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PRECIOUS METALS COMMENTARY

11/21/08

EXPECT A TEMPORARY BOUNCE BUT GOLD SHOULD OUTPERFORM SILVER

OVERNIGHT CHANGES THROUGH 3:15 AM (CT):

GOLD +10.50, **SILVER** +20.00, **PLATINUM** +21.30

London Gold Fix \$758.50 +\$13.25 LME Copper stocks 283,125 tons +1,500 tons

GOLD stks 8.108 ml oz -100 oz SILVER stks 128.6 ml oz -14,106 oz



OUTSIDE MARKET DEVELOPMENTS: While some traders will quickly claim that a corrective tilt in the Dollar is the primary issue supporting gold and silver prices this morning, one should also note that gold prices have now managed to show positive action in the face of a sharp slide in equity prices yesterday and that gold prices overnight have also been able to rise in the face of strength in global equity prices. While some might suggest that gold strength this week was in the end the result of anxiety levels reaching a new plateau, others have suggested that gold prices were revived because historical declines in long term Treasury yields have sparked some inflationary buying. However, talk of inflationary buying seems a little surprising in the wake of the severe deflationary mentality in place in most markets. With the US economic report slate empty today, the precious metals markets might take their direction off the action in equities, or perhaps the metals markets will see some influence from three scheduled US Fed speeches during the morning trading hours.

GOLD

GOLD MARKET FUNDAMENTALS: With a temporary abatement of weakness in the equity market, it seems like a slight setback in the Dollar is providing the gold market with a positive start to the last trading session of the week. While the market hasn't been that interested in physical supply and demand side stories recently, it is possible that gold is seeing some support from suggestions from the World Gold Council that 4th quarter global gold demand in 2008 held together. Some press outlets tried to make the WGC news into a more definitive positive by suggesting that the steady 4th 2008 demand figures were a noted improvement over the 2007 4th quarter demand figures which fell off sharply. The gold market also seems to be getting a steady flow of positive views toward gold derivative investments and there was even some talk this week that gold was a commodity that could end up benefiting from either a total meltdown in the economy and that gold might also be able to shift into a patently positive position, in the event that things manage to improve. In other words, some traders seem to attribute recent strength in gold prices to revived flight to quality interest, while others think that historically low interest rates and excessive fiscal stimulus efforts will eventually spark an inflationary spiral. However, with most physical markets showing the prospect of ongoing severe deflationary selling pressure, the idea of inflation seems to be a long shot. In another potentially positive shift overnight, the international trade was suggesting that more flexible gold trading rules in China, for some gold instruments, might end up being a positive to global gold prices. While we hesitate to suggest that traders buy December gold on the current pulse up, there does seem to be a sense that gold is an instrument that might rise in the event of a total meltdown or it might also gain in the event that things actually start to improve. Therefore traders might consider a calendar option play like buying February \$790 gold calls for 40.00 and then looking to sell the December \$790 calls for 28.00.

SILVER

SILVER MARKET FUNDAMENTALS: Clearly the silver market under performed the gold market over the last 48 hours. However, the silver market is showing some slightly positive early action today and the market also seems to be getting some positive spillover from the initial favorable action in global equity markets. Perhaps the silver market is also getting a lift from favorable Gold Fields Mineral Services dialogue toward average silver prices in 2009. In fact, given that the Gold Fields Mineral Services outlook suggested that improved investment demand for silver could result in an average 2009 silver price of \$13.00, one has to conclude that GFMS is somewhat bullish, especially since March 2009 silver prices this morning are trading at only \$9.20. The GFMS forecast also predicted an increase in industrial silver fabrication demand but they also acknowledged the potential for ongoing excessive volatility in silver prices. In looking back at this week's action, it appeared as if silver continued to behave mostly as a physical commodity facing a deep recession, but it also seems as if silver at times has continued to maintain some type of positive correlation with equity prices. The bull camp will suggest that December silver has forged semi solid support on the charts off a consolidation pattern, while the bear camp will suggest that a pattern of lower highs leaves the trend pointing downward. While the outlook for gold seems to be improving, it could take definitive declines in the US Dollar and or persistent gains in the equity market in order to get silver fully out from under the deflationary cloud. We think one has to leave the trend pointing downward in the silver market.

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) 11/21/2008: Stochastics are at mid-range but trending higher, which should reinforce a move higher if resistance levels are taken out. The close above the 9-day moving average is a positive short-term indicator for trend. It is a mildly bullish indicator that the market closed over the pivot swing number. The near-term upside objective is at 759.2. The next area of resistance is around 755.3 and 759.2, while 1st support hits today at 742.1 and below there at 732.9.

COMEX SILVER (DEC) 11/21/2008: Daily stochastics are trending lower but have declined into oversold territory. A negative signal for trend short-term was given on a close under the 9-bar moving average. The market's close below the pivot swing number is a mildly negative setup. The next downside objective is 871.1. The next area of resistance is around 919.0 and 937.0, while 1st support hits today at 886.1 and below there at 871.1.

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