KARVY COMMODITIES BROKING

Sep 17, 2011

# BULLION WEEKLY

A Weekly Report on Gold & Silver

## The Week Ahead

- Will the Fed entwine? Possibility of QE3 fumes after rise in y/y CPI. However, much awaited policy tools to be keenly observed
- BOE's minutes to provide insight on the QE debate
- Greek debt crisis remain in focus

## Technical Calls

| Commodity | S3 | S2 | S1 | R1 | R2 | R3 | Recommendation |
|---|---|---|---|---|---|---|---|
| Gold Oct COMEX | 1663 | 1713 | 1763 | 1812.5 | 1862 | 1912 | Buy above $1835 TP 1860 SL below 1810 and Sell at the range of $1865 -1870 TP $1830/1810/1770 SL above 1900 |
| Gold Oct MCX | 25684 | 26407 | 27078 | 27748 | 28472 | 29195 | Sell at the range of 28300-28500 TP 27500/27400 SL above 28800 |
| Silver Dec COMEX | 3742 | 3841 | 3962 | 4083 | 4182 | 4281 | Buy above $41.35 TP 43.22/43.82 SL40.25 |
| Silver Dec MCX | 59755 | 61270 | 62821 | 64373 | 65887 | 67402 | Buy above 65800 TP 67300 SL 64990 and Sell below 62800 TP 61116/60550 SL 63500 |

## Outlook

The week gone by, was full of technical trading as traders tried to decipher the economic data of the week. The situation in Greece continues to put a drag on the Euro. The weaker Euro has lent strength to the U.S Dollar which has halted the rally momentum of the Gold market this week. Gold sliding to a three-week low on Friday at $1762.40, after reports showed that the ECB had coordinated with the BoE, the Fed, the BoJ, and the SNB to implement measures ensuring adequate liquidity to the financial sector. Therefore it is likely that investors will continue to seek gold as a store of value in times of uncertainty. Fears of an imminent credit crunch have abated, but the crisis in Europe is far from over as leaders have yet to come up with a concrete plan to address the structural and systematic financial problems in the region. European Union continues to reflect the fragility in the region. **Greece continues to be at the center of the storm as the regions Financial Ministers are lending moral support but continue to state that there is NO PLAN "B" for Greece**. The fragility is affecting the Euro and lending slight strength to the United States Dollar. This is slowing Gold's momentum recently. However, the **FOMC will meet next week and all eyes will be awaiting that news**. Thus, week ahead we can expect high volatility in Bullion price movement.

The week ahead, much of the bullion price move will hinge upon the FOMC police meet which has been extended for two days in order to have ample time to discuss monetary policy as several options were indicated to be available under sleeves and was assured to be implemented in need. There should be no shock in the target rate as the FOMC pledged to keep rates lows through mid 2013 and the committee will announce its decision on policy at the conclusion of the two-day meeting on Wednesday September 21. With the rising CPI figures released last week which showed headline CPI rising to 3.8% y/y from the prior 3.6%, it is highly dubious that the Fed will announce QE3. Still, if Bernanke hints of further easing, the dollar will likely to come under pressure with gold expected to move higher as investors look to hedge against inflation and depreciation in the greenback. However if the Fed strikes a more balanced tone and continues to operate on a wait-and-see approach, gold may continue to slide as traders seek more aggressive yields elsewhere.

According to the last week's performance, gold's price fall was well supported by the fall in volumes and open interest which indicates that weakness is still to be continued. Position of silver however remained indecisive.

***In short, gold will likely see further advances if the Fed decides to expand its monetary easing policy or if the situation in the Euro zone escalates until mid weeks. Both scenarios would trigger haven flows as investors look for safer places to park cash. Although the vulnerability towards downside also can not be ruled out as the European releases throughout the week are not so handsome for the metals.***

