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PRECIOUS METALS COMMENTARY

10/28/09

WEAK HANDED LONGS TO BE PUSHED OUT OF POSITIONS DIRECTLY AHEAD

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

GOLD +0.10, **SILVER** +1.50, **PLATINUM** +0.00

London Gold Fix \$1,035.50 -\$5.25 LME Copper stks 371,725 tons +1,075 tons
GOLD stks 9.427 ml oz +9,743 oz SILVER stks 115.5 ml oz -554,398 oz



OUTSIDE MARKET DEVELOPMENTS: With the Dollar sitting within close proximity to its recent highs in the early US Wednesday trade, generally weak global equity market action and slack macro economic sentiment being embrace again it would seem like the outside market forces are favoring the bear camp in the precious metals markets. It doesn't seem like the metals markets were that interested in the regularly scheduled US data in the prior session, perhaps because of the definitive strength in the Dollar was dominating the headlines. The market is generally expecting the scheduled US numbers this morning from durable goods and new home sales to show positive readings, but even a favorable result from the numbers this morning might not pull gold and silver out of their overnight choppy posture. The markets will also see a second wave of Treasury auction action today, but seeing the Tuesday leg go off with solid demand, probably makes the auction results today less of a market moving event. With the exception of energy prices, a host of physical commodity markets this week appear to be embracing a profit taking or slowing mentality and that isn't surprising in the face of persistent equity market weakness and economic readings that haven't been able to rekindle economic optimism.

GOLD

GOLD MARKET FUNDAMENTALS: Despite some signs of buying interest in the Indian gold market overnight, the early US trade in gold was mostly non descript. Clearly persistent strength in the Dollar has given the bear camp the edge in a market that seems to lack a definitive focus. However, it was clear that the precious metals markets were let down in the wake of the disappointing US conference board readings in the prior trading session. With the gold market also seeing news that Indian gold imports declined markedly (in the latest October weekly reporting period) one could suggest that classic demand fundamentals are at least partially favoring the bear camp. With the December gold contract falling through a series of prior lows on the charts in the prior two trading session's, it is also possible that technical selling pressures have been an key element in the gold trade this week, especially in the wake of the recent positioning report evidence, of an ongoing large spec long position in gold. While gold has seen some very aggressive upward price projections by private analysts again this week, it would seem like the near term outlook for the US economic pace has simply gained the markets attention. In the end, seeing Dollar supportive talk from the US Treasury Secretary yesterday, residual strength in the Dollar on the charts and ongoing weakness in equities, probably leaves the gold bears with more ammunition than the bull camp. The path of least resistance is pointing downward in the early action today, as the trade is generally disappointed with the macro economic outlook. With near term strength in the Dollar, weakness in equities and little talk of inflation, we can't rule out an eventual downside test of the \$1,025 level in December gold. If favorable numbers from the US can't turn the Dollar down and in turn give gold a boost early today, one can assume that the short term trend in the gold market is set to remain down again today.

SILVER

SILVER MARKET FUNDAMENTALS: In looking at the early action on the charts this morning, the silver market has seemingly retained a measure of classic technical bearishness from the prior trading session. Like a host of other physical commodity markets, residual strength in the Dollar has been a major bear factor for silver this week. With weakness in copper and equities also presenting again in the early going today it would seem as if expectations for near term growth in the global economy are being downgraded again or at least they are being called into question again. The silver trade continues to see quite a bit of volatility in daily silver exchange stock changes and that is to be expected, in the face of significant investor participation and in the wake of the recent 14 month high in silver prices. Some traders suggest that a dampening of inflationary expectations is behind the recent slump in silver prices, while others suggest that the slide is merely the result of unfavorable outside market influences. In order for silver exchange stocks to become a supportive element for silver prices, they will have to show a more consistent pattern of daily declines. We have to leave the edge with the bear camp in the silver market again today. Ongoing fears of slowing, a generally strong Dollar, weak equity prices and a loss of respect for inflationary potentials leaves the bear camp with the edge. While December silver might see some support off the quasi even number zone of \$16.50, the environment would seem to leave the market capable of falling down closer to the even number \$16.00 level.

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) 10/28/2009: Momentum studies trending lower at mid-range could accelerate a price break if support levels are broken. The market's close below the 9-day moving average is an indication the short-term trend remains negative. The market tilt is slightly negative with the close under the pivot. The next downside objective is 1027.7. The next area of resistance is around 1045.1 and 1050.4, while 1st support hits today at 1033.8 and below there at 1027.7.

COMEX SILVER (DEC) 10/28/2009: The market back below the 40-day moving average suggests the longer-term trend could be turning down. Stochastics trending lower at midrange will tend to reinforce a move lower especially if support levels are taken out. The market's short-term trend is negative as the close remains below the 9-day moving average. The market's close below the 1st swing support number suggests a moderately negative setup for today. The next downside objective is 1602.3. The next area of resistance is around 1704.5 and 1752.2, while 1st support hits today at 1629.5 and below there at 1602.3.

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