

BULLION WEEKLY

A Weekly Report on Gold & Silver

Gold: Reversal expected

- Weakening dollar will spur gold's alternative investment demand
- Increasing net long positions will improve investors' confidence in the yellow metal
- Prevailing weak economic conditions and strong physical demand will lift bullion prices

Technical Calls

Commodity	Contract	S3	S2	S1	R1	R2	R3	Recommendation
COMEX – Gold	Oct – 10	1194	1210	1221	1252	1267	1285	Buy at 1230/32 TP 1252/ 67 SL 1220
MCX – Gold	Oct – 10	18000	18300	18550	18900	19020	19285	Buy at 18850/ 870 TP 19200 SL 18700
COMEX – Silver	Dec – 10	18.40	18.80	19.02	19.55	19.90	20.12	Buy at 18.85 TP 19.55 SL 18.40
MCX – Silver	Dec – 10	29845	30060	30250	30500	30700	31000	Buy at 30050/150 TP 30700/31000 SL 29500

Market Round-up

- Gold rose to nearly eight-week high levels of \$1244.50/oz on COMEX on account of faltering global economic recovery concerns and eventually closed 0.73% higher at \$1236.60/oz. MCX Gold futures were more buoyant with 0.85% weekly gains and closed at ₹18,897/10gm.
- Weaker dollar and safe haven demand bestowed a rise in bullion prices last week. Although, both the dollar and gold moved in similar direction on certain occasions during the week.
- Investment demand was also seen during the week with total exchange-traded gold holdings rising by 125.10 MT to 1614.84 MT. SPDR's gold holdings declined marginally by 0.92 MT to 1298.55 MT.
- Among other precious metals, silver posted stunning gains of 5.73% to \$19.07/oz on COMEX and 4.70% to ₹30,435/kg on MCX. Silver reversed its losses it incurred in the last two consecutive penultimate weeks, despite gold prices having remained firm.
- Silver took cues from both gold and base metals which stayed robust during the week. Base metals' complex on LME (LMEX) closed 1.85% higher for the week.
- iShares Silver Trust accumulated 45.66 MT of silver to take its total holdings to 9196.69 MT for the week.
- CFTC net long positions in gold rose for the third straight week while the same declined in case of silver.
- Equities continued to remain lower on poor economic recovery concerns. The MSCI World index for stocks closed 0.41% down.
- US housing numbers came in disappointing coupled with deterioration in Euro-zone's PMI numbers. The US saw its second-quarter GDP growth at 1.60%, down from earlier forecasts of 2.40%.

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Price Performance - Gold

Exchange	Commodity Future	Open	High	Low	Last	% Change in Price	Volume	% Change in Volumes	Open Interest (OI)	% Change in OI
COMEX (\$/oz)	Gold (Oct 10)	1227.00	1244.50	1210.90	1236.60	0.73%	28281	35.31%	45555	5.70%
	Gold (Dec 10)	1229.20	1246.00	1211.70	1237.90	0.74%	458299	14.24%	373884	3.82%
MCX (₹/10gm)	Gold (Oct 10)	18706.00	18998.00	18605.00	18897.00	0.91%	190688	3.21%	19408	-2.46%
	Gold (Dec 10)	18822.00	19108.00	18720.00	19008.00	0.88%	9308	5.59%	3646	57.84%

Price Performance - Silver

Exchange	Commodity Future	Open	High	Low	Last	% Change in Price	Volume	% Change in Volumes	Open Interest (OI)	% Change in OI
COMEX (\$/oz)	Silver (Dec 10)	18.08	19.38	17.79	19.07	5.73%	136119	124.85%	78814	34.88%
	Silver (Mar 11)	18.09	19.38	17.83	19.12	5.75%	4001	65.47%	12353	1.86%
MCX (₹/kg)	Silver (Dec 10)	29027.00	30700.00	28901.00	30435.00	4.70%	75667	211.28%	15622	175.52%
	Silver (Mar 11)	29134.00	30800.00	29020.00	30529.00	4.78%	1952	181.27%	614	111.72%

CFTC reports - Gold

CFTC reports show that non-commercial holders (speculators) added long positions while reduced their short positions during the week ended on Aug 24 after an addition in both positions in the penultimate week. **Speculators added net long positions for the third consecutive week, suggesting rising confidence in the yellow metal.** Net Long positions advanced to 221,191 contracts from 204,228 contracts a week earlier. On the other hand, commercial holders (hedgers) built their both long and short positions for the specified period. Total long and short positions rose 2.91% and 2.23%, respectively.

