BULLION WEEKLY

KARVY COMTRADE LIMITED

Aug 6, 2011

A Weekly Report on Gold & Silver

The Week Ahead

- Precious metals to maintain rally- Gold may outperform silver
- US credit rating down gradation may quicken the price rise of precious metals
- US budget and FOMC decision should be keenly watched

Technical Calls

Commodity	S3	S2	S1	R1	R2	R3	Recommendation
Gold Oct COMEX	1535	1571	1611	1686	1722	1761	Buy at 1645-1652 TP 1685-1700 Strict SL 1632
Gold Oct MCX	22341	22813	23730	25119	25591	26508	Buy 1st lot at 24500-530 and 2nd lot at 24380-24330 TP 24880 then 25000 with stop loss below 24220.
Silver Sept COMEX	3167	3461	3641	4115	4409	4589	Sell at 3880-3900 TP 3720 TP 3965
Silver Sept MCX	50009	53300	55802	61595	64886	67388	Sell at 59000-58800 TP 57000/56800 SL 6000

Outlook

The week gone by Gold headed for a fifth straight weekly gain making almost a new high on a new day as investors sought of a haven from financial market turmoil spurred by budget woes in the US and Europe. Gold futures rallied to a record $1683.50. The week ahead we would like to carry a “Bullish” outlook for the bullions.

S&P has downgraded US credit rating for the first time from “AAA” to “AA+” which slammed the nation’s political process in absence of a credible plan to lower deficits even if the nation’s $14.3 trillion debt limit was lifted. Demand for precious metals may surge with the specter of a downgrade as investors saw few alternatives to the traditional refuge during times of risk as concern increased global growth is slowing. S&P has also threaten that it may lower the long term rating to “AA” within next two years if spending reductions are lower than agreed to, interest rate rise or new fiscal measures during the period result in higher governmental debt. Italy plans to accelerate its austerity measure and the balance budget seeking to prevent the country from becoming the next victim of Europe’s debt crisis and this paved the way for the ECB for a try to bring down Italy’s borrowing cost by buying its bonds in secondary market. ***This down gradation might lead the dollar to get weaken which will be a supportive factor for bullions.***

Central banks are ramping up demand to lift price: In February and March, Mexico added around 93 metric tons to its reserves, Russia purchased 48 metric tons during the first half of this year, and Thailand bought 17 metric tons in June, according to data from the World Gold Council. Thailand, South Korea and Kazakistan added gold valued at about $2.4 billion to their reserves, joining Mexico and Russia in increasing holdings as central bankers’ hedge against depreciating foreign currency reserves. This week, the Bank of Korea confirmed that it made its first purchase of gold since the Asian financial crisis of 1997-1998, buying 25 metric tons of gold in June and July of this year. Even the SPDR ETF demand also rose.

Coming to the economic data front, when FOMC gathers on Aug 9 to deliberate monetary policy, it is likely to conclude that it is not yet the time to make any changes. There may be anticipations outside of the Fed about the possibility of further accommodation due to the sluggish economic performance, policy makers might remain stick to their longer term outlook. The monthly budget statement would be the crucial one for economic indication after the debt deal has been sanctioned. The deficit might widen as the income raised from tax might have reduced due to high unemployment and lower income of people. Gold has been bid higher underscoring the disappointing gross domestic product of the US. Slower growth is therefore likely to maintain the lower interest rate for an extended period which in turn would keep easy money available to bid up precious metals higher.

The international Gold market is at ***backwardation (chart shown below)*** meaning the spot prices are at a premium than the future. This implies the next week opening should be at a higher side. According to the P-V-O analysis, gold’s five week rally is well braced by traders’ participation and their willingness to carry over the positions which indicates a bullish signal. While analyzing silver, it has been observed that the volatile prices were actually prompted by reluctance in to holding positions and a poor participation. The **Volatility** analysis shows silver remained on an average of 33% volatile during the week as compared with gold’s 11%.

KCTL research reports are also available on Bloomberg, Reuters Knowledge & FactSet

Overall, precious metals seem to be bullish for the week ahead but cautiousness should be maintained at this high level.

