

Bullish

- Lack of EU debt solution
- Monetisation of gold
- Rise in geopolitical tensions

Bearish

- Chart weakness
- Deleveraging
- Dollar strength

Outlook

Short Term	Find a base	> \$1,650
Medium Term	Regain	\$1,765
Long Term	Recapture	\$1,800-\$1,900

Last Week:

- Gold began the week in a positive tone – the reaction to November’s non-farm payrolls and the decline in the unemployment rate bolstered overall risk appetite and reduced profit-taking in the metals related to margins/funding. Gold held near the top of its recent range of \$1,700-55 per ounce but ran into further long liquidation towards the close after Standard & Poor’s placed 15 EU states on credit watch, warning they faced downgrades if talks at the end of the week failed to yield any significant resolutions to the region's debt.
- Gold remained on the defensive early on Tuesday despite the Reserve Bank of Australia lowering interest rates 25 basis points. A short-covering rallying emerged later in the day, however, after Germany and France announced closer fiscal ties while US Treasury secretary Timothy Geithner said he was “very encouraged” by the efforts of euro leaders to shore up the region’s finances.
- Jittery pre-summit trade confined gold to a tight \$20 range across much of Wednesday and Thursday while bond spreads among peripheral EU nations widened sharply, with the Greek/German 10-year spread surging more than 400 basis points to a euro-era peak.
- The ECB’s decision to cut interest rates 25 basis points prompted a rally in gold on Thursday but this proved short-lived – the metal dropped quickly when ECB president Mario Draghi’s address proved more dovish than expected, with not all committee members agreeing to the cut, and amid rumours of officials sales from the Federal Reserve, the Bank of England and the Bank for International Settlements (BIS).
- News that the UK had decided not to sign the new EU financial crisis accord had little impact on gold, which traded out the remainder of the week at the lower end of its range despite delegates at the EU summit agreeing to "significantly stronger co-ordination of economic policies in areas of common interest".
- Gold ended the week down 1.9 percent and silver 1.7 percent, having traded between \$31.40 and \$33.23.
- Physical prices in India returned to a small premium last week but near-record local prices continued to subdue demand. Robust buying continued in South-East Asia; prices in Thailand, Vietnam and Malaysia remained at a premium of around \$2.

The Week in Numbers NYSE Liffe US (mini contracts)

Gold Feb	Mon 05	Tue 06	Wed 07	Thu 08	Fri 09	Week*
High	1758.70	1737.10	1747.20	1760.50	1728.20	1760.50
Low	1721.60	1706.00	1723.60	1708.00	1707.40	1706.00
Close	1735.10	1731.90	1745.20	1713.50	1716.80	-34.80
Silver Mar						
High	33.044	32.960	32.849	33.278	32.401	33.278
Low	31.915	31.645	32.256	31.420	31.506	31.420
Close	32.372	32.744	32.590	31.546	32.253	-0.410

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

Week Ahead:

Markets will remain focused on the continued fallout from last week’s EU summit as the finer details of the agreement are fleshed out.

We suspect it could take a while to digest the implications of this latest summit, especially in light of the UK’s veto. At FastMarkets, we think this accord could well fail to satisfy the markets increasing need for a concrete near-term solution to the region's economic woes.

While Europe may dictate sentiment in the markets, US data will take centre stage from an economic standpoint. On Tuesday, the FOMC is due to meet and update markets on its economic forecasts. We suspect that interest rates, present policy ('Operation Twist') and rhetoric on the outlook for monetary policy will remain unchanged given improving US data and the backdrop of a deteriorating global economic outlook. Expect the markets to take a keen interest in the PMI data out later in the week.

Date	Economic Agenda	Expected	Previous
Tues 13th Dec	China New Loans	552 B	587 B
	UK CPI	4.8%	5.0%
	EU ZEW Economic Sentiment	-60.3	-59.1
	US Retail Sales	0.6%	0.5%
	FOMC Rate & Statement	<0.25%	<0.25%
Weds 14th Nov	China Leading Indicators		0.4%
	China FDI		15.9%
	Japan Industrial Production	2.4%	2.4%
	OPEC Meeting		
	EU Industrial Production	0.1%	-1.9%
	Japan Tankan Manufacturing	-2	2
Thurs 15th Nov	China Flash Manufacturing PMI		47.70
	EU Flash Manufacturing PMI	46.10	46.40
	EU Flash Services PMI	47.10	47.50
	UK Retail Sales	-0.2%	0.6%
	EU CPI	3.0%	3.0%
	EU Employment Change	0.2%	0.3%
	ECB President Draghi Speaks		
	US PPI	0.3%	-0.3%
	US Initial Jobless Claims	389K	381K
	US Empire State Manufacturing	3.10	0.60
US TIC Long Term Purchases	53.4 B	68.6 B	
Fri 16th Nov	US Industrial Production	0.3%	0.7%
	Philly Fed Manufacturing Index	5.1	3.6
	ECB President Draghi Speaks		
	US CPI	0.1%	-0.1%

