



Gold Review

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Gold – Is the stage set for a move higher for Gold?

Since our last Report on the metal we had suggested that Gold would find it heavy going through the high 325s. Since this the market has been content trading a 20USD range. Several times it has looked to spike higher on the back of US financial worries however any gains have been virtually eroded, before they had begun. At the moment we are trading near the 200-day moving average, which represents major support and expect the combination of a resurgence by the US on its war against terrorism and the commencement of the Indian wedding season to provide the catalyst for a move higher for gold over the coming weeks.

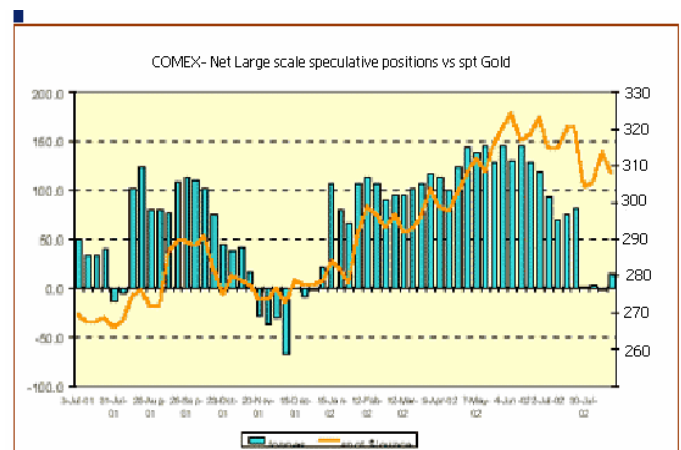
As we approach the Anniversary of the Sept 11 terrorist attack on the US, commentary from US Officials is suggesting that they are looking to continue its purge against terrorism by launching an all out attack on Iraq. The talk has been vocal and well publicised, with U.S. Vice-President Dick Cheney endorsing pre-emptive action against Iraq, saying it was safer to act against Baghdad's weapons programme than to do nothing. In addition, Presidential spokesman Ari Fleischer said "White House lawyers had concluded President George W. Bush had authority to take military action against Iraq without special congressional approval"

What benefits would the US gain from such an attack?

- 1 If Saddam is removed from office the US could set up a democratic government, which would potentially look to influence the region and also look to establish closer economic ties with the west thus ensuring the stability of oil supplies to the US.
- 2 It would send a powerful message to those surrounding states supporting terrorism or looking to develop weapons of mass destruction themselves.
- 3 Another reason would be that it would transform the dynamics of the Israel/Palestinian conflict and thus cut through the Gordian knot of Middle Eastern politics.
- 4 An invasion would look to divert attention from gloomy domestic economic issues onto flag waving support for the nation.

If the US looked to continue its purge then initially, safe haven commodities would be sort. As Gold falls into this category we would see demand for the metal once again pick up. How well is the market positioned for such a conflict? The most recent Commitment Traders report from CFTC suggests a balanced if not complacent view, which adds to our strong feeling about the metal.

The Commitment Traders report is a leading indicator for sentiment. The following chart indicates that traders have a neutral bias and any hint of concern will see investors back to the market. Any shift in demand would also shift positions resulting in higher prices. Currently, the market is sitting small long (14.3t) having reversed shorts early in the month. The chart below shows the correlation between the spot price of gold and the market bias. It can be seen that the current situation is clearly different to the previous breaks in the gold price. Breaks above 280 and 268 saw the market well positioned, approximately long between 100 to 120 t at the time of the break. If we do get a fundamental move in Gold this could become quiet volatile in particular as we head towards Sept 11. However further seasonal issues from the traditional Indian festival and wedding season could also aid this demand scenario.



India is the world's largest gold consuming centre and imports all its requirements. Local demand for the precious metal is mostly generated by the wedding and festival season, which starts in September and peaks on Diwali (December)- the Hindu festival of lights. During this 3 month period the physical demand for Gold is high and if the previous years has been prosperous then the demand for the metal forces prices higher.

India on average demands about 840 t of Gold year well ahead of the US which demands on average about 540 t a year.

