

## Bullish

- Debt issues remain critical
- Quantitative easing by ECB
- Rise in geopolitical tensions

## Bearish

- Strong dollar
- Broad based market sell-off
- Strong equity rebound

## Outlook

<b>Short Term</b>	Find a base	> \$1,666
<b>Medium Term</b>	Regain	\$1,800
<b>Long Term</b>	Extend gains	\$2,000+

### Last Week:

- Expectations that continued efforts by eurozone officials would contain the debt problems facing the region helped bolster bullion sentiment last week and led to a modest improvement in broader risk appetite. "There is still plenty of margin to deepen economic integration without treaty changes," the European Commission said in a statement.
- Gold was quick to reclaim \$1,700 per ounce during Monday's Asian session and extended to \$1,720 by the US open before being capped by profit-taking and further bearish assessments from ratings agencies – Fitch downgraded its US economic outlook to negative late on Monday while Standard & Poor's downgraded the long-term credit ratings of several major financial institutions on Tuesday following revisions to its criteria.
- Gold rallied to test \$1,750 on Wednesday along with a bounce in commodities and equities after the world's major central banks announced co-ordinated efforts to improve dollar liquidity – the Federal Reserve, ECB, Swiss National Bank, Bank of England, Bank of Japan and Bank of Canada lowered the dollar swap rate by 50 basis points while the People's Bank of China lowered its reserve ratio requirement for the first time in two years.
- Comments from ECB president Mario Draghi on Thursday suggesting the bank was ready to act more aggressively to restore confidence at the forthcoming summit prompted some profit-taking on Thursday but trading proved rangebound for the most part while traders awaited November's non-farm payrolls reading.
- The addition of 120,000 jobs in November, together with upwards revision to October's reading and a drop in the unemployment rate to 8.6 percent from nine percent again boosted gold – the metal touched \$1,763, although this proved to be the high for the week before profit-taking brought it lower.
- Gold closed the week around \$1,746 with a gain of 3.8 percent while silver gained 4.3 percent on the week, having traded between \$31.10 and \$33.70.
- Slow jewellery demand in India kept physical prices at a discount last week, albeit at a more modest level around \$1-2 per ounce compared with \$30 in early November. Lacklustre demand was also seen across much of Asia where premiums narrowed to around \$1 per ounce.

The Week in Numbers NYSE Liffe US						
Gold Dec	Mon 28	Tue 29	Wed 30	Thu 01	Fri 02	Week*
High	1722.70	17225.00	1753.20	1752.90	1765.30	17225.00
Low	1695.00	1706.50	1704.70	1738.80	1746.30	1695.00
Close	1714.50	1718.90	1750.40	1740.50	1751.60	65.80
Silver Dec						
High	32.238	32.106	32.847	33.368	33.275	33.368
Low	32.037	31.370	31.366	33.074	32.699	31.366
Close	32.242	31.929	32.766	32.715	32.663	1.513

\* week's high, week's low & change on week; na = not available

### Week Ahead:

Another week, another European summit... the battle to arrest the increasing contagion risks between the periphery and the core European nations continues. On the agenda this week is an examination by the EU of how a closer fiscal union could be forged while austerity measures are implemented in the periphery.

Following the extraordinary central bank intervention last week, traders will focus on the outcome of the ECB and BoE meetings on Thursday. The BoE could well increase QE, while traders will remain optimistic that the ECB could again look to cut interest rates by 25 basis points.

A raft of data will provide further clarity on the state of the EU and Chinese data releases will help answer two questions: is CPI falling enough to provide the PBoC with increasing flexibility over its monetary policy? And to what extent are the deteriorating economic conditions in Europe affecting the Chinese economy?