# BULLION WEEKLY

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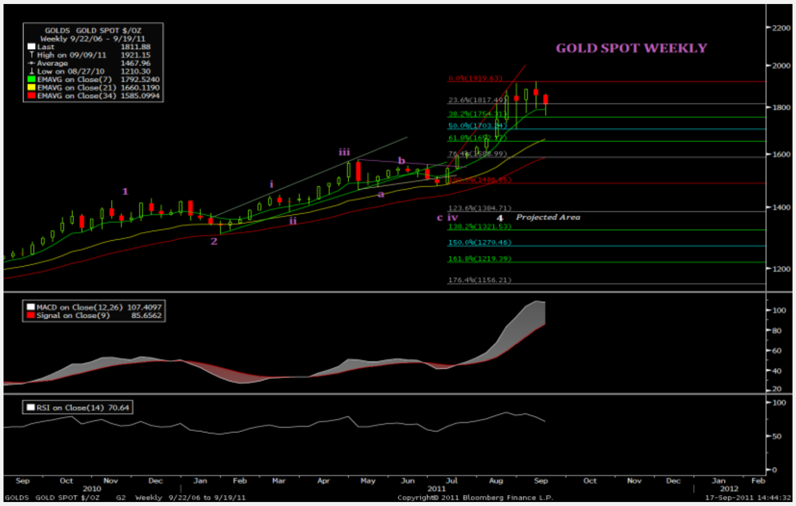
## Technical Analysis – Gold

Gold prices traded lower and ended in a negative note this week following the previous trend. After witnessing high of $1862.10 prices recorded a low of $1762.30 and settled lower at $1811.10. It was down by as much as 2.39% from last week's close.

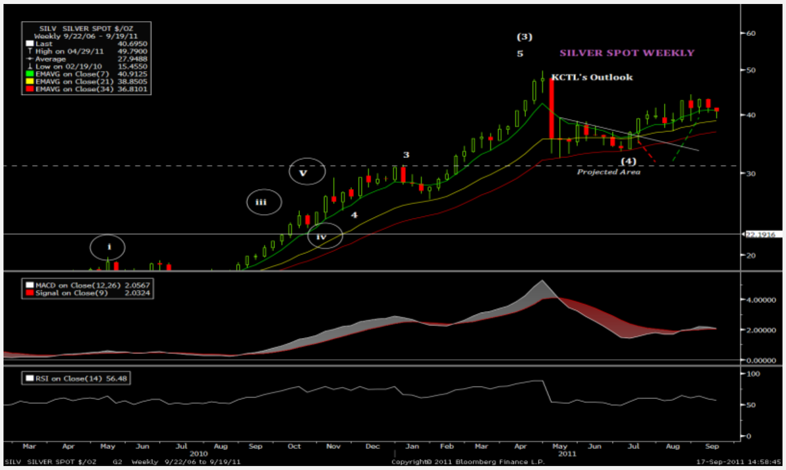



Technical charts indicate that the overall momentum of market is range bound to downside. Average analysis reveals that prices are trade below all the shorter averages like 8 day,21 day and 34 day on daily charts. However on weekly charts prices are still above the averages which indicate that the present weakness is shorterm. Technical tools like MACD is trading above zero and RSI is trading at 70.60 indicating slight overbought condition. Trend analysis suggests that market is following the decline trend line and trading within the short term downtrend channel.

Pivotal analysis shows that market has very strong support at $1754 -$1750 area which the 38% retracement level. Until market holds above this level expect prices to get support. On the higher side immediate resistance lies at $1830 -$1835. A breach and sustained trade above this level could push the prices higher. On the contrary if prices breach below $1830 expect strong selling in the near future.

## Technical Analysis – Silver

Silver Prices traded lower this week on continued selling from last week. After witnessing high of $4148 prices recorded a low of $3929 and settled at $4060 levels for the week. It was down by as much as 1.91% in comparison with last week's close.




Technical charts indicated that the overall momentum of silver is weak for shorterm. Trend analysis shows that market is trading with a narrow channel on weekly chart. Traditional indicators like MACD is still trading above zero line which indicates that long-term trend of silver is still bullish despite shorterm fall. RSI is pointing downwards and trading at 57.95 which implies neither overbought not oversold. Average analysis indicates that prices are trading below 7 day moving exponential average but trading above 21 and 34 day moving average. Fibonacci retracement analysis indicates that immediate support lies at $ 37.54 which is 38.2% retracement level. Until market is trading above this level expect prices to hold the support and may edge higher in the near future.

**Market Round-up:** The week gone by Gold fell 2.46% against the greenback this week as global equity markets rallied on optimism that European officials will be able to avert a Greek default.

