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## PRECIOUS METALS COMMENTARY

11/04/09

### NO REASON TO TAKE CONTROL AWAY FROM THE BULL CAMP IN PRECIOUS METALS

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

**GOLD** +6.40, **SILVER** +28.50, **PLATINUM** +13.20

London Gold Fix \$1,091.75 +\$33.75 LME Copper stks 374,050 tons +250 tons  
GOLD stks 9.275 ml oz -145,408 oz SILVER stks 113.3 ml oz -297,314 oz



**OUTSIDE MARKET DEVELOPMENTS:** As opposed to the prior trading session, which initially seemed to be presenting a mostly negative outside market environment, the outside market action this morning is mostly supportive for gold and silver. In addition to a weaker Dollar, the macro economic outlook seems to be more positive and global equity prices are generally showing positive action. The metals trade might also be garnering some benefits from a favorable UK PMI reading overnight and perhaps the trade is also anticipating something favorable from the ISM Non Manufacturing readings from the US later this morning. At least in the early action today, the metals markets don't seem to be fretting over the prospect of a change in the US FOMC statement, but with the statement release not due until 1:15 PM cst, it is possible that the trade will direct its attention to that issue later today.

## GOLD

**GOLD MARKET FUNDAMENTALS:** While many in the trade think that the upside action in gold is primarily the result of rising inflationary expectations, the presence of hedge unwinding news would seem to suggest that the real bullish influence might be spread out to several classic fundamental themes. It is also possible that the gold trade is pricing in rising inflationary expectations off the idea that further delays in the US Fed unwinding of historical easing policies, will serve to entrench inflation. In other words, if classic inflation psychology is behind a portion of the recent rise in gold prices, that could mean that the FOMC statement release later today will provide a measure of increased price volatility. Another segment of the market might have seen the distinct failed rally attempt in the Dollar yesterday, as a sign that the down trend pattern in the Dollar is set to remain in place and while gold managed to trade higher in the face of initial Dollar strength on Tuesday morning, it is possible that the currency market views toward the Dollar was providing support to the gold later in the trade. Yet another portion of the gold trade might have been grasping at renewed concerns of problems in the US commercial real estate sector, which in turn suggests that flight to quality mentality is also present in the market. It does seem like the gold market does better in the face of favorable equity market action and also in the face of up beat macro economic views, but with employment news looming ahead, there might be some bears attempting to weather the current upward bias in prices. Clearly seeing a pattern of new highs has left the bull camp with a technical edge, but the bear camp could make an argument that the gold market has now become somewhat overbought. The gold market saw another definitive range up move early this morning and that would seem to keep a large portion of the bull camp very confident. With what seems to be a concerted wave of buying coming out of left field yesterday morning, it is very difficult to fight the trend. In fact, the gold market doesn't seem to be the least bit concerned about the chance of a change in the FOMC statement. In short, the trend is up and momentum is such that a rise above even number \$1,100 pricing would seem to be an easy target. Expect the trend to remain up but if there is a change in the FOMC statement, longs should sell at the market and look to reset later this week.

## SILVER

**SILVER MARKET FUNDAMENTALS:** It seems as if silver is mostly catching a ride on the coattails of the gold market. However, with grain prices and industrial metals prices also catching an upward ride recently, there is the impression that a broad based wave of commodity buying is taking place. While some might point to a recent pattern of declines in silver warehouse stocks, that minimal supply side development would seem to be more than offset by recent news of a rise in physical silver production. With gold forging a series of new all time highs and silver prices to this morning's highs, still 64 cents an ounce below the October highs, the silver bears could suggest that silver has seriously lagged behind the gold market. The bull camp in silver might argue that silver is now relatively undervalued to gold or that silver is less overbought technically than the gold market. However, as opposed to yesterday when the silver market was seeing some drag from its physical commodity standing, the outside market action this morning would seem to be more supportive of the industrial commodity markets. It is possible that silver is being held back because of the fear of a change in the FOMC statement later today and it is also possible that silver and other industrially orientated commodities are somewhat concerned about the upcoming US Non Farm payroll report. At least in the near term, the bias in silver prices looks set to remain up as the pattern of fresh record highs in gold is difficult to discount. In fact, a return to the \$18.00 level is possible today and over the coming trading sessions but only if the FOMC statement remains unchanged and the US Dollar falls back toward this week's lows. Initial resistance isn't seen until \$17.80 basis the December silver contract.

## 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) 11/04/2009: The market made a new contract high on the rally. The crossover up in the daily stochastics is a bullish signal. Stochastics are at mid-range but trending higher, which should reinforce a move higher if resistance levels are taken out. The market's close above the 9-day moving average suggests the short-term trend remains positive. The market's close above the 2nd swing resistance number is a bullish indication. The near-term upside target is at 1111.4. The 9-day RSI over 70 indicates the market is approaching overbought levels. The next area of resistance is around 1101.3 and 1111.4, while 1st support hits today at 1068.3 and below there at 1045.4.

COMEX SILVER (DEC) 11/04/2009: The cross over and close above the 40-day moving average indicates the longer-term trend has turned up. A bullish signal was given with an upside crossover of the daily stochastics. Momentum studies are trending higher from mid-range, which should support a move higher if resistance levels are penetrated. The market's close above the 9-day moving average suggests the short-term trend remains positive. The outside day up is somewhat positive. There could be more upside follow through since the market closed above the 2nd swing resistance. The near-term upside target is at 1813.3. The next area of resistance is around 1781.2 and 1813.3, while 1st support hits today at 1670.8 and below there at 1592.4.

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