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PRECIOUS METALS COMMENTARY

11/03/09

LOOK FOR GOLD TO GIVE UP THE BULLISH TILT AND TRACK WITH OTHER METALS

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

GOLD +5.30, **SILVER** -8.00, **PLATINUM** -9.10

London Gold Fix \$1,058.00 +\$6.00 LME Copper stks 373,800 tons +1,625 tons
GOLD stks 9.421 ml oz 64 oz SILVER stks 113.6 ml oz -3.627 ml oz



OUTSIDE MARKET DEVELOPMENTS: Apparently there is enough uncertainty in the marketplace to see gold trade higher this morning, even as the rest of the metals markets and a host of physical commodity markets are under noted pressure. From the overnight news wires, it was clear that global economic readings (with the exception of Chinese Bank lending) were softening and that has seemingly undermined equity prices and fomented concerns of a failed global recovery attempt. It is possible that news of another tightening move by the Royal Bank of Australia also added to growth concerns but in the wake of some rather down bet economic projections from the EU, there were any number of reasons to be negative toward the global economy. While the markets expect the US Factory orders report later this morning to show a gain, the markets recently haven't benefited from up beat US economic readings. The Fed begins a two day FOMC meeting today, but the statement isn't due until Wednesday afternoon and therefore speculation over a change in the FOMC statement today might be limited.

GOLD

GOLD MARKET FUNDAMENTALS: It is possible that gold prices are actually tracking higher today off internal gold market fundamental developments. In fact, with the gold market seeing the Royal Bank of India buying 200 tons of IMF gold and suggesting they might buy additional gold supply from the IMF, the central bank angle seems to be set to favor the bull camp. If the Indian central bank is thought to be a buyer of gold and the Chinese central bank is also generally thought to be a net gold buyer, that would seem to fully tamp down the recent concern of Russian central bank gold sales. While the gold market could be undermined by talk of a change in the US rate policy ahead, that issue should not be a major force in the gold trade today. Even though the gold market seems to have discounted the upside breakout in the Dollar early this morning, the bear camp might point out that December gold did fall back rather aggressively from the early morning high of \$1,066.90. The bulls hope for a bounce off the US Factory orders data, while the bears seem to think that ongoing weakness in equities and further Dollar strength will eventually yank the rug out from under gold prices. In the end, the gold trade seems to see the Indian gold purchase as a very important market development. The gold market seems to be a duck out of water this morning! With the rest of the metals and a host of physical commodities under pressure, the Dollar in an upside breakout and concerns of a failing recovery, we think buying gold on the overnight bounce is extremely risky. Certainly the bull camp could prevail off ideas that uncertainty is going to rise sharply, but we think the threat of slowing will prevail later this week and that traders should consider the purchase of a December gold \$1,045 put for a short term look at the downside.

SILVER

SILVER MARKET FUNDAMENTALS: The silver trade wasn't drinking from the same fountain as the gold trade

in the early action today. In fact, silver was only able to temporarily rise above the prior session's close before falling back toward the prior session's lows. Clearly the silver trade was impacted by the breakout up in the Dollar and it also seemed like silver and a host of physical commodity markets were feeling some pressure from the ongoing fear of slowing in the global economy. As suggested in the gold market coverage, the international economic readings released overnight were generally discouraging and that in conjunction with the ongoing weakness in the global equity markets seems to be an additional burden for the silver market in the early going today. Even though silver exchange stocks showed a rather surprising daily decline of 3.6 million ounces overnight, it would not seem like tightening silver supply is going to be given that much attention by the trade. The market also didn't seem to garner anything fresh, from news that Hecla Mining seemed to remain on target to achieve their annual silver production target of 10.5 to 11 million ounces. While gold prices are providing some support to silver prices into the US opening today, weakness in copper and equities and strength in the Dollar looks to represent a fairly negative outside market environment. We think that fears of slowing are set to undermine silver. We also have to think that residual strength in the Dollar gives the bear camp in silver the near term edge. If one adds into the equation, the prospect of misguided ideas that the US FOMC is capable of hinting at tightening and you have to give the bear camp an edge. Initial support and a downside target over the coming trading sessions is \$16.15 in December silver.

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) 11/03/2009: The daily stochastics gave a bullish indicator with a crossover up. Positive momentum studies in the neutral zone will tend to reinforce higher price action. The cross over and close above the 18-day moving average is an indication the intermediate-term trend has turned positive. The market has a bullish tilt coming into today's trade with the close above the 2nd swing resistance. The near-term upside objective is at 1077.7. The next area of resistance is around 1070.8 and 1077.7, while 1st support hits today at 1049.6 and below there at 1035.3.

COMEX SILVER (DEC) 11/03/2009: Momentum studies are still bearish but are now at oversold levels and will tend to support reversal action if it occurs. The market's close below the 9-day moving average is an indication the short-term trend remains negative. The close over the pivot swing is a somewhat positive setup. The next downside target is now at 1602.5. The next area of resistance is around 1669.5 and 1694.5, while 1st support hits today at 1623.5 and below there at 1602.5.

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