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PRECIOUS METALS COMMENTARY

10/26/09

CONSOLIDATION/CHOP TO CONTINUE AS ECONOMIC OUTLOOK IS CONFLICTED

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

GOLD -1.00, **SILVER** -3.80, **PLATINUM** -3.40

London Gold Fix \$1,055.00 -\$6.25 LME Copper stks 368,850 tons +1,775 tons
GOLD stks 9.406 ml oz Unch oz SILVER stks 115.5 ml oz +838,711 oz



OUTSIDE MARKET DEVELOPMENTS: While the Dollar could have been hammered overnight by rumors that the Chinese might need to increase their holdings of Euro and Yen, the US Dollar still seems to be holding within relative proximity to last week's close. Another issue that might be influencing the metals markets today is talk that the US Fed might be seeing some internal conflict with respect to the Fed's stated intention to leave US interest rates at low levels for an extended period of time! With an extremely active slate of US economic reports this week and a record amount of US Treasury supply to be floated this week there doesn't look to be a shortage of outside market influences for the metals to digest this week. The trade seems to be pegging the US GDP reading as the most critical report of the week, but with a whopping \$44 billion in 2 Year Notes to be sold on Tuesday, that event could also be a top tier impact. Today the market will see \$7 billion in inflation adjusted 2 Year notes and therefore the metals trade will give that event some attention. The market will also see a series of regional Fed surveys out today and the flow of corporate earnings news will also continue in the background.

GOLD

GOLD MARKET FUNDAMENTALS: Clearly the gold trade remains fixated on the action in the Dollar and it would seem like the call for increase Chinese holdings of Euro and Yen could keep up the pressure on the Dollar. However, seeing the prospect of an internal US Fed debate on rate hike timing might be seen as a negative by some gold traders. Some traders are suggesting that gold has established a somewhat tighter positive correlation with the equity markets and that in turn might suggest that gold players and equity players seem to be in need of renewed evidence of growth in the US economy. Therefore, the favorable existing home sales figures from last week might be providing some support to gold and other physical commodities this morning, but the bear camp might suggest that the quasi consolidation pattern seen in gold over the last several weeks, is indeed the result of doubt on the overall pace of the US and global recovery. In the end, the bull camp in gold continues to think that a weaker Dollar is ahead, that growth will eventually be self sustaining and that inflation is set to return. The bear camp is hoping that the gold market is overbought and that inflation views are premature. With the most recent COT positioning showing another "combined" spec and fund Net Long position record of 328,344 contracts, it is clear that buyers continue to pile into gold, despite a lack of distinct upside action on the charts. Right now, the gold market is in a difficult position, as the bull factors have become a bit stale and the outlook for the economy looks somewhat suspect. However, one can also suggest that the outlook for the Dollar is becoming even more suspect and that the economy might still be capable of moving forward. We think that traders should remain long futures through option protected combinations and in the event of a sharp washout, traders can remove short call protection and in turn open up their upside potential.

SILVER

SILVER MARKET FUNDAMENTALS: While the silver market hasn't paid that much attention to physical supply side news lately, it is possible that news of an increase in Peru silver output for the month of September is discouraging some silver bulls. While one shouldn't become complacent in the face of rising silver production from Peru (as that output is significant in the world supply scheme) the trade recently has been much more interested in the ebb and flow of investment demand than it has been in the changes in physical supply. It is possible that silver is garnering some support from favorable initial action in copper prices this morning as copper prices forged a noted upside breakout last week and to some traders that action hints at the prospect of support off improving industrial demand for all the metals. However, the silver market is expected to remain focused on the action in the Dollar and to a large degree on the action in the gold market. The silver market might also get some support from more press coverage on the potential for silver to outperform the gold market, especially after recent positioning reports showed a relatively "longer" spec positioning in gold, than in the silver market. The October 20th Commitment of Traders with Options report for Silver showed the Non-commercial position to be net long 53,207 contracts, with the Non-reportable position net long 18,881 contracts, and that made the "combined" spec and fund position net long 72,088 contracts as of early last week. Therefore, the silver trade is moderately net spec long but not record spec long like the gold market. While copper is showing initial strength this morning and many in the silver trade think that silver is setting up to outperform the gold market, we are somewhat uncomfortable with being long silver without some aggressive options protection. In other words, we are bullish toward silver, but without a fresh reiteration of a US economic recovery directly ahead, further upside action in silver will be almost totally dependant on a lower Dollar.

Commitment of Traders - Futures and Options - 10/13/2009 - 10/20/2009						
	Non-Commercial		Commercial		Non-Reportable	
	Net Position	Weekly Net Change	Net Position	Weekly Net Change	Net Position	Weekly Net Change
Metals						
Copper	1,792	3,554	-3,957	-4,429	2,164	875
Gold	278,354	-2,272	-328,345	-3,741	49,990	6,012
Palladium	12,169	442	-14,649	-407	2,480	-35
Platinum	19,197	-212	-23,269	222	4,072	-10
Silver	53,207	266	-72,087	-962	18,881	696

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) 10/26/2009: A bearish signal was triggered on a crossover down in the daily stochastics. 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 objective is 1039.1. The next area of resistance is around 1064.6 and 1075.8, while 1st support hits today at 1046.2 and below there at 1039.1.

COMEX SILVER (DEC) 10/26/2009: Momentum studies are trending lower from high levels which should accelerate a move lower on a break below the 1st swing support. The market's close above the 9-day moving average suggests the short-term trend remains positive. With the close higher than the pivot swing number, the market is in a slightly bullish posture. The next downside target is 1718.5. The next area of resistance is around 1796.0 and 1822.5, while 1st support hits today at 1744.0 and below there at 1718.5.

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