

BULLION WEEKLY

A Weekly Report on Gold & Silver

Fundamental View

- The dollar could potentially trade a bit higher next week
- Dollar's expected reversal and redemption in ETF's gold holdings last week may disturb gold's bulls
- Gold's bulls are less likely to move beyond previous week's high i.e. \$1366/oz

Technical Calls

Commodity	Contract	S3	S2	S1	R1	R2	R3	Recommendation
COMEX - Gold	Dec - 10	1295	1313	1325	1366	1372	1388	Buy at 1337/40 TP 1354, 1364/66 SL 1320
MCX - Gold	Dec - 10	19180	19270	19400	19600	19680	19750	Buy at 19420/430 TP 19600, 19680 SL 19250
COMEX - Silver	Dec - 10	21.80	22.45	22.80	23.30	23.53	23.72	Buy at 22.80/90 TP 23.30, 23.50 SL 22.50
MCX - Silver	Dec - 10	33500	34000	34200	34620	34800	35000	Buy at 34400/450 TP 34800, 35000 SL 33900

Market Round-up

- Weekly December gold closed higher before trading in the range of \$1313.30 - \$1366/oz during the week ended on Oct 8, 2010.
- The potential inverse relationship between the US Dollar and the Gold Market is in place offering support to the bullion prices.
- The U.S. dollar had weakened further last week amidst traders favoring other currencies and the Fed buying U.S. T-Bonds to stimulate the economy.
- Key payrolls data showed a drop of 95,000 in non-farm sector while unemployment rate remained same at 9.6%. This was seen negative as a higher rise in the number of eligible workforce in proportion to a rise in unemployed people could have led unemployment rate same at 9.6%. This contributed to fall in the USD and a rise in bullion prices.
- Among other precious metals, silver continued to outperform gold and posted fourth straight weekly gains by closing nearly 4.75% up at \$23.11/oz.
- Gold's investment demand came under pressure amidst fears that prices may take a correction after reaching to record highs and ETFs redeemed more than 12 MT of gold holdings. (SPDR holdings: 1288.24 MT, down 14.11 MT) On the other hand, ETFs looked extremely bullish in silver and iShares added nearly 300 MT of silver to take its total holdings to 10085.62 MT for the week ended on Oct 8, 2010.
- CFTC reports showed that net long positions in gold rose marginally while silver saw liquidation in its net long positions.
- Dow Jones rose 1.63% and oil prices advanced 1.32% to \$82.66/barrel during the week.

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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 (Dec 10)	1319.70	1366.00	1313.30	1345.30	2.09%	811441	21.88%	441487	2.76%
	Gold (Feb 11)	1322.60	1367.50	1315.50	1347.10	2.08%	17670	15.87%	34729	2.70%
MCX (₹/10gm)	Gold (Dec 10)	19204.00	19744.00	19167.00	19465.00	1.31%	238353	144.13%	20808	4.43%
	Gold (Feb 11)	19302.00	19882.00	19285.00	19627.00	1.57%	9637	309.56%	2028	22.02%

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)	22.13	23.53	21.81	23.11	4.74%	281676	36.97%	103244	-2.65%
	Silver (Mar 11)	22.25	23.58	21.89	23.16	4.73%	16354	32.12%	18908	5.61%
MCX (₹/kg)	Silver (Dec 10)	33162.00	34928.00	33043.00	34497.00	4.16%	402123	22.23%	29180	-15.45%
	Silver (Mar 11)	33271.00	35058.00	33172.00	34647.00	4.22%	19131	41.19%	2702	37.86%

CFTC reports - Gold

CFTC reports showed non-commercial holders are increasingly shorting the yellow metal, betting prices will fall. Non-commercial holders' short positions rose 3.35% to 40,951 contracts against a rise of 1.11% to 300,571 contracts in long positions. Net long positions advanced merely 0.76% to 259,620 contracts for the week ended on Oct 5, 2010.

On the other hand, commercial holders reduced their exposure from both long and short positions. Total long and short positions were changed by +0.63% and -0.30%, respectively.

CFTC reports - Silver

Silver's net long positions reversed to declines after having risen in the last few weeks consecutively. A rise in short positions and a drop in long positions suggest that speculators (non-commercial holders) are expecting a drop in prices. Net long positions declined by 5.82% to 48,483 contracts from 51,481 contracts a week earlier.

Commercial holders, or hedgers, covered their earlier short positions and increased their long positions, simultaneously. Total long and short positions were up by 2% and 1.6%, respectively.

