

# Bullion Weekly

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## Bullish

- Continuing dollar weakness
- Strong investment demand
- Bullish fundamentals

## Bearish

- Overbought chart signals in gold, oversold in dollar
- Will central banks intervene in the dollar?

## Outlook

<b>Short Term</b>	Consolidate gains	\$1,143/1,071
<b>Medium Term</b>	To surpass	\$1,200
<b>Long Term</b>	Set new highs above	\$1,350

## Last Week:

- Option expiration for December contracts continued to fuel the bullish undertones in the gold market at the start of last week. Gold opened in Asia around \$12 higher than Friday's last trade and continued to advance, hitting a new high of \$1,174 per ounce on Monday. After pausing on Tuesday, gold bulls pushed the metal to new highs above \$1,190 on Wednesday before finally peaking at \$1,195.40 during Thursday's Asian session. Gold held around \$1,184-92 on a thin and relatively directionless Thursday, with US markets shut for Thanksgiving. But markets as a whole were spooked on Friday by news that Dubai World, a state holding company, was seeking a six-month break in interest payments on its \$59 billion of debt. Gold dropped almost \$50 per ounce in the following two hours as traders quickly reduced their risk exposure, with similar declines in equities while the dollar bounced. Once the kneejerk reaction ended, markets began to stabilise, with fresh bargain hunter interest emerging from US traders returning from their break. Gold recovered to close the day down just \$9 at \$1,177.
- Silver continued to track gold last week, reaching a 16-month high of \$18.95 per ounce on Monday and slumping to a two-week low of \$17.68 on Friday. But as a whole it lost ground to gold, with the AU/AG ratio rising 3.5 percent over the week.
- The central bank of Russia added a further 15.5 tonnes of gold to its reserves during October, data last week showed, bringing its holdings to 658.4 tonnes. The central bank of Sri Lanka also announced the purchase of 10 tonnes of gold from the International Monetary Fund. The IMF has sold a total of 212 tonnes of the 403.3 tonnes scheduled for sale under its asset restructuring programme.

The Week in Numbers NYSE Liffe US						
Gold Feb	Mon 23	Tue 24	Wed 25	Thu 26	Fri 27	Week*
High	1175.40	1173.00	1194.40	Closed	1193.10	1194.40
Low	1161.10	1159.60	1168.70	Closed	1133.40	1133.40
Close	1166.10	1167.80	1188.40	Closed	1174.00	25.80
Silver Mar						
High	17.880	18.718	18.886	Closed	18.574	18.886
Low	17.270	18.374	18.569	Closed	17.650	17.270
Close	17.629	18.481	18.788	Closed	18.300	-0.180

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

## The Week Ahead:

Market dynamics will be shaped this week by the fallout of the possible debt default by Dubai World. With the end of the month and the year approaching, we think that funds will be appraising their end-of-year positions, which therefore could mean small pockets of long liquidation. This sentiment could in turn exacerbate any increase in risk adversity in the markets.

This week's economic data is largely expected to show improvements in the West; any surprise shortfalls in this data could therefore lead to a wider correction. The most closely watched will be non-farm payrolls on Friday, Fed chairman Ben Bernanke's testimony and whether the ECB confirms an end to its one-year financing operation. With this in mind, we think that bullion is still vulnerable to a sell-off.

Date	Economic Agenda	Expected	Previous
<b>Mon 30 Nov</b>	Chicago PMI	53.4	54.2
<b>Tuesday 1st Dec</b>	China Manuf. PMI		55.2
	EU Manuf. PMI	51.0	51.0
	US Manuf. PMI	54.7	55.7
<b>Wednesday 2nd Dec</b>	EU PPI	0.1%	-0.4%
	US Fed Beige Book		
<b>Thurs 3 Dec</b>	Bernanke Testimony		
<b>Friday 30th Oct</b>	US Non-Farm Payrolls	-111K	-190K
	US Factory Orders	0.2%	0.9%

## Focus – The mint runs dry

The US Mint suspended the sale of one-ounce American Eagle gold coins until early December due to depleting existing inventories, it said last week. This, we believe, is one of the clearest signals yet that the gold bull trend has further upside in the coming months as investors seek a hedge against inflation woes and the devaluation of fiat currencies.

As clearly shown in the two accompanying charts, there seems to be a general groundswell of investment interest not just for commodities but also hard physical assets, with coin sales in the US going from strength to strength in recent months while inflows into precious metal ETFs have been steady but comparatively tame.

