



Gold Review

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Gold – The next leg up.

Please find following an investment brief as to the reasons supporting our view that Gold will continue to edge higher through out the next quarter. Although, we have a good understanding as to the economic picture surrounding the move timing is everything. Therefore as will most investments we have to know when we are wrong. If we get a daily close below 410 then we will be reducing our positions and will be cutting the trade 388.

During our note, we see that this year we will see divergence from traditional USD rhetoric, whilst it is our view, that rallies in USD will be sold into we feel that USD weakness will be positioned to those economies that can handle it (Australia) and tempered to those economies which cannot not (Switzerland).

As a consequence of this selected positioning we feel that Gold and Silver will remain in the limelight over the quarter and perhaps the year. **Why?**

Positive

Physical demand from Asia continues to grow

China rhetoric/potential overheating and urbanisation

US Economic and inflation pressures

Portfolio investment positioning continuing

Geopolitical concerns

Technical Picture remains positive until 400 is broken

Negatives

IMF Sales

CB Sales

USD strength

Interest costs and lease rates

At this stage it is probably best to explain why the negative aspects to the market might not be all that negative.

1 IMF Sales

It has been rumoured that the IMF might look to swap the value of its Gold in order to provide debt relief to third world countries. They have been valuing their Gold at US\$87.00 per ounce and own 2.1% of world supply. As the US holds the balance of power concerning this vote we would anticipate that they would not vote in favour of it.

2 Central Bank Sales

CB sales always remain a concern, however, it appears that most of the major holders are acting in compliance with Washington Accord, which limits gold sales. We have seen to a lesser extent small CBs off loading Gold, however, this has been well absorbed into the market.

3 USD Strength

As Gold is valued in USD it would be natural to see that any appreciation of the USD will see Gold under pressure. However, as mentioned we see a divergence in areas of USD strength and weakness through out the global economy. As an example current positive USD rhetoric sweeping the market in Gold has yielded little weakness in the Gold price. In fact % USD moves against the CHF and Gold have been inverse.

4 Interest and Lease rates

Gold as an investment has also benefited from low lease and interest rate holding costs. We expect lease rates to remain low for the foreseeable future however feel that signs of inflationary pressure may develop in the US and this may see US interest rates continue to edge higher. We believe that this will only slightly tarnish the demand, as it is double edged by investors seeking a hedge against inflation.

What about the Technical Picture?

At this point it is also worthwhile focusing on the Technical aspect to the market. As can be seen from the following chart we are trading on a trend line that if broken confirms a low in place at 410 and the potential for a correction of the move from 456. Initial target is 435, then a challenge of 456 and eventually 486. The 486 level represents the top end of the channel.

Gold



Silver



As can be seen from the above we feel that Gold will continue to trade in a bullish environment. We continue to like dips and on a daily close above 418 suggest a move to 426. We see that a break here potentially opens the way to a move through to 440.

To this end we can suggest the following forms of investment

Spot deferred leveraged Gold or Silver

Spot deferred Forward Position

Option Position – Long Call or call spread

Option Position – Short Put

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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