

# BULLION WEEKLY

A Weekly Report on Gold & Silver

## Fundamental View

- Gold continue to reflect the overall level of concerns in the global economy
- Talks of quantitative easing will stoke gold's inflation-hedge demand
- Silver likely to ride the coattails of gold's upside

## Technical Calls

Commodity	Contract	S3	S2	S1	R1	R2	R3	Recommendation
COMEX - Gold	Dec - 10	1210	1240	1270	1285	1305	1324	Buy at 1265-1270 TP 1303/1315 SL 1240
MCX - Gold	Oct - 10	18700	18860	19000	19285	19400	19540	Buy at 19020-19070 TP 19350 SL 18890
COMEX - Silver	Dec - 10	20.08	20.35	20.60	21.27	21.55	21.96	Buy at 20.60-20.65 TP 21.55 SL 20.30
MCX - Silver	Dec - 10	31460	31700	32000	32480	32760	33000	Buy at 31960/32080 TP 32500/32720 SL 31650

## Market Round-up

- Gold continued to reflect the overall level of concern and hit a record high for third time during the week as poor U.S. economic data and market talk of more quantitative easing put the yellow metal on track for its largest weekly gains since May this year.
- Gold futures created a fresh all-time high of \$1282.50/oz during the week and traded in the range of \$1241.10 - \$1282.50/oz with posting nearly 2.5% weekly gains.
- Weaker dollar, which slipped as much as 2.22% to 80.865 levels, also spurred the bullion's alternative investment demand
- SPDR's Gold Trust added 7.30 MT of gold to take its total holdings to 1300.83 MT. A rise in SPDR's gold holdings also resulted in an increase of 7.36 MT in total exchange-traded gold holdings which stood up at 1618.27 MT for the week ended on Sep 17, 2010.
- Among other precious metals, silver rode the coattails of gold's rise and benefitted from being a cheaper alternative to gold.
- Silver futures rose to \$21.03/oz, the highest since Mar 17, 2008 and closed 4.9% up at \$20.82/oz for the week.
- Investment demand remained firm with iShares Silver Trust accumulating its silver holdings for the fourth week in a row. Holdings rose 74.57 MT to 9381.74 MT for the week ended on Sep 17<sup>th</sup>, 2010.
- CFTC net long positions rose to 244,261 contracts in gold and 48,791 contracts in silver.
- Indian markets also moved in same tandem but weekly gains varied due to rupee appreciation which gained 1.37% after the RBI hiked its benchmark interest rates during the week.
- The RBI increased Repo rate to 6% from 5.75% earlier and reverse Repo rate to 5% from 4.5% earlier.

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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)	1246.60	1282.50	1241.10	1275.90	2.48%	26999	-5.26%	30164	-9.46%
	Gold (Dec 10)	1247.30	1284.40	1242.30	1277.50	2.49%	539131	22.59%	402467	4.84%
MCX (₹/10gm)	Gold (Oct 10)	18840.00	19257.00	18815.00	19148.00	1.51%	210744	16.85%	14941	-25.48%
	Gold (Dec 10)	19037.00	19340.00	18914.00	19249.00	1.49%	14664	43.43%	8071	18.20%

## 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)	19.90	21.03	19.82	20.82	4.89%	155568	21.32%	102397	2.85%
	Silver (Mar 11)	19.92	21.03	19.90	20.87	4.89%	6258	34.87%	15802	10.29%
MCX (₹/kg)	Silver (Dec 10)	31288.00	32479.00	31231.00	32269.00	3.31%	292706	17.77%	35704	18.73%
	Silver (Mar 11)	31380.00	32590.00	31370.00	32393.00	3.32%	12842	34.11%	1649	25.59%

## CFTC reports - Gold

CFTC reports suggest a large number of speculators adding short positions, betting record high prices will fall in the near term. However, buying was also seen and long positions rose nearly 4%. Total net long positions advanced for the sixth consecutive week to 244,261 contracts from 239,697 contracts a week earlier. Commercial holders also increased their short positions by more than 1% last week. Long positions were little changed. Total long and short positions were added by 1.64% and 1.63%, respectively. Open positions rose to 594,058 contracts for the week ended on Sep 14, 2010.

## CFTC reports - Silver

Silver experienced moderate change in non-commercial holders' positions, according to CFTC reports. Long positions advanced 2.68% to 60,696 contracts while short positions were marginally changed. Net long positions were increased by 1588 contracts to 48,791 contracts from 47,203 contracts a week earlier. Commercial holders added both long and short positions by 3.15% and 4.60%, respectively. Total open positions in silver edged higher by 5,276 contracts to 144,798 contracts for the week ended on Sep 14, 2010.

