

Bullish

- Euro has found a base
- Gold setting fresh highs in several currencies
- Investor buying returns

Bearish

- Euro bounce may not last
- Markets still nervous
- Some signs of better economic data could boost the dollar

Outlook

| | | |
|--------------------|-----------------|---------------|
| Short Term | Build a base | \$1,075/1,100 |
| Medium Term | Move back above | \$1,162 |
| Long Term | Target | \$1,250-1,500 |

Last Week:

- The Greek debt situation continued to dominate the headlines last week but, despite infighting among EU ministers, the successful auction of €5 billion (\$6.8 billion) of new 10-year bonds and the promise of €4.8 billion in additional spending cuts proved broadly risk-positive. The European STOXX 50 Index consequently gained more than five percent on the week and the EUR/JPY carry trade rose 1.5 percent.
- The week's economic data also bolstered investor sentiment, coming in largely in line with market expectations. In particular, Friday's non-farm payrolls came in better than forecast at just 35,000 job losses, raising speculation that March's figures will be positive. The Dow gained 2.3 percent on the week, hitting its best in six weeks.
- Chart resistance around \$1,125/\$1,127 initially capped gold but the metal broke higher on Tuesday, with the \$1,125 level providing support across the rest of the week. Gold hit a six-week high of \$1,145 on Wednesday, closing the week up 1.4 percent. Silver posted a more substantial 5.2-percent gain.
- A warning from George Soros that the "ultimate asset bubble is gold" failed to deter investors, particularly those in Europe, where the yellow metal set all-time highs in sterling (£760), euro (€838.50) and Swiss franc terms (CHF1,226.70). The largest gold ETF – the NYSE-listed SPDR – also recorded its largest weekly inflow of metal since mid-December, with just more than nine tonnes of gold added.

| The Week in Numbers NYSE Liffe US | | | | | | |
|--|---------|---------|---------|---------|---------|---------|
| Gold Apr | Mon 1 | Tue 2 | Wed 3 | Thu 4 | Fri 5 | Week* |
| High | 1123.80 | 1138.30 | 1145.50 | 1142.10 | 1141.10 | 1145.50 |
| Low | 1112.10 | 1115.20 | 1133.10 | 1126.00 | 1127.60 | 1112.10 |
| Close | 1118.30 | 1137.40 | 1143.00 | 1133.10 | 1135.50 | 16.30 |
| Silver May | | | | | | |
| High | 16.761 | 17.075 | 17.365 | 17.397 | 17.495 | 16.761 |
| Low | 16.435 | 16.360 | 16.930 | 17.063 | 17.150 | 16.360 |
| Close | 16.462 | 17.064 | 17.346 | 17.174 | 17.386 | 0.875 |
| * week's high, week's low & change on week | | | | | | |

The Week Ahead:

Eurozone political machinations will continue to drive bullion. Germany's finance minister has said that he supports the possible formation of a European fund along IMF lines. Since this will no doubt increase government divisions in Europe, it could be bullish for Gold. Such a fund would further conceal some of the EU's fundamental flaws so any rebound in the euro may be limited.

Greece's prime minister has also given advance notice of an announcement this week concerning new austerity measures to limit CDS speculators, which could again be bullish for gold.

The Chinese finance minister said that the Chinese government will look at the idea of unpegging the yuan from the dollar at some point. We think this is the start of a new and important bullish theme for commodities.

Gold in sterling and euro terms could be due a small correction in the coming week.