Technical Analysis – Gold

Last week gold prices rose as per our expectations in last week's report. During the last week is made a high of $1683.50 and settled at $1650.30.

A long white candle stick is witnessed in the weekly chart suggesting bullishness to be continued for the coming week. As per Andrew Pitch fork principle, Market settled above the median line resistance (of the range $1317.6-1579.20-1479.2) and also above the previous swings high of $1636.30 indicating upside mode for the coming week. The indicator RSI (14) is treading above 0.70 which is considered as an over bought mode. Therefore, traders need to be cautious at this point of time. Also prices are trading far above the short term moving averages suggesting that the short term correction may be possible at any point of time. However, we are not getting any bearish signals on the chart as of now.

In daily chart a good consolidation pattern is witnessed at higher level and therefore it is expected to trade upside only. Immediate resistance is seen at $1685 (near to previous swing high) and $1700 (a psychological resistance) and also an upper trend line resistance as per Andrew pitch fork principle.

As per the above analysis, that the prices are expected to remain on the higher side only and we recommend buying for the coming week.

Technical Analysis – Silver

Silver future prices settled lower at 3821cents after a volatile session of the week. During the week it made a high of 4229 and a low of 3755.50.

In daily chart a bearish trend channel pattern is witnessed suggesting downside pressure to be continued for the coming week. Prices settled below previous swings of 3882cents indicating bearishness.

In the weekly chart, a bearish hammer candle stick is witnessed signalling downside. The momentum indicator RSI (14) is at 0.55 and is declining after touching the high of 0.60 suggesting bearish mode for the coming week.

The over all trend in the silver chart is looking downside and recommend selling for the coming week.

Market Round-up: The week gone by gold rallied amid jittery on US debt ceiling, however took a little correction before settling due to a hefty slump in global equities.

Economic Events:

- US House and Senate approved an agreement to raise the nation's debt ceiling by $2.1 trillion and cut the deficit by as much as $2.5 trillion over a decade
- ***S&P has downgraded US credit rating for the first time ever in history from "AAA" to "AA+" which slammed the nation's political process in absence of a credible plan to lower deficits even if the nation's $14.3 trillion debt limit was lifted***
- Manufacturing indexes from the US to Europe and China declined along with US consumer spending and income dropped unexpectedly in July raising the concern that the global recovery is losing momentum
- The dollar index settled 0.61% below prior week's closing amid uncertain debt issues and lingering credit rating down gradation
- US stocks fell the most in 32 weeks paring the Dow's 2011 advance. It shattered 5.75% to fetch a negative 1.97% return from the beginning of 2011, erasing the 9.73% gain till date
- On concern that the S&P would but the American credit rating for the first time ever in the history, speculation which proved to be true after equities market closed. World equities measured by the MSCI all country world indexes, posted a hefty loss of 8.58% loss while the Asian benchmark index also retreated by 8.58%,. On the other hand, the CRB Index, a bellwether for commodities also fell by 4.47%

Precious Metal Show:

- SPDR gold holdings rose to 1286.29 tons from 1263.57 tons since last week, signaling a growing investment demand
- The I-share silver holdings also increased to 10010.45 tons from 9915.86 tons since last week also is indicating a growing investment demand for the metal
- Gold rose (Oct Contract), registering new life high of $1683.50
- Silver futures for September delivery however lost merely by 4.72% on weekly basis