CFTC Report - Gold			
Non-Commercial	9/14/2010	9/7/2010	% Change
Long	286237	275367	3.95%
Short	41976	35670	17.68%
Spreading	66120	68386	-3.31%
<b>Commercial</b>			
Long	171449	171591	-0.08%
Short	464388	459271	1.11%
<b>Total</b>			
Long	523806	515344	1.64%
Short	572484	563327	1.63%

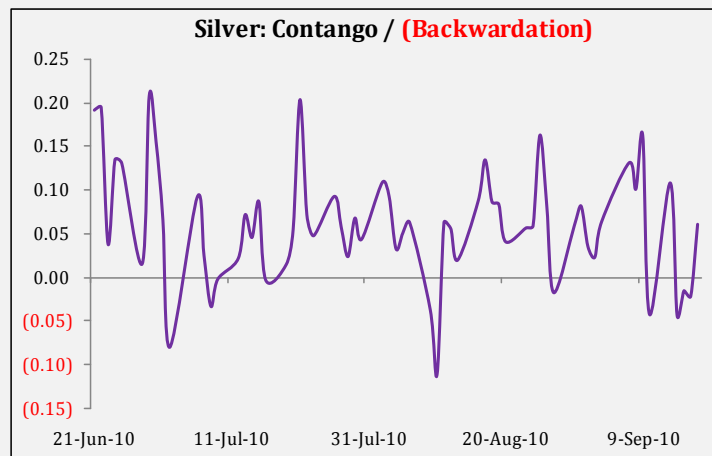
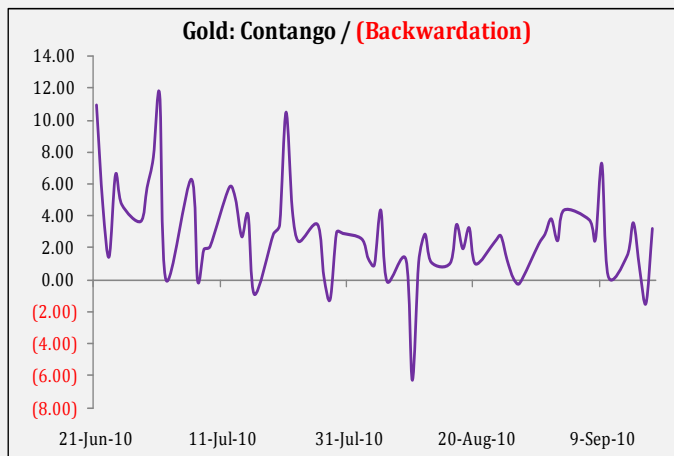
CFTC Report - Silver			
Non-Commercial	9/14/2010	9/7/2010	% Change
Long	60696	59112	2.68%
Short	11905	11909	-0.03%
Spreading	23909	23951	-0.18%
<b>Commercial</b>			
Long	29764	28855	3.15%
Short	94825	90653	4.60%
<b>Total</b>			
Long	114369	111918	2.19%
Short	130639	126513	3.26%

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## Chart Updates – Contango & Backwardation

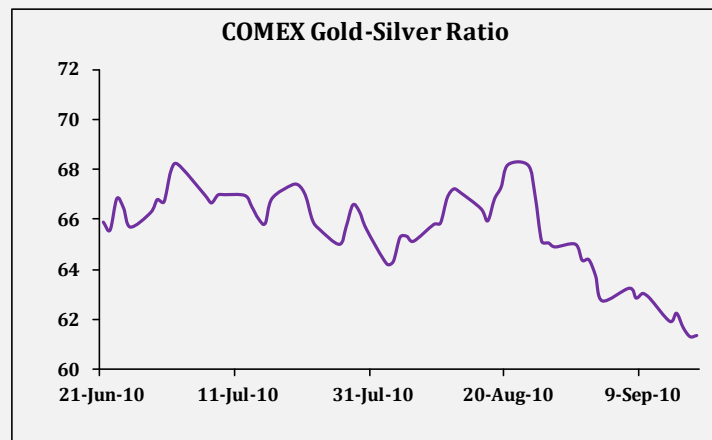
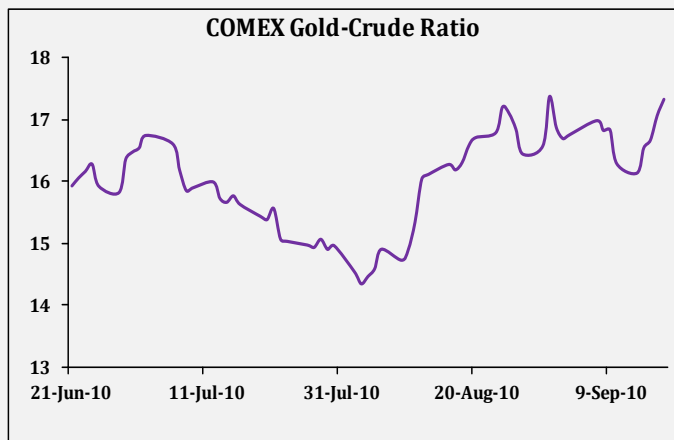
**Backwardation** is a market where spot prices exceed future prices while **Contango** is the opposite condition, where future prices exceed spot prices. We have considered Gold December future contract and Silver December future contract of COMEX. Contango seems to be an obvious condition in the market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