| Date | Economic Agenda | Expected | Previous |
|---------------------------------|-------------------------------|----------|----------|
| Tuesday 9th March | Japan Leading Indicators | 96.9% | 94.3% |
| | IBD/TIPP Economic Optimism | 48.9 | 46.8 |
| Wednesday 10th March | US Whole Sale Inventories | 0.2% | -0.8% |
| | ECB Trichet Speaks | | |
| | US Fed Budget Balance | -199B | -42.6B |
| | Japan GDP Q4 | 1.0% | 1.1% |
| | Japan GDP Price Deflator | -2.9% | -3.0% |
| Thursday 11th March | Chinese Industrial Production | 19.5% | 18.5% |
| | China PPI y/y | 5.2% | 4.4% |
| | China Retail Sales | 18.5% | 17.5% |
| | US Trade Balance | -40.8B | -40.2B |
| | Unemployment Claims | 453K% | 469K% |
| Friday 12th March | FOMC Dudley Speaks | | |
| | EU Industrial Production | 0.01 | -1.6% |
| | US Retail Sales | -0.1% | 0.5% |
| | UoM Consumer Sentiment | 74 | 73.6 |
| | UoM inflation Expectations | | 2.7% |

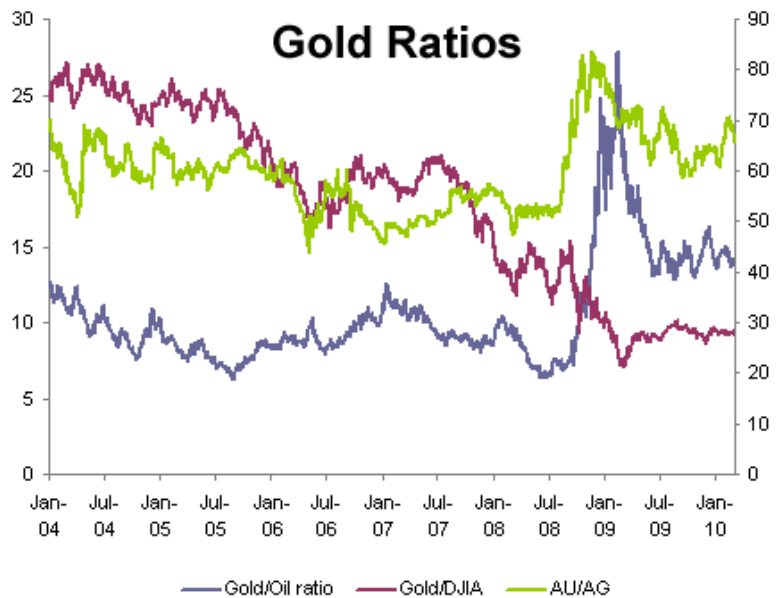
Focus – Gold’s relative performance

With gold conquering overhead down-trend resistance – established since its record high in December – last week, we thought it would be worth seeing how it has performed in recent weeks relative to other key indicators.

First, how does gold compare with silver? As shown on the chart (right), the AU/AG ratio (green line) has been falling over the past four weeks, testing just below 65:1 this week from 71:1 last month. While this suggests gold is losing ground to silver, a more accurate description is that silver is recovering recent weakness as investment demand increases and fund players halt their aggressive long liquidation and cover shorts. Given the scale of deficits and risk of default, the ratio looks set to narrow further back towards the 10-year average of 61.5:1 while investors view silver as a cheaper alternative.

Second, relative to oil (blue line), gold has been comfortably trading within the 10-20-barrel: 1-ounce range for the past year after the slump to below \$40 per barrel in December '08/January '09 pushed the ratio to almost 28:1. Given the broadly improving macroeconomic outlook and allayed fears of US regulatory restrictions, we would look for gold and oil to maintain this ratio.

Perhaps of most interest is the relationship between gold and the Dow Jones Industrial Average (red line). The ratio flattened over the past 12 months after declining steadily from its peak above 42:1 around the turn of the century as gold bottomed out at \$252 and investors began to diversify from a top-heavy stock market. With the US economy pulling itself out of recession and most of Asia steaming ahead, there is scope for the Dow/Gold ratio to start to rise but inflation, the huge expansion of the US monetary base and the very delicate state of recovery in Europe remain big threats and could easily tip the ratio lower again to a level not seen since the early 1980s.



Other observations

- The Bombay Bullion Association said India imported 34 tonnes last month, up from 7.9 tonnes in February 2009.
- According to Surbiton Associates Pty, China’s gold output reached 314 tonnes, Australia 227 tonnes, the US 216 tonnes and South Africa 210 tonnes.



