

PRECIOUS METALS (GOLD & SILVER)

6th June 2005

MAJOR ACTIVITY HIGHLIGHTS

- The COMEX benchmark August contract of gold ended the week at \$425.8 per ounce up by \$1.00. The contract gained more than 0.8 per cent over the week. The COMEX benchmark August contract ended the week at \$425.8 per ounce up by \$1.00.
- The COMEX July silver slipped 3.5 cents to close at \$7.51 per ounce. However, the contract managed to gain 2.7 per cent over the week.
- The dollar remained lower against yen but recovered ground against the euro in late Friday trade, as traders continued to digest a weaker-than-expected May jobs report and mull its implications for interest rates. The euro was last down 0.4% at \$1.2220, after rising as high as \$1.2341 immediately after the unemployment report's release. The dollar was down 0.4% at 107.79 yen.
- July-dated crude futures rose 2.6%, or \$1.40, to close at \$55.03 a barrel Friday on the Nymex, good for a 6.1% gain for the week. July heating oil, up 10.6% this week, rose 3.7%, or 5.73 cents, to close at \$1.5995 a gallon.
- Global demand for gold rose about 26 per cent in volume terms and 32 per cent in dollar terms during the first quarter: World Gold Council
- The ISM headline index fell to 51.4% in May from 53.3% in April. Construction spending in April came in below forecast. Spending on U.S. construction projects increased 0.5% in the month.
- The labour department Thursday released the non-farm payroll data that showed only 78000 jobs were added in the month of May. This was a sharp decline against the last month, when the 274000 jobs were said to have added surpassing all the expectation.

PRICES

Spot Rate of Silver Delhi Spot: Rs/Kg; London Spot: Cents/Troy Ounce (One Troy Ounce = 31.10347 Grams)

Date	Delhi	London
May 30, 2005	10633.00	713.00
May 31, 2005	10542.00	738.00
June 01, 2005	10745.00	753.00
June 02, 2005	10835.00	746.00
June 03, 2005	10939.00	752.50
June 04, 2005	10904.00	---

Silver Futures

Date	NCDEX closing of Silver JUNE Contract	NCDEX closing of Chandi 30 kg Silver JULY Contract
May 30, 2005	10662.00	10608.00
May 31, 2005	10835.00	10800.00
June 01, 2005	10846.00	10800.00
June 02, 2005	10901.00	10800.00
June 03, 2005	10882.00	10939.00
June 04, 2005	10882.00	10939.00

Spot Rate of Gold

Mumbai Spot: Rs/10 Gm; London Spot: Cents/Troy Ounce

Date	Mumbai	London (am fix)	London (pm fix)
May 30, 2005	6004.00	---	---
May 31, 2005	5994.00	416.90	414.75
June 01, 2005	5997.00	416.10	415.35
June 02, 2005	5995.00	417.20	420.40
June 03, 2005	6053.00	423.20	423.55
June 04, 2005	6057.00	---	---

Gold Futures:

Date	COMEX closing of GCG04 (\$/T. Ounce)	NCDEX closing of Gold JUNE Contract (Rs/10 gm)	NCDEX closing of Sona 1 kg Gold JUNE Contract (Rs/10 gm)
May 30, 2005	--	6040.00	5999.00
May 31, 2005	416.3	6030.00	5999.00
June 01, 2005	415.3	6027.00	5970.00
June 02, 2005	422.7	6098.00	6049.00
June 03, 2005	423.7	6104.00	6049.00
June 04, 2005	---	6097.00	6049.00

Supply and Demand Statistics

Particulars	2003	2004	% Change 2003vs02	Q4'02	Q4'Q3	Q4'04	% Change Q4'04 vs. Q4'03
Supply							
Mine Production	2592	2478	-4.4%	603	654	649	1.3%
Net Producer Hedging	-279	-445	---	-111	-144	-113	---
Total Mine Supply	2313	2034	-12.1%	491	510	536	-12.6%
Official Sector Sales	617	497	-19.43%	79	65	234	3654.4%
Old Gold Scrap	944	829	-12.2%	197	192	205	-14.2%
Total Supply	3875	3360	-13.3%	767	766	976	-4.8%
Demand							
Fabrication	2522	2673	6.0%	691	672	690	8.8%
Jewellery	318	348	9.3%	93.59	85.81	83.90	2.9%
Industrial	67	68	1.1	17.11	16.68	16.73	0.5%
Dental	2907	3088	6.21%	802	774	791	792.8%
Sub Total above Fabrication							
Bar & Coin Retail Investment	314	396	26.17%	106	90	95	1461.1%
Total Demand	3221	3484	8.2%	908	864	886	8.6
Balance	653	-124	NA	-141	-98	90	---