## Economic Events:

- The US Retail sales in August stagnated (0.0% vs. prior 0.2%), regional Fed reports pointed to contraction in the manufacturing sector with September Empire manufacturing at -8.82 and the Philadelphia Fed index at -17.5 and weekly jobless claims climbed stubbornly higher to 428K from the prior 417K
- German and French leaders expressed support for Greece to remain in the Euro area amid speculation that China may help the indebted European nations
- The European finance minister however ruled out efforts to prop up the faltering economy on Friday and gave no indication of providing aid for lenders at a meeting on Friday despite the ECB previously said that it will coordinate with other central banks to ensure Euro area lenders have enough dollars
- The dollar index slid to settle 0.77% lower than the previous week closing and the Euro gained more than a percent as sentiment buoyed by assurances from France and Germany that Europe will stand behind Greece as the nation struggles to cut its debt pile
- Global stocks surged as investors' cheered news of a plan by ECB to help ease credit conditions in Europe. Most of the US and European stock exchanges gained by a handsome percentage of anywhere between 3-7% at closing. World equities measured by the MSCI all country world indexes, posted a gain of 3.64% while the Asian benchmark index lost 0.43%. On the other hand, the CRB Index, a bellwether for commodities lost 1.40%
- Continuing with its anti-inflationary stance, the Reserve Bank of India (RBI) has raised the benchmark interest rates by quarter of a percent point, while keeping CRR rates unchanged. The repo rate now stands at 8.25%, while the reserve repo gets adjusted to 7.25%. The CRR remains unchanged at 6%. The decision comes as the authorities struggle to control near double-digit inflation, which is uncomfortably high for more than two years

## Precious Metal Show:

- SPDR gold holdings increased to 1251.90 tons from 1241.91 tons last week
- The I-share silver holdings increased to 9956.32 tons from 9847.28 tons last week
- Gold at COMEX fell by 2.40% while at the MCX it closed down by 1.23%
- Silver futures for December delivery fell 1.91% at COMEX while at MCX the loss was 0.81%

### Price Performance - Gold

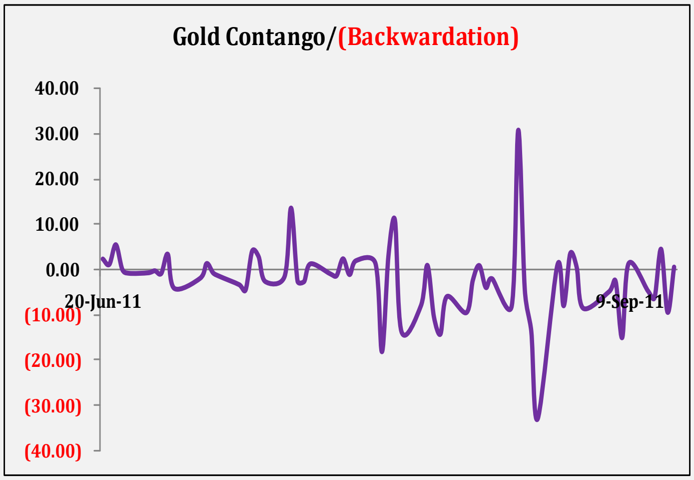
| Exchange | Commodity Future | Open | High | Low | Last | % Change in Price | Volume | % Change in Volumes | Open Interest (OI) | % Change in OI |
|---|---|---|---|---|---|---|---|---|---|---|
| COMEX ($/oz) | Gold (Oct 11) | 1860.50 | 1862.90 | 1763.20 | 1812.50 | -2.40% | 38517 | -32.15% | 31912 | -2.73% |
| | Gold (Dec 11) | 1862.20 | 1865.20 | 1765.40 | 1814.70 | -2.41% | 997227 | -18.48% | 323433 | -6.53% |
| MCX (₹/10gm) | Gold (Oct 11) | 28120 | 28525 | 27131 | 27807 | -1.23% | 440242 | -22.64% | 13706 | 10.13% |
| | Gold (Dec 11) | 28445 | 28825 | 27450 | 28120 | -1.10% | 24647 | -22.06% | 5130 | 31.47% |

