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PRECIOUS METALS COMMENTARY

11/20/09

A JUMP IN THE DOLLAR MAY SPARK TECH CORRECTION BUT SUPPORT TO HOLD

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD -2.70, SILVER -25.50, PLATINUM -15.50

London Gold Fix \$1,142.50 +\$7.50 LME Copper stks 421,875 tons +1,325 tons
GOLD stks 9.534 ml oz Unch oz SILVER stks 111.7 ml oz -270,419 oz



OUTSIDE MARKET DEVELOPMENTS: The US dollar gained overnight in the wake of steep declines in equity prices yesterday. Risk aversion is being credited with the dollar gains, as funds are apparently booking profits and putting them into "safe" instruments like US government bonds, which clearly could be only a temporary maneuver. The German PPI fell 7.6% from year ago levels in October, which was only slightly greater than expected, and the Bank of Japan held rates steady at the record low 0.1%, neither of which is a surprise. The long term view hasn't really changed, as the record amount of debt the US government is undertaking is fanning inflationary concerns. But if the economy sputters, inflation threats will tend to abate. Dissatisfied with President's lack of progress on getting China to strengthen its currency against the Dollar, two US Senators, one Republican and one Democrat, are asking the Commerce Department to look into possible "currency manipulation" on the part of the Chinese government. If this issue gains momentum, it could raise concerns about protectionism and potential threats to the global economic recovery.

GOLD

GOLD MARKET FUNDAMENTALS: The gold market managed to close higher yesterday in spite of a strong dollar, and this was a rare development. While yesterday's World Gold Council report showed world gold demand falling 34% from a year ago, that was only half the story. Demand increased 10% from the 2nd quarter, which is the first quarterly increase in a year. Last year gold demand soared in the 3rd quarter with the onslaught of the financial crisis, so it is not shocking that this year's numbers came up short. If the stock market continues to sell off today, this could put some pressure on gold and other precious metals, but just like the case with the dollar, stock markets were under pressure yesterday and gold still managed to close higher. Retail investors seem to be looking to protect wealth and gold demand is likely to increase even more if the dollar rally falters. A bounce in the dollar is one thing, but a change in trend will be another. With solid fundamentals, gold may be in a position to push higher even during a period of a recovery bounce in the US dollar. It will take a change in the dollar trend and a change in the dollar psychology to shift away from a bullish outlook for gold. February gold support comes in at 1128.60 and 1122.50 with some close-in support at 1134.80 with 1173.30 as next upside objective.

SILVER

SILVER MARKET FUNDAMENTALS: Similar to the gold market, silver managed to close higher on the session yesterday as the dollar set back from the highs, but the higher close is still considered a rare feat on a day when the dollar was higher and the stock market moderately lower. Buy and hold investment strategies appear to be a more significant offset to the decline in industrial demand, and the market remains in a solid uptrend. The idea that the market is overbought technically was seen as a bearish force overnight, and strong gains in the March US dollar index to the highest level since November 6th sparked a significant sell-off in the overnight session and

a move under yesterday's lows for March silver. Weaker than expected economic news this week has the market on the defensive early today. December silver is overbought, but the market is in a solid uptrend and corrective breaks appear to be buying opportunities. Silver seems to be getting more appeal as a "poor man's gold." Support for March silver comes in at 17.97 with some light, close-in support at 17.19 and with resistance at 18.58 and the next upside target at 19.57.

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) 11/20/2009: Studies are showing positive momentum but are now in overbought territory, so some caution is warranted. The close above the 9-day moving average is a positive short-term indicator for trend. The daily closing price reversal up is a positive indicator that could support higher prices. The market has a slightly positive tilt with the close over the swing pivot. The next upside target is 1157.7. The market is becoming somewhat overbought now that the RSI is over 70. The next area of resistance is around 1152.4 and 1157.7, while 1st support hits today at 1136.0 and below there at 1124.8.

COMEX SILVER (DEC) 11/20/2009: Momentum studies are trending higher but have entered overbought levels. The close above the 9-day moving average is a positive short-term indicator for trend. The market has a slightly positive tilt with the close over the swing pivot. The next upside target is 1895.5. The 9-day RSI over 70 indicates the market is approaching overbought levels. The next area of resistance is around 1878.0 and 1895.5, while 1st support hits today at 1829.0 and below there at 1797.5.

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