Date	Economic Agenda	Expected	Previous
Tues 06th Dec	EU Revised GDP q/q	0.2%	0.2%
	German Factory Orders	0.9%	-4.3%
	FOMC Tarullo Speaks		
Weds 07th Nov	Japan Leading Indicators	91.8%	91.6%
	German Industrial Production	0.3%	-2.7%
	US Consumer Credit	7.0B	7.4B
Thurs 08th Nov	Japan Economic Sentiment	47.1	45.9
	BoE Interest Rate & Statement	0.5%	0.5%
	ECB Interest Rate & Statement	1.00%	1.25%
	US Initial Jobless Claims	397K	402K
	US Wholesale Inventories	0.4%	-0.1%
	Japan Final GDP	1.2%	1.5%
	Japan Final GDP Price Index	-1.9%	-1.9%
Fri 09th Nov	China CPI	4.6%	5.5%
	China Fixed Asset Investment	24.8%	24.9%
	China Industrial Production	12.8%	13.2%
	China Retail Sales	16.9%	17.2%
	German CPI	0.0%	0.0%
	French Industrial Production	0.0%	-1.7%
	EU Summit		
	US Trade Balance	-43.5B	-43.1B
	US UoM Consumer Sentiment	65.6%	64.1%
	US UoM Inflation Expectations		3.2%

## FOCUS – Euro/gold may rally if ECB opts for QE

Europe and the debt problems facing the peripheral nations of Greece, Spain, Portugal, Italy and Ireland continue to dominate the financial market landscape as what is expected to be a crucial EU full member summit nears.

But while some will be looking for more clear-cut strategies, through both fiscal and monetary policy, on how to tackle the debt problems, political leaders have already warned that Friday's meeting will be just a small step in tackling the overall issue and that it could take years to resolve.

In addition to the political events this week, Thursday's ECB policy meeting could also prove eventful, particularly following the surprise rate cut at its November 3 meeting.

Whether the ECB will cut rates a further 25 basis points or not has been strongly contested as has its policy on quantitative easing (QE), particularly after the decision last week not to offset fully all its weekly government-bond purchases and leave billions of extra euros in the financial system. While this is not a new occurrence, it is the first such instance since bond purchases expanded to include Italy and Spain and could hint at QE being in the pipeline.

With inflation in the euro region currently running above the ECB's target, there may be some resistance to printing more money; however, the action could help ward off deflationary pressure in the short and medium terms and give political leaders time to put more aggressive policies in place to curtail debt levels.

Given the effects on the dollar and sterling the decision to undertake QE will likely be bearish for the euro; gold could see the double effect of renewed investor interest and, because of currency fluctuations, euro-denominated gold prices may be set for renewed bullish momentum, with fresh highs towards €1,800 per ounce a potential target over the next 12 months.



## Technical Analysis – Gold

Gold closed neutrally on Friday, forming a long-legged Doji formation, and is consolidating below resistance. The 7 DMA has crossed above the 100 DMA and the metal has support from all the other DMAs. The stochastics are positive while the RSI is neutral.

Gold is trading below trendline resistance from the top of the long-term up channel at \$1,753, the primary down trendline at \$1,754 and from the bottom of the smaller up channel at \$1,770. Using the Fibonacci retracement targets from the September 2011 high to low, gold closed back above the 50% Fib at \$1,726 last Wednesday – resistance is now seen from the 61.8% Fib at \$1,772.

We are positive in the short term and will remain so as long as silver remains above \$1,726. We are also positive in the medium and long terms.



## Technical Analysis – Silver

Silver closed negatively on Friday, forming a bearish imperfect shooting star that indicates a reversal risk. The stochastics are neutral-positive and the RSI is neutral. Silver has resistance from the 21 DMA and support from the 50 DMA and the 7 DMA.

The metal has twice in the past two trading sessions pierced above the 38.2% Fibonacci retracement level at \$33.00 but closed beneath it. A third failure could herald a retest of recent support.

Silver has support from two down trendlines at \$32.31-\$32.10. We are still neutral but are looking to turn positive on a decent close above the 38.2% Fib. We would then cite \$33.69-\$33.98-\$34.85 as potential upside targets. We would also leave a turn-neutral trigger on a close back below the 38.2% Fib.

We would only consider turning negative on a break below \$32.10-\$31.29. We are neutral-positive in the medium term.

