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## PRECIOUS METALS COMMENTARY

10/29/09

### A SLIGHTLY UP BEAT EARLY TILT BUT DON'T EXPECT THE BULLS TO DOMINATE

#### OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

**GOLD** +4.90, **SILVER** +9.00, **PLATINUM** +16.00

London Gold Fix \$1,034.00 -\$1.50 LME Copper stks 371,400 tons -325 tons  
GOLD stks 9.427 ml oz -224 oz SILVER stks 116.5 ml oz +1.040 ml oz



**OUTSIDE MARKET DEVELOPMENTS:** While the US Dollar isn't markedly off its recent highs, the metals markets saw a string of somewhat favorable international economic news overnight and equity prices are generally higher and that presents a better overall outside market environment than was present into the US opening yesterday. It would also seem like the markets are expecting to see generally favorable economic news from the US 3rd quarter GDP reading this morning and perhaps even something positive from the Canadian employment sector. The trade seems to be largely anticipating a US GDP gain of between +3.2% to +3.5%, but given recent doubt on the pace of the US recovery, metals and physical commodity markets in general might need something at or above expectations just to check the recent liquidation tilt. While there also seems to be hope that the US might come forth with an extension of the home buyer's tax credit program, it could take something significant in the headlines to tamp down the broad based liquidation mentality that seemed to be facing a number of physical commodities over the last 36 hours of trade.

## GOLD

**GOLD MARKET FUNDAMENTALS:** While the market wasn't overly concerned about the prospect of Russian central bank gold sales when that issue surfaced several weeks ago, it would appear that the "On again", "off again" sales threat has surfaced again overnight as an "on again" prospect. However, the gold market hasn't been that concerned about physical gold sales and many in the trade seem to think that Russian and other central bank sales will be largely swallowed up by an ongoing pattern of Chinese central bank reserve buying. It should also be noted that Russian gold and currency reserves on the week managed a slight increase and for some that might tamp down the potential negative spin of a minor 25 ton domestic sale of Russian gold. Fortunately for the bull camp, the gold market isn't that interested in physical supply side news, as Gold Fields overnight announced that their most recent quarter showed an increase of gold production. With Newmont Mining also showing higher gold output in the overnight news wires and gold prices this morning managing to bounce by as much as \$9 an ounce above the prior session's low, it would not seem like supply issues are not as important as the action in the Dollar and the outlook for the global economy. The bull camp might also be gaining some assistance from the mostly favorable initial tilt being seen in the equity markets in the early going. With a series of favorable economic readings from outside the US and a somewhat favorable US GDP report expected later on today, we have to give the bull camp the initial edge. However, we get the sense that the gold market can bounce, but we are not sure than a somewhat old GDP reading, that was potentially puffed up by government programs, is capable of returning the market to a fully positive economic footing. For the time being, the market seems to have forged a quasi double bottom low around \$1,026.90, but it could take an extension of the home buyer's tax credit, or a distinctly upbeat Canadian economic view to put the bull camp back in full control of gold prices. In short, be a skeptical bull today.

## SILVER

**SILVER MARKET FUNDAMENTALS:** The silver market seems to have found a measure of support from the prior session's low, as that level has become a quasi double bottom formation in the early action this morning. Clearly silver saw a combination of themes that served to push prices sharply lower in the first three trading sessions of the week, but part of that liquidation effort seemed to be fueled by slackening macro economic expectations. With favorable German employment readings, a slight improvement in UK lending activity and expectations for a moderate jump in the US GDP readings later this morning, it would seem that slowing fears are being tamped down. With a strong Dollar also providing pressure to silver and a host of physical commodities early this week, it is not surprising to see a slight setback in the Dollar in the early going today, provide the silver market with an early lift. Some traders are pointing to the 50 day moving average in December silver up at \$16.48 today as a key level, while others suggest that the quasi double bottom low of \$16.12 is another key technical level. Apparently the silver trade wasn't overly concerned about a daily silver exchange stock rise in excess of 1 million ounces overnight. In the end, it would appear that silver is behaving like a physical commodity, that is likely to take its direction from the Dollar and the equity markets. The bulls might have the initial edge, but to see prices come back alive and extend on the upside probably requires a clean sweep of "good" or better than expected data from the US and Canada. As in the gold market, we suspect that the bulls will have early control but we fear that the influence of favorable numbers will fade as the session progresses.

## 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) 10/29/2009: 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 close below the 1st swing support could weigh on the market. The next downside objective is 1015.7. The next area of resistance is around 1035.7 and 1047.0, while 1st support hits today at 1020.1 and below there at 1015.7.

COMEX SILVER (DEC) 10/29/2009: The moving average crossover down (9 below 18) indicates a possible developing short-term downtrend. Daily stochastics declining into oversold territory suggest the selling may be drying up soon. The close below the 9-day moving average is a negative short-term indicator for trend. The close below the 1st swing support could weigh on the market. The next downside objective is now at 1565.3. Some caution in pressing the downside is warranted with the RSI under 30. The next area of resistance is around 1648.5 and 1695.2, while 1st support hits today at 1583.5 and below there at 1565.3.

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