Spot gold closed at \$1274.30/oz while December futures ended at \$1277.50/oz. **Markets closed in Contango at 3.20.**

Spot silver closed at \$20.76/oz while December futures ended at \$20.82/oz. **Markets closed in Contango at 0.06.**

## Ratio Charts



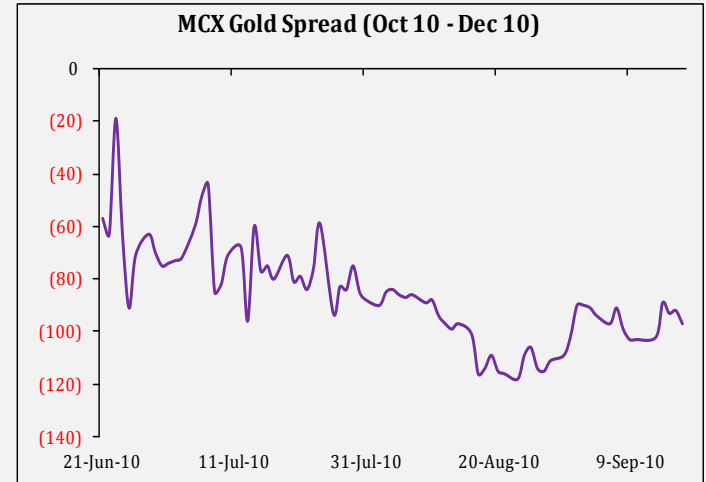
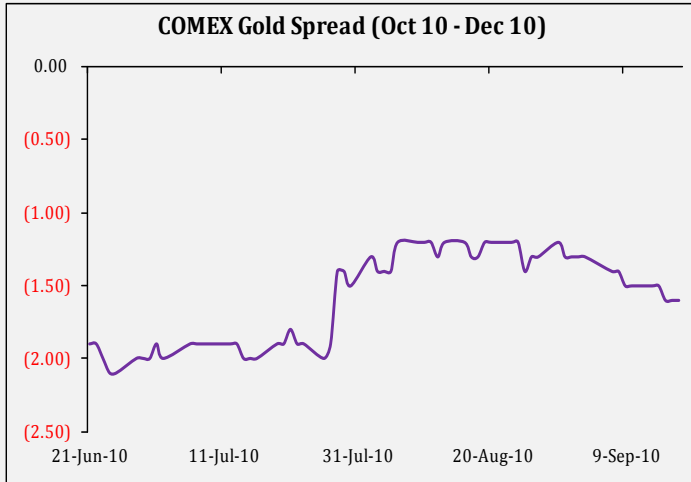
COMEX Gold Crude ratio rose to 17.32 from 16.29 a week earlier, as crude oil prices fell while gold rose. **The ratio may rise further as the same trend is likely to continue i.e. fall in crude oil and rise in gold.**

COMEX Gold Silver ratio fell to 61.37 from 62.87 a week earlier, due to silver outperforming gold.

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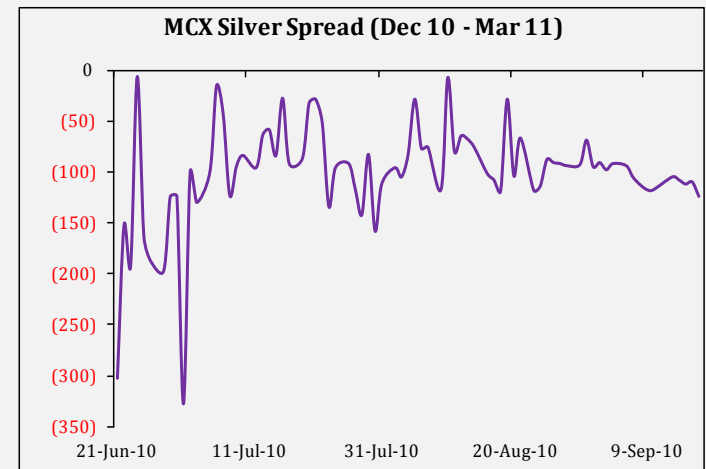
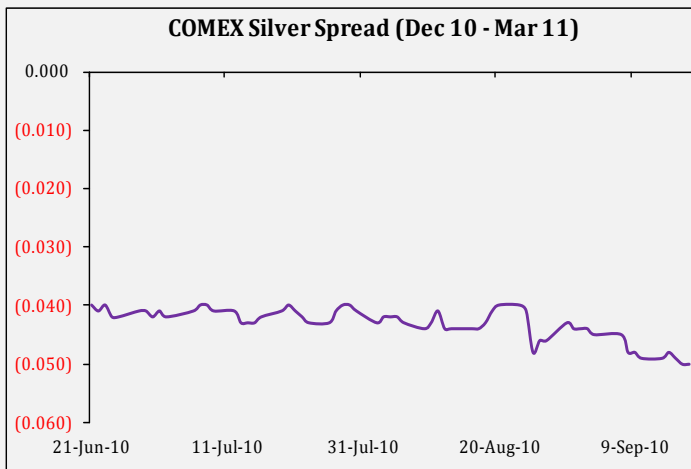
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## Calendar Spreads