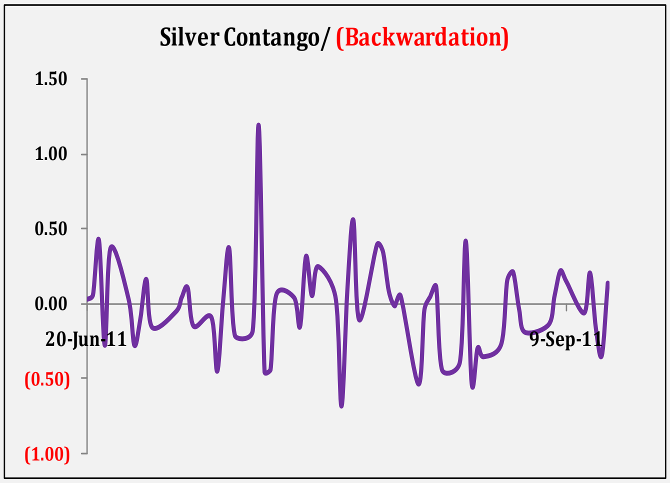
### Price Performance – Silver

| Exchange | Commodity Future | Open | High | Low | Last | % Change in Price | Volume | % Change in Volumes | Open Interest (OI) | % Change in OI |
|---|---|---|---|---|---|---|---|---|---|---|
| COMEX ($/oz) | Silver (Dec 11) | 41.49 | 41.60 | 39.40 | 40.83 | -1.91% | 201636 | 9.60% | 75053 | -2.81% |
| | Silver (Feb 12) | 41.41 | 41.41 | 39.46 | 40.86 | -1.90% | 83 | -21.70% | 155 | 0.00% |
| MCX (₹/kg) | Silver (Dec 11) | 64986.00 | 65850 | 62784 | 64629 | -0.81% | 380142 | -10.11% | 13179 | 11.67% |
| | Silver (Mar 12) | 66452.00 | 68170 | 64120 | 66549 | -0.72% | 6947 | -4.28% | 1340 | 14.82% |

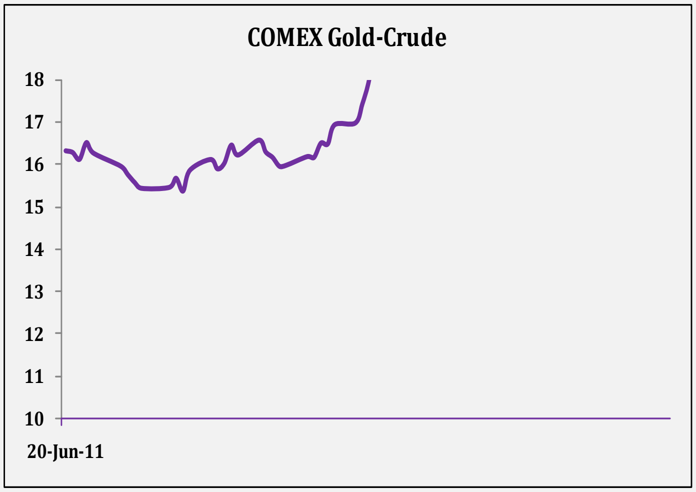
## Chart Updates – Contango & Backwardation

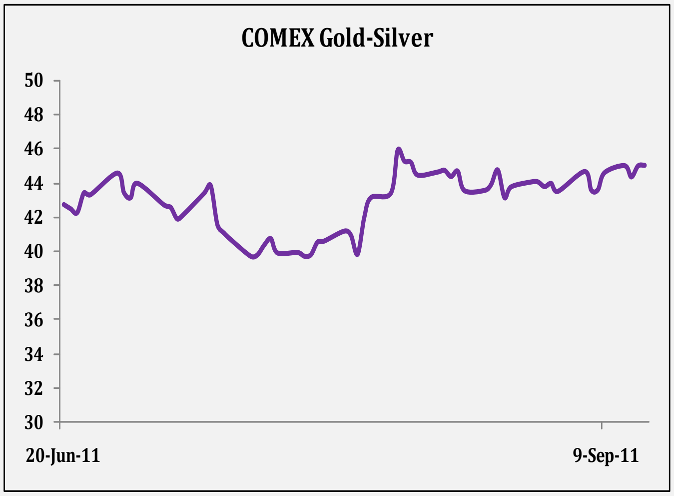
***Backwardation*** is a market where spot prices exceed future prices while ***Contango*** indicates future prices exceeding spot prices.