Figures in Tonnes

Source: WGC

Test

At COMEX (division of NYMEX) gold is traded more than at any place in the world. Due to this reason most important currency that affects gold prices is USD. When USD declines gold becomes cheaper for non-US investors, which results into increase in demand of gold. Due to this fact gold prices are inversely related to USD. Indian Gold market basically replicate international gold market, which significantly depends upon US economy, US gold market

and USD. So Indian Gold Market depends upon US economy, US gold market and USD indirectly.

When the above mentioned arguments were statistically tested, the results supported the arguments upto a great extent.

Correlation among some important variables in Gold market:

Particulars	Correlation	Particulars COMEX	NCDEX	Dollar/Rupee	Dollar
COMEX	Pearson Correlation	1.000	0.940**	0.654**	-0.781**
	Significance (2 tailed)	-	0.000	0.000	0.000
	N	38	38	38	38
NCDEX	Pearson Correlation	0.940**	1.000	0.724**	-0.779**
	Significance (2 tailed)	0.000	-	0.000	0.000
	N	38	38	38	38
Dollar / Rupee	Pearson Correlation	0.654	0.724**	1.000	-0.323*
	Significance (2 tailed)	0.000	0.000	-	0.048
	N	38	38	38	38
Dollar	Pearson Correlation	-7.81**	-0.779**	-0.323	1.000
	Significance (2 tailed)	0.000	0.000	0.048	-
	N	38	38	38	38

Points to be noted:

1. One can observe high negative correlation (statistically significant at 1% level of significance) between dollar and gold prices in COMEX.

2. Correlation between NCDEX gold price and COMEX gold price is as high as 0.94 (Positive).

3. Dollar/Rupee ratio has positive and statistically significant relationship with Gold Prices in NCDEX i.e. Rupee has inverse relationship with Gold.

Above test suggests that gold market (even at domestic level) can not be analysed keeping US economy in isolation.

FUNDAMENTAL ANALYSIS

Crude oil prices continued the improvement throughout the week. The reports and data showed that the demand for crude may outpace the supply. The stock position is also not good. Thus, the crude oil prices increased showing a long-term support to gold.

The dollar remained stronger against its European rival due to no-vote by France and Netherlands regarding the European constitution. However, the greenback came under pressure on the weaker US economic data during the weekend. The much weaker non-farm payroll data put huge pressure on the dollar supporting the gold's safe heaven value.

Spot rates of gold in London increased during the weekend in London as well as in Mumbai. The June contract at the NCDEX remained strong along with the COMEX June futures. The COMEX June contract gained 0.8 per cent on the week.

Silver prices showed continuous recovery throughout the week. Prices at the Delhi spot market improved significantly this week. At the NCDEX the June contract closed this week significantly higher against the previous week's

closing. The London spot rates and the COMEX futures also improved smoothly.

Gold rallied this week amid weaker dollar during the weekend. The dollar was under pressure due to weaker than expected US job data. The labour department Friday released the non-farm payroll data that showed only 78000 jobs were added in the month of May. This was a sharp decline against the last month, when the 274000 jobs were said to have added surpassing all the expectation. May figure on the other hand was also down from the expectation of around 175000. Strong physical demand, continuously declining worldwide supply and a strong possibility gold can become an alternative to all currencies are some factors for the yellow metal to glitter in the coming days. Silver on the other hand reversed from its bullish trend for the last few days. End-of-week profit-taking helped an eight-day rally to dry up, leaving the metal to consolidate near Thursday's 2-1/2-month peak. In the domestic futures market both the metals remained quiet today. The recent weakness in euro put weight on gold. However, the weak US economic data helped the yellow metal to regain the strength. In this situation any strength in euro can boost up gold prices further. Silver may however, see some downward correction due to profit taking.