Price Performance - Gold

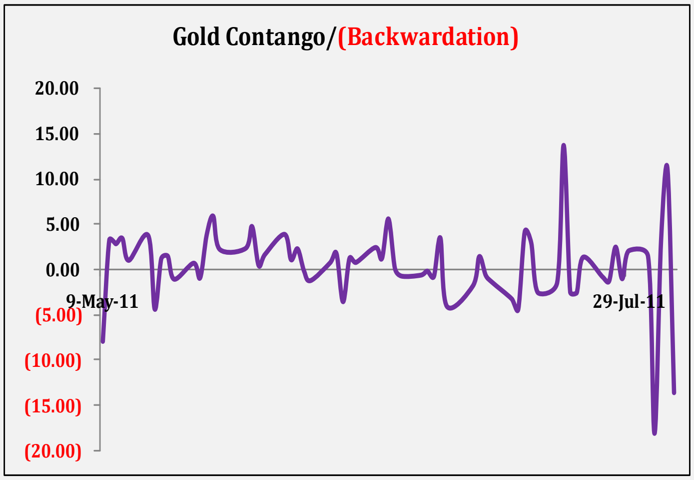
Exchange	Commodity Future	Open	High	Low	Last	% Change in Price	Volume	% Change in Volumes	Open Interest (OI)	% Change in OI
COMEX ($/oz)	Gold (Oct 11)	1620.60	1683.50	1608.10	1650.20	1.25%	69224	20.51%	24381	-3.85%
	Gold (Dec 11)	1622.20	1684.90	1608.20	1651.80	1.26%	1041223	58.29%	378571	1.31%
MCX (₹/10gm)	Gold (Oct 11)	23475	24435	23285	24156	2.70%	272062	355.27%	12240	25.65%
	Gold (Dec 11)	23751	24740	23585	24476	2.78%	12793	599.84%	1320	14.19%

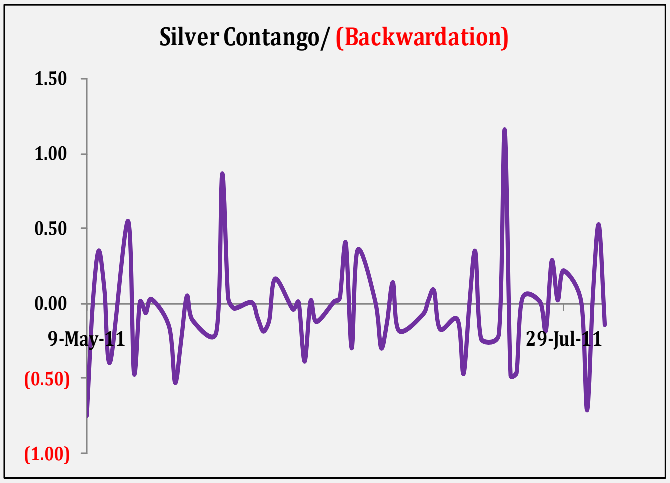
Price Performance – Silver

Exchange	Commodity Future	Open	High	Low	Last	% Change in Price	Volume	% Change in Volumes	Open Interest (OI)	% Change in OI
COMEX ($/oz)	Silver (Sep 11)	39.65	42.30	37.56	38.21	-4.72%	360879	23.71%	58069	-1.05%
	Silver (Dec 11)	39.80	42.31	37.63	38.24	-4.71%	41245	159.55%	31406	-0.58%
MCX (₹/kg)	Silver (Sep 11)	58752.00	62384	56591	57105	-3.04%	671486	16.68%	16102	-2.61%
	Silver (Dec 11)	59910.00	61920	59367	60114	-2.59%	25720	31.32%	3685	27.86%

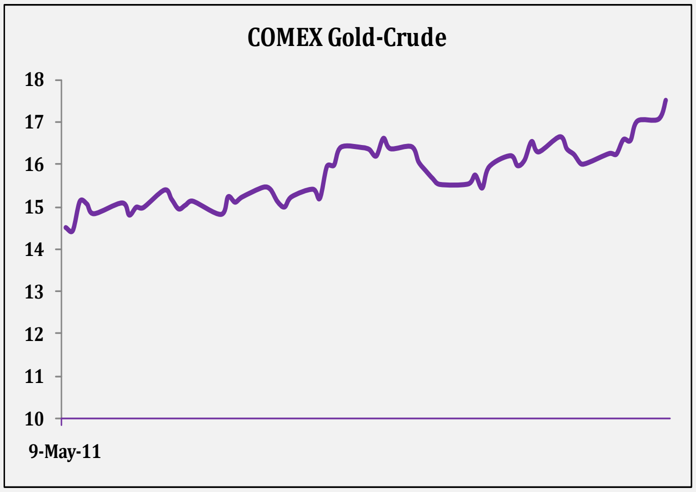
Chart Updates – Contango & Backwardation

