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PRECIOUS METALS COMMENTARY

11/05/09

NO CHANGE IN TREND BUT THE BEAR CAMP HAS A WEAK TWO DAY EDGE

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

GOLD +1.90, **SILVER** -4.00, **PLATINUM** -7.30

London Gold Fix \$1,088.00 -\$3.75 LME Copper stks 379,825 tons +5,775 tons
GOLD stks 9.280 ml oz +4,341 oz SILVER stks 115.1 ml oz +1.763 ml oz



OUTSIDE MARKET DEVELOPMENTS: While the Dollar is showing minor gains in the early going today, a number of markets seem to retain a bearish overall tilt toward the Greenback. The macro economic outlook facing the precious metals markets this morning is somewhat mixed, with favorable tech sector guidance seen from the US and favorable UK manufacturing data, but the trade was also presented with some disappointing Euro zone retail sales data early today. While the US economic outlook seemed to start the week out on a soft note, it would seem like sentiment has improved along with the slight bounce in the equities markets this week. Now that the widely anticipated FOMC statement is known and US interest rates are expected to stay low, it would seem like a number of physical commodity markets are showing signs of retaining the gains they forged early in the week. While the BOE left rates unchanged this morning, it did seem as if they raised the quantitative easing effort slightly and that is generally supportive of the gold and silver markets. The trade will probably take a long look at the US initial and ongoing claims figures this morning, as those readings precede the ultra critical monthly US payroll readings on Friday morning.

GOLD

GOLD MARKET FUNDAMENTALS: The gold market seemed to be cheered by the prospect of low rates remaining in place, but it was clear that the gold market had anticipated the on -old stance with strength earlier in the week. The gold market is also seeing support from an up beat gold industry conference, where the Press picked up on a number of bullish longer term gold price projections. It also seems as if the Indian gold trade remained underpinned by the central bank purchase of IMF gold at the beginning of the week. With the BOE showing a slight expansion of its quantitative easing efforts this morning and the US Fed leaving rates down, most of the fundamental angles would seem to favor the bull camp. Some players even attempted to spin the Fed's numerous references that inflation was under control, as a reason to be bullish toward gold prices. However, the bear camp will suggest that the lack of distinct forward progress on the US employment front directly ahead and lingering US commercial real estate problems leaves the prospect of deflation in the marketplace. While a Chinese source overnight, suggested that the Chinese central bank would buy domestic gold, rather than more expensive IMF gold, it would seem like the net spin from the central bank front this week remains generally supportive. The bears have to hope that upcoming US numbers are indeed slack, or that the Dollar manages to rise enough to offset ongoing bullish speculative mentality toward gold and other physical commodities. The trend remains up, but even the most aggressive bulls have to be a little concerned that evidence of ongoing employment problems in the US could temporarily dampen the inflation parade. With the December gold contract to the high Wednesday, sitting as much as \$72 an ounce above the late October lows, the market is somewhat vulnerable to soft economic readings. In fact, now that the market has benefited from the on hold Fed and Obama telegraphing another rise in unemployment the bulls are potentially facing some choppy water ahead. However,

it's not like the gold market will be surprised by a rise in unemployment on Friday. There is no reason to call for an end to the uptrend, but a correction to \$1,080 might be still met with renewed buying interest.

SILVER

SILVER MARKET FUNDAMENTALS: The silver market has generally held most of the gains forged early in the week, but the silver market is showing some minor price divergence with gold in the early action today. The market is seeing a slightly higher Dollar and there is a little macro economic concern in the air early this morning. While silver exchange stocks rose rather aggressively overnight, it would not seem like the silver trade is that interested in classic physical supply side developments. It is also possible that the silver trade is largely discounting news from a major US silver producer that their global silver reserves were being adjusted significantly higher. While the silver market has acted like a precious metals market this week, and has taken a large amount of direction from the gold market, it is possible that some silver bulls are fretting over the upcoming flow of US economic data, as soft economic readings might dent demand expectations for industrial or physical commodities. On the other hand, the bull camp in silver seems fairly confident that the economic front will continue to be supported by low US interest rates and pipeline stimulus. It goes without saying that the silver market is slightly overbought from a short term perspective. It is also possible that silver is set to diverge slightly with the gold market over the coming two trading sessions, as a negative macro economic spin from the US numbers might undermine silver, more than the gold market. However, despite an increased prospect of corrective balancing ahead, there is no reason to call for an end to the up trend in the silver market. Critical support is seen down at \$17.18 and then again at \$17.10.

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) 11/05/2009: The market rallied to a new contract high. Daily stochastics have risen into overbought territory which will tend to support reversal action if it occurs. A positive signal for trend short-term was given on a close over the 9-bar moving average. The market has a slightly positive tilt with the close over the swing pivot. The near-term upside objective is at 1109.2. The market is approaching overbought levels with an RSI over 70. The next area of resistance is around 1102.0 and 1109.2, while 1st support hits today at 1084.0 and below there at 1073.3.

COMEX SILVER (DEC) 11/05/2009: Stochastics are at mid-range but trending higher, which should reinforce a move higher if resistance levels are taken out. The cross over and close above the 18-day moving average is an indication the intermediate-term trend has turned positive. It is a mildly bullish indicator that the market closed over the pivot swing number. The near-term upside objective is at 1794.5. The next area of resistance is around 1772.5 and 1794.5, while 1st support hits today at 1719.5 and below there at 1688.5.

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