CFTC Report - Gold			
Non-Commercial	10/5/2010	9/28/2010	% Change
Long	300571	297272	1.11%
Short	40951	39623	3.35%
Spreading	69982	66647	5.00%
Commercial			
Long	179071	182276	-1.76%
Short	478569	485016	-1.33%
Total			
Long	549624	546195	0.63%
Short	589502	591286	-0.30%

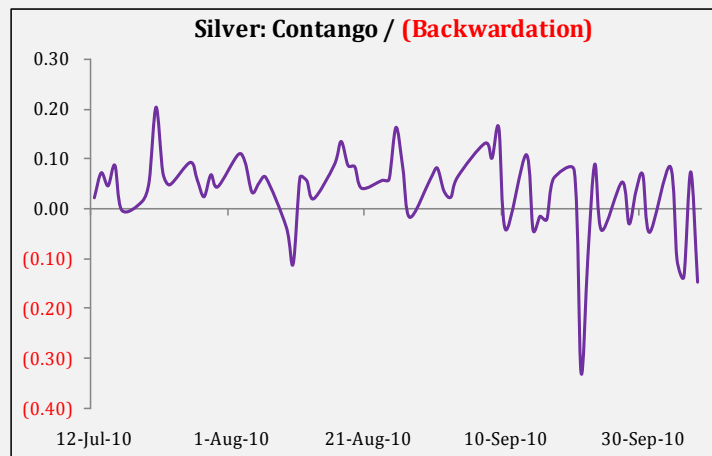
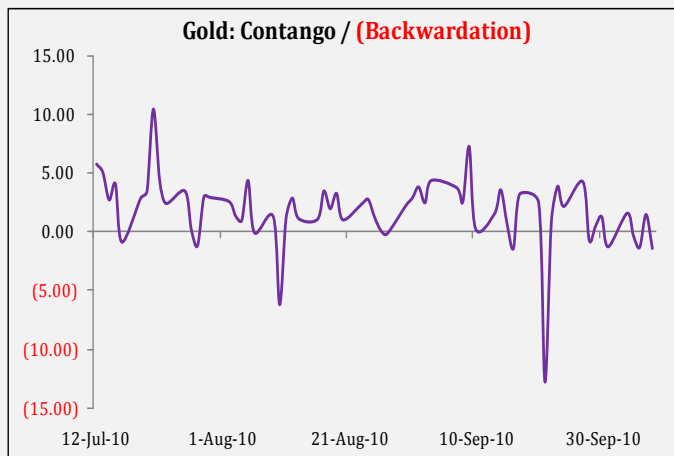
CFTC Report - Silver			
Non-Commercial	10/5/2010	9/28/2010	% Change
Long	63681	66066	-3.61%
Short	15198	14585	4.20%
Spreading	32169	28242	13.90%
Commercial			
Long	30023	29034	3.41%
Short	92150	94447	-2.43%
Total			
Long	125873	123342	2.05%
Short	139517	137274	1.63%

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Chart Updates - Contango & Backwardation

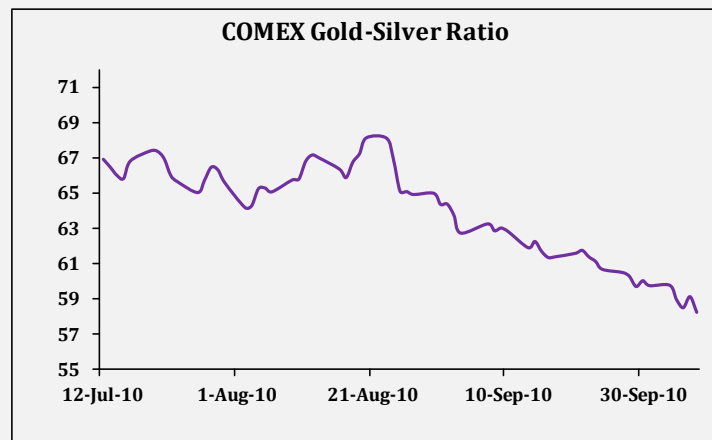
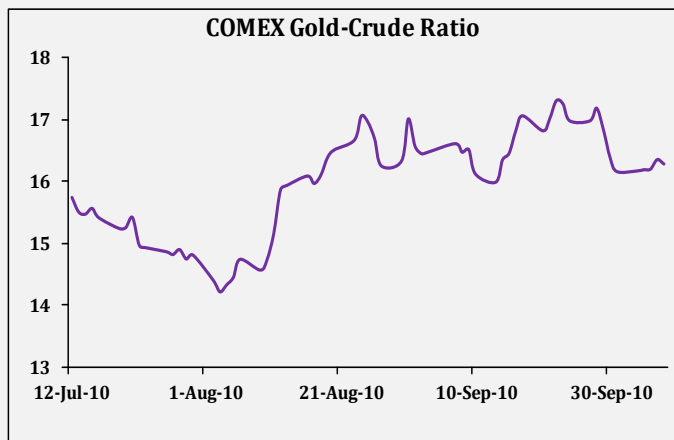
Backwardation is a market where spot prices exceed future prices while **Contango** is the opposite condition, where future prices exceed spot prices. We have considered Gold December future contract and Silver December future contract of COMEX. Contango seems to be an obvious condition in the market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



