

## PRECIOUS METALS (GOLD & SILVER)

Dec12 - 17, 2005

### MAJOR ACTIVITY HIGHLIGHTS

- Gold finally ended the nine-session rally on last Tuesday and then fell sharply during rest of the week. The metal had been trading in the overbought region for quite some time and some correction was due. Gold February futures at NYMEX closed at \$505.9 Friday after shedding \$23.3 (4.4%) for the week. The January contract of metal at NCDEX also witnessed the sharp fall during the week and shed a good Rs 464 (5.84%) during the week. The contract traded in the range of Rs 8151-7352 before closing the week at Rs 7476.
- Following its leader gold, the white metal also retreated heavily during the week from the peaks achieved recently. Silver for March delivery slipped by a good 49.5 cents (5.44%) to 860 cents per ounce during the week. Similarly, January silver at NCDEX ended the week with a huge loss of Rs 938 (6.88%) at Rs 12681 on Saturday and washed away the entire gains of the previous week. The contract traded in the range of Rs 13925-12421.
- The greenback remained weak during most part of the week against its major counterparts Euro and Yen. It traded as high as \$1.1773 per Euro on Monday and then it lost its steam and slipped to 1.2010 on the last trading day of the week shedding 1.72% during this period. Dollar slipped 4.16% against Yen during the week and was trading at 115.64 Yen per Dollar on the weekend.
- The crude prices slipped on the bearish supply data this week, further the warmer weather forecast also helped in cooling oil prices this week. January crude at NYMEX fell \$1.33 (2.2%) during the week and closed at \$58.06 per barrel on Friday. The Energy Department reported Wednesday a 900,000-barrel rise in crude inventories and a 1.8 million-barrel increase in motor gasoline stocks.
- The organisation of petroleum Exporting countries increased its world oil demand estimates. According to it World oil demand will likely be up 1.2 million barrels per day to a yearly average of 83.3 million barrels for 2005. The estimate represents a 40,000 barrel-per-day increase from figures released in November.
- The largest economy's trade deficit widened by 4.4% in October to \$68.9 billion, according to the Commerce Department. The trade gap widened despite the largest increase in exports since March, a decline in the price of petroleum imports, and a substantial rebound in aircraft exports. Imports increased 2.7% to \$176.4 billion, while October exports rose 1.7% to \$107.5 billion. U.S. retail sales increased less than expected by 0.3% as a rebound in auto sales offset a big decline in gasoline. The Federal Open Market Committee Tuesday raised the benchmark federal funds target rate by a quarter-percentage point to 4.25% as expected, putting rates at their highest level since May 2001. The current account deficit narrowed 1% to \$195.8 billion in the third quarter. This is the second straight quarter of a narrowing deficit since the current account reached a record \$198.7 billion in the first three months of the year. The deficit amounted to 6.2% of gross domestic product, down from 6.4% in the second quarter. At over 6%, its share of GDP is in record territory.

### PRICES

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

Date	Delhi	London
Dec. 12, 2005	13622.00	922.50
Dec. 13, 2005	13183.00	874.00
Dec. 14, 2005	12618.00	839.00
Dec. 15, 2005	12532.00	839.00
Dec. 16, 2005	12527.00	861.00
Dec. 17, 2005	12505.00	.....

### Silver Futures (Rs/Kg)

Date	NCDEX JAN. Contract of Silver	NCDEX Chandi 30 kg Silver Dec. Contract
Dec. 12, 2005	13166.00	N.A.
Dec. 13, 2005	12802.00	...
Dec. 14, 2005	12583.00	...
Dec. 15, 2005	12748.00	...
Dec. 16, 2005	12662.00	...
Dec. 17, 2005	12681.00	...

**Spot Rate of Gold** (Mumbai Spot: Rs/10 Gm; London Spot: Cents/Troy Ounce)

Date	Mumbai	London (am fix)	London (pm fix)
Dec. 12, 2005	8142.00	537.50	536.50
Dec. 13, 2005	7910.00	522.80	522.50
Dec. 14, 2005	7729.00	513.75	509.50
Dec. 15, 2005	7505.00	502.40	506.25
Dec. 16, 2005	7485.00	502.50	507.00
Dec. 17, 2005	7492.00	...	.....

### Gold Futures (COMEX-\$/Ounce; NCDEX- Rs/10 gm)

Date	COMEX Feb. Contract	NCDEX JAN. Contract	Gold NCDEX 1 kg Gold Dec Contract	Sona
Dec. 12, 2005	531.50	7944.00	...	...
Dec. 13, 2005	524.10	7842.00	...	...
Dec. 14, 2005	509.50	7584.00	...	...
Dec. 15, 2005	506.60	7547.00	...	...
Dec. 16, 2005	505.90	7452.00	...	...
Dec. 17, 2005	....	7476.00	...	...