CFTC reports - Silver

Silver saw both non-commercial and commercial holders exiting from their long and short positions. Non-commercial holders reduced their exposure in both long and short positions, eventually driving down net long positions by over 2% to 34,807 contracts from 35,572 contracts a week earlier. **Lowering net long positions for the third consecutive week may result in buying at lower levels which may push silver prices up in the coming weeks.** Total long and short positions also declined by 4.54% and 5.63%, respectively.

CFTC Report - Gold			
Non-Commercial	8/24/2010	8/17/2010	% Change
Long	256244	240954	6.35%
Short	35053	36726	-4.56%
Spreading	65276	66794	-2.27%
Commercial			
Long	172529	172331	0.11%
Short	436829	421901	3.54%
Total			
Long	494049	480079	2.91%
Short	537158	525421	2.23%

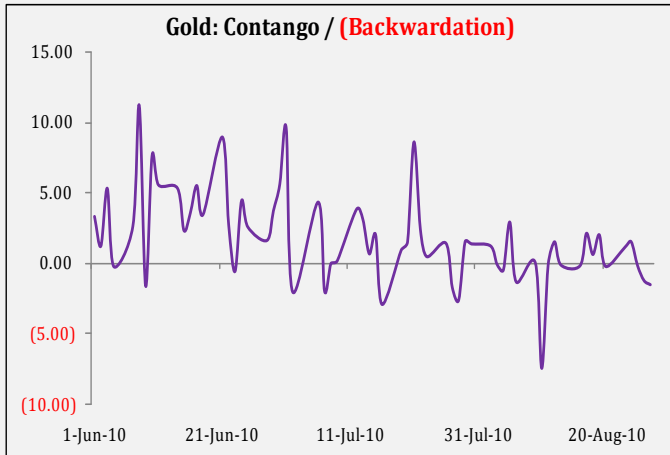
CFTC Report - Silver			
Non-Commercial	8/24/2010	8/17/2010	% Change
Long	42255	43251	-2.30%
Short	7448	7679	-3.01%
Spreading	23449	24423	-3.99%
Commercial			
Long	31306	33949	-7.79%
Short	82158	87693	-6.31%
Total			
Long	97010	101623	-4.54%
Short	113055	119795	-5.63%

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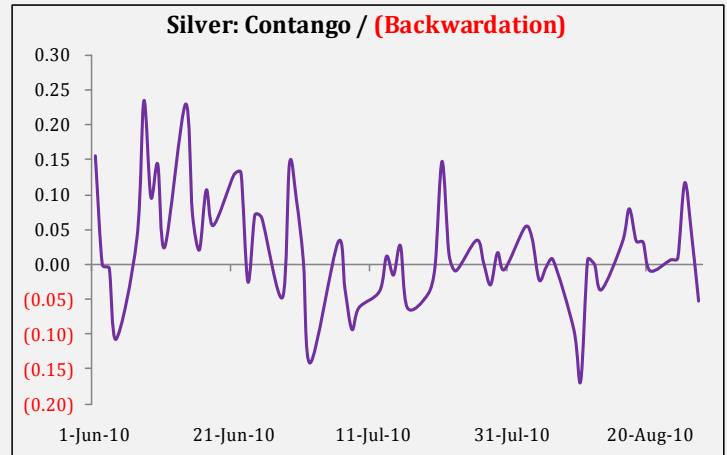
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Chart Updates – Contango & Backwardation

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.

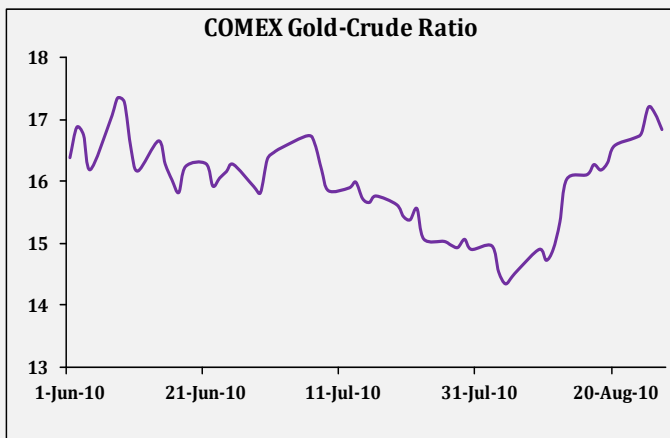


Spot gold closed at \$1238.10/oz while futures ended at \$1236.60/oz. **Markets closed in Backwardation at 1.50.**