The following chart shows the “whose who” of global gold demand, with India the clear leader. Taking this into consideration any short sharp action to the topside could exaggerate moves and force the price higher. In addition, when looking though the numbers it is important to notice Japan. Its traditional demand averages have been low; however recent concerns and economic turmoil have forced many investors to the market. So far in the first quarter of this year it has demanded more Gold than the first 2 quarters of last year. Japanese trade statistics show that imports of gold in July was 7.03 tonnes, a gain of 105.5% on the same period last year. This takes cumulative imports for the year to date to 60.53t against 18.52t for the first seven months of 2001. If economic conditions continue to deteriorate in Japan then expect higher prices.



Suggested trade:

Spot Deferred:

We would look at buying the spot deferred at market or on a break 313. Stops on the trade can go in 304.

Option watch:

Current volatility is low and this suggests that buying long dated low delta options would represent good value. Have a look at the 350 calls out to December cheap at US1.20.

Gold demand in key markets worldwide (tonnes) 1996-2002

	1996	1997	1998	1999	2000	2001	99-1	99-2	99-3	99-4	00-1	00-2	00-3	00-4	01-1	01-2	01-3	01-4	02-1
Gold Price (\$)	387.9	331.3	294.1	278.6	279.1	271.1	286.7	273.0	259.2	296.0	290.2	280.3	276.5	268.8	263.5	267.7	274.1	278.6	289.0
India	507.8	736.7	815.0	838.8	829.7	843.2	196.0	218.4	241.0	183.4	196.8	211.9	198.9	222.1	249.7	236.3	172.1	185.1	149.8
Pakistan	53.7	81.8	98.2	121.8	122.4	119.4	31.5	30.1	32.3	27.9	28.4	27.0	32.4	34.6	29.8	21.8	21.3	46.5	41.0
Greater China	374.4	406.9	314.6	343.4	329.3	298.3	87.6	81.8	87.6	86.4	90.8	85.1	72.9	80.5	82.8	72.7	68.3	74.5	73.1
- China	210.7	213.8	191.6	205.0	207.5	213.2	55.0	45.0	48.0	50.0	55.5	45.0	45.0	59.0	57.2	49.0	50.0	57.0	60.2
- Taiwan	123.3	142.1	91.2	109.7	85.5	64.2	25.3	29.1	32.0	23.3	27.5	34.1	21.4	15.2	18.9	18.2	13.5	12.5	7.3
- Hong Kong	40.4	51.0	31.8	28.7	23.3	20.9	7.3	6.7	7.6	7.1	6.8	5.0	5.5	6.0	6.6	5.5	4.8	4.0	5.6
Japan	152.2	107.1	110.4	121.8	98.0	109.3	36.0	26.0	36.0	23.8	22.0	23.5	25.5	27.0	22.1	19.7	35.0	32.5	56.5
S Korea	125.5	114.4	162.5	118.5	120.5	124.5	29.5	31.0	27.0	31.0	30.0	31.0	29.5	30.0	29.5	30.5	31.5	33.0	31.5
SE Asia	329.6	204.0	53.5	267.4	269.3	285.2	64.1	68.9	69.9	74.5	72.8	56.9	60.9	78.7	76.1	57.7	69.9	81.5	72.3
- Thailand	106.0	14.0	19.0	48.0	67.5	69.3	9.5	11.6	10.6	18.3	21.5	14.1	12.5	19.4	25.1	10.6	10.7	22.9	18.8
- Singapore	20.0	22.4	14.6	11.2	12.1	12.2	2.9	2.6	2.6	3.1	3.0	2.4	2.9	3.9	3.2	2.9	2.8	3.3	3.4
- Malaysia	33.6	30.1	15.9	19.2	23.1	22.7	3.7	3.7	4.7	7.1	4.7	4.4	5.6	8.4	3.8	4.2	6.4	8.3	4.1
- Indonesia	129.0	92.5	40.0	136.0	106.6	108.0	23.0	38.0	40.0	35.0	27.6	22.0	28.0	31.0	26.0	23.0	32.0	27.0	28.0
- Vietnam	41.0	45.0	44.0	53.0	60.0	73.0	15.0	13.0	12.0	13.0	16.0	14.0	14.0	16.0	18.0	17.0	18.0	20.0	20.0