Exchange Rate in INR

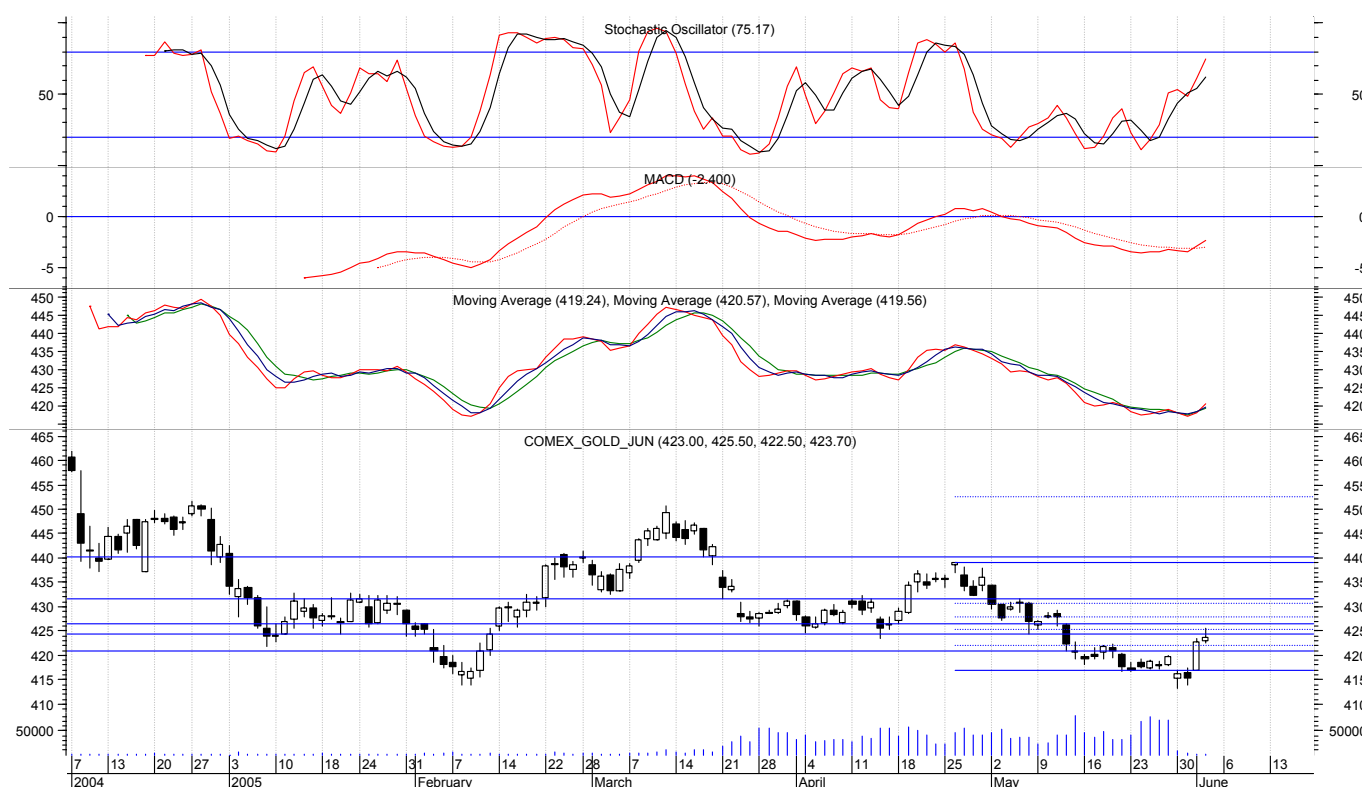
Currency	30/05	31/05	01/06	02/06	03/05
1 USD	43.69	43.54	43.72	43.76	43.66
1 Euro	54.13	54.54	53.93	53.50	53.54
1 GBP	79.30	79.38	79.61	79.35	79.34
100 Yen	40.34	40.34	40.37	40.37	40.41

TECHNICAL ANALYSIS

Commodity: GOLD

Contract: COMEX June Contract (GCM05)

Term: Short-term (Weekly)



Candlesticks: The formation of the candlestick pattern indicates towards a higher closing. The RSI (61.78) is approaching the overbought region.

Moving Average: The 3-day MA has cut the 5-day and 7-day MAs from below. The price line is below the MAs.

MACD: MACD is in the negative territory (-3.262) however, it made a bullish cross over with its EMA.

Stochastic: The % K-line is above the % D-line and is going upward.

