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PRECIOUS METALS COMMENTARY

07/01/09

THOSE HOLDING LONG POSITIONS SHOULD SEEK LONG PUT PROTECTION

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

GOLD +4.30, **SILVER** +5.00, **PLATINUM** +0.20

London Gold Fix \$931.50 -\$8.50 LME Copper stocks 265,725 tons -225 tons
GOLD stks 8.731 ml oz +11,567 oz SILVER stks 117.5 ml oz -666,523 oz



OUTSIDE MARKET DEVELOPMENTS: While the Dollar is a touch weaker overnight and the markets in general saw mostly up beat economic readings from China, the fear of too much slowing probably remains just below the surface. In fact, with a private jobs report due out early today and the ultra important US monthly Non farm payroll report due out on Thursday morning, the fear of too much slowing looks to impact a number of physical commodity markets for the coming 36 hours of trade. Apparently the markets saw Euro zone and UK economic readings as a negative to the Dollar and with many international equity markets showing positive action overnight, it is possible that the data was simply spun into a positive development by trading sentiment. With the US scheduled to release an existing home sales report and a private prediction on the amount of jobs lost last month, there looks to be no shortage of economic news in the headlines today.

GOLD

GOLD MARKET FUNDAMENTALS: While the gold market seems to have come into the US action on a slightly positive footing, the gold market could have been undermined by news of increased 4th quarter gold production from Harmony Mines. However, despite the fact that gold seems to have been undermined recently by renewed fears of slowing, it would not seem like classic supply side news is being given that much credence. Perhaps the gold market is being lifted by overnight discussions about facilitating lower level consumer demand in India, but more than likely favorable action in the equity markets overnight probably provided the main thrust of the bull's case. Indian import news overnight was mixed to slightly supportive, as the track of future Indian import demand is in the end going to be a function of the prospect for a global recovery. In the near term, the bear camp will probably attempt to fan the fears of too much slowing ahead, while the bull camp will probably attempt to spin anything even slightly positive from the US economic report flow into rally theme. It is also possible that gold prices will take a large measure of direction from oil prices today, as oil prices have recently shown increased two sided volatility, in the wake of constantly shifting views on the economy. In the end, the gold market will probably be keen to take a large amount of direction from upcoming US data flows. We are suspicious of the bull case. In fact, unless one or two scheduled US data points ahead provide a bullish surprise on the economic front, we have to leave the edge with the bear camp. In fact, a good test of the bull's resolve might be seen in the wake of the private job loss estimate early this morning. However, we think that the private job loss estimate will fail to depict the amount of jobs lost in the main number on Thursday morning. Those that are long gold should carry some option protection for that position into the action Thursday morning.

SILVER

SILVER MARKET FUNDAMENTALS: With another daily decline in silver exchange stocks seen overnight, the bull camp in silver could suggest that a trend toward tighter supply is developing. Unfortunately, the silver trade

just isn't that interested in an incremental tightening of physical supply, with the main focus of the gold and silver trade seemingly locked onto the ebb and flow of investment demand. In fact, the silver market could have been definitively lifted by overnight news of a sharp decline in Mexican silver production for the month of April. With an April year over year decline in excess of 22% and Mexican silver supply an extremely critical component of the world silver supply chain, one might have expected a more definitive bullish silver price response to the overnight supply side news. However, silver and a host of physical commodity markets continue to train their focus on the shifting economic outlook. The bear camp seems to be suggesting that ongoing slack in the economy (as suggested by the Fed's Yellen overnight) will serve to keep investment demand for silver crimped. The bull camp on the other hand, might attempt to embrace Yellen's prediction that the recession will end later this year. In the end, the silver trade looks to get quite a bit of information on the economy over the coming 36 hours of trade and that in turn could provide a more defined trend in prices next week. We have to give the bear camp an edge despite some favorable initial equity market action this morning. In fact, we doubt that silver and other physical commodity markets will be happy with the upcoming data flow and the prospect of a bounce in the Dollar.

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 (AUG) 07/01/2009: Momentum studies are trending higher from mid-range, which should support a move higher if resistance levels are penetrated. The market's short-term trend is negative as the close remains below the 9-day moving average. The outside day down is a negative signal. The defensive setup, with the close under the 2nd swing support, could cause some early weakness. The next upside objective is 953.4. The next area of resistance is around 938.7 and 953.4, while 1st support hits today at 916.1 and below there at 908.1.

COMEX SILVER (SEP) 07/01/2009: The close below the 60-day moving average is an indication the longer-term trend has turned down. A crossover down in the daily stochastics is a bearish signal. 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 negative signal was given by the outside day down. The defensive setup, with the close under the 2nd swing support, could cause some early weakness. The next downside objective is now at 1299.2. The next area of resistance is around 1391.7 and 1438.1, while 1st support hits today at 1322.3 and below there at 1299.2.

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