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PRECIOUS METALS COMMENTARY

10/30/09

BACK & FILL ACTION EXPECTED TODAY UNLESS A KEY HEADLINE CHANGE IS SEEN

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

GOLD -1.80, SILVER -4.50, PLATINUM -7.20

London Gold Fix \$1,044.50 +\$10.50 LME Copper stks 372,200 tons +800 tons
GOLD stks 9.423 ml oz -3,822 oz SILVER stks 116.8 ml oz +258,241 oz



OUTSIDE MARKET DEVELOPMENTS: While the UK saw a rise in nationwide home prices overnight, there doesn't appear to be a definitively up beat view toward the global economy in place this morning. In fact, the market saw lower Euro zone price readings, softer German retail sales figures and a sharp slide in Japanese housing starts and that would seem to leave a slightly less up beat macro economic view in place than was present in the prior trading session. However, the Dollar action wasn't definitive and therefore the impact on gold and silver prices from the currency markets early this morning is mostly limited. The market is seeing weaker initial equity prices and that might be considered a slight negative to the precious metals markets. The US will present Personal Income and Personal Spending readings this morning and the expectations for those readings are relatively benign. The trade will also see an important inflation reading from the US PCE index but with expectations calling for only a half percent gain in that reading, the metals markets probably won't come away from the news with a huge inflation reaction. There are also some regional purchasing manager's reports out later in the morning trade today, but the overall expectation today seems to be that the US numbers aren't going to offer up anything impressive or surprising.

GOLD

GOLD MARKET FUNDAMENTALS: While the direction of gold prices recently has seemingly been trained on the outlook for the US and global economies, the gold trade continues to see ongoing developments from an anticipated minor sale of Russian gold. The trade also saw a series of higher gold production figures from some key miners overnight, but that news doesn't appear to be applying distinct pressure to gold prices. On the other hand, if the outlook toward the economy deteriorates again it is possible that the bear camp might try to play up the news of rising physical gold production. Clearly gold has behaved like a physical commodity this week, by falling sharply in the face of weak numbers and weak equities at the start of the week. However, the gold market did manage to rise sharply yesterday in the wake of favorable US numbers and very favorable equity market action. On the other hand, choppy to weak international equity market action overnight and somewhat slack international data flow overnight might serve to increase the importance of the US number flow later this morning. While the bull camp has been able to hold gold prices up near the prior session's highs in the early action today, we have a sinking feeling toward gold and other physical commodity prices. In fact, unless equities regain some upside momentum in the wake of the early US numbers today, we would fear a slide in most physical prices into the afternoon action. Given the sharp bounce in gold prices over the last 24 hours, a little back and fill action should not be surprising. Near term support in the December gold contract is seen down at \$1,042.

SILVER

SILVER MARKET FUNDAMENTALS: The bulls will tout December silver's capacity to rise above the prior

session's high, while the bear camp will suggest that the silver market was unable to hold that pulse up attempt. With equities showing initial weakness and copper prices also under a bit of early pressure, the bear camp would seem to have an edge in the outside markets category. However, the Dollar action is mostly nondescript and unless the US numbers manage to offer up something slightly better than expected, it would not appear that the broad based economic optimism that was seen in the prior trading session will become a dominating view today. Nonetheless, the sharp recovery move in the prior trading session probably took away some of the bear's confidence, that was built into the silver market early in the week. For the time being, the direction of silver prices might be largely influenced by the direction of US equities, as the scheduled US data today isn't first tier data and the expectations for the data are pretty nondescript. We have to give some credence to the silver markets capacity to hold within striking distance of the prior session's highs, as the rally yesterday was compacted and seemed to result of a sudden shift in macro economic sentiment. We get the feeling that macro economic sentiment will continue to tend toward more weakness in the economy and without a clear cut string of favorable economic data points today, or another recovery in the US equity markets, the path of least resistance in silver is likely to be down today. Near term downside targeting in December silver is seen down at \$16.54 today.

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) 10/30/2009: The downside crossover of the 9 and 18 bar moving average is a negative signal. Declining momentum studies in the neutral zone will tend to reinforce lower price action. The close below the 9-day moving average is a negative short-term indicator for trend. With the close over the 1st swing resistance number, the market is in a moderately positive position. The next downside target is now at 1021.0. The next area of resistance is around 1058.0 and 1063.9, while 1st support hits today at 1036.6 and below there at 1021.0.

COMEX SILVER (DEC) 10/30/2009: Momentum studies are still bearish but are now at oversold levels and will tend to support reversal action if it occurs. The market's close below the 9-day moving average is an indication the short-term trend remains negative. A positive setup occurred with the close over the 1st swing resistance. The next downside objective is now at 1595.3. The next area of resistance is around 1696.5 and 1713.2, while 1st support hits today at 1637.5 and below there at 1595.3.

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