

Bullish

- EU debt crisis
- Impasse over US deficit cuts
- Investors getting bullish again

Bearish

- Risk of a broad market correction
- Safe-haven buying of the dollar
- Support levels are being broken

Outlook

Short Term	Find a base	\$1,680-1,700
Medium Term	Rechallenge	\$1,800
Long Term	Extend gains	> \$1,800

Last Week:

- The financial problems facing the peripheral eurozone nations continued to dominate risk sentiment last week but there was also a noticeable increase in political tension across the region – interim leaders in Greece and Italy faced immediate pressure to tackle their nation's deficits.
- Gold began the week with a firm tone, testing towards \$1,800 in Asian trade after Italy appointed former European Commissioner Mario Monti as Silvio Berlusconi's replacement and Japan reported its first growth this year, with third-quarter GDP up 1.5 percent. But \$1,795 per ounce proved to be the week's high – technical resistance kept gold capped.
- The metal dipped to \$1,760.50 on Tuesday after filings information from the SEC revealed significant reductions in SPDR gold ETF holdings in the third quarter by funds run by Paulson & Co, Northern Trust Corp and BlackRock Advisors; a total of 14.4 million shares or around 44.7 tonnes of gold were liquidated over the period.
- Widening eurozone bond spreads and a warning from Fitch that large US banks would be "greatly affected" by debt contagion in eurozone nations briefly sent gold to \$1,753 on Wednesday before it broke below \$1,750 during US trading on Thursday, setting the week's low of \$1,710.50 when Spain's 10-year bond yield neared seven percent.
- Gold closed down 3.6 percent on the week around \$1,722, with book squaring and a slight easing in eurozone debt jitters evident on Friday. Silver's decline was more marked at 6.7 percent after it broke below \$32 on Thursday, pushing the AU/AG ratio above 55:1.
- Despite the weaker gold price, SPDR ETF holdings rose a further 24.4 tonnes last week for a gain of almost 50 tonnes so far this month. Demand for gold as a safe haven lifted combined holdings across the funds we track to a new all-time peak of 2,237.2 tonnes on Friday.
- In contrast, physical buying in India has all but dried up due to the end of the auspicious buying periods and record prices – gold touched 90,500 rupees per ounce briefly in mid-week, although the lack of demand saw the physical price discount widen to more than \$30 per ounce in some areas.

The Week in Numbers NYSE Liffe US						
Gold Dec	Mon 14	Tue 15	Wed 16	Thu 17	Fri 18	Week*
High	1783.40	1785.20	1776.00	1765.90	1732.50	1785.20
Low	1773.60	1760.30	1755.00	1710.40	1716.00	1710.40
Close	1778.70	1782.60	1775.10	1720.60	1725.10	-63.00
Silver Dec						
High	33.995	na	34.100	32.700	32.000	34.100
Low	33.896	na	33.408	31.000	31.600	31.000
Close	34.026	34.467	33.832	31.498	32.425	-2.257

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

Week Ahead:

The European Commission is due to release its report on Eurobonds on Wednesday. This is likely to highlight the present division in Europe between Germany and 'the rest' – pressure could continue to build on the ECB to step in and put a floor under bond prices.

Failure by the super-committee to agree on deficit reductions by November 23 might not necessarily move markets but we think it could well increase investor suspicion that US politics has hit a partisan impasse in the run-up to the 2012 presidential elections. Geopolitical risk in the Middle East is also back on the agenda – riots in Egypt threaten democratic elections.

Minutes from the last BoE and FOMC meetings could offer insight into central banks' views on the US economy, EU debt and the possibility of more quantitative easing. Data out this week includes GDP updates, consumer confidence, flash PMI and Germany Ifo business climate data. Thanksgiving in the US on Thursday means a short week for US traders, which might see volatility increase.