Technical Analysis - Gold

Gold closed positively last week above the top of the downward trading range [\$1,125]. It must therefore close above \$1,125 this week to maintain its medium-term bullish outlook.

The stochastics look positive: the K% line is just under the strong range and the RSI is also drifting higher. With the Bollinger bands now converging, we think another sizable move is not too far away. Support is seen at \$1,125-\$1,110-\$1,096-\$1,075 while Resistance is \$1,039-\$1,150-\$1,162-\$1,168-\$1,195. Overall, we remain positive on the metal as long as it remains above \$1,126.

Technical Analysis – Silver

Silver closed bullishly last week with gains of \$0.71. Resistance is at \$17.51-\$17.82-\$18.00-\$18.14-\$18.28-\$18.34 while support is seen at \$17.00 \$16.87-\$16.65-\$16.07-\$16.00. The stochastics look neutral-positive and the RSI is drifting sideways. The 5WMA is still a long way below the 20WMA.

Overall, we think that silver could continue to rally this week but we expect some consolidation/retracement [downside target \$17.00-\$16.44] at some point. Beyond this, we remain positive in the medium term and think that silver’s short-to-medium-term upside targets are \$18.10-\$18.34.



Trader Talk:

“Despite assurances from the European Union that it stands ready to aid Greece, the euro has hardly recovered from the \$1.3430 lows we saw just before the latest Greek package. To call this a dead-cat bounce would be a good description, as long as we left out the word ‘bounce’” - Steve Barrow, head of Group of 10 currency strategy at Standard Bank in London

Market Drivers

Euro

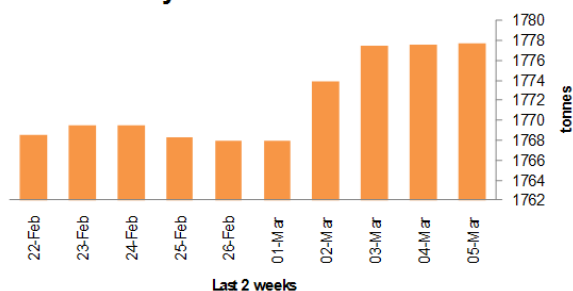


The euro seems to have found a base - at least for the moment - with support evident above 1.3400.

But because euro rallies have so far failed to attract follow-through buying, the rebound is fragile. This means the rebound in bullion may also be fragile.

ETFs

Daily Growth in Gold ETFs

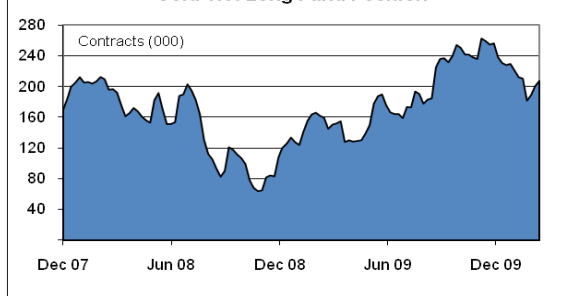


Investor interest returned last week with 7 of the 13 ETFs we follow increasing their holdings, while two ETFs saw small drawdowns.

The combined holdings in the silver ETFs dropped 54.6 tonnes last week.

Funds

Gold Net Long Fund Position



The net fund gold position climbed 6,750 contracts, longs added 6,659 contracts and shorts reduced their position by just 91 contracts.

The fund net long silver position increased by 3,242 contracts, more because of short covering rather than fresh buying.

Gold-Silver Ratio



The recovery in bullion prices has seen silver prices outperform gold again, with the ratio dropping to 65.2

Conclusion – Gold has upside potential this week – its strength across multiple currencies looks encouraging and we would not be surprised by a further short-term recovery in the euro, which would mean a relatively weaker dollar. But concerns about sovereign debt are unlikely to go away for long and, until the markets feel confident that sustainable economic growth is on the way to assist in alleviating underlying financial problems, bullion is likely to remain in demand as a monetary asset. As such, our long-term view on bullion is still bullish.

To learn more about trading gold and silver on NYSE Liffe US
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