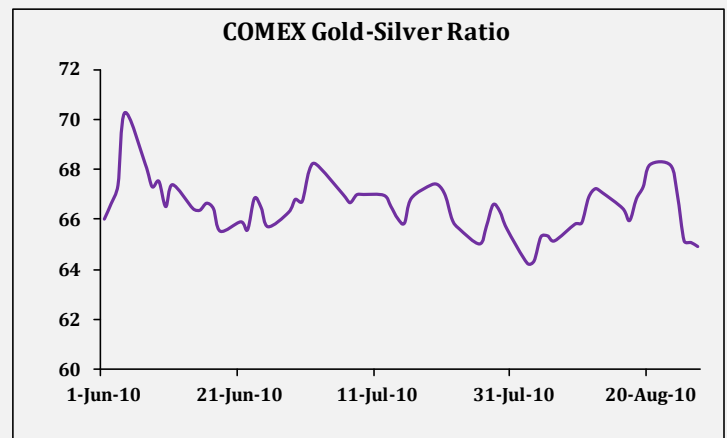


Spot silver closed at \$19.09/oz while futures also ended at \$19.04/oz. **Markets closed in Backwardation at 0.05.**

Ratio Charts



COMEX Gold Crude ratio fell to 16.44 from 16.71 a week earlier, as crude oil prices advanced more than bullion prices.

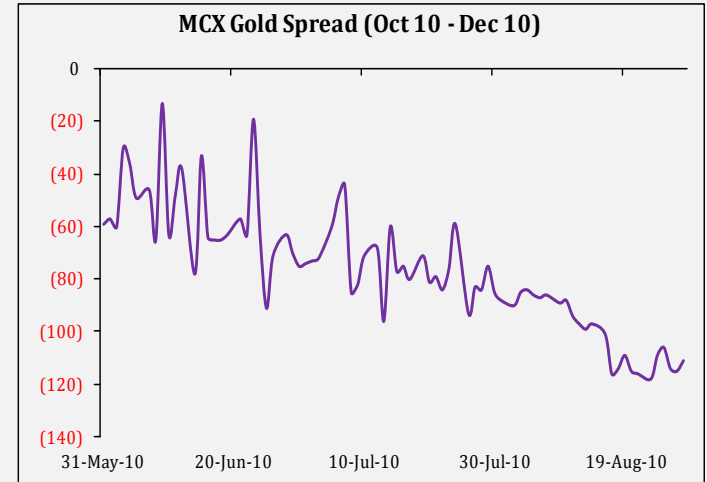
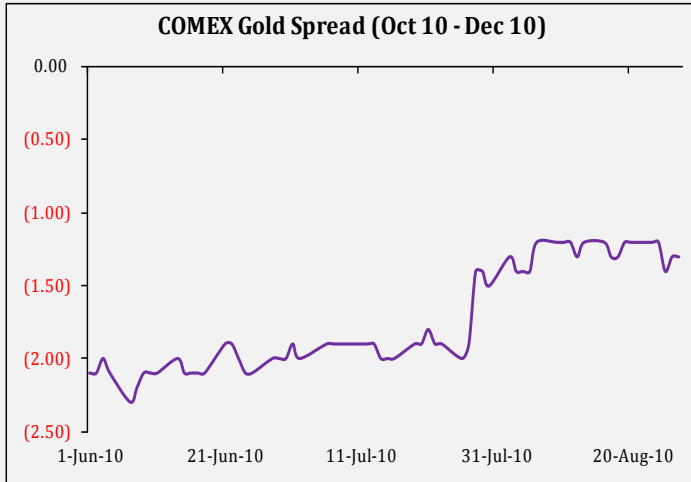


COMEX Gold Silver ratio plunged to 64.92 from 68.21 a week earlier, as silver prices more buoyant than bullion prices.

