

PRECIOUS METALS (GOLD & SILVER)

Jan 02-07, 2006

MAJOR ACTIVITY HIGHLIGHTS

- Gold closed the week on a positive note with strong surge towards the end, thanks to weaker dollar and firing crude oil prices. Gold February futures at NYMEX closed the week with a gain of \$22.3 (4.29%) at \$541.2, meanwhile it traded in the range of \$541.8-514.7. The January contract of metal at NCDEX mirrored the movements at COMEX and made a healthy addition of Rs 192 (2.51%) to its previous weeks levels. The contract closed at Rs 7832 on Saturday after trading in the range of Rs 7847-7645 during the week.
- Silver showed some volatile movements during the week but remained biased on the positive side. Silver for February delivery at COMEX closed the week with a gain of 27.9 cents (3.41%) at 913.8 cents per ounce. January Silver at NCDEX closed the week at a gain of Rs 138 (1.05%) at Rs 13186. the contract traded as low as Rs 12815 on Thursday, the only day during the week when the metal slipped.
- The week was quite disappointing for the U.S. dollar bearers, as the currency kept on falling through out the week against its major counterparts. The buck fell mainly on the concerns that Fed would end shortly its tightening policy. European common currency became costlier by 2.75% for the greenback holders during the week and was exchanging hands for \$1.2150 on the last trading day of the week. Euro traded in the range of \$1.1810 on Monday to \$1.2180 on Friday. The greenback also fell sharply against the Japanese currency and shed 2.99% at 114.45Yen on the last trading day of the week. Dollar traded in the range of 114.21 Yen to 118.04 Yen during this period.
- The crude prices also kept on burning through out the week, thanks to price dispute between Russia and Ukraine, adding some fuel to the fire, bullish supply data helped prices to surge. February crude at NYMEX ended the week at a heavy gain of \$3.17 (4.9%) at \$64.21 per barrel Friday. Crude inventories fell 1 million barrels for the week ended Dec. 30 to total 321.6 million, 12.5% above the year-ago level.
- The ISM services Index rose to 59.8% from 58.5% in November. The price index slipped to 69.5% from 74.2%.
- U.S. payroll job growth increased by a less-than-expected 108,000 last month, even as the unemployment rate fell unexpectedly to a cyclical low of 4.9%. In December, average hourly wages increased 5 cents, or 0.3%, to \$16.34. Average wages rose 3.1% in 2005. Orders for U.S.-made factory goods rose 2.5% in November.
- Construction spending rose 0.2 percent in November; the rise was less than expected 0.6% by the economists. October's spending was revised up to a 0.8 % gain from an originally reported 0.7% increase.
- China has signaled this week that it will diversify foreign exchange reserves away from U.S. dollars.
- The number of unemployed in Germany fell a seasonally adjusted 110,000 in December, the labor office said Tuesday.
- The Institute for Supply Management's December Index for manufacturing activity was 54.2, below the expected reading of 57.5 and below the November reading of 58.1

PRICES

Spot Rate of Silver (Delhi Spot: Rs/Kg; London Spot: Cents/Troy Ounce) (1ounce = 31.10347 gms)

Date	Delhi	London
02 January 2006	13194	Closec
03 January 2006	13222	904.00
04 January 2006	13435	914.00
05 January 2006	13226	899.00
06 January 2006	13033	883.00
07 January 2006	13226	Closec

Silver Futures (Rs/Kg)

Date	NCDEX JAN. Contract of Silver	COMEX Silver FEB. Contract
02 January 2006	13105	Closec
03 January 2006	13269	912.20
04 January 2006	13230	913.20
05 January 2006	12869	883.70
06 January 2006	13175	913.80
07 January 2006	13170	Closec

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

Date	Mumbai	London (am fix)	London (pm fix)
02 January 2006	7656	Closec	Closec
03 January 2006	7677	520.75	530.00
04 January 2006	7840	534.35	529.50
05 January 2006	7779	531.60	524.75
06 January 2006	7737	529.50	535.25
07 January 2006	7871	Closec	Closec

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

Date	COMEX Contract	Feb. NCDEX Gold JAN. Contract
02 January 2006	Closec	7656
03 January 2006	532.50	7780
04 January 2006	535.60	7810
05 January 2006	527.80	7691
06 January 2006	541.20	7830
07 January 2006	Closec	7825

SUPPLY AND DEMAND STATISTICS of GOLD (LATEST)

Particulars	2003	2004	% Change 2004vs03	Q1'04	Q2'04	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 yellow metal got enough reasons this week to test the fresh highs when the crude prices surged to plus 464 per barrels levels and dollar fell against its major counterparts. Adding to this, the news that china is considering diversifying its reserves from U.S. dollars (probably to gold), send some positive signals for the hard currency. The white metal at the moment is not running on its own legs and simply riding on the back of gold.