Sales of American Eagle coins in November total 124,000 ounces, exceeding 115,000 ounces in September and October. Sales in the year to date total 1.19 million ounces compared with 794,000 ounces across the whole of 2008 and just 147,500 ounces in 2007.

Silver coins have also been flying off the shelves in record numbers. Sales of one-ounce Eagle coins stand at 25.99 million ounces in the year to date, a gain of 32 percent on last year and 163 higher than 9.88 million ounces in 2007.

Despite record prices for gold this month, inflows into the various ETFs we monitor have been relatively lacklustre. Net holdings have increased just 600,000 ounces while the price has climbed more than \$120 per ounce or 12 percent. In contrast, holdings in the silver ETFs we track have risen a strong 21 million ounces while the price has gained a similar percentage.

As a whole, demand for coins is likely to remain strong, particularly in the run-up to Christmas, with smaller coins remaining the most popular for cost and tax reasons and still commanding a strong premium.

## Other observations

- Combined gold ETF holdings increased 9.6 tonnes last week
- Combined silver ETF holdings climbed 204.4 tonnes last week

## Technical Analysis - Gold

Gold ended last week in a larger spinning top formation, which seems to indicate some indecision in the market. This pattern can also be a precursor to a trend reversal, which makes us feel cautious. The stochastics and RSI are both looking strong but are falling; further losses this week could force them out of their strong buying ranges.

A close below \$1,158 or a piercing of \$1,130 could signal a larger sell-off, we think. We are neutral on gold for now. Support is seen at \$1,158-\$1,141, \$1,137, \$1,130 while resistance is seen at \$1,178, \$1,193, \$1,195, \$1,200.

## Technical Analysis – Silver

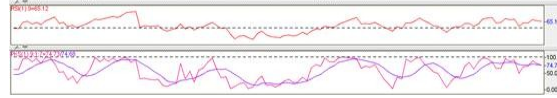
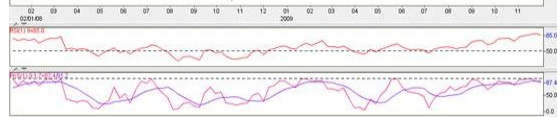
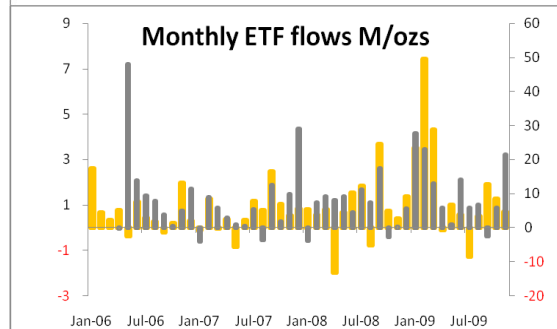
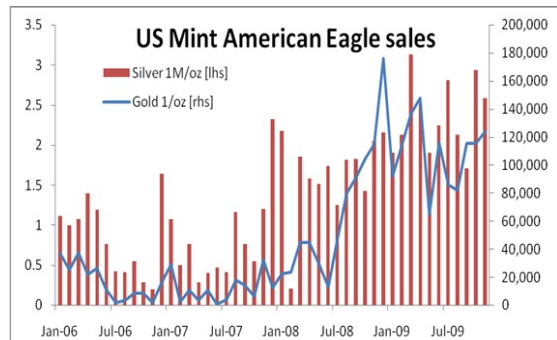
Silver closed bearishly last week but did so with a long tail, which is indicative of good buying pressure on the lows. The stochastics and RSI seem to reflect the metal's inability to rally – they are in positive areas but are heading lower. The five-week moving average is offering some good support this week at \$17.97.

As we can see on the chart, silver is in a large trading range, which looks positive in the medium term. But silver could come under pressure in the short term, we think. A close below \$18 will therefore be bearish while a close at \$18.64-\$18 will be neutral, we believe.

**Conclusion –** This week could prove to be quite an important and potentially pivotal one for gold. While last week's price dip was exaggerated because of thin holiday market conditions, we got a good indication of just how long and potentially overbought the market is. And while we are far from turning from bull to bear, we believe that some investors may be starting to look at year-end positions already, which could prompt further pockets of long liquidation, particularly should this week's non-farm payrolls cast further gloom on the US jobs market.

### Trader Talk:

"If Dubai were to implode what would you rather be: long gold or the dollar?" - Anonymous



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