## SUPPLY AND DEMAND STATISTICS of GOLD (LATEST)

Particulars	2003	2004	% Change 2004vs03	Q1'04	Q2'Q4	Q3'04		Q1'05	Q2'05	Q3'05	% Change Q3'04 vs. Q3'04		% change ytd'05 vs ytd'04
Supply													
Mine Production	2,593	2,464	-4.9	573	605	648	596	620	668	3			1
Net Producer Hedging	-270	-428	58.3	-65	-107	-114	-22	-85	-31	...			
Total Mine Supply	2,322	2,036	-12.3	508	497	526	574	535	637	25			14
Official Sector Sales	617	478	-22.6	119	79	214	258	147	70	5			88
Old Gold Scrap	939	828	-11.9	235	206	204	216	213	213	16			-3
Total Supply	3,879	3,342	-13.8	861	783	943	1,048	895	920	21			18
Demand													
Jewellery fabrication	2,481	2,611	5.2	602	671	687	714	755	660	1			11
Industrial and dental	379	408	7.5	100	108	99	99	112	107	6			2
Net retail investment	292	343	17.5	83	86	96	119	111	80	3			24
Exchange Traded Funds And Similar	39	133	236.9	16	5	113	89	-2	38	...			548
Total identifiable demand	3,191	3,494	9.5	803	870	995	1,021	976	884	6			15
Balance	687	-152	...	59	-88	-52	-34	47	36	...			...

Figures in Tonnes

Source: WGC

## FUNDAMENTAL ANALYSIS

The precious metals finally lost its steam this week after touching the astronomical high levels recently. The metals were overheated and needed some cooling off as they had been trading in the overbought levels for long time. The metals started tumbling from the start of the week and ended the week with huge losses. However, the southward journey seemed slowing down towards the end of the week giving some signal for the fresh positive start on Monday. The recent correction appeared purely technical because the fundamentals were slightly against the fall as greenback was tumbling through out the week despite interest rates hike by Fed. Falling crude prices supported the lower prices to some extent.

The entire gamut of fundamental drivers of the gold prices were mixed during the week including the U.S. economical data. The largest economy's trade deficit widened by 4.4% in October to \$68.9 billion, despite the largest increase in exports since March, a decline in the price of petroleum imports, and a substantial rebound in aircraft exports. Adding to this the increase in U.S. retail sales was less than expected at 0.3% as a rebound in auto sales offset a big decline in gasoline. These data again created some doubts about the health of the economy. Whereas, the current account deficit narrowed by 1% to \$55.8 million gave some relief to the increasing worries about the economy. The deficit amounted to 6.2% of gross domestic product, down from 6.4% in the second quarter. However, this narrowing in the current account deficit was mainly sponsored by huge surge in the capital inflow into the country. So, the picture is still not very positive for the U.S. economy and the investors may prefer gold investment instead of investing in dollar as the currency has showed high volatility in the recent past.

The greenback remained weak during most part of the week against its major counterparts and recent hike in interest rates by Fed to 4.25% couldn't support the currency. It traded as high as \$1.1773 per Euro on Monday and then it lost its steam and slipped to 1.2010 on the last trading day of the week shedding 1.72% during this period. Dollar slipped 4.16% against Yen during the week and was trading at 115.64 Yen per Dollar on the weekend. Though the currency is enjoying the large interest rate differential with Euro and Yen, the change in Fed's language regarding inflation control signals that the current tightening policy is nearing the end is causing the greenback to fall against its counterparts. Moreover, Germany's December IFO business climate index rose to 99.6 from 97.8 in November, a five-year high, shows the positive business environment in one of the largest economy in the Euro zone. Thus the prospects for dollar seem slightly gloomy at the moment.

Further, The crude prices slipped on the bearish supply data and warmer weather forecast this week. January crude at NYMEX fell \$1.33 (2.2%) during the week and closed at \$58.06 per barrel on Friday. The Energy Department reported Wednesday a 900,000-barrel rise in crude inventories. Meanwhile, the OPEC increased World oil demand estimates by 1.2 million barrels per day to a yearly average of 83.3 million barrels for 2005. As the winter hasn't witnessed its peak and expected demand is high, we don't see any sharp decline in the crude prices.