The gold got good support from the falling dollar during this week. The U.S. data released this week were slightly mixed with a bend towards the weaker side. The ISM index of manufacturing activity was lower, the U.S. construction-spending rose less than expected during September also the payroll data was slightly weaker. Adding to this the stronger European economic data like fall in number of Unemployed caused the green back to fall. Above all these, the main concern for the Forex market was the expected end of tightening policy by Fed as signaled by the Fed in the minutes of the meeting released this week. Further, the signals by China, that it would diversify away its reserves from dollar, hammered the greenback. European common currency became costlier by 2.75% for the greenback holders during the week and was exchanging hands for \$1.2150 on the last trading day of the week. Euro traded in the range of \$1.1810 on Monday to \$1.2180 on Friday. The greenback also fell sharply against the Japanese currency and shed 2.99% at 114.45Yen on the last trading day of the week. Dollar traded in the range of 114.21 Yen to 118.04 Yen during this period.

The crude prices kept surging through out the week except small fall on Thursday when the price dispute between Russia and Ukraine was settled. During the initial part of the week the crude prices jumped on the price dispute

between Russia and Ukraine. Also the bullish supply data released by the U.S. Energy Department underpinned the crude oil prices. February crude at NYMEX ended the week at a heavy gain of \$3.17 (4.9%) at \$64.21 per barrel Friday. Crude inventories fell 1 million barrels for the week ended Dec. 30 to total 321.6 million, 12.5% above the year-ago level. The fundamentals in the oil market are still strong amid oil-product demand in the U.S., declining oil exports from Iraq. Further, the threat that OPEC would cut its oil production is also imparting some bullish undertone in the market.

Favoured by the rising crude prices and weakening dollar, the yellow metal witnessed record levels keeping along the white metal with it. Gold closed the week on a positive note with strong surge towards the end, thanks to weaker dollar and firing crude oil prices. Gold February futures at NYMEX closed the week with a gain of \$22.3 (4.29%) at \$541.2, meanwhile it traded in the range of \$541.8-514.7. The January contract of metal at NCDEX mirrored the movements at COMEX and made a healthy addition of Rs 192 (2.51%) to its previous weeks levels. The contract closed at Rs 7832 on Saturday after trading in the range of Rs 7847-7645 during the week. Silver showed some volatile movements during the week but remained biased on the positive side. Silver for February delivery at COMEX closed the week with a gain of 27.9 cents (3.41%) at 913.8 cents per ounce. January Silver at NCDEX closed the week at a gain of Rs 138 (1.05%) at Rs 13186. the contract traded as low as Rs 12815 on Thursday, the only day during the week when the metal slipped.

Looking at the positive sentiment in the crude prices and bearish sentiments in dollar, the outlook for the precious metals still looks encouraging, however, the record high levels may bring some traders' remorse at this stage. The week is going to see a number of important economic data, which will help in deciding the fate of the hard currency and consequently that of silver also. The major price moving data like Inflation data PPI, Import price index, and Trade gap will be released in the later half of the week. Majority of data to be released this week are expected to remain inflation friendly and thus are expected to support the Fed's decision to limit its tightening process. If this materializes, the greenback may get further hitting and extend the recent trend. Further, as the China has signaled that it is going to

diversify away its reserves from the greenback, it would also pressurise the buck. Thus the greenback is going to support the yellow metal this week. Crude prices are already at the higher levels to pull the metal up. So, gold seems positive at the stage but it may witness a bumpy road ahead as it is trading at record high levels and is overbought. Any unexpected result in the upcoming economic data would also affect the metal. The white metal also has no clear direction despite having supply demand balance tilting in the favor of the bulls. The metal is expected to react more on down side movements in gold. As the metal is overbought there may be slight correction during the earlier part of the week. However, the major trend for the precious metals is still up.

Commodity: GOLD

Contract: COMEX February Contract (GCG06)

Term: Short-term (Weekly)



Technical Analysis

MACD is running upward above its signal line, the medium term bullish trend is still intact. %K line is moving upward above %D line in the neutral region, no clear signal of reversal in the current bullish trend, however, overbought levels are asking for some caution. Close above 9 days EMA and 18 days EMA shows medium term outlook is bullish. Candlesticks are showing strong bullish sentiments as bullish engulfing pattern has formed.

