

BULLION WEEKLY

A Weekly Report on Gold & Silver

Economic Review

The Euro rose for the sixth time in the last eight weeks by posting 1.11% gains against the dollar when the Euro rose to \$1.31 for the first time in more than three months. The Euro resumed its rally against the dollar after having fallen in the penultimate week. Strength in the Euro could be mainly attributed to results of European stress test results which showed a failure of only 7 banks out of 91 banks subject to this test. Moreover, macroeconomic data also showed Euro zone economic recovery could be faster than expected. The US also reported its GDP growth having slowed down in 2Q'10, followed by uncertain job market. The dollar weakened by 1.12% against the world's six major currencies. Indian rupee (spot) gained 1.14% to 46.4075, after the RBI raised its benchmark Repo and Reverse Repo rate by 25 bp and 50 bp, respectively.

Important Economic Events Last Week

Date Time	Region	Event	Period	Survey	Actual	Prior
07/26/2010 19:30	US	New Home Sales	JUN	311K	330K	300K
07/27/2010 11:15	IN	India REPO Cutoff Yld	27-Jul	5.75%	5.75%	5.50%
07/27/2010 11:15	IN	Reverse Repo Rate	27-Jul	4.25%	4.50%	4.00%
07/27/2010 11:15	IN	Cash Reserve Ratio	27-Jul	6.00%	6.00%	6.00%
07/28/2010 18:00	US	Durable Goods Orders	JUN	1.00%	-1%	-0.60%
07/29/2010 13:25	GE	Unemployment Rate (s.a)	JUL	7.60%	7.60%	7.70%
07/29/2010 18:00	US	Initial Jobless Claims	24-Jul	460K	457K	468K
07/29/2010 18:00	US	Continuing Claims	17-Jul	4500K	4565K	4484K
07/30/2010 14:30	EC	Euro-Zone Unemployment Rate	JUN	10.00%	10%	10.00%
07/30/2010 18:00	US	GDP QoQ (Annualized)	2Q A	2.50%	2.40%	2.70%
07/30/2010 18:00	US	Personal Consumption	2Q A	2.40%	1.60%	3.00%

Gold: Weekly Review

Gold took a heavy toll in the beginning of the week when prices slid below the key support of \$1175/oz which later triggered a wave of technical selling. Prices fell to near three-month low of \$1157.50/oz during the week and stayed below \$1200 mark through the week. There was also no support from weakening dollar as dollar-gold was a broken trade. Gold later recovered its lost grounds but closed down by 0.61% at \$1182.40/oz (October-delivery contracts). This week added further losses to this month which eventually turned out to be the worst month in this year. Gold for October delivery lost 5.25% in July. Investment demand also weakened during the week as the world's biggest gold ETF, SPDR Gold Trust, saw a redemption of nearly 20 MT. Weak crude oil prices during the week also sent some negative vibes to bullion prices.

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There was huge volatility in domestic gold prices as prices moved in the range of Rs. 17,756 – Rs. 18,359/10gm, showing a movement in more than Rs. 600. Unlike Comex gold futures, MCX gold futures for October delivery plunged by 2.22% to finish the week at Rs. 17,937/10 gm. Appreciating rupee supplemented this fall. Indian rupee 1.14% to 46.4075 against the US dollar.

Non-commercial holders (speculators) cut a huge portion (21%) of their short positions while adding next to nothing in their long positions for the week ended on July 27, 2010. Net long positions increased nearly 6% to 188,901 contracts from 178,307 contracts a week earlier. Rising net long positions may suggest bullish sentiments for gold in the near term. On the other hand, commercial holders reduced their long exposure by more than 7% with a marginal change in short positions and thus, leaving little impact on prices. Total long and short positions were also little changed.

CFTC Report - Gold			
Non-Commercial	7/27/2010	7/20/2010	% Change
Long	228251	227963	0.13%
Short	39350	49656	-20.75%
Spreading	74039	63477	16.64%
Commercial			
Long	193521	208787	-7.31%
Short	421076	424451	-0.80%
Total			
Long	495811	500227	-0.88%
Short	534465	537584	-0.58%