Taking support from the falling crude prices, the yellow metal slipped sharply during the week despite the weakness in the dollar and some positive fundamentals. The fall seemed mainly technical correction in the overbought zone for the consolidation purpose. Further,

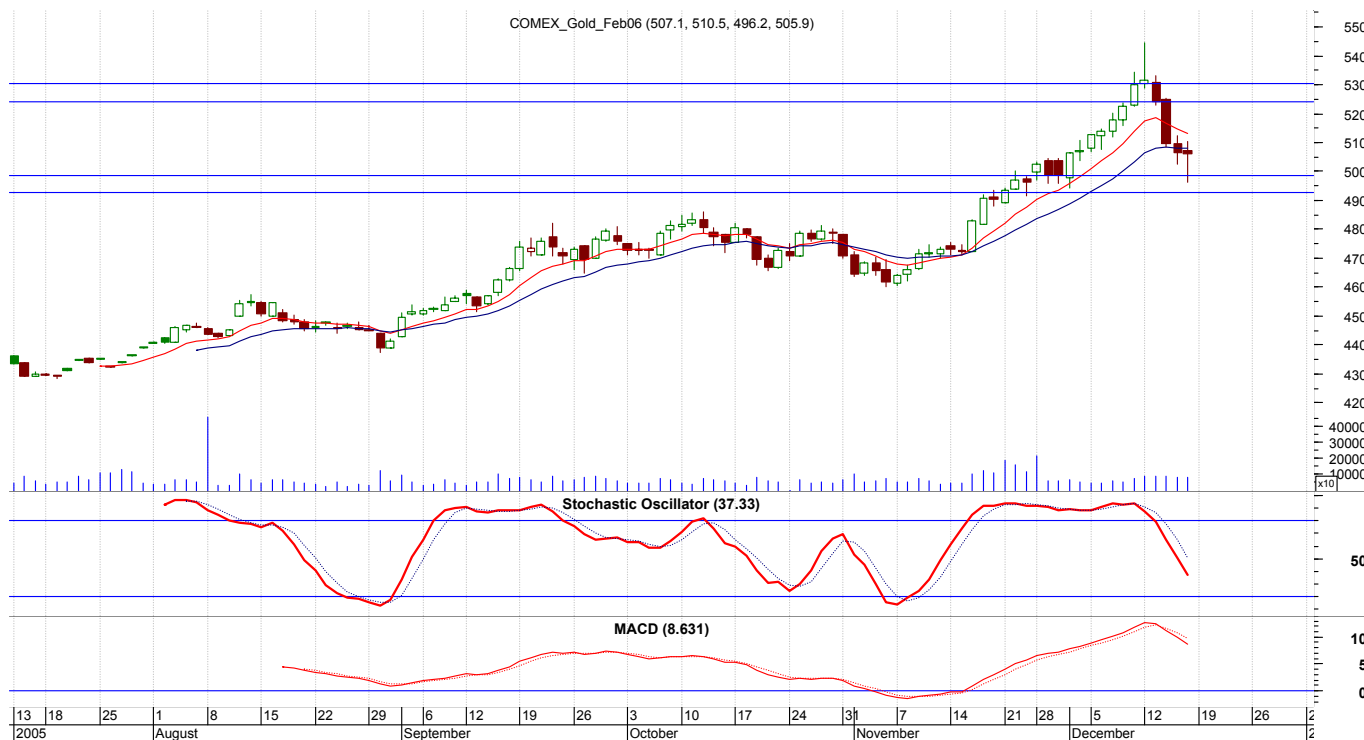
huge selling in Japan triggered by some strengthening in Yen and increase in margin money for gold in TOCOM pressured the prices down. The January contract of metal at NCDEX also witnessed the sharp fall during the week and shed a good Rs 464 (5.84%) during the week. The contract traded in the range of Rs 8151-7352 before closing the week at Rs 7476. As the White metal was not running on its own feet and being dragged by the yellow metal, it fell sharply once gold and other precious metals lose steam. Following its leader gold, the white metal also retreated heavily during the week from the peaks achieved recently. January silver at NCDEX ended the week with a huge loss of Rs 938 (6.88%) at Rs 12681 on Saturday and washed away the entire gains of the previous week. The contract traded in the range of Rs 13925-12421.

From our discussion on the fundamentals, it is clear that the entire gamut of the fundamentals is sending mixed signals for the yellow metal. However, as the major driving force for the hard currency (gold), the uncertainty in the economic scene, is still favoring gold. The crude prices are expected to gain slightly from this position and if this happens the metal are likely to bounce back from this position. As the metal seems indecisive at this moment, the data to be released this week (PPI, Q3 GDP, Personal Income, Consumer Spending) will be important to give direction to the metal. Also the psychologically important \$500 levels will be crucial for the metal. The white metal also has no clear direction and is likely to follow the movements in gold. We expect the metal to bounce back, however one should take only after some confirmation of reversal in the trend (at least one close in the positive territory with notable gains).

**Commodity: GOLD**

**Contract: COMEX December Contract (GCZ05)**

**Term: Short-term (Weekly)**



MACD is running downward in the positive territory below its signal line after making bearish crossover with its signal line giving no signal for reversal in the current trend. %K line is moving sharply downward after making bearish crossover with %D line in the neutral region, indicating the current trend to continue. Close far below 9 days and 18 days EMA indicates medium term bearish trend. Candlesticks are showing indecisiveness in the market and shows possibility of bounce back.