The indicators are showing bullishness to continue in the medium and short term, however, the overbought levels

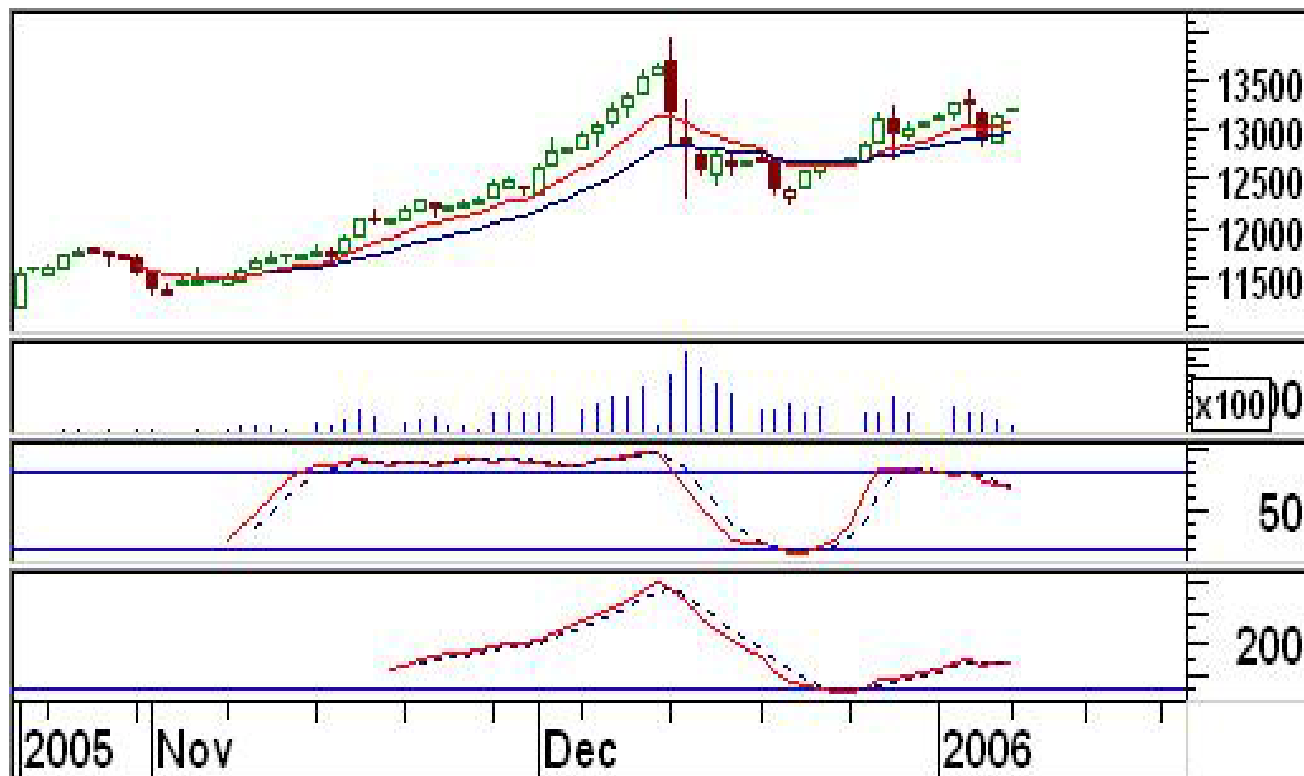
suggests there is a slight possibility of correction in the earlier part of the week.

Recommendation: Buy on dips.

Support and resistance Levels:

Contract	S-1	S- 2	R- 1	R - 2
COMEX Feb'06	524	518.4	549.3	559.0
NCDEX January'06	7691	7579	7899	7972

Commodity: SILVER
 Contract: NCDEX January Contract
 Periodicity: Weekly



Technical Analysis

MACD has made bullish crossover with the signal line, the medium term bullish trend is still intact. %K line is moving downward below %D line in the neutral region, no clear signal at the moment for bullish path ahead. Close above 9 days EMA and 18 days EMA shows medium term outlook is bullish. Candlesticks are showing indecisiveness in the market sentiments.

The indicators are showing bullishness to continue in the medium term, however, the prices may show little tentativeness in the short run resulting in correction in the earlier part of the week.

Recommendation: The white metal is looking indecisive with some positive bias. The tentativeness in the prices is making it vulnerable to correction. Buy on dips.

Support and resistance Levels

Contract	S-1	S-2	R-1	R-2
NCDEX January	13072	12920	13320	13464

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