*The spread between COMEX Gold Oct'10 and Dec'10 contracts closed at -1.60 for the week ended on Sep 17, meaning far month contract closed higher than near month contract.*

*The spread between MCX Gold Oct'10 and Dec'10 contracts closed at -97 on Sep 17, meaning far month contract closed higher than near month contract.*



*The spread between COMEX Silver Dec'10 and Mar'11 contracts closed at -0.050 for the week ended on Sep 17, meaning far month contract closed higher than near month contract.*

*The spread between COMEX Silver Dec'10 and Mar'11 contracts closed at -124 for the week ended on Sep 17, meaning far month contract closed higher than near month contract.*

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## The Week Ahead

Next week, all eyes will be holding on the crucial housing reports which will release housing starts, building permits, new home sales and existing home sales. All housing data are improving from prior figures which will be seen as positive for the USD. Falling industrial new orders and weak PMI numbers from Euro-zone may also result in gains in the USD against the euro. However, declining durable goods orders may limit the gains of the USD. FOMC's regular policy meet is also due next week.

Date	Economic Data	Expected	Previous
<b>Tuesday Sep 21</b>	US - Housing Starts	550K	546K
	US - Building Permits	560K	559K
	US - FOMC Rate Decision	0.25%	0.25%
<b>Wednesday Sep 22</b>	EC - Industrial New Orders	-1.40%	2.50%
	EC - Consumer Confidence	-10	-11
<b>Thursday Sep 23</b>	US - Initial Jobless Claims	450K	450K
	US - Continuing Claims	4483K	4485K
	US - Existing Home Sales	4.10M	3.83M
<b>Friday Sep 24</b>	US - Durable Goods Orders	-1.00%	0.40%
	US - New Home Sales	295K	276K

Gold prices may see a decline initially should the dollar index rise on account of positive housing data. However, a continued rise in net long positions suggests rising confidence in the yellow metal. Furthermore, a stunning increase in the volumes of SPDR Gold Trust shares also signifies possible buying pressure and more upside in gold. Talks of more quantitative easing—referring to the buying of bonds by the U.S. government—will instigate inflationary concerns which will in turn push the bullion prices higher. KCTL expects an initial correction in gold prices before a new record high is due. Thereby, buying at lower levels is recommended for the next week.

## Technical Analysis - Gold

As said earlier, if market fails to breach the support at 1237 the same may remain higher. Overall bias remains towards further upside next week. A mild lower correction is needed before resuming its uptrend as the market is witnessing a trend line resistance of previous swing highs. A significant break above 1285 levels may lead the prices to test 1298 then 1305 levels. Conversely, on the lower side key level to watch is 1265 level. Sustained trade above 1265 level will result in firm bullion prices. Gann fan study is showing a higher potential till 1303 levels (45 degree). The momentum indicator weekly RSI (14) ended at 0.66 levels and still has the potential to move higher. We expect prices to trade higher for the coming week and recommend buying near support levels.



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## Technical Analysis – Silver

COMEX silver futures experienced continuous upside last week as per expectations. We are keeping our biases intact i.e. bullish. We noted “*Ascending triangle*” pattern is still intact which suggests further upside potential. We might see a mild lower correction. However, this will not hamper our bullish view. The immediate support is at 20.60 levels and sustain above the same may lead the market to continue with its upside momentum. In case if it breaches the support at 20.60, it is likely to test 20.18 levels. Trading above the weekly short term EMA suggests upside view. Supporting to above factors, the momentum indicator RSI (14) weekly ended at 0.66 levels and still has the potential to move higher. Likewise, on the higher side resistances are placed at 21.27 then 21.55 levels. Overall, we expect prices to trade higher and recommend buying for this week.



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