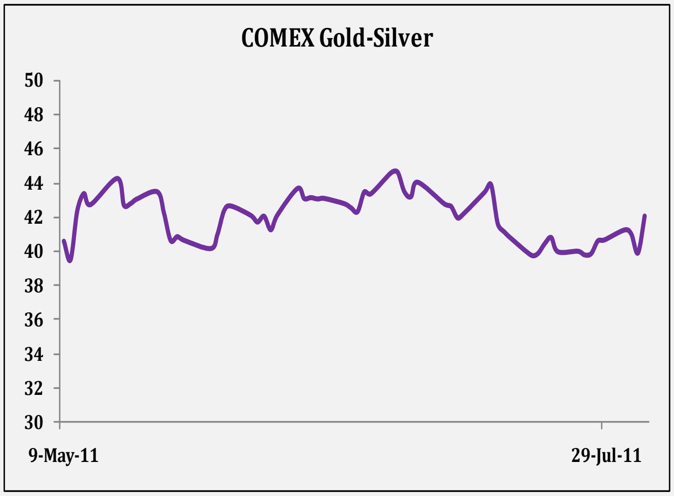
Backwardation is a market where spot prices exceed future prices while ***Contango*** indicates future prices exceeding spot prices.



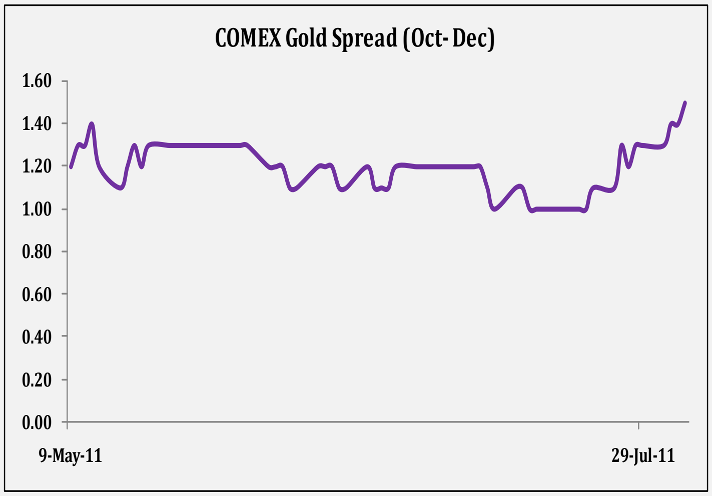


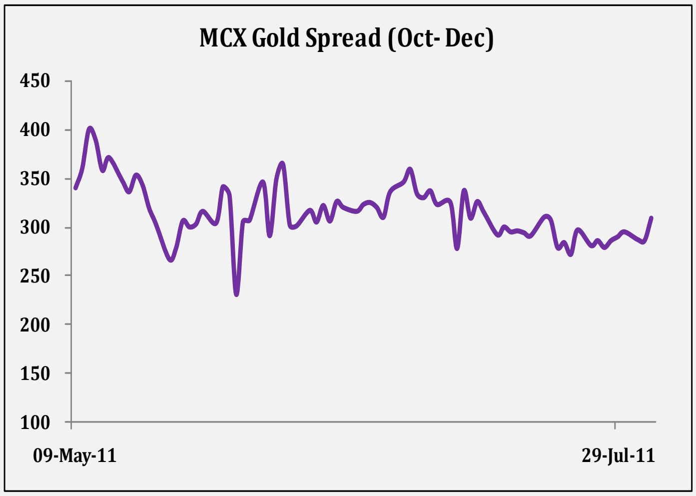
