



Gold Review

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Gold... does it have enough momentum for US400 this time?

Gold continues to stand out as the performer for this year and with dips always being well supported we have to argue whether or not the current price is realistic and whether US400 is attainable this time round.

In our last report we suggested that 368 was a critical level for the metal, and one which would be hard to break. We were wrong, since, we have seen it breach 368 and trade to 378. Does this next area represent major resistance to support our view for a correction or are we just kidding ourselves and by the end October we will see Gold at USD400.

The price action for gold over the last month has been linked to political events and liquidity, not economic concerns. Why? For the first time in many months the value of Gold has not been linked to the US economy and hence the value of the USD. Traditionally, we have seen the price of Gold inversely matched to the overall value of the USD. Those closer to the market would often look to buy gold on weak economic numbers and visa versa, effectively trading the metal in contrast to the value of the USD. Taking on board this trading style in the current environment would only leave an out of the money position or a loss. This divergence can only suggest one thing. Demand for the metal has picked up. Why?

Firstly, announcements of a change in attitude of the world's largest consumer of Gold. News that the Indian government continues to liberalize the Gold market is seeing more hoarding demand coming for India. India accounts for 20% of the "off take" Gold in any year and at an average annual consumption rate of about 600tons a year any change in attitude that supports the purchase of gold will see any dips well supported.

Secondly, as the lease rates for gold remain extremely low more mainstream investors are seeing the benefits in hoarding Gold. Traditionally investors only saw Gold as an inflation / crises hedge however, as USD borrowing and lease rates remain so low investors are seeing the true potential of the metal. Since the beginning of this year investments in the physical have seen about a 10 to 15 % return.

Finally, political concerns in the Middle East have commen-

tators concerned that we could see a flair up in the conflict in Iraq between the Sunnis and Shiites and a flair up between Israel and Palestine as the Peace talks collapsed. Any disruption in these places traditionally sees flow into the metal. With all these reasons to be bullish the metal why do we see a correction imminent?

Essentially our long-term trend remains bullish the metal however trends do not always go in a straight line and sometimes indicators suggest that we are about to see a correction. Speculative investment in the metal on global futures exchanges is a good indicator on the balance of supply. One such report is The Commitment Futures Traders Report (CFTC) from COMEX which is used by market users as a barometer to trend characteristics. Sometimes they are useful indicators, and currently suggest the market is ripe for a shake out. The latest report suggests that speculators are a net 312ton long with an additional 41 tonnes being added over the last couple of weeks. This represents 5 weeks worth of fabrication demand being held by investors. Therefore with a market already long we would see that those who use this as a tool would anticipate a correction in particularly those producers who need to book profits after disastrous Gold and currency hedgers over that last 12 months.

Does the Technical picture reveal the same?

Outlook:

Technically we need to see a daily close below 368 to conclude a correction is under way. Momentum indicators are showing signs of divergence and we would suggest that we are close to a fall. The fact that we have a liquidity concerns only suggests that the move again will be erratic and violent. If we do get a close below 368 then we would anticipate a move into the high 350s. This area represents the next area of major support to accumulate Gold for a run up to US400.



Technicals:

Gold Spot Deferred

	<u>Initial</u>	<u>Secondary</u>	<u>Primary</u>
Support:	368	363	340
Resistance	380	400	410

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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