Spot gold closed at \$1346.74/oz while December futures ended at \$1345.30/oz. **Markets closed in Backwardation at 1.44.**

Spot silver closed at \$23.25/oz while December futures ended at \$23.11/oz. **Markets closed in Backwardation 0.14.**

Ratio Charts



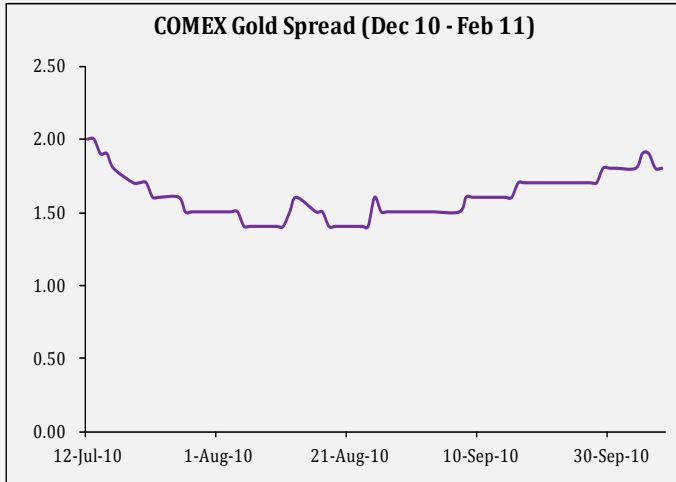
COMEX Gold Crude ratio rose to 16.28 from 16.15 a week earlier, as gold rose more than crude oil.

COMEX Gold Silver ratio lowered further to 58.23 from 59.74 a week earlier, due to silver continuing to outperform gold.

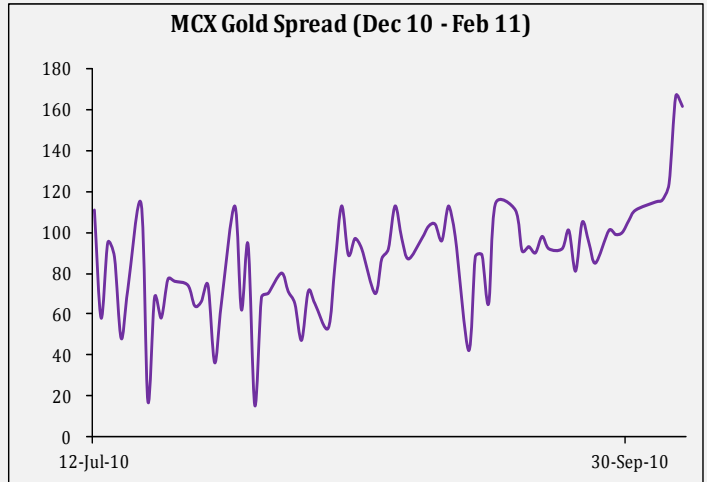
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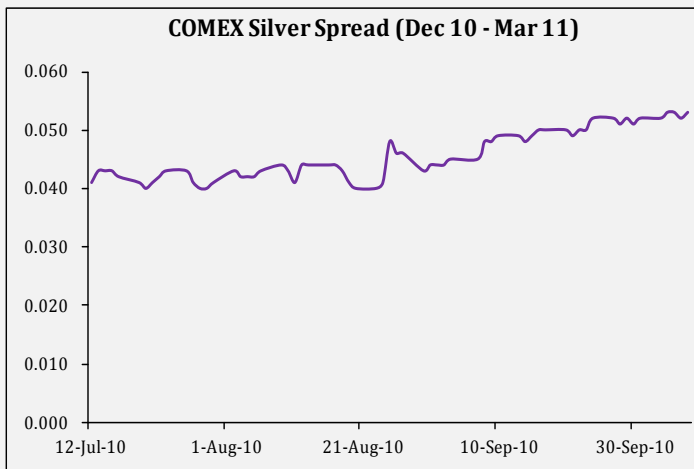
Calendar Spreads



