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PRECIOUS METALS COMMENTARY
11/02/10

THE BIAS SHOULD REMAIN UP AS THE TRADE CONTINUES TO BUY THE RUMOR

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD +7.10, SILVER +20.30, PLATINUM +3.50

London Gold Fix $1358.00 N.A. LME Copper Stocks 366,925 tons -625 tons
Gold Stocks 11.091 million ounces -30,134 ounces, Silver Stocks 110.733 million ounces -66,325 ounces

OUTSIDE MARKET DEVELOPMENTS: While equity markets in Asia and Europe were mixed, U.S. stock indices are moderately higher during the early Tuesday trade. The Dollar is weaker against most of the major currencies during overnight trading, although posting a slight gain versus the Yen. The Federal Reserve's Open Market Committee begins a two-day monetary policy meeting today. The Reserve Bank of Australia and the central bank of India raised their respective benchmark interest rates 0.25% today. An advisor to the People's Bank of China said that China must be ready to shift to a "prudent" monetary policy as their economy stabilizes. A major West Coast money manager said that continued Fed monetary easing could devalue the Dollar by 20% over the next few years. A private survey of Euro zone manufacturing during October rose to 54.6, higher than forecast. There are no major US economic indicators this morning, but there will be several private surveys of store sales and auto sales released during the morning.

GOLD

GOLD MARKET FUNDAMENTALS: While the gold market can only speculate on the outcome of the US midterm elections for most of the trade today and the markets can only speculate on the outcome of the FOMC meeting on Wednesday afternoon, the markets seem to think that the track of the Dollar will be lower and that has served to lift gold and other physical commodities in the early Tuesday morning trade. While the gold market might have seen some buying ahead of an Indian festival overnight, the trade could have been undermined by surprise rate hikes from Australia and India. However, gold prices could have been distracted from the rate hike threat by favorable international economic news overnight. Newmont Mining reported its 3rd quarter earnings rose, but the company merely narrowed its projected gold production range and therefore the impact off the earnings news was mostly nondescript. Apparently the markets are thinking that the US Fed is poised to invoke aggressive QE2 on Wednesday afternoon and from the weakness in the Dollar this morning, one could suggest that the trade is generally thinking the Fed will at least unleash a minimum of $100 billion in asset purchases. Comex Gold Stocks were 11.091 million ounces, down 30,134 ounces. Gold stocks have increased 14 of the last 20 days. The gold market seems fixated to buy the rumor into the FOMC meeting results on Wednesday. In fact, we don't get the sense that the gold market is particularly vested in the outcome of the elections, as many traders think that Washington won't be anything but a contributor to uncertainty and confusion. It is possible that a GOP House victory would create gridlock and that in turn might present the least amount of uncertainty. Therefore, the focus should remain on the Fed action and on the direction of the Dollar and that could mean that the next 30 hours of trade will simply favor the bull camp in gold. However, one does have to wonder if the gold market will see a buy the rumor/sell the fact reaction to the eventual Fed result Wednesday. In fact, if the Fed fails to do more than $100 billion that should disappoint the gold market. Near term we can't rule out a rise to $1,375 in December gold, but expect volatility to become quite extreme directly ahead.
SILVER

SILVER MARKET FUNDAMENTALS: December silver prices have leaped higher again and in the process a number of key technical points were exceeded. Clearly a positive lead from gold and a sliding US Dollar have provided silver with some of its upside momentum today, but it is also likely that anticipation of upcoming Fed action is contributing to the buying spree. Some buyers were reportedly attracted to silver because of the recent breach of the $25 per ounce zone, while some buyers were reportedly looking for an entry into precious metals in an instrument that was still below record price levels. In fact, the silver market overnight did see a number of stories touting the magnitude of investment inflows into silver instruments and that seems to have added to the initial rally this morning in the US market. Comex Silver Stocks were 110.733 million ounces, down 66,325 ounces. Silver stocks have declined 12 of the last 20 days. No reason to take control away from the bull camp, as the market is simply inhaling a number of potential positives. In addition to weakness in the Dollar, signs of international growth and expectations of US QE2, the silver market might also be feeding off the uncertainty into the US election. However, the big range up extension today probably makes the silver market somewhat short term overbought and perhaps the market will eventually be vulnerable to a buy the rumor/sell the fact setback. However, in the coming 30 hours, it could be difficult to take control away from the bull camp in silver.

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) 11/02/2010: Positive momentum studies in the neutral zone will tend to reinforce higher price action. The market's short-term trend is positive on the close above the 9-day moving average. The daily closing price reversal down puts the market on the defensive. It is a slightly negative indicator that the close was under the swing pivot. The next upside target is 1371.8. The next area of resistance is around 1360.0 and 1371.8, while 1st support hits today at 1342.8 and below there at 1337.3.

COMEX SILVER (DEC) 11/02/2010: The market rallied to a new contract high. Momentum studies are rising from mid-range, which could accelerate a move higher if resistance levels are penetrated. The market's close above the 9-day moving average suggests the short-term trend remains positive. It is a mildly bullish indicator that the market closed over the pivot swing number. The near-term upside objective is at 2525.5. The next area of resistance is around 2491.5 and 2525.5, while 1st support hits today at 2437.5 and below there at 2417.5.

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