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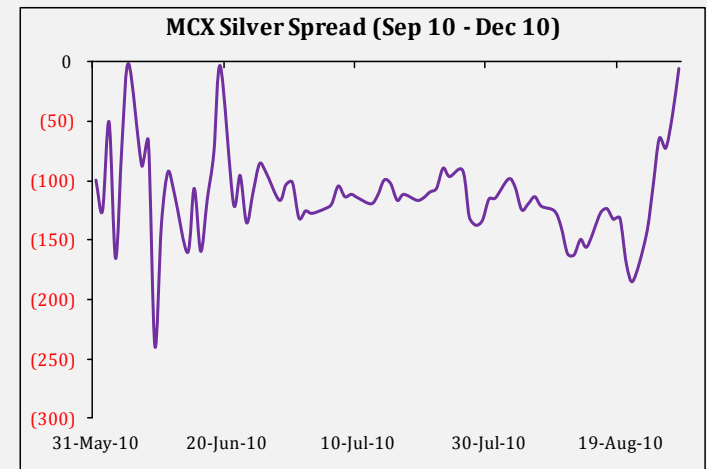
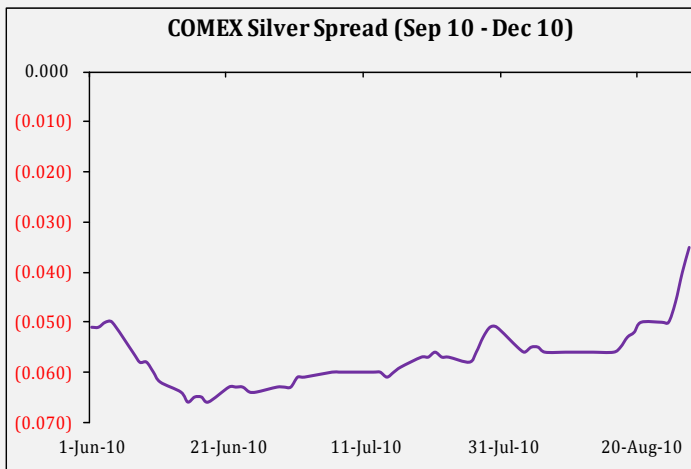
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Calendar Spreads



The spread between COMEX Gold Oct'10 and Dec'10 contracts closed at -1.30 during the week, meaning far month contract closed higher than near month contract.

The spread between MCX Gold Oct'10 and Dec'10 contracts closed at -111 during the week, meaning far month contract closed higher than near month contract.



The spread between COMEX Silver Sep'10 and Dec'10 contracts closed at -0.035 during the week, meaning far month contract closed higher than near month contract.

The spread between COMEX Silver Sep'10 and Dec'10 contracts closed at -5 during the week, meaning far month contract closed higher than near month contract.

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The Week Ahead

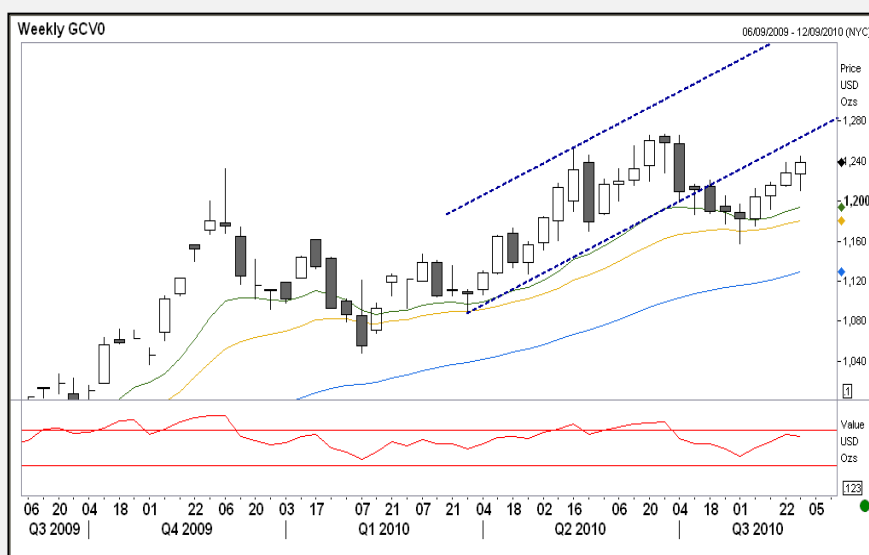
The coming week will witness a host of data releases with the US unemployment rate and non farm payrolls data being the major movers of the market. US housing reports continue to come poor with an expected fall in pending home sales and labor reports may also show a rise in unemployment rate. Important ISM manufacturing index also declines along with a fall in ISM prices paid index. On the other hand, Euro zone managed to halt a rise in the region's unemployment rate which further resulted in better retail sales. Moreover, ECB will also announce the interest rate which will most likely remain same at 1%. Overall, **KCTL expects the dollar to remain weak on account of burgeoning pressure on the US economy**