Price Performance

Exchange	Commodity Future	Open	High	Low	Last	% Change in Price	Volume	% Change in Volumes	Open Interest (OI)	% Change in OI
COMEX (USD/troy ounce)	Gold (Oct 10)	1188.60	1196.40	1157.50	1182.40	-0.61%	76368	131.84%	44916	38.55%
	Gold (Dec 10)	1192.00	1198.40	1159.30	1183.90	-0.65%	620667	216.78%	335827	61.27%
MCX (Rs/10 grams)	Gold (Oct 10)	18343.00	18359.00	17756.00	17937.00	-2.22%	86143	356.94%	14369	105.74%
	Gold (Dec 10)	18424.00	18431.00	17845.00	18025.00	-2.06%	3894	631.95%	1052	56.08%

Fundamental Outlook

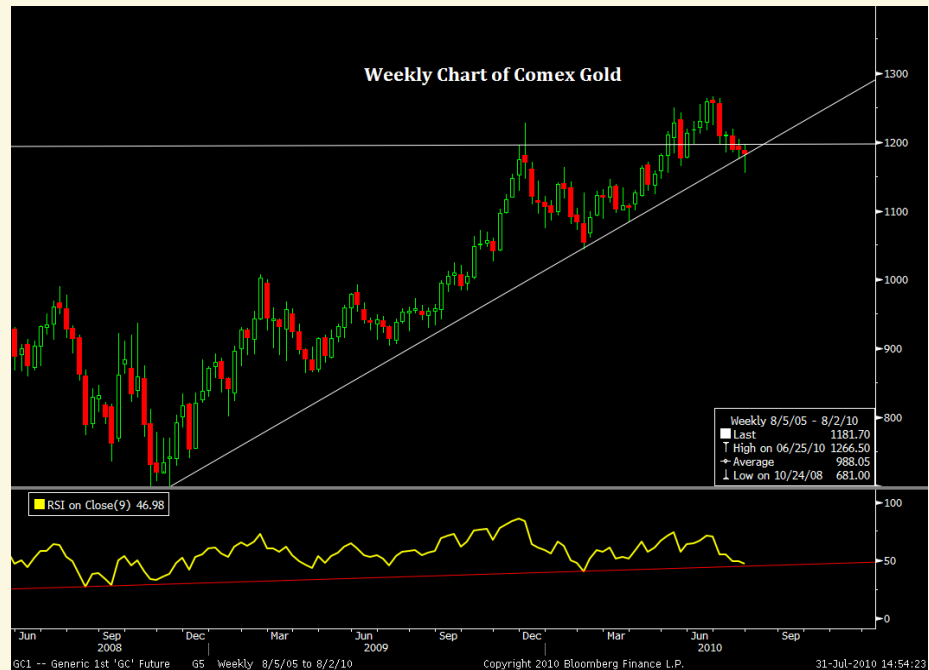
There are a host of data releases next week, including the most important payrolls data from the US. Nonfarm payrolls reports may show 60,000 job cuts, leading to unemployment rate reaching higher at 9.6% in July from 9.5% prior. Moreover, falling ISM manufacturing and construction spending coupled with a drop in factor orders may put pressure on the dollar. Rise in personal income and personal spending may also lower and thus, may result in a slow down in the economy. The only relief may come in the form of rising pending home sales and increasing auto sales which may put a base under the fall of the dollar. KCTL expects continued weakness in the dollar which may increase the demand for precious metal as an alternative investment. Gold may also try to regain some of its lost grounds after having posted the biggest monthly losses in 2010.

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Technical Analysis - Gold

Thankfully, gold has completed its weekly closing marginally higher from the week's low with settling at \$1180.60. **Though, bearish phase is still not over.** Gold broke past its \$1175 to confirm the down trend and that extended the correction till \$1156.50. Nevertheless, it has ended marginally higher, in fact above previous weeks low, giving a slight cushion on the prices. **A closing above \$1180 suggesting an initial up ticks on the gold**



prices, however, lot of hindrances at \$1185, \$1195 and \$1205 expected in the coming week. Certainly, we may see initial up moves, as the \$1156.50 bottom is derived as trend line support since October 2008. The same level is also supported by another technical indicator as market has taken exactly 50 per cent retracement correction since January 2010 till its lifetime high of \$1268.50 levels (price band: \$1065.80 to \$1268.50). Gold has been maintaining its uptrend above 45-week EMA since mid February 2009 suggesting the trend would continue in the long run. In the weekly chart, gold prices attempted to reach near the EMA support levels. However, weekly closing is higher suggesting upward movement can be witnessed. Last week's candle sticks pattern suggests a minor recovery can be developed on the gold prices. A break of \$1185 would confirm the uptrend. The weekly 14 periods RSI has ended at .52, marginally higher from its recent low of 048, might indicate a minor recovery.