FOCUS – Gold facing short-term pressure on cash, technicals and rumours of official sales

Last week's heads-of-state summit between EU members had been viewed by governments and the wider financial markets as the last-chance saloon for the eurozone and possibly the integrity of the euro.

This followed the broad downgrade warning from Standard & Poor's and escalating bond yields - the premium for the Greek 10-year note over the German bund spiked to more than 3,500 basis points.

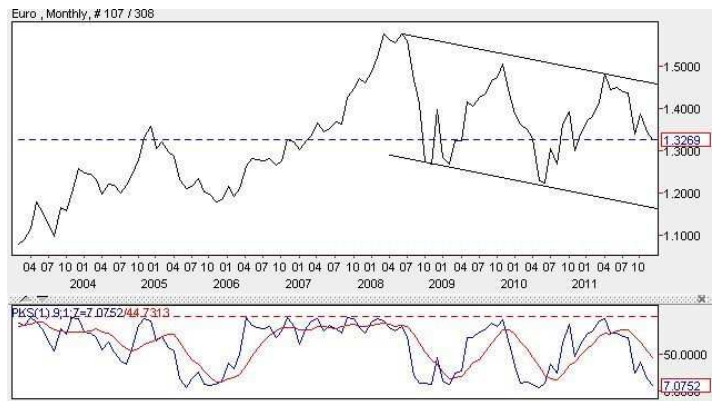
Apart from the UK, all member states agreed to stricter budget rules and a stronger fiscal union and to provide up to €200 billion in bilateral loans to the IMF. But the summit did not produce the comprehensive solution - such as a central role for the European Central Bank as a lender of last resort - that markets had expected. Risk appetite has consequently taken another slide at the start of this week and the euro is on the back foot again. Gold is also under pressure, again raising questions about why it has not rallied.

With risk aversion back in play, gold is again fulfilling its safe-haven role by providing liquidity despite the coordinated reduction in the dollar swap rate; with the end of the year less than three weeks away, fund and investment portfolios will be looking to show positive returns and lock in profits.

Gold's technical picture has also turned negative after it failed to find any significant follow-through buying above \$1,760 last week. It has tested below \$1,700 this week and is nearing the key 38.2% Fibonacci support level at \$1,681; a close below its 50-day moving average at \$1,709 would suggest an initial pullback to \$1,666.

Some bearishness is also likely to follow rumours last week of selling by the Bank of England, the Fed and the BIS. While the lack of any official denial has added some weight to the speculation, it seems very unlikely that the BoE, the Fed or the BIS would undertake any sales - sales by the BoE are also bound by the terms of the CBGA, which limits sales to 400 tonnes per year, while the BIS holds a relatively small 119 tonnes although the bank undertakes swap transactions with other central banks.

While gold seems set to close out the year in a softer tone compared with the euphoria of prices climbing above \$1,900 in August and September, bullish sentiment will continue to fuel future price gains - the continued debasement of currencies such as the dollar and the euro and with European politicians openly admitting the region's debt turmoil is a long-term problem - with \$2,000 very likely for the first half of 2012.



Technical Analysis – Gold

Gold closed negatively last week and has fallen heavily this week, breaking below \$1,687 (UTL) and \$1,681 (38.2%). The stochastics are very negative, while the RSI is neutral-negative. The parabolic SAR has also just turned negative.

The 5 WMA has crossed below the 20 WMA and the 40 WMA; gold has resistance from all these levels. It has support from the lower BB at \$1,664 and tentative trendline support at \$1,651-\$1,603. Trendline resistance is at \$1,706-\$1,741-\$1,745 and other support is at \$1,666-\$1,643-\$1,635-\$1,611, while other resistance is at \$1,715-\$1,720-\$1,726 (50% Fib).

