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PRECIOUS METALS COMMENTARY

10/27/09

EXPECT FIREWORKS TODAY AS THE AUCTION COULD BE A MAJOR METALS EVENT

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD -2.10, SILVER +5.50, PLATINUM -9.20

London Gold Fix \$1,040.75 -\$14.75 LME Copper stks 370,650 tons +1,800 tons
GOLD stks 9.417 ml oz +11,047 oz SILVER stks 116.1 ml oz +578,587 oz



OUTSIDE MARKET DEVELOPMENTS: While the Dollar retested the high posted on Monday in the overnight action, the currency is not technically in an upside breakout on the charts in the early action today. However, a number of markets appear to be bracing for a potential critical pivot point decision today in the wake of a large US 2 Year note auction. A number of issues have reached what could be considered a crucial junction, as some traders are wondering if the Dollar is poised for a recovery bounce, while others are wondering if the US is poised to start its unwinding effort. Many traders think that it is entirely premature to think that the US is comfortable with rising rate pressures and a persistent rise in the Dollar. It goes without saying that a 2 month upside breakout in US Treasury rates today, could support the Dollar even further and unleash a wave of selling on a host of physical commodities like gold and silver. On the other hand, with US unemployment still thought to be on the rise and the trade periodically expressing concern of a sub-prime II failure from the commercial real estate sector, a large portion of the trade thinks that the Fed has to support the \$44 billion 2 Year Note auction today or risk a sentiment breakdown. With a private home price survey to be released early this morning and some of the trade expecting a slight bounce in home prices in that report it is possible that the Dollar could see some early buying interest today. While the trade will also see a conference board confidence reading, the main event of the session looks to be the mid day Treasury auction results.

GOLD

GOLD MARKET FUNDAMENTALS: While the bull camp would like to suggest that the postponing of the Russian Government gold sale is a bullish development, the gold trade seems to be focused on the prospect of further strength in the Dollar in the early going today. With Indian gold prices overnight showing some weakness and Asian equity prices showing follow through selling off the weak US Monday action, the US gold market this morning really didn't see much in the way of favorable early news in the early action today. Clearly the gold market has been undermined since the October highs off a combination of renewed slowing fears and perhaps even fears of premature US interest rate tightening. To some, seeing the fear of slowing and the fear of rising interest rates is a double negative for gold prices and therefore many traders think there could be a major pivot point decision today off the US Treasury auction results at mid day. Today is a major decision window for the gold trade. We have to think that it is entirely premature for the Fed to "allow" an up tick in interest rate "expectations", even if an up tick could effectively dampen inflationary speculation. In fact, if the Fed allows an up tick today, they must not be concerned about impending trouble in the US commercial real estate sector. We think that the Fed will support the auction at all costs and that should rekindle the idea of rates being held down longer and that in turn should provide the gold market with a boost and in turn rekindle selling in the Dollar. However, today could be an extremely volatile event, traders might consider using December at the money gold puts and calls for short term trades. Pushed into the market we would buy December gold calls.

SILVER

SILVER MARKET FUNDAMENTALS: The silver market seems to have found some form of early support on the charts at the prior session's low of \$17.00. It is also possible that the even number influence provided some technical support to the December silver contract in the early going today. As suggested in the gold coverage today, the market might be set to face a series of important financial market developments today. Clearly silver and a host of physical commodities have been undermined recently by fears of slowing, fears of a rising Dollar and even fears that US interest rates might be set to rise. With the US offering a record supply of debt instruments this week and US Treasury futures bordering on a downside breakout, it is clear that interest rate expectations are on the rise and that is seen by many as a potential negative impact for precious metals prices. While silver exchange stocks have shown some wide swings down and up already this week, the focus of the silver trade looks to remain on financial market action and not on classic supply and demand type factors. With the Treasury auctions results due just ahead of mid session today, traders should be on the look-out for a volatility event in the trade today. By all reason it would seem to be premature to think that the Fed would purposely allow interest rate hike expectations to gain a significant foothold in market sentiment today. Certainly the Fed would love to dampen inflationary expectations, but in doing that, they had better be sure that the economy is close to becoming self perpetuating! We think the Fed will step up and support the auction today and in turn that could weaken the Dollar which could then serve to spark a bounce in many physical commodity markets. However, this is a fickle market situation and traders might consider near to expiration just out of the money silver call options instead of futures.

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) 10/27/2009: Stochastics trending lower at midrange will tend to reinforce a move lower especially if support levels are taken out. The close under the 18-day moving average indicates the intermediate-term trend could be turning down. The market is in a bearish position with the close below the 2nd swing support number. The next downside objective is now at 1021.8. The next area of resistance is around 1050.8 and 1067.1, while 1st support hits today at 1028.2 and below there at 1021.8.

COMEX SILVER (DEC) 10/27/2009: Declining momentum studies in the neutral zone will tend to reinforce lower price action. The market back below the 18-day moving average suggests the intermediate-term trend could be turning down. The market is in a bearish position with the close below the 2nd swing support number. The next downside objective is 1648.5. The next area of resistance is around 1754.0 and 1806.5, while 1st support hits today at 1675.0 and below there at 1648.5.

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