Caution: A gap down opening below \$1175 on Monday may distort the entire analysis stated above. The next crucial support can be seen at \$1165 and \$1156 respectively. Anything below \$1155 can extend the correction till \$1140 levels.

Recommendation: Buy at \$1177-1180 TP \$1195, \$1200 STRICT SL below \$1164

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Exchange	S3	S2	S1	R1	R2	R3
Oct Gold - Comex (\$/oz)	1143	1155	1164	1194	1205	1215
Oct Gold - MCX (Rs. /10 gm)	17700	17780	17870	18040	18120	18240
Comex Gold (Oct)	Buy at \$1177-1180 TP \$1195, \$1200 with Strict SL below \$1164					
MCX Gold (Oct)	Buy in the range of 17870/900 levels targeting 18150 with a stop loss below 17740					

Silver

Silver tracked losses in gold and fell more than 0.5% to \$18.00/oz for the week ended on July 30, 2010. Silver failed to take cues from base metals which rose more than 4.5% on LME. US silver futures for September delivery plunged as much as 4% to \$17.33/oz during the week and finally settle at \$18/oz. MCX silver futures for September delivery showed a movement of nearly Rs. 1200 during the week and traded between Rs. 28,026 – Rs. 29,225/kg. Prices finally settled 1.74% lower at Rs. 28,636/kg. Appreciating rupee supplemented this fall. Indian rupee 1.14% to 46.4075 against the US dollar.

Price Performance

Exchange	Commodity Future	Open	High	Low	Last	% Change in Price	Volume	% Change in Volumes	Open Interest (OI)	% Change in OI
COMEX (USD/troy ounce)	Silver (Sep 10)	18.10	18.27	17.33	18.00	-0.54%	148814	9.35%	58693	-2.84%
	Silver (Dec 10)	18.20	18.32	17.40	18.05	-0.57%	19597	40.76%	28969	10.86%
MCX (Rs/1kg)	Silver (Sep 10)	29160.00	29225.00	28026.00	28636.00	-1.74%	273480	10.61%	20333	20.63%
	Silver (Dec 10)	29247.00	29315.00	28154.00	28750.00	-1.67%	10090	27.17%	1250	-3.18%

CFTC reports suggest a massive built-up in speculators' short positions for the second straight week, **suggesting a possibility of short covering in the near future**. Speculators increased their short positions by more than 30% for the week ended on July 27, 2010. There was a decline of more than 4% in net long positions. Commercial holders (Hedgers) increased their long positions by 3% and reduced short positions marginally. Total long and short positions were marginally changed.

CFTC Report - Silver			
Non-Commercial	7/27/2010	7/20/2010	% Change
Long	38480	37827	1.73%
Short	8143	6193	31.49%
Spreading	20175	21709	-7.07%
Commercial			
Long	32835	31904	2.92%
Short	79603	79864	-0.33%
Total			
Long	91490	91440	0.05%
Short	107921	107766	0.14%

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Technical Analysis - Silver

Comex Silver has taken a support at 17.31 this week and ended flat above 18.00 key psychological mark. Comex silver is trading in the range for last 3-4 weeks and is unable to breach and give closing below the support level of the weeks low. RSI momentum indicator is at 0.49 indicating confirming the bullish trend in silver. If we closely watch the chart silver is taking support of 45 weekly EMA. We expect silver prices to trade higher for the coming week and recommend buying.



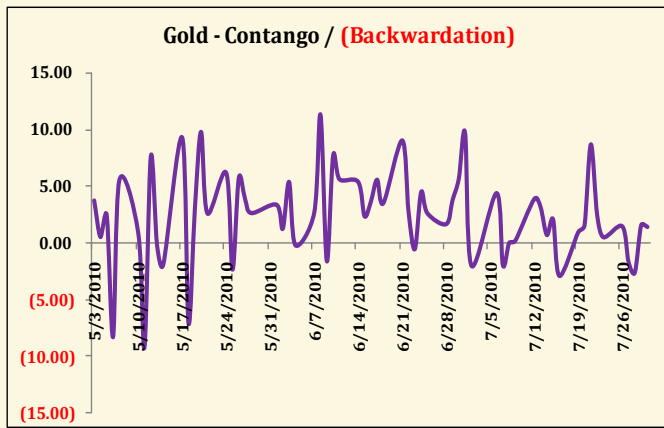
Exchange	S3	S2	S1	R1	R2	R3
Sep Silver - Comex (\$/oz)	16.80	17.12	17.65	18.10	18.50	18.90
Sep Silver - MCX (Rs. /kg.)	28000	28225	28500	29050	29350	29625
Silver - Sep Comex	Buy in the range of 1775-1780 targeting 1830 and then 1845 with stop loss of 1748					
Silver-Sep MCX	Buy in the range of 28450 - 28500 targeting 29070 and then 29250 with the stop loss of 28250					

