14th August, 2006

**DGCX- on the move:**

- US Dollar rises against the world currency majors - Euro, GBP and Yen.
- Open Interest in gold set a new record-high on DGCX on Thursday registering a massive jump of 816 contracts to end at 1587.

In quite a contrast to the previous two weeks, precious metals market experienced a sharp decline during the week as gold and silver prices recorded losses of 2.15% & 5.37% respectively. DGCX currency market witnessed the US dollar pull back sharply against Euro, British pound and the Japanese Yen. Against the US dollar, Euro was lower by 1.14%. The British pound and Japanese Yen followed suit and registered losses of 1.03% and 1.47%. A total traded volume of 11,586 contracts valued at $260.67 million was recorded at DGCX.

The October maturity gold futures contract began the week on a strong note at $656 /troy oz, higher by $5 compared to its previous week’s close. Prices experienced a range-bound movement before registering an intra-week high of $660/troy oz. However, gold lost ground in subsequent sessions and touched a weekly low of $631 /troy oz on Friday. The near-term contract recouped some of its losses during the final hours of trading and settled higher for the week at $637 /troy oz. December expiry gold futures started the week at $661.80 /troy oz. Prices moved higher to touch a peak of $665.30 /troy oz before falling to an intra-week low of $625/troy oz. It finally closed the week at $643.20 /troy oz, lower by $13.

Silver prices witnessed a more intense fall compared to gold prices losing 5.37% during the week. DGCX September delivery silver futures contract opened the week at $12.400 /troy oz. It moved up to an intra-week high of $12.550 /troy oz. Prices however were unable to sustain higher levels and plunged down to a weekly low as well as closing price of $11.810 /troy oz.

In the currency market segment, September delivery Euro futures contract started the week at $1.2900 /Euro. Prices climbed up to record an intra-week high of $1.2935 but tumbled thereafter to low of $1.2746. Euro futures finally ended the week at $1.2778 /Euro. GBP futures contract opened for trading at $1.9068 /GBP and ticked a weekly high of $1.9111 /GBP. The Pound plummeted thereafter to a low of $1.8898/GBP. The contract finally settled for the week at $1.8920 /GBP. The September maturity Yen contract lost by 1.47% to end the week at $0.8672.
Economic Alerts:

The Fed left the federal funds target rate unchanged at 5.25% as expected. However, elevated inflation and a moderate economic growth in US remain a cause of concern. The Fed’s outlook called for moderating the inflation in the coming quarters and leaving the door open for additional liquidity firming in the future.

- The US trade gap unexpectedly narrowed in June to $64.8 billion, from revised $65.0 billion in May against a market consensus of $64.5 billion. The smaller trade gap was largely due to a significant decline in oil imports combined with notable export gains.
- US retail sales rose 1.4% in July after a 0.4% drop in June. The median forecast in a Bloomberg News survey was for a 0.9% gain.
- Japan's economy expanded last quarter at less than half the rate economists had predicted. Bank of Japan Governor Toshihiko Fukui said there's no predetermined timeframe for raising rates. Japanese gross domestic product expanded at an annualized 0.8% pace between April and June below the 2.0% median forecast of economists.
- Chinese exports exceeded imports by $14.6 billion in July, up from $14.5 billion in June and $13 billion in May. China has now accumulated a trade surplus of $76 billion in the first seven months of this year.

World Markets in motion:

<table>
<thead>
<tr>
<th>Market</th>
<th>Previous Week close</th>
<th>Current Week close</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>US S&amp;P 500</td>
<td>1279.36</td>
<td>1266.74</td>
<td>-0.99%</td>
</tr>
<tr>
<td>Spot Gold - ($/ounce)</td>
<td>649.80</td>
<td>629.85</td>
<td>-3.07%</td>
</tr>
<tr>
<td>DGCX Oct Gold futures - ($/ounce)</td>
<td>651.00</td>
<td>637.00</td>
<td>-2.15%</td>
</tr>
<tr>
<td>Spot Silver - ($/ounce)</td>
<td>12.370</td>
<td>11.950</td>
<td>-3.40%</td>
</tr>
<tr>
<td>DGCX Sept Silver Futures - ($/ounce)</td>
<td>12.480</td>
<td>11.810</td>
<td>-5.37%</td>
</tr>
<tr>
<td>DGCX Sept Euro / USD Futures</td>
<td>1.2925</td>
<td>1.2778</td>
<td>-1.14%</td>
</tr>
<tr>
<td>DGCX Sept GBP / USD Futures</td>
<td>1.9118</td>
<td>1.8920</td>
<td>-1.04%</td>
</tr>
<tr>
<td>DGCX Sept JPY / USD Futures</td>
<td>88.01</td>
<td>86.72</td>
<td>-1.47%</td>
</tr>
<tr>
<td>NYMEX Sept Crude oil ($/barrel)</td>
<td>74.76</td>
<td>74.35</td>
<td>-0.55%</td>
</tr>
</tbody>
</table>
Market Mood:

*Precious metals end the week on losses after rising consecutively for two weeks backed by a stronger dollar. Analysis and comments from some of the experts in the field were as under:*

- According to a monthly report by Scotia Mocatta, the US dollar is expected to weaken further. The combination of a weakening housing market and high household debt does not bode well for US economic growth and, as a result, interest rates are expected to start falling again. In turn, lower interest rates are likely to undermine support for the dollar. The weekly chart of the dollar index also suggests that the 2005 rebound in the dollar maybe about to unwind. Technically, the Q2’06 bout of dollar strength looks like a flag on the chart, which if broken could send the dollar back to the lows seen at the end of 2004 and thereby provide a significant boost to Gold prices.

