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PRECIOUS METALS COMMENTARY

07/02/09

THOSE HOLDING LONG POSITIONS SHOULD SEEK LONG PUT PROTECTION

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD -8.40, SILVER -32.00, PLATINUM -17.10

London Gold Fix \$936.00 -\$2.25 LME Copper stks 264,225 tons -1500 tons
GOLD stks 8.737 ml oz +5,583 oz SILVER stks 117.5 ml oz +8,829 oz



OUTSIDE MARKET DEVELOPMENTS: The clear focus of the metal markets this morning is on the non-farm payroll numbers and to some extent Factory Orders. If the data helps to support the dollar or turns the stock market sharply lower, there appears to be more downside potential in the precious metals. Bulls seem to be nervous over the possibility that the economic news will not show much improvement, especially in the employment area. On top of the jobs data, the market will monitor interest rate decision news from the European Central Bank.

GOLD

GOLD MARKET FUNDAMENTALS: The short-term focus of the market is on the US dollar, and the dollar's focus this morning is on US payroll numbers. News that China has asked to debate proposals for a new global reserve currency at the G8 summit in Italy next week has the dollar on edge. Some days it seems that commodities are the new currency, with China holding more and more inventory of key commodities as their hedge against inflation. Concerns that US and global economies will continue to be slow for quite awhile before inflation kicks in is a factor that has helped hold the market in a trading range. Investment fund flows into precious metals seem to have slowed recently, but this could change if the equity markets get off to a poor start for this quarter. The reversal in the dollar and surprisingly strong US equity market action yesterday assisted the bull camp, but it is also possible that a slightly upbeat spin on the state of the US auto sector provided an added measure of support to gold prices. Gold support seems to be emerging from suggestions that the Fed wasn't ready yet to establish an exit strategy on their quantitative easing policies. Fund buying has provided underlying support to the market, but it may take a more significant scare in the economy or a dent to the stock market bullishness to trigger a more aggressive flow of capital into the precious metals. We remain suspicious of the bull case, and without a bullish surprise on the economic front, we have to leave the short term edge with the bear camp. Short term resistance for August gold comes in at 935.30 and 940.90 with 915.10 as support.

SILVER

SILVER MARKET FUNDAMENTALS: The market did not seem to get much of a positive reaction to news of sharply reduced production from Mexico this week, with an intense focus instead on the US dollar. While China's economic news seems to be somewhat supportive, the market remains skeptical of much of a US recovery soon, and strength in the US dollar overnight helped to drive the market to its lowest level since May 5th. The slide in the dollar gave the silver bulls some hope yesterday, but seeing sharply higher copper prices and talk about the US auto sector coming out of the doldrums seemed to give silver and a host of physical commodity markets a lift on the day. Perhaps silver was even lifted by favorable supply side news, or maybe it was seeing long term fund buying on the first day of a new quarter. Weakness in the energy sector over

the past few days has added to the negative tone overnight. September silver remains in a short term downtrend channel, and not holding support overnight leaves close-in resistance at 13.52 with 13.165 as next support. At this point, it will take a move back over 13.882 to turn the trend back up.

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) 07/02/2009: Momentum studies are rising from mid-range, which could accelerate a move higher if resistance levels are penetrated. The cross over and close above the 18-day moving average indicates the intermediate-term trend has turned up. A positive setup occurred with the close over the 1st swing resistance. The near-term upside objective is at 959.2. The next area of resistance is around 950.6 and 959.2, while 1st support hits today at 929.8 and below there at 917.5.

COMEX SILVER (SEP) 07/02/2009: Momentum studies are declining, but have fallen to oversold levels. The market's short-term trend is negative as the close remains below the 9-day moving average. It is a mildly bullish indicator that the market closed over the pivot swing number. The next downside target is now at 1346.5. The next area of resistance is around 1390.0 and 1402.5, while 1st support hits today at 1362.0 and below there at 1346.5.

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