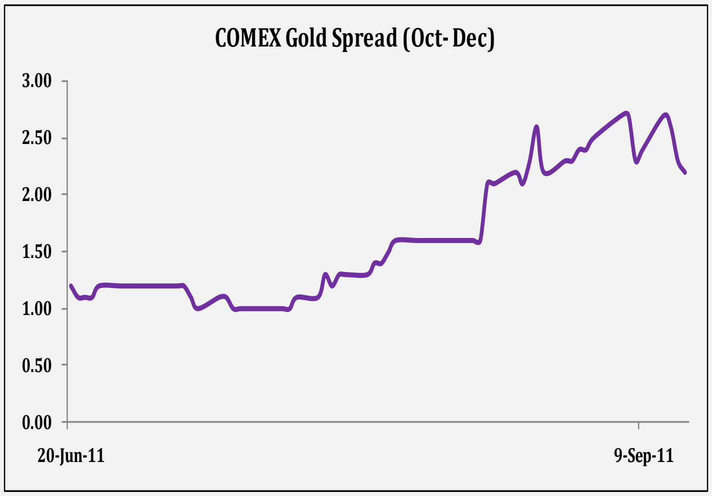



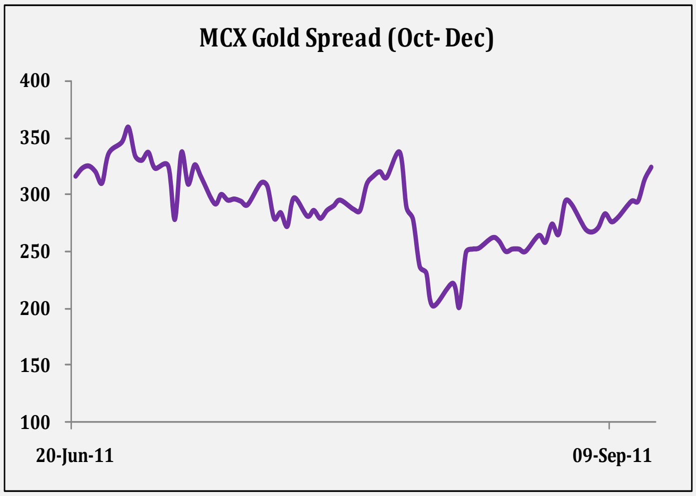

## Ratio Charts

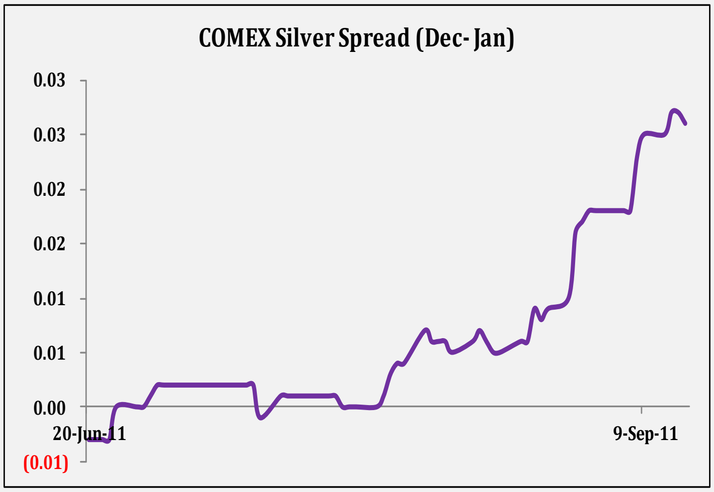


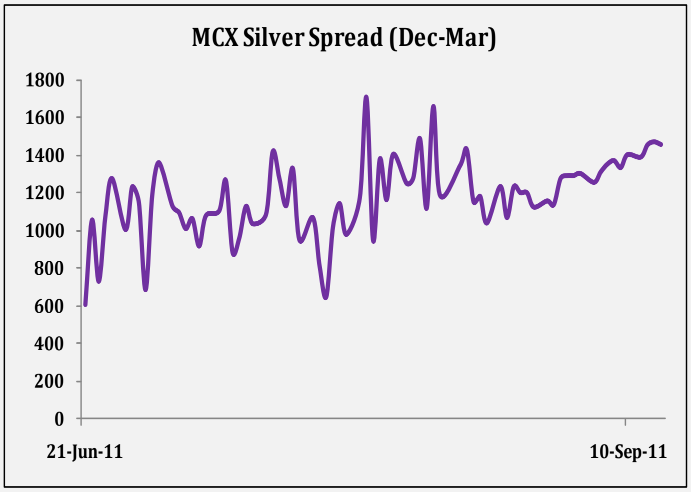



## Calendar Spreads

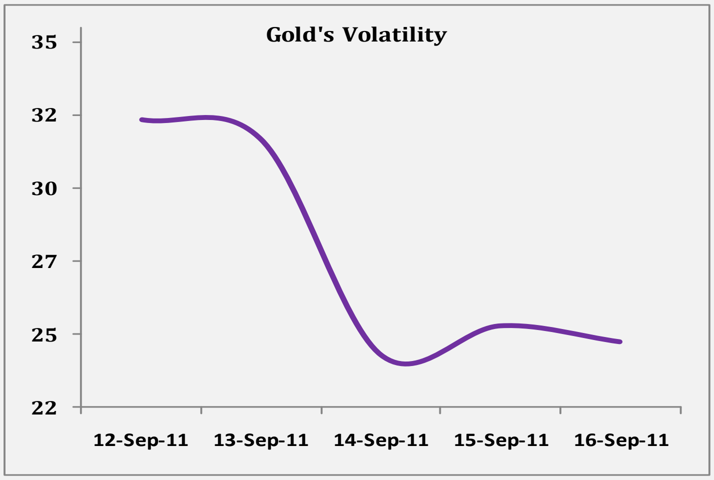


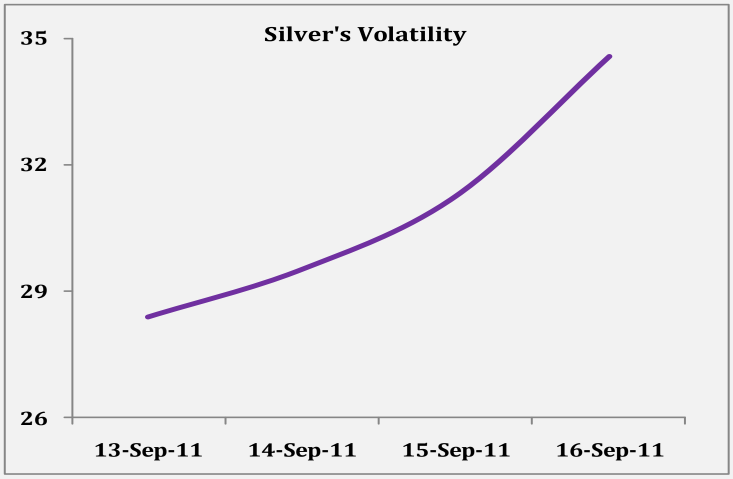




## Volatility at MCX (%)



## DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

| Date Time | Region | Event | Period | Survey | Prior |
|---|---|---|---|---|---|
| 09/19/2011 19:30 | US | NAHB Housing Market Index | SEP | 15 | 15 |
| 09/20/2011 11:30 | GE | Producer Prices (MoM) | AUG | 0.00% | 0.70% |
| 09/20/2011 14:30 | GE | Zew Survey (Current Situation) | SEP | 45 | 53.5 |
| 09/20/2011 14:30 | EC | ZEW Survey (Econ. Sentiment) | SEP | - - | -40 |
| 09/20/2011 14:30 | GE | ZEW Survey (Econ. Sentiment) | SEP | -45 | -37.6 |
| 09/20/2011 18:00 | US | Housing Starts | AUG | 590K | 604K |
| 09/20/2011 18:00 | US | Building Permits | AUG | 590K | 597K |
