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PRECIOUS METALS COMMENTARY

11/17/09

EXPECT SOME BACK AND FILL TO BE MET WITH BARGAIN HUNTING BUYING

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD -8.70, SILVER -30.00, PLATINUM -2.80

London Gold Fix \$1,131.75 +\$3.00 LME Copper stks 410,000 tons +3,550 tons
GOLD stks 9.533 ml oz +24,469 oz SILVER stks 111.8 ml oz -596,469 oz



OUTSIDE MARKET DEVELOPMENTS: Apparently a comment from the US Federal Reserve Chairman on the Dollar in the prior trading session has given the Dollar some support overnight and that in turn seems to have prompted weakness in a number of physical commodities this morning. With international equity prices also showing a bit of corrective action this morning, the outside market environment seems to be favoring the bear camp in the precious metals markets. The markets will be presented with an active US report slate this morning and after seeing only minor rise in the UK CPI reading early this morning, the US PPI report might have to be slightly hotter than expected to put inflationary psychology back into a front and center position in the metals trade. The trade will also see US Industrial Production and Capacity utilization readings and those are generally expected to show some minor improvement. Around mid session, the trade will see a NAHB Housing Index reading but that report isn't generally seen as a first tier reading. Other events that might create a reaction in precious metals prices today, is the Treasury capital flows report and a series of US Federal Reserve speeches.

GOLD

GOLD MARKET FUNDAMENTALS: Since the Dollar and outside market action seems to have the attention of the gold market in the early going today, news that a small central bank (Mauritius) bought some gold from the IMF was somewhat lost on the trade. With the Press also noting the flow of some Indian scrap gold supply into the market, in the wake of the recent new high move, there is the sense that high prices did manage to pull in some supply. However, given the ongoing trade expectation of more central bank buying interest ahead and talk that gold miners will continue to reduce their hedge books, there doesn't appear to be a large contingent of sellers looming over the marketplace. Like the equity markets, gold and other physical commodity markets might need fresh confirmation of forward progress in the economy to stand up against the early corrective bias in many markets this morning. Some players have even suggested that de-hedging by miners, is the result of a lack of gold reserves, while others think the de-hedging moves are simply an attempt to capitalize on a bullish price environment. While the gold market hasn't been exclusively lifted off inflationary psychology, the trade will probably give the US PPI report a good long look this morning and given the proximity to the recent highs, it wouldn't be a positive for the PPI reading to fail to rise by at least +.4% this morning. Minor corrective action, mostly off temporary Dollar strength. However, given the entrenched bullish bias in this market, we suspect that weakness in prices will be met with fresh bargain hunting buying. A temporary dip below \$1,120 in the December gold contract might be viewed as a bargain level.

SILVER

SILVER MARKET FUNDAMENTALS: Clearly the rapid rise in silver prices in the prior trading sessions produced some form of overdone technical status and therefore the weakness this morning isn't that surprising. In fact, with

a slight rise in the Dollar and some macro economic doubt arising from the weakness in equity prices, it would seem like the outside market influences are serving to contribute to the technical weakness in silver prices this morning. However, silver should be garnering some fundamental support from generally favorable ongoing international demand expectations toward the gold market. While the silver market saw another modest decline in daily silver exchange warehouse stocks overnight, the physical supply side developments in silver are just not being given that much credence. In the end, a two day, low to high rise of \$1.43 an ounce in December silver is a rather compacted and aggressive rise and therefore the 31 cent early decline this morning might be largely technical in nature. On the other hand, given the recent aggressive run up in silver prices, silver and other industrial metals prices, the trade today might take a large measure of guidance from the equity markets. Clearly the market was short term overbought into the highs yesterday and with the slight recovery bounce in the Dollar and a little slackness in equity markets, there is a need to correct prices temporarily. We see initial support down at the \$18.00 level in the December contract, with more significant support seen down at \$17.87.

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) 11/17/2009: The rally brought the market to a new contract high. Rising stochastics at overbought levels warrant some caution for bulls. A positive signal for trend short-term was given on a close over the 9-bar moving average. There could be more upside follow through since the market closed above the 2nd swing resistance. The near-term upside target is at 1160.7. With a reading over 70, the 9-day RSI is approaching overbought levels. The next area of resistance is around 1152.5 and 1160.7, while 1st support hits today at 1127.9 and below there at 1111.4.

COMEX SILVER (DEC) 11/17/2009: Momentum studies are trending higher but have entered overbought levels. The market's short-term trend is positive on the close above the 9-day moving average. The gap upmove on the day session chart is a bullish indicator for trend. The market's close above the 2nd swing resistance number is a bullish indication. The next upside objective is 1915.3. The next area of resistance is around 1888.2 and 1915.3, while 1st support hits today at 1790.8 and below there at 1720.4.

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