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PRECIOUS METALS COMMENTARY

12/02/08

MINOR BOUNCE POTENTIAL THIS MORNING BUT GAINS SHOULD BE FLEETING

OVERNIGHT CHANGES THROUGH 3:15 AM (CT):

GOLD -11.60, **SILVER** -6.00, **PLATINUM** -11.70

London Gold Fix \$772.50 -\$23.00 LME Copper stocks 293,025 tons +1,825 tons
GOLD stks 8.51 ml oz -6,299 oz SILVER stks 128.5 ml oz -54,434 oz



OUTSIDE MARKET DEVELOPMENTS: While the US Dollar is higher initially today and international gold market action overnight was somewhat soft, seeing a bounce in global equity prices this morning seems to have moderated the entrenched bearishness toward gold and silver into the US opening. With the ultra weak US equity market action on Monday seemingly turning up the liquidation pressure on the precious metals markets, it is possible that the action in the equity markets today will trump the action in the Dollar in the early metals trade this morning. The US economic report slate today is somewhat thin early, with the only significant market moving events coming in the form of a US Treasury Secretary speech and some mid day US auto sales figures. The metals markets might also have benefited from an Australian interest rate cut overnight and the prospect for an EU economic plan later in the week. It is also possible that the metals markets are looking ahead to the prospect of another aggressive UK rate cut later this week.

GOLD

GOLD MARKET FUNDAMENTALS: While the Dollar is higher this morning, traders did note that the Dollar was unable to gain against the Swiss, Yen and Canadian in the prior trading session and that seems to have dampened the negative influences from the currency markets. While the gold trade appears to be deriving some initial support this morning from positive US equity market action, the fundamental news for the gold market overnight was not that helpful. In fact, with Indian gold imports for the month of November coming in at only 35 to 40 tons, and that level of imports notably below the prior years November import tally of 54 tons, it is possible that the gold trade was presented with evidence of slackening demand in a key gold consuming country. The bears will note that February gold did manage another new low for the move overnight, while the bull camp will suggest that the new low probe was at least initially rejected rather definitively. In the short term, the gold market seems to be taking its direction from the US equity markets and since the US scheduled report slate is relative empty in the morning trade today, perhaps the bulls in silver will be able play down the threat of too much slowing this morning. It is also possible that the prospect of additional global interest rate cuts later this week is providing gold with some support, as the Australian rate cut overnight brings the issue of sharply falling rates back to the forefront. We suspect that gold will see an initial attempt to bounce, but that corrective action will be limited, unless of course the US stock market manages to forge a very impressive recovery extension. Initial resistance is seen at \$779.9 and close in support is seen at \$775.5 basis the February gold contract. However, the November 25th Commitment of Traders with Options report for Gold showed the Non-commercial position to be net long 89,598 contracts, with the Non-reportable position net long 12,873 contracts and that left the "combined" spec and fund position net long 102,471 contracts as of early last week. In our opinion, the gold market still remains net spec long and vulnerable to a retest of the middle of the November consolidation zone down around \$750.

SILVER

SILVER MARKET FUNDAMENTALS: The silver market might have reached a short term oversold condition in the prior trading session. In fact, with the overnight fresh low for the move putting the March silver contract as much as \$1.57 an ounce below the late November high the oversold technical condition might have been extended even further. Therefore, a slight overnight bounce in the US equity market seems to have emboldened some bargain hunting buying in the early US silver action today but it is also possible that news of a merger/buyout in the silver mining sector, combined with another daily decline in silver exchange stocks has left the bull camp with a slight fundamental edge. As in the gold market, the silver bulls might be fortunate that the US economic report slate is relatively inactive until mid session today, as the scheduled data recently seems to have fomented renewed deflationary concerns in a host of physical commodities. For the time being, the silver market seems to be giving more credence to the action in the equity markets, than it does to the action in the currency markets. A near term bounce is likely but one should remember that the upside action in silver is probably predicated on further strength in US equity prices. Certainly the sharp slide off last week's highs makes the November 25th Commitment of Traders with Options report for Silver overstated, as that report put the "combined" spec and fund position in silver at a net long of 24,776 contracts and therefore after a slight bounce today we suspect that silver will be a sell again. However, we can't rule out a return to the \$9.86 level basis the March silver contract but we expect the selling to resume later this week.

Commitment of Traders - Futures and Options - 11/18/2008 - 11/25/2008							
	Non-Commercial		Net Position	Commercial		Non-Reportable	
	Net Position	Weekly Net Change		Weekly Net Change	Net Position	Weekly Net Change	
Metals							
Copper	-16,097	-3	19,073	999	-2,975	-994	
Gold	89,598	33,564	-102,471	-38,439	12,873	4,875	
Palladium	5,960	-36	-6,905	54	945	-18	
Platinum	7,749	-338	-8,439	351	690	-13	
Silver	13,794	135	-24,776	-891	10,982	757	

METALS TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

COMEX GOLD (DEC) 12/02/2008: The major trend has turned down with the cross over back below the 60-day moving average. The daily stochastics gave a bearish indicator with a crossover down. Momentum studies are trending lower from high levels which should accelerate a move lower on a break below the 1st swing support. The market's short-term trend is negative as the close remains below the 9-day moving average. The gap lower on the day session chart is bearish and puts the market on the defensive. The market is in a bearish position with the close below the 2nd swing support number. The next downside objective is 769.1. The next area of resistance is around 778.3 and 783.8, while 1st support hits today at 770.9 and below there at 769.1.

COMEX SILVER (DEC) 12/02/2008: The major trend has turned down with the cross over back below the 40-day moving average. A positive indicator was given with the upside crossover of the 9 and 18 bar moving average. Momentum studies are trending higher from mid-range, which should support a move higher if resistance levels are penetrated. The close below the 18-day moving average is an indication the intermediate-term trend has turned down. The gap lower on the day session chart is bearish and puts the market on the defensive. The close below the 2nd swing support number puts the market on the defensive. The near-term upside objective is at 935.0. The next area of resistance is around 935.0 and 935.0, while 1st support hits today at 935.1 and below there at 935.1.

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