Ratio Charts

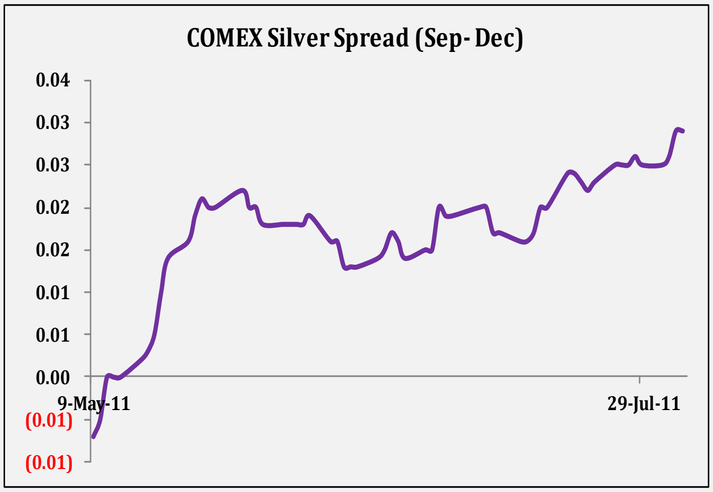


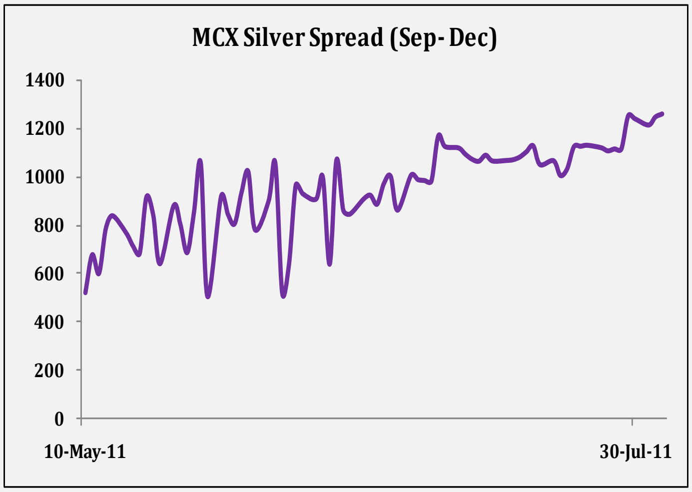


Calendar Spreads

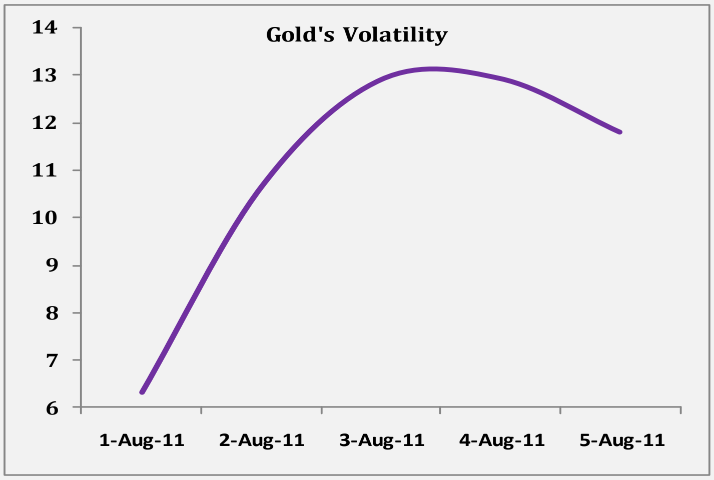


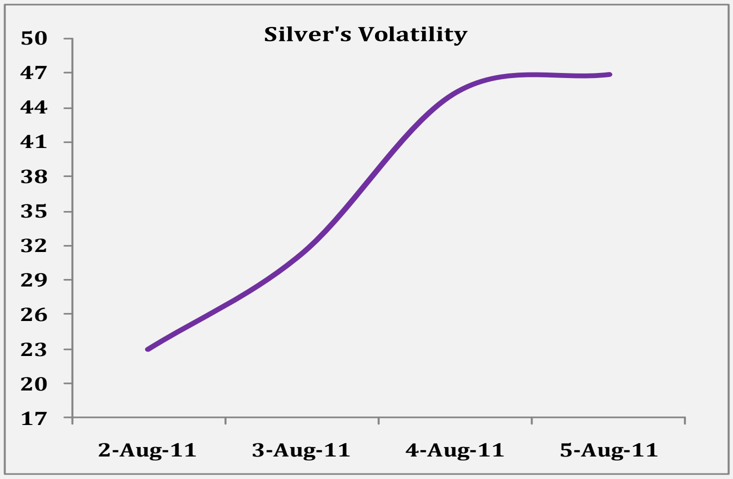






Volatility at MCX (%)





DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

Date Time	Region	Event	Period	Survey	Prior
08/08/2011 05:20	JN	Trade Balance - BOP Basis	JUN	¥113.1B	-¥772.7B
08/09/2011 07:00	CH	Producer Price Index (YOY)	JUL	7.50%	7.10%
08/09/2011 07:30	CH	Industrial Production (YOY)	JUL	14.60%	15.10%
08/09/2011 07:30	CH	Retail Sales (YOY)	JUL	17.70%	17.70%
08/09/2011 11:30	GE	Exports SA (MOM)	JUN	-1.00%	4.30%
08/09/2011 11:30	GE	Imports SA (MOM)	JUN	-1.50%	3.70%
08/09/2011 11:30	GE	Current Account (EURO)	JUN	11.0B	6.9B
08/09/2011 11:30	GE	Trade Balance	JUN	14.0B	14.8B
08/09/2011 14:00	UK	Industrial Production (MOM)	JUN	0.40%	0.90%
08/09/2011 14:00	UK	Manufacturing Production (MOM)	JUN	0.20%	1.80%
08/09/2011 17:00	US	NFIB Small Business Optimism	JUL	90	90.8
08/09/2011 18:00	US	Nonfarm Productivity	2Q P	-0.80%	1.80%
08/09/2011 23:45	**US**	**FOMC Rate Decision**	**9-Aug**	**0.25%**	**0.25%**
08/10/2011 07:30	CH	Trade Balance (USD)	JUL	$27.40B	$22.27B
08/10/2011 07:30	CH	Exports YOY%	JUL	17.00%	17.90%
08/10/2011 07:30	CH	Imports YOY%	JUL	22.00%	19.30%
08/10/2011 11:30	GE	Consumer Price Index (MOM)	JUL F	0.40%	0.40%
08/10/2011 19:30	US	JOLTs Job Openings	JUN	- -	2974
08/10/2011 19:30	US	Wholesale Inventories	JUN	1.00%	1.80%
08/11/2011 11:30	GE	Wholesale Price Index (MOM)	JUL	- -	-0.60%
08/10/2011 23:30	**US**	**Monthly Budget Statement**	**JUL**	**-$135.0B**	**- -**
08/11/2011 18:00	US	Trade Balance	JUN	-$48.0B	-$50.2B
08/11/2011 18:00	US	Initial Jobless Claims	6-Aug	401K	400K
08/11/2011 18:00	US	Continuing Claims	30-Jul	3725K	- -
08/12/2011 10:00	JN	Industrial Production (MOM)	JUN F	- -	3.90%
08/12/2011 14:30	EC	Euro-Zone Ind. Prod. s/a (MOM)	JUN	0.00%	0.10%
08/12/2011 18:00	US	Advance Retail Sales	JUL	0.50%	0.10%
08/12/2011 19:25	US	U. of Michigan Confidence	AUG P	63	63.7
08/12/2011 19:30	US	Business Inventories	JUN	0.60%	1.00%

To unsubscribe please mail us at **commodity@karvy.com**

Disclaimer

The report contains the opinions of the author that are not to be construed as investment advice. The author, directors and other employees of Karvy, and its affiliates, cannot be held responsible for the accuracy of the information presented herein or for the results of the positions taken based on the opinions expressed above. The above-mentioned opinions are based on the information which is believed to be accurate and no assurance can be given for the accuracy of this information. There is risk of loss in trading in derivatives. The author, directors and other employees of Karvy and its affiliates cannot be held responsible for any losses in trading.

Commodity derivatives trading involve substantial risk. The valuation of the underlying may fluctuate, and as a result, clients may lose their entire original investment. In no event should the content of this research report be construed as an express or an implied promise, guarantee or implication by, or from, Karvy Comtrade that you will profit or that losses can, or will be, limited in any manner whatsoever. Past results are no indication of future performance. The information provided in this report is intended solely for informative purposes and is obtained from sources believed to be reliable. Information is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted.

We do not offer any sort of portfolio advisory, portfolio management, or investment advisory services. The reports are only for information purposes and not to be construed as investment advice.

For a detailed disclaimer please go to following URLs:

http://www.karvycomtrade.com/disclaimer.asp

http://www.karvycomtrade.com/riskDisclaimer.asp