Saudi Arabia	184.9	199.0	205.4	199.4	221.0	226.0	63.1	51.1	46.1	39.1	65.5	55.5	49.5	50.5	63.5	60.5	45.5	56.5	96.8
Gulf States	116.0	142.1	144.2	144.7	157.6	165.2	41.7	42.0	33.6	37.4	42.7	42.1	34.3	38.5	48.5	45.6	32.2	35.9	43.7
- UAE	52.6	71.6	79.4	79.7	94.5	101.3	26.6	23.8	15.9	13.4	27.8	24.3	17.4	25.0	32.6	27.5	17.5	23.7	29.4
- Kuwait	34.7	35.4	33.0	31.6	29.2	30.2	7.1	9.2	8.1	7.2	6.2	8.8	7.8	6.4	7.0	9.2	6.4	7.6	6.1
- Bahrain	8.0	10.6	10.5	10.1	9.5	9.6	2.5	2.6	2.9	2.1	2.5	2.5	2.6	1.9	2.7	2.4	2.1	2.4	2.3
- Oman	12.5	17.8	15.3	16.1	16.7	16.8	4.2	4.0	4.6	3.3	4.5	3.8	4.7	3.7	4.5	4.2	4.5	3.8	4.3
- Qatar	6.2	6.8	6.0	7.2	7.7	7.3	1.3	2.4	2.1	1.4	1.7	2.7	1.8	1.5	1.7	2.3	1.7	1.6	1.6
Egypt	78.7	97.6	104.4	124.8	119.7	120.0	31.5	27.7	37.7	27.9	30.7	29.7	32.5	26.8	31.0	33.6	31.0	24.4	29.7
Turkey	153.0	202.0	172.0	139.0	207.0	120.0	28.0	39.0	52.0	20.0	50.0	50.0	69.0	38.0	31.0	14.0	42.0	33.0	31.0
Americas	431.7	469.0	547.4	586.3	536.7	549.5	134.1	130.9	141.6	179.7	110.1	112.2	130.3	184.0	116.7	115.0	127.1	190.7	115.2
- USA	331.7	362.0	426.4	459.7	396.4	409.5	113.6	99.0	116.4	129.7	88.1	77.0	103.7	127.5	83.5	80.5	103.5	132.0	95.6
- Brazil	59.0	59.0	64.0	57.0	60.0	54.0	19.5	14.5	13.0	19.0	10.0	14.0	15.0	21.0	10.0	13.0	11.0	20.0	8.9
- Mexico	41.0	49.0	55.0	69.6	80.3	86.0	10.0	18.4	10.2	31.0	12.0	21.2	11.6	35.5	13.2	21.5	12.6	38.7	11.7
Europe	273.0	293.0	308.6	278.3	253.2	255.5	55.1	59.1	75.9	88.2	51.7	56.1	66.1	79.2	49.8	55.4	75.0	75.3	49.2
- Italy	105.3	110.8	112.2	94.7	77.9	79.7	16.7	18.0	29.0	31.0	13.7	16.4	23.1	24.7	13.7	16.6	23.6	25.8	13.6
- France	47.5	49.4	59.4	61.6	56.5	51.4	14.1	15.2	13.6	18.7	13.2	13.8	12.1	17.4	12.8	13.1	10.7	14.8	12.0
- Germany	54.2	52.2	52.3	51.5	44.9	40.4	10.6	11.0	12.9	17.0	9.8	9.9	10.4	14.8	8.8	9.6	9.9	12.1	8.1
- UK	47.1	58.8	66.8	64.5	64.9	69.2	11.9	13.9	18.8	19.9	13.6	14.8	17.2	19.3	13.7	15.9	18.0	21.6	14.1
- Coin demand	18.9	21.8	17.9	6.0	9.0	14.8	1.8	1.0	1.6	1.6	1.4	1.2	3.3	3.0	0.8	0.2	12.8	1.0	1.4
WGC Mkt Total	2779.5	3053.6	2714.1	3284.2	3264.4	3218.1	788.1	806.0	880.8	869.3	791.5	781.0	801.8	890.0	830.5	762.7	750.9	874.0	749.5

The fundamental picture for Gold looks good for the coming month. Does the technical picture also look just as bullish?

Gold is currently trading off the 200 day moving average, currently at 308, which also fits into a Fibonacci retranchment relationship. Simple trendline analysis sees support at the 307 level as well. A break through 313 sees 318 then 323. In addition trading over the last two months has seen prices consolidate in an orderly fashion providing much needed time for momentum indicators to come in line. Weekly indicators are showing that dips would be well supported back to the 308 levels. The trade is off if 300 gives way on a daily close.

Please do not hesitate to call concerning any of the above. I can be reached on direct call 1300 660 734.

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