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PRECIOUS METALS COMMENTARY

10/21/09

AN ONGOING VULNERABILITY REMAINS IN THE METALS MARKETS TODAY

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD -4.70, **SILVER** -16.30, **PLATINUM** +3.50

London Gold Fix \$1,064.00 -\$10.50 LME Copper stks 362,550 tons +5,275 tons
GOLD stks 9.403 ml oz +100 oz SILVER stks 116.1 ml oz +235,135 oz



OUTSIDE MARKET DEVELOPMENTS: The gold market seems to be getting a minor amount of currency related support in the early action today, with the currency trade seemingly fixated on the prospect of an ongoing Dollar down trend. However, it does seem as if weak action in equity prices yesterday and again in the early US action today is serving to undermine the prospects of both gold and silver. While the gold and silver markets might have seen some indirect support from Bank of England suggestions that quantitative easing was going to be extended, the US economic report slate today is somewhat thin and residual weakness in the equity markets seems to leave some of the concerns of slowing in place from the prior trading session. The trade will see a US Fed Beige book release later today, but with the Fed recently reiterating their intention to leave rates low for the near future, the take away from the Beige book today might be restricted to the Fed's views on the US recovery pace. With the US economic report slate somewhat thin today, it is possible that the metals markets might take a larger measure of direction from the US equity markets.

GOLD

GOLD MARKET FUNDAMENTALS: At least initially today, December gold was attempting to carve out a preference for the lower quarter of the prior day's trading range but in the last few hours the market fell below the prior session's low. It would appear as if some foreign gold players are now looking for cheaper gold prices before returning to the buy side and that type of action might also require a fresh new low move in the US Dollar. Some traders might also be a bit concerned about news of a decline late last week in gold held in a noted trust. Certainly some traders are concerned about the relative level of the spec long in gold, especially after the latest COT positioning reports showed a lengthening of the net spec long. Some players might be even discouraged by news of a rise in quarterly Indian gold jewelry exports as jewelry demand overall hasn't been solid outside of India. Furthermore, some gold traders appear to be concerned about the choppy action being seen in a host of physical commodities over the last 24 hours of trade. The bulls would like to get some spillover buying support from the prospect of wage problems at a South African platinum miner, but so far the link to gold prices from that issue has been minimal at best. News of a drop in trust holdings at a key Gold ETF, at the end of last week and a fresh record spec and fund long reading in the COT reports gives off the impression that the gold market is overbought and vulnerable. However, given the ongoing trend toward a lower Dollar, the bull camp isn't exactly sitting on the edge of a cliff! Initial support in December gold is seen at \$1,050 today and then again down at \$1,043, but in the event that the Dollar falls to a new low that could instantly serve to check up prices. In our opinion, the bull trend isn't set to end, but the market is vulnerable to back and fill action and we would use the current environment to implement a long futures/short at the money call/long put strategy (see recommendation below).

SILVER

SILVER MARKET FUNDAMENTALS: As opposed to gold, the silver range this morning has failed to hold above the prior session's low and that suggests the fear of slowing and or other issues is giving the silver market an added measure of pressure. In other words, recent evidence of slowing in the US seems to be weighing on silver from its industrial market standing and without a fresh new low in the Dollar, the silver market is having trouble drumming up a fresh bullish theme. With the added pressure of sloppy to lower equity market action over the last 24 hours (taking place in the face of fairly decent corporate earnings flow) it isn't surprising that bull camps are being disappointed in a number of physical commodity markets this morning. One could also suggest that some higher silver production news over the last 24 hours has served to weigh on silver prices but recently the precious metals markets haven't given supply side news that much credence. At least in the near term, the silver market might take a lot of direction from equities, copper and crude oil price action. While silver wasn't as classically overbought as the gold market in the recent COT reports, December silver has shown a noted technical failure on the charts this morning and we get the sense that the industrial component of the silver market is serving to add to the liquidation tilt. In other words, a slowing economy, without a fresh new low in the Dollar, seems to leave the bear camp with more control than the bull camp. Traders should look to implement long futures/short just out of the money calls/long just out of the money puts combinations (see recommendation below).

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) 10/21/2009: Momentum studies trending lower from overbought levels is a bearish indicator and would tend to reinforce lower price action. The market's short-term trend is negative as the close remains below the 9-day moving average. The downside closing price reversal on the daily chart is somewhat negative. It is a slightly negative indicator that the close was under the swing pivot. The next downside target is now at 1042.2. The next area of resistance is around 1064.6 and 1075.0, while 1st support hits today at 1048.2 and below there at 1042.2.

COMEX SILVER (DEC) 10/21/2009: Momentum studies trending lower from overbought levels is a bearish indicator and would tend to reinforce lower price action. The close below the 9-day moving average is a negative short-term indicator for trend. The daily closing price reversal down puts the market on the defensive. It is a slightly negative indicator that the close was under the swing pivot. The next downside objective is 1706.9. The next area of resistance is around 1778.7 and 1813.8, while 1st support hits today at 1725.3 and below there at 1706.9.

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