



Gold Review

Phone 1300 660 734

www.commoditybroking.com.au

11 February 2003

The current state of play will it last!

Gold in a spectacular fashion has traded through weekly and monthly chart points to reach a seven-year high of 390. The velocity of the last 25 USD looks to have defied most fundamentalist, with some technical analysts dubbing it a break away market. The reasons behind the move look to be many however based off the price action we have to question whether the current price level is realistic and or sustainable. This Gold Review will briefly outline the dynamics of the move and in doing so help to provide a basic understanding as to why such a move could be sustainable.

We have been bullish Gold since our first Report on 22 March 2002(or Your Traders Edge Apr-May "Has the bear run its course?"), in this article we suggested that given lack of certain fundamental supply/demand factors we were at an end to the bear market. However even based off the scenario outlined we had not been ready for a move of such magnitude in such a short period of time. Many additional factors have helped contribute to this explosive price action and include:

- an escalation of the IRAQ/USD conflict,
- the Oil crisis in Venezuela,
- general negative US economic sentiment
- general USD weakness
- North Korean nuclear threat

However given the above can the sustainability of the current trend be maintained? We would argue that in short term no, however the longer term highly probable. Why? People have always turned to Gold in times of crisis. The recent change in sentiment towards the investment potential is a consequence of the current geopolitical and economic and seen investors for the first time since the late 80s commence hoarding programs. Below we outline these crises and look for reasons as to why this trend is sustainable.

Our geopolitical crises are found in Iraq and North Korea, as a consequence of potential disruption to global peace and the uncertain nature of the conflicts we are seeing a flight to the metal. This uncertainty is the key to the sustainability of the move when based on current geopolitical environs and worth questioning. On the January 26, Resolution 1441 expired. The US continued to tout its old rhetoric, the UK backed off its hardline approach and Ger-

many, France and Russia proposed another resolution and deadline. However, January 26 also provided us with a clue concerning market expectations. Once it was seen that the US held all the evidence and war looked in avertable Gold took a USD20 dive. Expectations by the market of any war look to have been fully factored in. A similar; buy the rumour sell the fact" scenario could also unfold in North Korea and it would be the development of this conflict that should keep any correction limited. We are expecting to see Gold remain bid on any dips back to 360 and on a UN backed confrontation do little after a knee jerk reaction higher. If the US decides to go it alone then potential for much higher prices become a reality as it could be argued that local economics currently fail to support a conflict of this nature.

The current economic crisis in the US continues to concern most local and international investors. The economy looks set to sink into a deflationary environment. It has been argued that the US potentially could fall in to the same economic malaise as Japan. US economic numbers although base lining have failed to spark a recovery. In short it appears that the US might be entering a deflationary period, a period traditionally bad for stocks and bonds however good for commodities. During the same deflationary environment in the late 1987s we saw a massive re weighting of portfolios. Today investment houses are encouraging their clients to hold up to 5% of portfolios in Gold. This weighting is set to increase as the effects of the deflation set in. This deflationary period will not change overnight so we can expect to see this "hoarding" continue.

As a consequence of both types of crises we are witnessing a massive global up take in hoarding. This represents a massive swing in the attitude of investor's towards the metal and with access to the markets today much easier then any time previously we would expect to see investment in Gold continue for some time to come. In late 1987 through to late 1989 we witnessed a similar deflationary period. We saw global hoarding of Gold increase in 1988 by 47% and in 1989 by some 110%.

It seems that the geopolitical crises is providing a stepping-stone for a sustained lift in the price of the metal

Overall:

We expect to see the price of the metal well supported on any dip. The current supply /demand scenario continues to predict a short fall in supply of metal to the market. The current geopolitical and economic crises outlined above will only look to add conviction and weight to a market

that should continue to trend higher. In the near term the rally to 390 can be viewed as exhaustive and we expect the market to enter into a period of consolidation that sees price action limited to a 350 - 385 range. We would recommend playing from the long side. A break of 330 sees a deeper correction whilst a break above 390 sees a new and higher range.

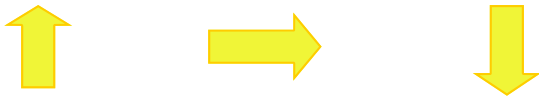
We continue to be friendly towards the commodity.

Technicals:

Gold Spot Deferred

	Initial	Secondary	Primary
Support	350	335	310
Resistance	375	390	400

Daily Direction Weekly Direction Monthly Direction



From the Trading Desk:

As volatility is high we value selling options against long positions. The best play at the moment is to buy the physical on a dip or on support then write a higher strike call in the 2 week or 1 month series. The premium received on the call should be enough to see the breakeven on the strategy below the technical support level.

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

Jonathan Barratt

Commodity Broking Services, its officers, employees, representatives and agents expressly advise that they shall not be liable in any way what so ever for any loss or damage, whether direct, indirect, consequently or otherwise how so ever a rising (whether in negligence or otherwise) out of, or in connection with the contents of and/or any omissions from this communication