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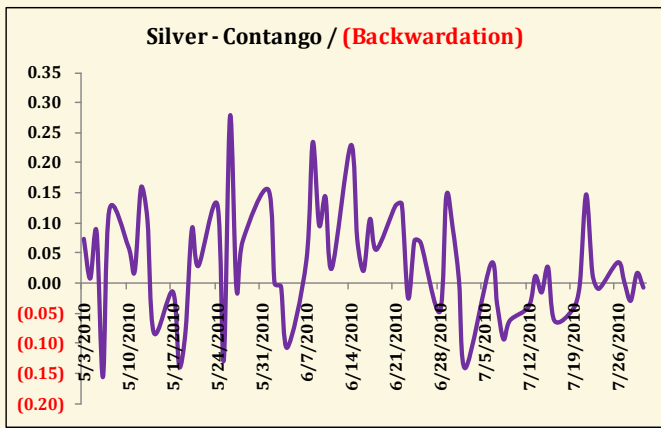
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Basis Charts

Backwardation is a market where spot prices exceed future prices while **Contango** is the opposite condition, where future prices exceed spot prices. We have considered Gold October future contract and Silver September future contract of COMEX. Contango seems to be an obvious condition in the market as future prices tend to be higher because of cost-of-carry involved.

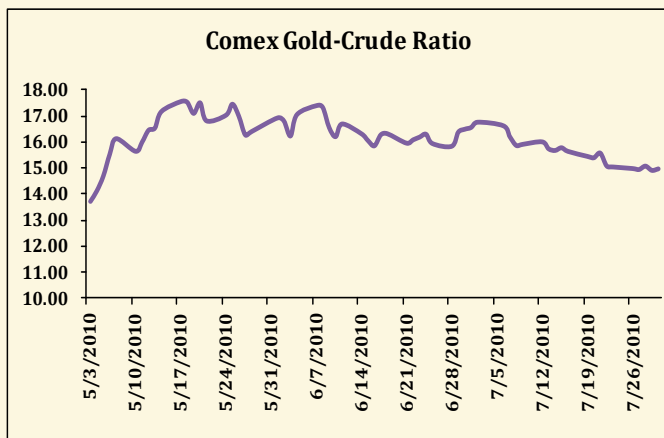


Spot gold closed at \$1181/oz while futures ended at \$1182.40/oz. Markets closed in Contango at 1.40.

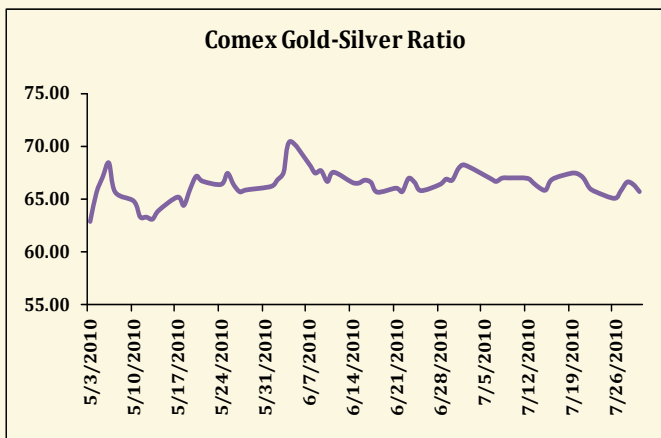


Spot silver closed at \$18.01/oz while futures ended at \$18.00/oz. Markets closed in Backwardation at 0.01.

Ratio Charts



The Comex Gold-Crude ratio for the week dropped to 14.97 from 1504 a week earlier. The ratio declined because of gold falling more than crude oil.