### Trader Talk:

"This week the stable future of the euro and thus economic recovery in Europe and employment are at stake" – EU economic and monetary affairs commissioner Ollie Rehn

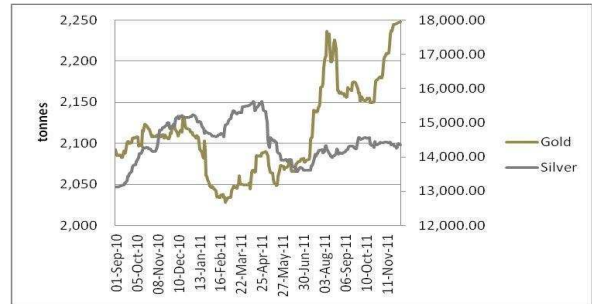
## Market Drivers

### Dollar Index



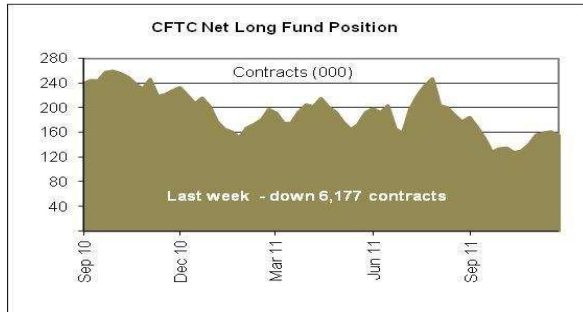
The dollar index' rebound has paused ahead of previous highs. On this weekly chart, a period of consolidation within the overall emerging upward trend looks to be forming. A stronger dollar is likely to provide a headwind for bullion but, although the strength in the dollar is based on safe-haven buying, gold also has the capacity to rise.

### Gold & Silver ETFs



Institutional and retail investors continued to increase their exposure in gold ETFs, adding another 2.2 tonnes. The rise in gold holdings and the flat-to-declining level of silver holdings helps explain the gold/silver ratio but also suggests there is potential for silver to catch up. Overall, given the buying in gold ETFs, we feel gold prices will follow.

### Funds



The net long fund position dropped a total of 6,177 contracts when fund longs reduced exposure and shorts covered. Over the past two weeks, the longs and shorts have cut exposure by 19,386 and 14,965 contracts respectively. Given the relative sizes of the gross long and short positions, the percentage moves shows a lot more short-covering than long liquidation.

### Gold:Silver Ratio



This weekly gold/silver ratio chart shows the ratio is within the former sideways band of 2007 and early 2008 – before the financial crisis unfolded. It seems the recent run up is similar to the 'dash for cash' of the third quarter of 2008 – we expect another downward move in the ratio before too long, with bullion rallying while confidence in the monetary system deteriorates again.

**Conclusion** – Gold prices have started to edge higher again, rising to \$1,763 from recent lows at \$1,666. This suggests a base is in place and that investor buying is returning. Considering the magnitude of the crisis in Europe, we are surprised that there has not been a more noticeable move into gold for safe-haven reasons but, given that prices are not roaring away, it seems there is still selling around that is capping the upside.

In Europe, the focus now seems to be on whether the ECB transforms to a lender of last resort to European sovereigns and banks; doing so might relieve immediate tensions but we would say it is likely to be seen as merely buying more time and making the real problem even bigger. If the ECB does assume this role, it would need to print more money, thereby debasing the euro and in turn running the risk of further undermining confidence in fiat money, which would increase the appeal of monetarising bullion, we feel.

Judging by the upward trend in the oil price, geopolitical tensions are also on the rise, with Iran once again in the spotlight. With other Arab nations busy with their own political issues, the potential for an attack on Iran's nuclear infrastructure may well have risen.

Given the scale of the problems facing the world markets, there is still risk of broad market shakeout, which could well lead to a further sell-off in bullion. But given that the monetary systems governing the global economy are in danger of collapsing, we feel gold will remain a very important asset to hold.

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