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PRECIOUS METALS COMMENTARY

01/07/09

EXPECT A TWO SIDED TRADE AHEAD BUY FUTURES WITH OPTION PROTECTION

OVERNIGHT CHANGES THROUGH 3:15 AM (CT):

GOLD -1.20, **SILVER** -7.50, **PLATINUM** +36.80

London Gold Fix \$864.00 +\$20.00 LME Copper stocks 351,325 tons +7,825 tons

GOLD stks 8.543 ml oz +9,400 oz SILVER stks 126.7 ml oz -13,812 oz



OUTSIDE MARKET DEVELOPMENTS: While the gold market sits relatively close to the prior session's highs into the opening this morning, the fact that precious metals prices in general this morning are somewhat lower, in the face of a noted slide in the US Dollar has to discourage the gold and silver bulls. In fact, given the action in the last 24 hours in the metals markets, one gets the sense that the ebb and flow of the US equity market and the view toward the US economy has taken over the outside market focus in gold from the currency markets. In fact, in the prior trading session, the gold and silver markets seemed to get a lift off economic euphoria and some slightly better than expected US ISM Non manufacturing readings and that in turn could suggest that gold and silver prices have partially shifted their attention away from a flight to quality focus, back toward classic physical commodity market influences. However, with several private job surveys expected out today and the US non Farm payroll report looming directly ahead, the bull camp in gold and silver might not have picked a very good time to shift their focus toward the prospects of a better economy.

GOLD

GOLD MARKET FUNDAMENTALS: Apparently the tight focus on the ebb and flow of the US Dollar has dissipated somewhat over the last 36 hours, as a weak US Dollar doesn't seem to have provided much lift to gold prices in the early going today. In fact, seeing an early slide in US equity prices and weaker initial gold prices seems to suggest that the gold market has indeed partially shifted its focus back toward classic physical commodity market fundamentals. The bulls have to be somewhat emboldened by ongoing news of rising holdings of gold in various gold derivative investments, especially since one instrument posted a fresh record gold holding tally overnight. Clearly the fear of major economic uncertainty remains in place, but it is also clear that a portion of the gold trade is also anticipating run away inflation, while yet another portion of the gold market is apparently expecting an eventual recovery, which in turn could inspire physical or industrial buying. In other words, the bull camp in gold seems to be attempting to spin a variety of economic outcomes into their favor. In the near term, it could take a noted slide in the US Dollar and or a severe slide in the US equity market to rekindle flight to quality buying of gold in the short term and it is not entirely clear "if" a sharp slide in equity prices

would in the end be positive for gold. A very impressive rejection of the selling pressure yesterday suggests that the bull camp in gold has resolve and that the bear camp has feet of clay. In fact, the clear rejection of a sub \$850 trade suggests to us that \$850 is some form of value zone in the trade. We would suggest that traders consider getting long February gold futures but that traders should consider wrapping up that position with a just out of the money long put and an out of the money short call play.

SILVER

SILVER MARKET FUNDAMENTALS: Like the gold market, the silver market recently seems to have garnered some support from quasi industrial demand hopes, in the wake of the apparently improvement in macro economic psychology. However, the "feel good mentality" could be challenged over the coming trading sessions in the face of poor private jobs survey figures and perhaps in the face of a simple corrective action in the US equity market. In other words, the silver market seems to be more interested in the action in the equity market, than it is in the action in the Dollar. We have to think that silver is also seeing some support from the favorable news of rising Gold derivative holdings and it is also possible that silver saw a very minor lift from talk of silver being used in food containers as a health safety measure. However, even with another minor decline in silver exchange warehouse stocks overnight, we doubt that the physical supply and demand side issues are going to be given that much credence in determining near term silver price levels. We think that the March silver contract clearly rejected the sub \$11.00 level and that \$10.50 is a solid fundamental value that should hold up through the coming US non Farm payroll report. In fact, in looking at the gold market action recently it would seem like the bull camp in gold is poised to shape most of the anticipated economic outcomes ahead into a favorable condition and therefore traders should be looking to buy the next sub \$11.00 dip in silver or traders should consider getting long silver and wrapping up the long futures position with a short call and long put combination.

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 (FEB) 01/07/2009: Momentum studies trending lower from overbought levels is a bearish indicator and would tend to reinforce lower price action. The market's short-term trend is positive on the close above the 9-day moving average. A positive signal was given by the outside day up. A positive setup occurred with the close over the 1st swing resistance. The next downside target is 837.5. The next area of resistance is around 877.5 and 883.5, while 1st support hits today at 854.5 and below there at 837.5.

COMEX SILVER (MAR) 01/07/2009: Studies are showing positive momentum but are now in overbought territory, so some caution is warranted. The close above the 9-day moving average is a positive short-term indicator for trend. The close over the pivot swing is a somewhat positive setup. The near-term upside objective is at 1182.5. The next area of resistance is around 1169.0 and 1182.5, while 1st support hits today at 1120.1 and below there at 1084.5.

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