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## PRECIOUS METALS COMMENTARY

11/02/09

### THE BULLS HAVE THE INITIAL EDGE BUT HIGHER EQUITIES MIGHT BE NEEDED

#### OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

**GOLD** +13.50, **SILVER** +33.50, **PLATINUM** +14.70

London Gold Fix \$1,052.00 +\$7.50 LME Copper stks 372,175 tons -25 tons  
GOLD stks 9.421 ml oz -2,192 oz SILVER stks 117.3 ml oz +434,754 oz



**OUTSIDE MARKET DEVELOPMENTS:** With the Dollar sitting within striking distance of last week's highs and only marginally lower early action this morning, there would appear to be something besides the currency impact influencing gold and silver prices this morning. Perhaps favorable UK and Chinese PMI readings are providing the precious metals markets with a lift this morning or perhaps the markets are simply being cheered on by the relatively benign reaction to the CIT bankruptcy filing over the weekend. With a higher initial equity market indication and a slightly weaker US Dollar, one could suggest that the outside market bias is generally favoring the bull camp. The US economic report schedule is fairly active this week, with a US FOMC meeting statement due out at mid week. In the action today, the US will present Construction Spending, Pending Home sales and an ISM manufacturing report and given the generally slack tone left in place from the US personal spending readings last Friday morning, many in the trade are left fearing further evidence of slowing from the US scheduled numbers.

## GOLD

**GOLD MARKET FUNDAMENTALS:** While the outside market environment appears to be supportive of the bull camp in gold, the real source of the upward track in gold prices might be the statements from the ECB overnight. Apparently the ECB pegged gold as an "important asset" in the central banks need to diversify against risk and that is being seen as a development that favors the bull camp in gold this morning. While the market could have been undermined by news of an increase in 4th quarter gold production at Anglogold Ashanti, that news was tempered by confirmation that Anglogold Ashanti continued to reduce its hedge book in the latest reporting period. It is also possible that news of a lower forward gold production target from Anglogold left the gold trade with a slightly bullish supply side view. At least in the current environment, the gold trade doesn't seem to be paying that much attention to classic supply side news, as the ebb and flow of investment demand is generally thought to overshadow changes in actual supply. With December gold regaining the \$1,050 level overnight, some players are suggesting that the technical damage done last week is partially reversed, but the bear camp could also suggest that the mid October consolidation high zone, looks to be offering up a measure of resistance above the current market. The positioning reports showed a moderation of the combined spec positioning that was seen in the prior weekly reading, but with December gold to this mornings high, trading roughly \$19 an ounce above the level where the latest positioning report was measured, the net spec long reading seen in the Friday report, probably understates the long positioning in place this morning. The October 27th Commitment of Traders with Options report for Gold showed the Non-commercial position to be net long 265,026 contracts, with the Non-reportable position net long 44,007 contracts, and that made the "combined" spec and fund position net long 309,033 contracts as of early last week. With the gold market trading \$20 an ounce above the level where the COT report was measured, that probably means the gold market is destined to return to record spec long

positioning this week. Gold seems to be given a lift by favorable central bank dialogue and perhaps even because of the CIT bankruptcy filing over the weekend. In other words, gold is getting renewed flight to quality buying interest again. If the gold market thinks the Fed is destined to change its rate views on Wednesday afternoon that sentiment is likely to be found in error into the close Wednesday. Therefore beware of volatility off the rate dialogue issue. Support should be seen at \$1,042 and there might be little resistance until the \$1,062 level.

## SILVER

**SILVER MARKET FUNDAMENTALS:** Clearly the silver market is not as strong as the gold market, as December gold this morning managed to return to the highest level since October 26th and the December silver contract hasn't even been able to take out last Friday's highs. While some might suggest that silver is being held back because of news of higher Mexican silver production for the month of August, the silver and gold markets haven't placed a high premium on classic supply sides figures recently. However, seeing a rather aggressive increase in that August Mexican silver production tally probably served to discourage some silver bulls this morning. It is also possible that silver is being undermined by residual slowing fears that were fanned in the wake of a big dive in equity prices last Friday and also because of slack US consumer spending readings that were seen last Friday morning. In other words, silver might be held back because of its industrial leanings and perhaps even because of fears that the US Fed might begin to shift away from an all out easing stance in their Wednesday FOMC statement. The October 27th Commitment of Traders with Options report for Silver showed the Non-commercial position to be net long 48,585 contracts, with the Non-reportable position also net long 20,950 contracts, and that made the "combined" spec and fund position net long 69,535 contracts as of early last week. Therefore, the silver market is partially overbought, but not as seriously overbought as the gold market. We think that December silver will be able to respect consolidation support down at \$16.12, and we think that the path of least resistance in December silver is pointing today up with initial resistance seen up at \$16.75.

Commitment of Traders - Futures and Options - 10/20/2009 - 10/27/2009						
	Non-Commercial		Commercial	Commercial	Non-Reportable	
	Net Position	Weekly Net Change			Net Position	Weekly Net Change
<b>Metals</b>						
<b>Copper</b>	9,055	7,263	-9,440	-5,483	384	-1,780
<b>Gold</b>	265,026	-13,328	-309,032	19,313	44,007	-5,983
<b>Palladium</b>	12,904	735	-15,386	-737	2,482	2
<b>Platinum</b>	19,427	230	-23,482	-213	4,055	-17
<b>Silver</b>	48,585	-4,622	-69,535	2,552	20,950	2,069

## 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) 11/02/2009: Momentum studies trending lower at mid-range should accelerate a move lower if support levels are taken out. A negative signal for trend short-term was given on a close under the 9-bar moving average. The downside closing price reversal on the daily chart is somewhat negative. It is a mildly bullish indicator that the market closed over the pivot swing number. The next downside target is now at 1029.7. The next area of resistance is around 1051.6 and 1057.3, while 1st support hits today at 1037.8 and below there at 1029.7.

COMEX SILVER (DEC) 11/02/2009: Momentum studies are declining, but have fallen to oversold levels. The market's short-term trend is negative as the close remains below the 9-day moving average. The downside closing price reversal on the daily chart is somewhat negative. The market setup is somewhat negative with the close under the 1st swing support. The next downside objective is 1580.2. The next area of resistance is around 1664.2 and 1699.1, while 1st support hits today at 1604.8 and below there at 1580.2.

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