| 09/21/2011 14:00 | UK | Bank of England Minutes | | | |
| 09/21/2011 19:30 | US | Existing Home Sales | AUG | 4.75M | 4.67M |
| 09/21/2011 19:30 | US | Existing Home Sales MoM | AUG | 1.70% | -3.50% |
| 09/21/2011 23:45 | **US** | **FOMC Rate Decision** | **21-Sep** | **0.25%** | **0.25%** |
| 09/22/2011 13:00 | GE | PMI Manufacturing | SEP A | 50.5 | 50.9 |
| 09/22/2011 13:00 | GE | PMI Services | SEP A | 50.5 | 51.1 |
| 09/22/2011 13:30 | EC | PMI Composite | SEP A | 49.8 | 50.7 |
| 09/22/2011 13:30 | EC | PMI Manufacturing | SEP A | 48.5 | 49 |
| 09/22/2011 13:30 | EC | PMI Services | SEP A | 51 | 51.5 |
| 09/22/2011 14:30 | EC | Industrial New Orders SA (MoM) | JUL | -1.20% | -0.70% |
| 09/22/2011 18:00 | US | Initial Jobless Claims | 17-Sep | 420K | 428K |
| 09/22/2011 18:00 | US | Continuing Claims | 10-Sep | 3720K | 3726K |
| 09/22/2011 19:30 | EC | Euro-Zone Consumer Confidence | SEP A | -18 | -16.5 |
| 09/22/2011 19:30 | US | Leading Indicators | AUG | 0.10% | 0.50% |