Most of the indicators are showing bearish sentiments in the market, however candlesticks are showing some signs of possible reversal in the trend. The prices will try to climb in the initial part of the week and if succeeds it will go

further high. However, if it fails it will test the \$500 mark and even lower.

**Recommendation:** Market is indecisive, wait for the clear signal of reversal to take long positions.

**Support and resistance Levels:**

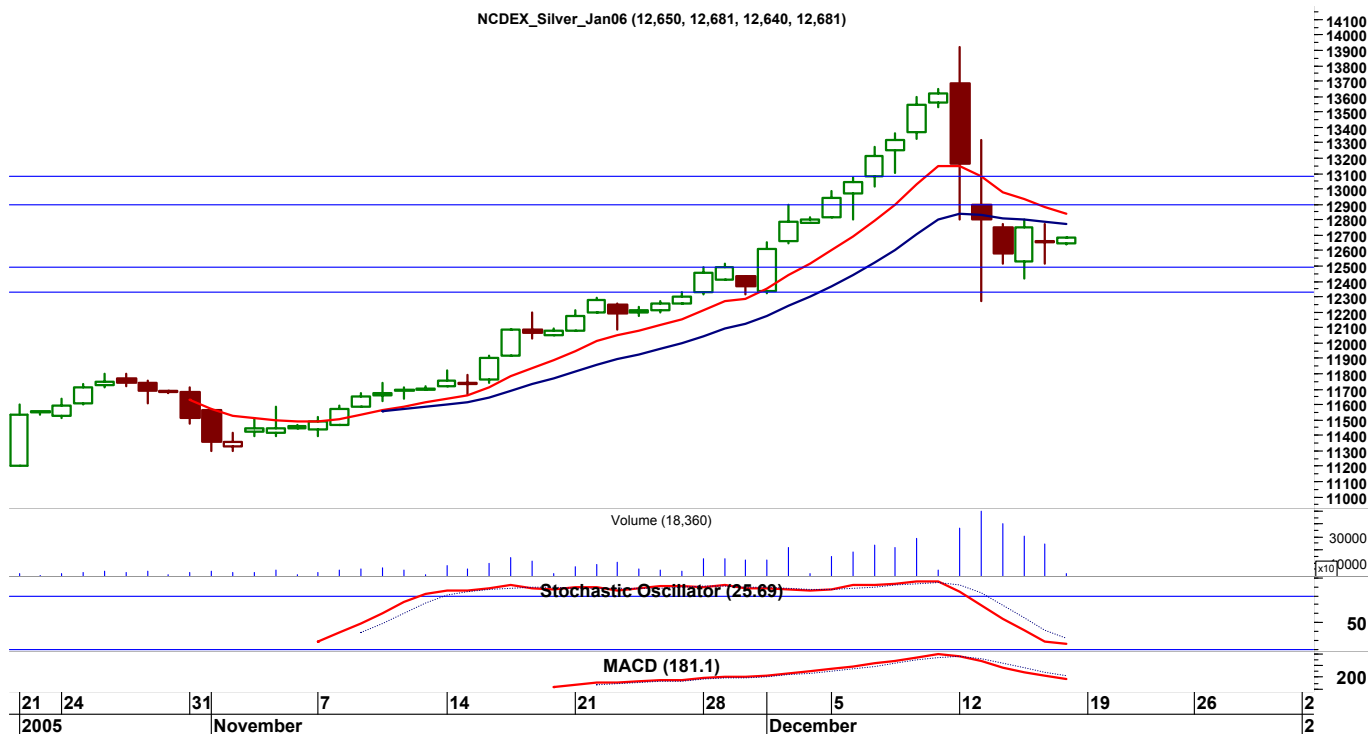
Contract	S-1	S- 2	R- 1	R - 2
COMEX December'05	498.70	492.6	524.3.00	530.5
NCDEX January'06	7365	7277	7830	7935

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 January Contract**  
**Periodicity: Weekly**



MACD is running downward in the positive territory below its signal line after making bearish crossover with its signal line giving no signal for reversal in the current trend. %K line is moving sharply downward after making bearish crossover with %D line in the neutral region, indicating the current trend to continue. Close far below 9 days and 18 days EMA indicates medium term bearish trend. Candlesticks are showing indecisiveness in the market and shows possibility of bounce back.

Most of the indicators are showing bearish sentiments in the market, however candlesticks are showing some signs

of possible reversal in the trend. Close in positive territory on initial part of the week with some notable gains will shoot up the prices again.

**Recommendation:** Market is indecisive, wait for the clear signal of reversal to take long positions.

#### Support and resistance Levels

Contract	S-1	S-2	R-1	R-2
NCDEX December	12490	12330	12896	13084

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