Date	Economic Agenda	Expected	Previous
Tues 22nd Nov	US Preliminary GDP	2.4%	2.5%
	GDP Price Index	2.5%	2.5%
	EU Consumer Confidence	-20	-20
	US Richmond Fed Manufacturing	-2	-6
Weds 23rd Nov	China Flash Manufacturing PMI		51.0
	EU Flash Manufacturing PMI	46.6	47.1
	EU Flash Services PMI	46.1	46.4
	UK MPC Meeting Minutes		
	EU New Industrial Orders	-2.4%	1.9%
	US Durable Goods Orders	-1.1%	-0.6%
	US Initial Jobless Claims	387K	388K
	Personal Income	0.3%	0.1%
	Personal Spending	0.4%	0.6%
	UoM Consumer Sentiment	64.6	64.2
UoM Inflation Expectations		3.2%	
Thurs 24th Nov	German GDP	0.5%	0.5%
	German Ifo Business Climate	105.5	106.4
	UK Revised GDP	0.5%	0.5%
	US Bank Holiday		
Fri 25th Nov	Tokyo CPI	-0.3%	-0.4%
	German Import Prices	-0.1%	0.6%
	Italian Retail Sales	-0.2%	0.0%

FOCUS – Bullish outlooks

Last week was a busy one for fundamental news for precious metals with the release of the World Gold Council quarterly gold demand trend report, the interim silver market review by Thomson Reuters GFMS at the annual silver dinner in New York and the Johnson Matthey interim platinum report covering the PGMs.

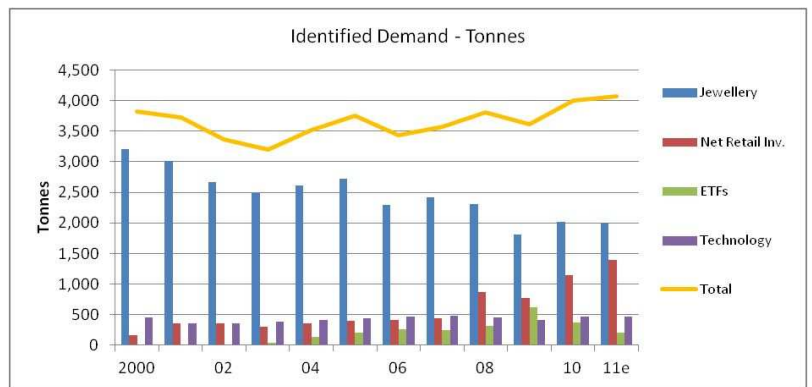
Gold demand rose six percent in the third quarter on last year, the WGC report showed, primarily because of strong investment demand – investors sought to offset global macroeconomic concerns and hedge against currency debasement and negative real interest rates.

Total third-quarter demand at 1,053.9 tonnes equates to a record \$57.7 billion in value at the metal's average price for the period – a year-on-year gain of 48 percent. Growth was particularly evident in investment demand, which rose 33 percent to 468.1 tonnes – the third-highest in tonnage terms behind the second quarter of last year and the first quarter of 2009.

There was also strong growth in official holdings, with purchases from Russia, Bolivia and Thailand lifting the total to 148.4 tonnes. Sales by CBGA members amounted to just 1.1 tonnes.

In contrast, jewellery demand shrank 10 percent in tonnage terms due to record gold prices, although this equated to a record \$25.5 billion in value terms, while Chinese jewellery demand over the quarter totalled 131 tonnes, exceeding India's 125.3 tonnes. There was growth on the supply side – mine production rose five percent and scrap supply back into the market increased 13 percent to 426.5 tonnes – but given the price appreciation over the period, the increase in scrap flows was considered 'relatively modest', suggesting bullish price expectations continue and that prices may need to rally considerably to generate the next significant wave of recycling.

GFMS forecast silver to average \$35.66 per ounce this year on significant investment demand absorbing the substantial market surplus, while investment purchases are expected to total 8,600 tonnes this year. It forecast silver to average more than \$45 next year.



Technical Analysis – Gold

Gold closed negatively last week below the 5 WMA, forming a bearish engulfing pattern. It has continued to fall this morning, dropping below the 20 WMA. The stochastics have moderated but remain elevated; the RSI has fallen back to the midpoint. Silver opened above the 61.8% Fibonacci last week and closed below the 50% Fibonacci at \$1,726.

We are neutral-negative in the short term but maintain that this drop is downside retracement during a short-term up trend. That said, there is still a risk of a test of \$1,681 unless prices can close back above \$1,726.

The metal has moved below the bottom of the medium-term up channel of \$1,721-\$1,850; a close below it would put the medium-term up channel at risk. We remain positive over the long term.



Technical Analysis – Silver

Silver closed negatively last week, having broken below the short-to-medium-term up channel. It opened below last week's close this week and has tested last week's low. The metal closed below the 5 WMA on Friday.