Date	Economic Data	Expected	Previous
Monday Aug 30	US - Personal Income	0.30%	0.00%
	US - Personal Spending	0.00	0.00%
Tuesday Aug 31	IN - Qtly GDP Y/Y	8.80%	8.60%
	GE - Unemployment Rate	7.60%	7.60%
	EC - Unemployment Rate	10.00%	10.00%
Wednesday Sep 1	US - Consumer Confidence	50.90	50.40
	GE - Retail Sales M/M	0.50%	-0.30%
Thursday Sep 2	US - ISM Manufacturing	52.80	55.50
	US - Initial Jobless Claims	475K	473K
Friday Sep 3	US - Factory Orders	0.40%	-1.20%
	US - Pending Home Sales M/M	-1.00%	-2.60%
Friday Sep 3	EC - Retail Sales M/M	0.20%	0.00%
	US - Change in Non-farm Payrolls ('000)	-100	-131
	US - Unemployment Rate	9.60%	9.50%

coming from worsening macro-economic fundamentals. Weakening dollar will spur bullion's alternative investment demand. Rising CFTC net long positions also suggest improved investors' confidence in the yellow metal. Moreover, deteriorating economic conditions and strong physical demand ahead of festive season will also help lift bullion prices in the coming week.

Technical Analysis - Gold

Comex Gold continued its shine for the fourth consecutive week and closed up by 0.73%. After making a high of \$1244.5/oz, it settled at \$1236.60/oz levels. Strong resistance is seen at \$1267 levels. Only on breach and sustained trade above can push the bullion prices to trade higher and make record highs. However, crucial support level is seen at \$1213 level. The momentum indicator RSI (14) is trading at 0.626 suggesting further bullishness. Market is trading well above short term EMA's (9, 18) and middle term EMA's (45) also suggest prices to remain higher. KCTL recommends buying at lower levels.

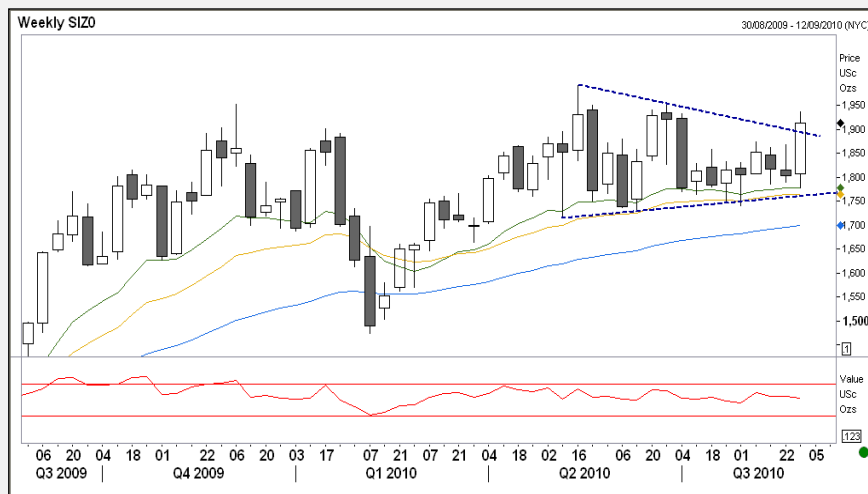


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Technical Analysis - Silver

Comex Silver for December delivery gained by 5.73% last week with weekly high levels of \$19.38/oz. It eventually settled higher at \$19.07/oz. Market has breached the decent resistance levels of \$18.80 and closed above those levels. However, market may expect to test the next resistance levels of \$19.92. On breach of \$19.92 levels, we can see record highs in silver. The momentum indicator RSI (14) is trading at 0.517 suggesting further bullish movement. Since markets are trading above short term and middle term EMAs also suggests silver to move further upwards. KCTL expects prices to trade on higher side. We recommend buying at lower levels.



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