- The emergence of the various Gold ETFs has expanded the potential market for Gold significantly, according to Scotia Mocatta. Although the combined ETF position saw 2.63 tonnes of liquidation selling in the last week of July; over the month as a whole, the ETF position increased 16.75 tonnes. Since the start of May the ETF position has been growing by an average of half a tonne a day. The gold rally is likely to extend considerably further than the majority in the market are currently expecting. On inflation adjusted basis the $850/oz highs from 1980 would now equate to a price closer to $1,600/oz. The fact that the Middle East oil producers are once again flush with petro-dollars and that there has been greater interest over the past few years to diversify away from the dollar, it is quite possible that gold could become the must-have investment at both the retail and institutional level. The outlook for Gold remains favourable and dips are likely to continue to be good buying opportunities. If global growth is set to slow, then there are likely to be some far reaching implications that may see other asset classes suffer extensively. In this environment Gold may revert to providing an excellent safe-haven again.

- Industrial consumption of silver globally witnessed an impressive 11% growth in 2005 and 20% in the past four years, on the back of rapid growth in industrial applications led by demand for consumer products. In comparison, according to the London-
based Silver Institute’s World Silver Survey 2006, the jewellery segment — considered a major consumer of silver — had a negligible consumption growth last year and has declined 5% during the last four years. Industrial applications grew to 409.3 million ounces (1 ounce is 31.1035 gm) in 2005 from 368.3 million ounces in 2004, industry sources said, adding it was on the back of rapid growth in consumer products. The demand for consumer products, in turn, has largely been led by the demand for electrical and electronic products which last year grew 10%, globally. It is expected that the strong demand from these markets will further propel the demand for silver. Market experts said consumption of silver in applications grew stronger, and the major consumption growth came from India and China. Although the jewellery segment consumption of silver saw only a marginal growth of 1.8 million ounces in 2005 from the 2004 levels, a major portion of the growth came from these two fast developing Asian economies. While India’s demand for silver jewellery and silverware rose 8.5% to 48.9 million ounces, China reported a jump of 20% in demand at 16.4 million ounces, in 2005. The photography segment, another major consumer of silver, fell by 9% to 164.8 million ounces in 2005, from 181 million ounces in 2004.

**Technical View:**

After a two-week rise, precious metals concluded the last week on losses. Gold prices fell back by $14/troy oz or 2.15% during the period. Even though silver prices also pulled back in line with the gold prices, the losses in percentage terms were higher. A loss of 67 cent an ounce or 5.37% was registered during the week in silver futures. Technical analysts continue to hold the view that gold prices are struggling to return to intermediate uptrend. The required momentum is not there as yet. Silver on the other hand, even after the last week’s pull back, is showing much more technical strength and looks a better bet as of now. Analysts’ observations and views based on various technical studies concerning gold are as follows:

The weekly charts of gold continue to reflect uncertainty. No technical signals as yet are available that could confirm a medium-term uptrend or a downtrend. The rise in the earlier weeks has been on a weak momentum and could not sustain. A weekly close above $666.60 is required to confirm the resumption of medium-term uptrend. On the other hand, a close below $619.90 will technically confirm the beginning of another intermediate downtrend. With the fall in the last week, the other indicators
have weakened. The MACD is in a sell mode and has declined further. The MACD histogram which had given an up tick in the previous week has given a down tick in the week under study. The weekly stochastic (8,3,3) has entered into a sell mode. The 10-week RSI has also ticked down. Barring a sharp rise in the week ahead, the overall picture could deteriorate further. The price as of now is above the medium-term moving averages. The weekly picture therefore still looks neutral with a slightly bearish bias. A range-bound movement therefore cannot be ruled out.

On the daily charts, gold has entered a downswing as a pattern of lower peaks and troughs can be seen. Besides a short-term uptrend line starting from June has also been breached. Also, on the closing basis a double top formation is visible around $650-51 area. A formidable resistance could be expected around this area in case of a rise. The prices have fallen below the short and medium-term moving averages and the averages have also turned down confirming weakness in the short-term. The oscillators like MACD, Stochastic and RSI are also showing weakness on daily charts. Looking at the overall picture, it appears that in the short-term the price may continue to fall further.

In case the current short-term downtrend continues, support levels may be expected around $618-20; $600-602; $582-84 respectively. If the trend reveres up, resistances are likely at $655-59 followed by $675-77 levels and thereafter at $687-89 area.

**Xchange Communication:**

The next 2-day training session for DGCX members & representatives will be held on 23rd and 24th August 2006. Members interested to participate may call the Training Department at +9714 3611616 or e-mail to training@dgcx.ae

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