter. The picture is similar for crude oil, up 48% on the year but down more than 5% on the quarter. This is attributable to several factors, we believe, including China slowing its stockpiling of raw materials, less favourable fundamentals and the knock-on effect of global recession.

For gold and silver (and also the PGMs), 2009 has been a positive year. In the year to date, gold is up 12.5% and silver an even more impressive 41.3% - reflecting its high beta properties. But looking at the 2008-09 period, gold is the stronger of the two, up 18.9% compared with silver's 8.5%. In fact compared with the Dow, Dollar Index, 10-year Treasury and crude oil, gold is the best performer - which begs the question: just how much convincing do investors need to include gold in their portfolios?.

Other observations

- Combined gold ETF holdings climbed 16.4 tonnes last week
- Combined silver ETF holdings fell 129.2 tonnes last week
- Fund net long position increases 3.42 tonnes

Technical Analysis - Gold

Gold closed bearishly last week, completing an evening star reversal that suggests there could be further losses this week. This pattern does not, however, automatically indicate a change in trend but, with the stochastics crossing lower and the RSI coming off last week, further weakness or consolidation seems likely.

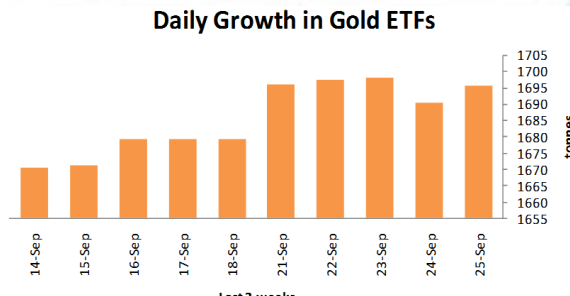
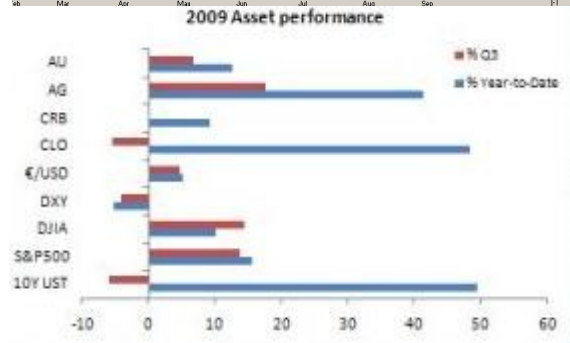
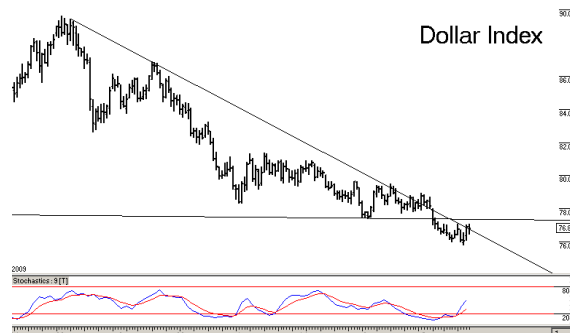
Gold has good support from a series of trendlines and support levels [\$985 (SL), \$983 (SL), \$972 (DTL), \$971 (SL), \$967 (UTL), \$963 (UTL)]. We see this move lower as retracement and we think the metal should find support above \$971. Overall, we are neutral-negative this week and see a possible range of \$971-\$1007.8.

Technical Analysis – Silver

Silver closed bearishly last week, forming a high tower formation that suggests further losses ahead. Unlike gold, last week's low for silver pierced the low of the previous two weeks, indicating a lack of support. The RSI and stochastics have come off their highs and appear to be drifting lower.

Also, unlike gold, silver does not have close proximity trend line support and is more vulnerable to further losses. We think support resides at \$15.80 (SL), \$14.92 (50% Fibo) \$14.88 (DTL) and \$14.82 (20WMA). Should silver materially breach \$15.80, we would expect to see the price retrace down towards \$15.20-\$14.92. Overall we are neutral negative on silver in the short term.

Conclusion – The markets seem to be undergoing corrections – after some very strong rallies in recent months that have pushed the envelope to the upside on equities, these could become quite aggressive. This could lead to further risk reduction that initially is likely to carry bullion prices lower but we would expect safe-haven buying to move back into bullion after the initial dash for cash. As such, we would be looking for any weakness to provide further buying opportunities; that said, there may be some jobbing opportunities on the short side for nimble traders.



Trader Talk:

"The United States would be mistaken to take for granted the dollar's place as the world's predominant reserve currency. Looking forward, there will increasingly be other options." World Bank president Robert Zoellick

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