We are negative in the short term while gold trends lower but are neutral in the medium term and positive in the long term. Gold would need to close back above \$1,741 (DTL) to turn us positive in the short-to-medium term



Technical Analysis – Silver

Silver closed positively last week but has since fallen heavily and has now broken below the bottom of the large triangle formation. The stochastics are very negative, the RSI is neutral-negative and the Parabolic SAR has turned negative this week. Silver also found resistance from the 20 WMA and then fell below the 5 WMA.

Silver is testing support from the bottom of the triangle formation at \$31.12. Trendline resistance is seen from the top of the triangle at \$33.00. A close below this triangle formation would open up \$28.42-\$26.06 as potential downside targets.

We are neutral-negative in the short term but would turn negative on a decent close below \$31.12 (UTL). We are neutral in the medium term but again we would turn neutral-negative on a close below \$31.12. We are negative in the long term.

Trader Talk:

"In substance, however, the [EU Summit] communiqué offers few new measures, and does not change our view that risks to the cohesion of the euro area continue to rise" – Moody's

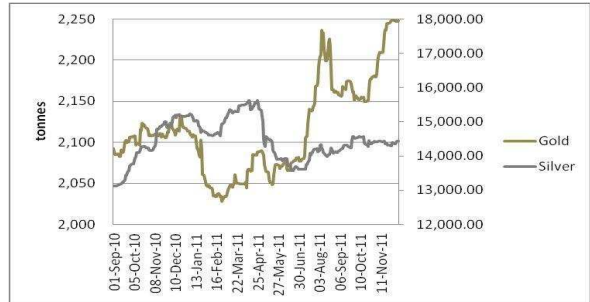
Market Drivers

Dollar Index



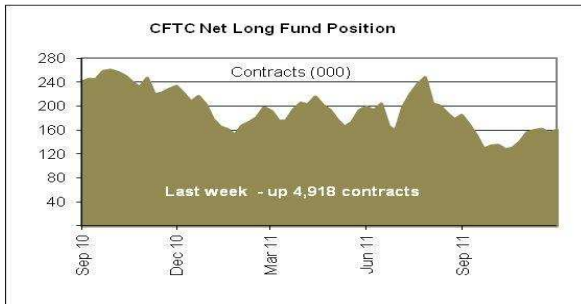
The dollar index is climbing again, suggesting that traders are seeking safety once more. The fact the dollar is higher after last week's EU summit suggests the market is not reassured by developments in Europe. Gold's rise while the dollar is higher suggests that safe-haven buying is still bypassing gold. We feel gold still has a major safe-haven role.

Gold & Silver ETFs



ETF investors have been strong buyers into the gold funds but have generally shown little interest in the silver ETFs. Despite their buying, the gold price has not reacted positively. The buying of gold ETFs has now slowed although it is starting to pick up in silver. There is plenty of room for investors to raise their silver holdings, which are eight percent below their peak.

Funds



The net long fund position (NLFP) climbed 4,918 contracts after longs increased exposure by 6,721 contracts, although this was offset by the addition of 1,803 shorts. The chart shows the NLFP has recovered but lacks momentum. The NLFP in silver climbed 536 contracts but remains at an extremely low level of 12,630 contracts compared with 40,937 contracts in February.

Oil



Gold prices have not reacted to the rally in oil prices. Oil is up on increased geopolitical concerns over Iran's nuclear ambitions. The fact that gold has is not reacting to either the pick-up in geopolitical risk or to increased concerns about the situation in financial markets is noteworthy – it suggests there is significant selling around.

Conclusion – Bullion prices are once again under pressure – given the state of the European monetary and financial systems, we are in many ways surprised that bullion is not attracting more safe-haven buying. But it appears that the dollar and treasuries are acting as the main safe-haven products for now.

With the economic data from the US showing continued signs of economic recovery, there seems to be renewed confidence in the dollar; while this remains the case, it is not surprising that investors feel safer buying the dollar and US treasuries than gold, which has been struggling in recent months.

How long the current confidence in the dollar lasts is open to debate - the US has its own debt and deficit problems, which are likely to become more topical as the US Presidential election campaign heats up.

The shake-out in bullion continues for now; there may well be further long liquidation while the market looks to raise cash reserves into the end of the year.

Overall, we still feel the big picture outlook for bullion remains bullish and we expect this bout of weakness to attract good buying interest.

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