The stochastics failed to cross lower and have rebounded (could this be some positive divergence?), while the RSI continues to head towards its weak range. Since failing to close materially above the 38.2% Fibonacci, silver has continued to come off.

We have turned neutral-negative in the short term on the material break below the up channel at \$34.71-\$39.14. Silver has since taken out the first downside target at \$31.18; a breach of this level and a negative cross in the stochastics could be the cue for a run down to \$29.93-\$29.79. But a close above \$31.18 could establish a short-term bottom. We are neutral in the medium term and bearish in the long term for now.

Trader Talk:

"There is a real threat that not only will there be a downgrade but that the markets on Monday look again at Washington and say, you guys can't get the job done. And just the political confusion, the gridlock, is enough to say to the world that America can't get its act together" – Senator John Kerry

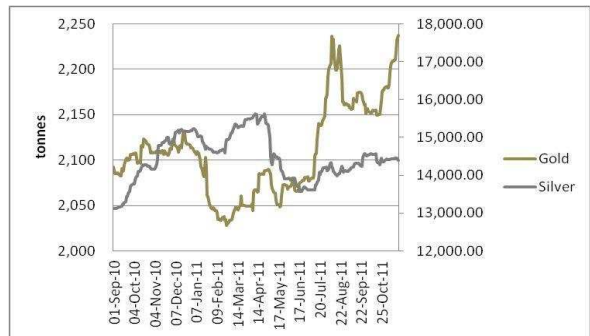
Market Drivers

Dollar Index



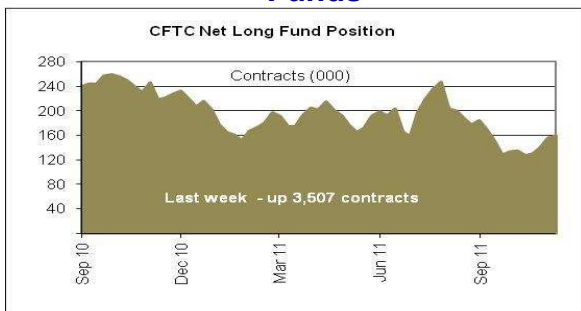
The dollar remains robust and, given what is happening in Europe, this is no surprise. The question now is whether the dollar will start to suffer again – it seems that US policymakers cannot agree on how to cut the budget deficit. Given the weakness in gold, we would expect it to rally if the dollar starts to weaken.

Gold & Silver ETFs



Holdings in the gold ETFs have started to pick up smartly in recent weeks. This bodes well for prices. Investors in silver seem less certain but, if they follow gold investors' lead, that might be enough for silver to break out of its sideways range. This, in turn, might be enough for the Au/Ag ratio to fall too.

Funds



The net long fund positions (NLFP) on gold and silver increased for the fourth consecutive week last week, according to CFTC data, so it would appear the funds are getting more bullish again after significant long liquidation over August-September. Crucial now will be whether the fund buying is enough to absorb the selling and turn prices higher again. The rebound from the low NLFPs bodes well.

Gold:Silver Ratio



The gold/silver ratio has picked up again, which highlights the long liquidation that has dragged bullion prices lower. Overall we view the ratio as a barometer to how bullish speculative sentiment is. A rising ratio suggests liquidation selling while a falling ratio suggests speculative buying is returning. Given that ETF investors and funds are buying gold, we are surprised the ratio is rising. We would expect investors to see silver as a bargain.

Conclusion – Bullion prices hung up last week – a lack of progress on the upside led to another disappointed sell-off when risk was taken off the table. But the investment sector seems to have been more bullish of late so just where the selling is coming from remains unclear.

Given the EU debt situation and the political impasse about how to resolve it, we would have expected more safe-haven buying in gold. But perhaps the rising dollar implies that safe-haven buying has been going into US treasuries. That said, since US policymakers seem unable to agree on how to cut the budget deficit, we question whether the dollar should be the safe haven of choice. Gold and silver perhaps offer a safer home should investors get nervous about holding both the dollar and the euro, we feel.

The fact that gold ETF holdings have continued to climb and the NLFP in gold and silver have been rebounding in recent weeks suggests interest in bullion has picked up again after the late-summer bout of long liquidation.

Overall, given the concerns for the monetary systems in Europe and the US, which have allowed so much debt to accumulate, and the keenness of many policymakers' to print their way out of trouble, we expect gold and silver to be monetarised further in the months ahead and therefore expect dips to be well supported.

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