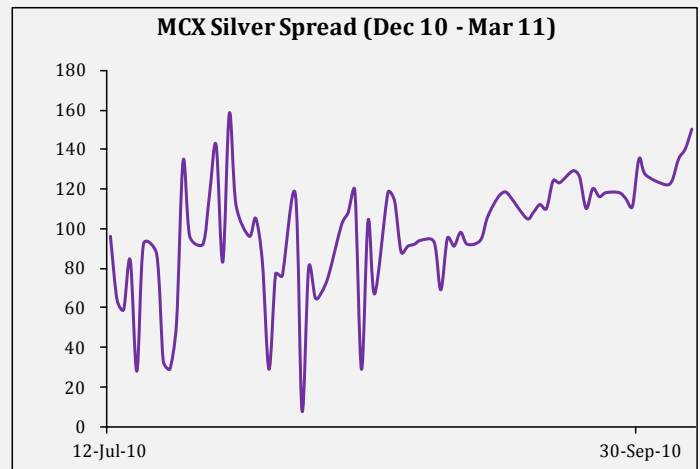
The spread between COMEX Gold Dec'10 and Feb'11 contracts closed at 1.80 for the week ended on Oct 8, meaning far month contract closed higher than near month contract.



The spread between MCX Gold Dec'10 and Feb'11 contracts closed at 162 on Oct 8, meaning far month contract closed higher than near month contract.



The spread between COMEX Silver Dec'10 and Mar'11 contracts closed at 0.053 for the week ended on Oct 8, meaning far month contract closed higher than near month contract.



The spread between COMEX Silver Dec'10 and Mar'11 contracts closed at 150 for the week ended on Oct 8, meaning far month contract closed higher than near month contract.

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The Week Ahead

December gold closed higher despite profit-takers hit the metal hard during the later part of the week. The greenback was also under pressure during most of the week. However, the US dollar could now trade a bit higher next week. The build in the short positions in the Dollar Index may potentially cause a bounce next week, should they come out of their positions. Economic data next week in the form of rising retail sales, improving Empire manufacturing index and Michigan confidence index, falling jobless claims and lowering import price index may provide some resistance to the

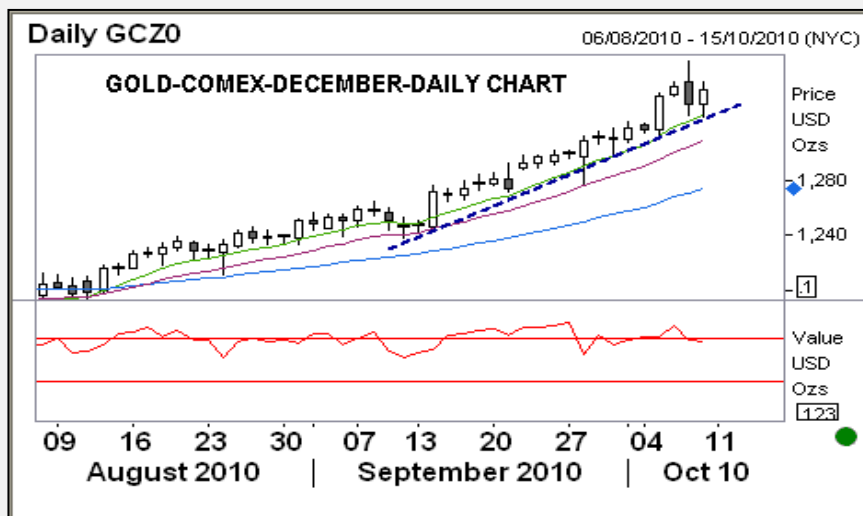
Date	Economic Data	Expected	Previous
Tuesday Oct 12	IN - Industrial Production Y/Y	9.50%	13.80%
	UK - CPI M/M	0.00%	0.50%
Wednesday Oct 13	UK - Nationwide Consumer Confidence	59	61
	JN - Machine Orders M/M	-3.90%	8.80%
	CH - Trade Balance	\$17.50B	\$20.03B
	EC - Industrial Production M/M	0.80%	0.10%
Thursday Oct 14	US - Import Price Index M/M	-0.20%	0.60%
	IN - Monthly WPI Y/Y	8.50%	8.51%
	US - Trade Balance	-\$44.10B	-\$42.80B
Friday Oct 15	US - CPI M/M	0.20%	0.30%
	US - Retail Sales	0.40%	0.40%
	US - Empire Manufacturing	6.0	4.1
	Monthly Budget Statement	-\$32.0B	-\$46.6B

