



Gold Review

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21st July 2003

Gold holds critical support at 342.... is 365 then 400 possible?

Gold has managed an impressive rally off solid support at 342 and with the impulsive nature of the move we question whether or not a sustained rally through to 365 then 400 is possible.

After Greenspan's up beat economic comments last week on the "State" of the US economy, Gold was set to break 340 and test lower. A positive economic outlook, a strengthening USD and with no prospects of inflation the report looked to provide the catalyst for a drop in the price of the metal, however this was not to be. The metal held support, rallied, and looks set to test higher. Does the volatility and velocity of this move tell us something more about the future direction for Gold and how much higher can it trade?

A near 6 % turnaround in the price in as many days tells us a lot about the liquidity of a market. The lack of liquidity can play havoc on the price action, as moves tend to be volatile and exaggerated. Price volatility of the commodity intern results in the need for robust management decisions on hedging strategies; to hedge, not to hedge or to buy back a hedge. Hedging decisions and the lack of liquidity were a stand out feature in the markets last year as Producers scrambled to buy back hedges when Gold traded from 300 to 418. Is the liquidity trend set to continue and if so what are the consequences?

Recent market data from the London Bullion Market Associations (LBMA) on OTC volume trends leaves liquidity providers wondering who will be the next after Credit Suisse First Boston (CSFB) to quit the bullion business. Accordingly the Report shows that, since 1997 on each working day, there has been a 52 percent drop in gold ounces transferred in London. In June 1997 a daily 32.2m ounces of gold worth US\$11bn were transferred, in June this year the total had dropped to 15.8m ounce worth \$5.6bn. The half-year daily total has fallen from an average 35.08m ounces in 1997 to 16.93m this year. It looks like this trend is set to continue as we trade in a low contango environment, with shareholder pressure not to hedge and Producers looking to deliver into hedges. As a consequence we can expect to see more volatility in the price action, which applies additional pressures to management for robust strategies. Durban Roodepoort Deep Ltd (DRD) is one such Producer that provides an example of the tough market conditions.

In July 2002 DRD under shareholder pressure announced that it had cleared its hedge book to take advantage of expected higher USD Gold prices. It took a US\$17.5million loss. In April this year due to continued weakness of the USD against the Rand it noted that earnings would be less due to a Rand exposure and that it was to reduce output by 7% to lower expenditure. In July it was forced to enter into a 60 day management review due to the weakness of the Gold price in Rand terms, which has further plummeted against a weaker USD. This announcement may affect up to 13,000 employees.

If DRD's current contagion; un hedged against Gold and its local currency, is industry supported then potentially we could see limited pressure for price action higher. However if recent volatility concerns are industry wide then we could see more producer buy backs on dips, not as a result of a higher Gold price however as a result of unwanted hedges caused by production cuts and more importantly see market supply, due to production cuts, slip into a deficit over demand. Add this to the liquidity concerns then potentially you have a market that looks set to edge higher. How much higher?

Outlook:

Fundamentally Gold looks to be comfortable trading in a wide 335 to 375 range. Currently it has bounced well off the 342 level, which suggests good order support. A break above 352 opens the way for a move back to 360. Once at this level we would expect to see Producers re enter the market looking to initiate some hedgers in order to secure return. However if the prospects for supply are expanded on or we get an imponderable event then 385 to 400 is only a heartbeat away.

Technically, the picture looks more bullish. The impulsive move off the 342 level suggests that dips back to this level will be well supported. Weekly momentum indicators are also better placed for a move higher. Currently we like the dips back to 347 and would be happy going long. Stops on positions can go in at 338. We would be adding to positions if 353 were broken on a daily basis and would be looking for 365.



Technicals:

Gold Spot Deferred

	<u>Initial</u>	<u>Secondary</u>	<u>Primary</u>
Support:	342	335	315
Resistance	355	365	372

Daily Direction Weekly Direction Monthly Direction



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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