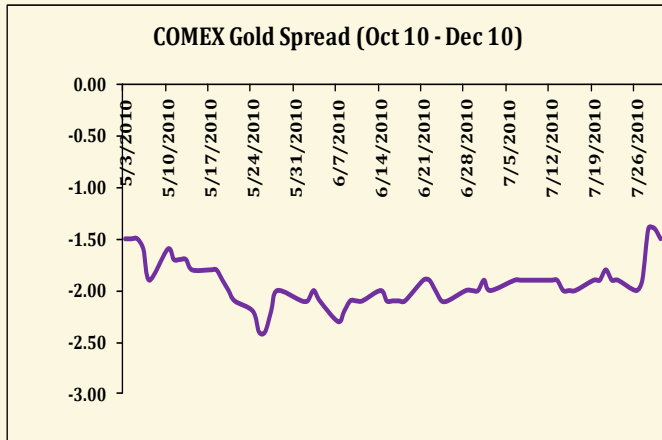


The Comex Gold-Silver ratio remained almost unchanged at 65.64.

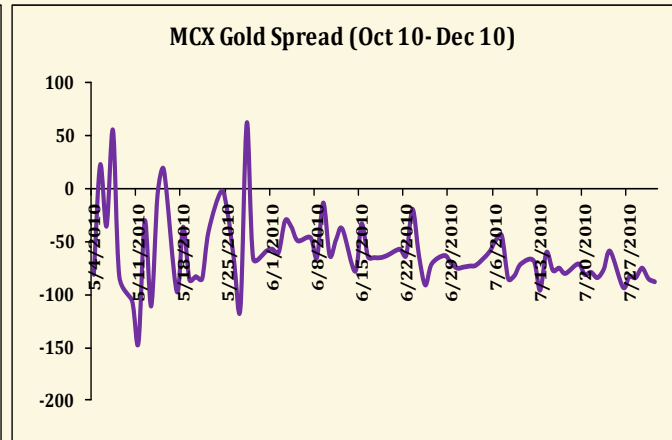
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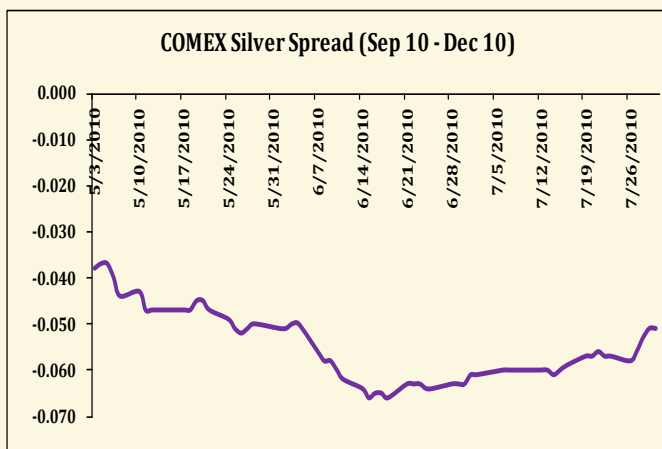
Calendar Spreads: Calendar Spread is the difference between the two futures contracts, far-month-contract and near-month-contract. For gold, we have considered Oct'10 and Dec'10 at both COMEX and MCX while for silver, Sep'10 and Dec'10 contracts at both COMEX and MCX have been taken into account for calculating calendar spreads.



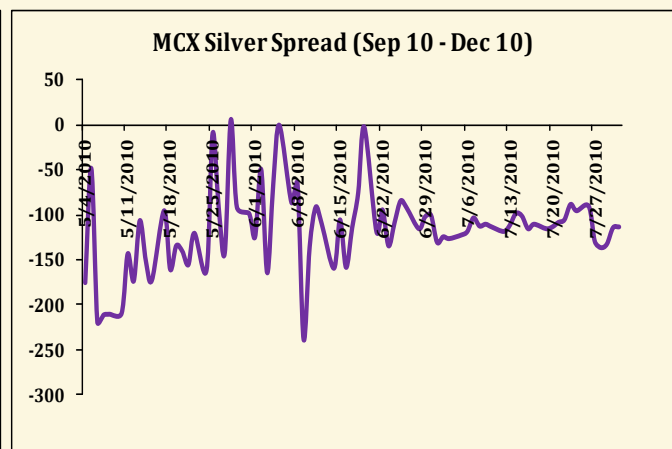
The spread between Gold Aug'10 and Oct'10 contracts closed at -1.50 during the week, meaning far month contract closed higher than near month contract.