dollar. Japan's machinery orders declined in August and UK's nationwide consumer confidence may have dropped in September. This will also help the dollar index recover some of its lost grounds. Dollar's expected reversal may disturb the gold's bulls and we may not see gold breaking its previous week's high i.e. \$1366/oz. Recent decline in ETF holdings may potentially stimulate some selling interest. Monday is a holiday (Columbus Day) perhaps lending to less exuberance, but later in the week, we will have more reports to potentially impact the market. KCTL expects gold to remain range bound with limited upside next week.

Technical Analysis - Gold

December futures gold prices hit fresh new high of \$1366 and settled the week at \$1345.30 levels. Though all the indicators are reaching overbought zone but prolonging move is continuously observed.

However, Friday's move has given a slight cushion to the market. The Friday's move was extremely volatile as *bottom and trough distance was of \$40* and settled higher. This suggests advancement on prices can be expected in the early next week. In other way, intraday correction has made the trend stronger.



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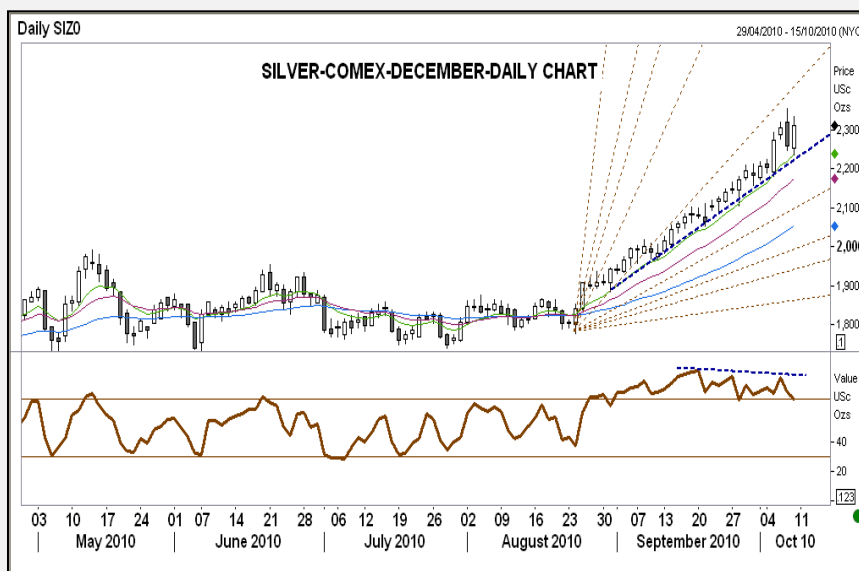
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In the daily price chart, market has taken a strong support from the *trend line* suggesting prices may rise in the next week. The candle stick pattern also suggests market may move till its previous high (\$1368). Since, the trend has been continuously rising as market is near overbought zone in weekly chart, market may find tough resistance at \$1366-1368 to crack down. Hence, initially prices may trade higher and likely to make a new high or may stay near the previous high (formation of pseudo top is likely). However, in the later part of the week may see a correction. Hence, it is also very important to find the support levels for the entire week. In general, last week's low can be considered as a major support i.e. at \$1313.30. However, intermediate support is also necessary to look and that can be around \$1325 (Friday's low).

Outlook: Looking at the above analysis, we expect initially gold prices may rise (likely to make a new high or may test previous high, technically called pseudo top). However, the sentiments may change in the later part of the week.

Technical Analysis – Silver

December futures silver prices traded higher and settled at \$23.10. Market made a weekly high of \$23.53. Silver prices have been rising for the five consecutive weeks and show no sign of reversal. The momentum indicator weekly RSI_14 is trading at around 0.89. Though, it is near overbought zone but correction is not yet expected. In the last week there was a good correction on Friday which has made the trend stronger and suggesting prices can move further high. The resistances can be seen at around \$23.40 and then \$23.53 (last week's high). If market clears the resistance levels may see prices testing \$24.00 levels.



However, we expect silver prices may remain within last week's range. In the daily chart prices are maintaining above good trend line support levels. Moreover, prices are still trading below 45 degree- GANN angle giving a bullish trend to continue. This is also important to look at the support levels in the bullish trend. As we have mentioned the trend line support levels can be seen at \$2280 then \$2240 levels.

Outlook: We expect silver prices can move higher in the next week. However, market may find resistance to breach its previous high.

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