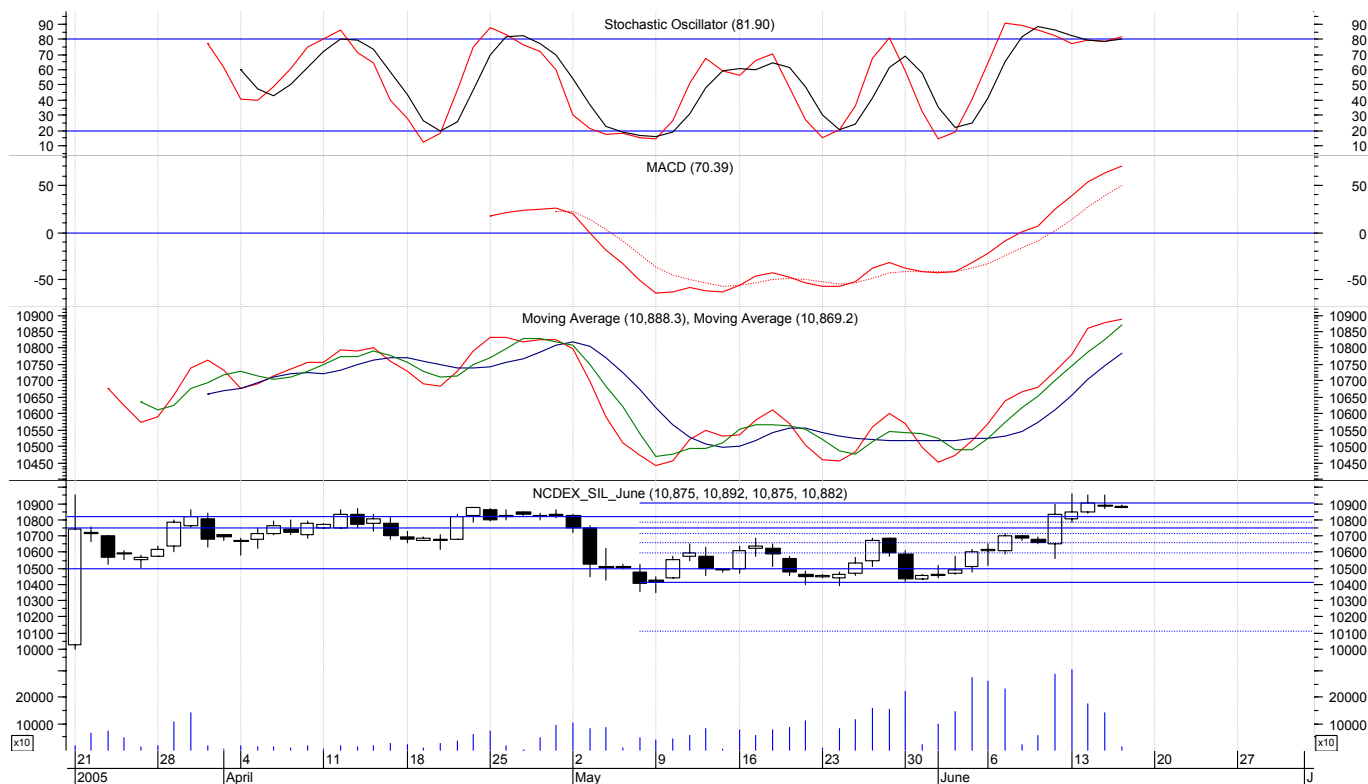
The indicators are pointing towards the more improvement in the futures however, the price line below the MAs is

pointing towards slight weakness. There are resistance around 424.3 marks and support at 422.9 marks and it is likely that the prices would maintain the up-trend.

Recommendation: Remain long.

It is always recommended to include gold in portfolio. The reason is its negative correlation with other financial assets. It is very hard to find any asset negatively correlated to other assets like gold is. So by including gold in portfolio one can diversify one's portfolio and reduce risk. Return per unit of risk in such portfolio is usually high.

Commodity: Silver
 Contract:: NCDEX May contract
 Periodicity: Weekly



Candlestick: The candlestick pattern is pointing towards the higher opening on the next day. The RSI (75.00) is in the overbought region.

Stochastic: The % K-line after cutting the % D-line from below went up and reached the overbought region. .

MA: The 3-day MA is above the 5 -day and 7 -day MAs. The 5 -day MA is above the 7 -day MA.

The indicators are pointing that the present strength would continue for more days. However, during latter this week there may be a partial reversal.

MACD: The MACD is in the positive territory (70.39) and the gap with its EMA is widening.

Recommendation: Remain long with a short-term outlook.

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