The spread between MCX Gold Aug'10 and Oct'10 closed at -85.



The spread between Silver Sep'10 and Dec'10 continued to remain thin at -0.051.



The spread between Silver Sep'10 and Dec'10 contracts closed at -115 levels.

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Economic Events during this week

Date Time		Event		Survey	Actual	Prior	Revised
8/2/2010 13:30	EC	PMI Manufacturing	JUL F	56.5		56.5	--
08/02/2010	IN	Exports YoY%	JUN	--		35.10%	--
08/02/2010	IN	Imports YoY%	JUN	--		38.50%	--
8/2/2010 19:30	US	ISM Manufacturing	JUL	54		56.2	--
08/02/2010	US	ISM Prices Paid	JUL	54.5		57	--
08/02/2010	US	Construction Spending MoM	JUN	-0.50%		-0.20%	--
8/3/2010 14:30	EC	Euro-Zone PPI (MoM)	JUN	0.40%		0.30%	--
08/03/2010 14:30	EC	Euro-Zone PPI (YoY)	JUN	3.10%		3.10%	--
8/3/2010 18:00	US	Personal Income	JUN	0.20%		0.40%	--
08/03/2010	US	Personal Spending	JUN	0.10%		0.20%	--
08/03/2010 18:00	US	PCE Deflator (YoY)	JUN	1.30%		1.90%	--
08/03/2010 18:00	US	PCE Core (MoM)	JUN	0.10%		0.20%	--
08/03/2010 18:00	US	PCE Core (YoY)	JUN	1.30%		1.30%	--
08/03/2010	US	Factory Orders	JUN	-0.30%		-1.40%	--
8/3/2010 19:30	US	Pending Home Sales MoM	JUN	3.70%		-30.00%	--
08/03/2010 19:30	US	Pending Home Sales YoY	JUN	--		-15.60%	--
08/04/2010 02:30	US	ABC Consumer Confidence	1-Aug	-46		-48	--
08/04/2010	US	Domestic Vehicle Sales	JUL	8.90M		8.57M	--
08/04/2010	US	Total Vehicle Sales	JUL	11.60M		11.08M	--
08/04/2010	EC	PMI Services	JUL F	56		56	--
08/04/2010	EC	PMI Composite	JUL F	56.7		56.7	--
08/04/2010 14:30	EC	Euro-Zone Retail Sales (YoY)	JUN	0.10%		0.30%	0.20%
08/04/2010	EC	Euro-Zone Retail Sales (MoM)	JUN	0.00%		0.20%	0.10%
08/04/2010 16:30	US	MBA Mortgage Applications	30-Jul	--		-4.40%	--
08/04/2010 17:00	US	Challenger Job Cuts YoY	JUL	--		-47.10%	--
08/04/2010 17:45	US	ADP Employment Change	JUL	35K		13K	--
08/04/2010	US	ISM Non-Manf. Composite	JUL	53		53.8	--
08/05/2010	IN	Primary Articles WPI YoY	24-Jul	--		14.50%	--
08/05/2010 12:00	IN	Fuel Power Light WPI YoY	24-Jul	--		14.29%	--
08/05/2010 12:00	IN	Food Articles WPI YoY	24-Jul	--		9.67%	--
08/05/2010	EC	ECB Announces Interest Rates	5-Aug	1.00%		1.00%	--
08/05/2010	US	Initial Jobless Claims	31-Jul	455K		457K	--
08/05/2010	US	Continuing Claims	24-Jul	4520K		4565K	--
08/05/2010 20:00	US	ICSC Chain Store Sales YoY	JUL	--		3.00%	--
08/06/2010	US	Change in Nonfarm Payrolls	JUL	-60K		-125K	--
08/06/2010	US	Change in Private Payrolls	JUL	90K		83K	--
08/06/2010	US	Change in Manufact. Payrolls	JUL	10K		9K	--
08/06/2010	US	Unemployment Rate	JUL	9.60%		9.50%	--
08/06/2010 18:00	US	Avg Hourly Earning YOY All Emp	JUL	1.60%		1.70%	--
08/06/2010 18:00	US	Avg Hourly Earning MOM All Emp	JUL	0.10%		-0.10%	--
08/06/2010 18:00	US	Avg Weekly Hours All Employees	JUL	34.1		34.1	--
08/07/2010	US	Consumer Credit	JUN	-\$5.6B		-\$9.1B	--

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