

## PRECIOUS METALS (GOLD & SILVER)

Jan 09-14, 2006

### MAJOR ACTIVITY HIGHLIGHTS

- Gold closed the week on a positive note with strong surge towards the end, thanks to weaker dollar on tamer core PPI data released on Friday. Gold February futures at NYMEX closed the week with a gain of \$15.8 (2.91%) at \$557, meanwhile it traded in the range of \$540.7-558.8. The February contract of the metal at NCDEX mirrored the movements at COMEX and ended a volatile week at a gain of Rs 122 (1.54%) to its previous weeks levels. The contract traded in the range of Rs 7800-8011 during the week.
- Silver showed very volatile movements during the week before closing with modest loss. Silver for February delivery at COMEX closed the week at similar levels as that of previous week at 913.5 cents. February Silver at NCDEX closed the week at a loss of Rs 83 (0.62%) at Rs 13279. The contract traded in a large band of Rs 13449 - 13014.
- The greenback showed roller coaster movements on series of economic data released during the week and finished the week at almost no change level. The buck was supported by the U.S. trade gap data released Thursday showing a larger than expected narrowing, but then the currency was hit by the tamer than expected PPI data released on Friday. All in all the currency remained at weaker levels at the end of the week. European common currency was trading at \$1.214 on Friday as compared to \$1.215 last week. Dollar was exchanging hands at 114.15 Yen on the last trading day of the week as compared to 114.45 Yen last week.
- The crude prices fell slightly during the week on good supply position but still maintaining the higher levels. February crude at NYMEX ended the week at a modest loss of 28 cents (0.43%) at \$63.92 per barrel Friday, the contract touched \$65.05 per barrel mark on Thursday on the concerns that Iran will restart its nuclear research.
- U.S. Producers Price Index jumped 0.9% in December, largest gain since September. However, the core PPI rose a modest 0.1%. Economists had been expecting the December PPI to rise 0.5% and the core rate to show 0.2% growth.
- Prices of goods imported in the U.S. fell for the second consecutive month in December as petroleum prices dropped again. Import prices fell 0.2% in December after a revised 1.8% decline in November.
- U.S. jobless claims rose by 17,000 to a seasonally adjusted 309,000 in the week ending Jan. 7. The U.S. trade deficit shrank by 5.8% in November to \$64.2 billion; this is the biggest decline in the monthly trade deficit since March. The trade gap in October was revised to a record \$68.1 billion, compared with the initial estimate of \$68.9 billion.
- The ECB held its key interest rate at 2.25%, after lifting rates in December for the first time in five months on concerns over rising inflation. The Bank of England, meanwhile, held its key rate at 4.5%, where it has been since August.
- Outstanding credit dropped at an annual rate of 0.4%, or \$649 million, in November to \$2.156 trillion. In October, credit fell a revised \$8.4 billion, or 4.7% annual rate. The October decline was the largest ever in dollar terms and the largest in percentage terms in 15 years. Monthly U.S. sales dropped 0.7% while inventories climbed 0.4%. The inventory-to-sales ratio rose from a record low 1.14 months in October to 1.15 months in November.

### PRICES

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

Date	Delhi	London
09 January 2006	13205.00	910.00
10 January 2006	13178.00	904.00
11 January 2006	13289.00	890.00
12 January 2006	13084.00	900.00
13 January 2006	13105.00	901.00
14 January 2006	13258.00	.....

### Silver Futures (Rs/Kg)

Date	NCDEX -SILVER (FEB. Contract)	COMEX -SILVER (FEB. Contract)
09 January 2006	924.8	13431.00
10 January 2006	898.0	13192.00
11 January 2006	903.0	13226.00
12 January 2006	903.0	13183.00
13 January 2006	913.5	13300.00
14 January 2006	....	13279.00

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

Date	Mumbai	London (am fix)	London (pm fix)
09 January 2006	7858.00	541.0	541.5
10 January 2006	7914.00	545.25	543.5
11 January 2006	7880.00	542.25	544.40
12 January 2006	7902.00	547.50	542.5
13 January 2006	7907.00	547.25	548.25
14 January 2006	8025.00	....	....

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

Date	COMEX -GOLD (FEB. Contract)	NCDEX-GOLD (FEB. Contract)
09 January 2006	550.5	7956.00
10 January 2006	545.7	7877.00
11 January 2006	550.1	7902.00
12 January 2006	549.3	7886.00
13 January 2006	557.0	8007.00
14 January 2006	....	8002.00

## SUPPLY AND DEMAND STATISTICS of GOLD (LATEST)

SUPPLY AND DEMAND OF GOLD (TOWNS)												
	2003	2004	% Change 2004vs03	Q1'04	Q2'Q4	Q3'04				% Change		
Particulars							Q1'05	Q2'05	Q3'05	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

Gold prices exhibited roller coaster movement through out the week on the fluctuating dollar and mixed economic data; however, it still managed to post good gains. The metal reacted sluggishly to the negative news like unexpected shrinkage in trade gap, at the same time it surged on tamer inflation data, which suggested the end of the tightening policy by the Fed is near. On the other hand, silver exaggerated the negative movements in gold and followed languidly in the upward direction. This gave negative results to the silver for the week.

The gold seemed getting back its negative correlation with greenback this week and thus swinging dollar resulted in seesaw movements in the hard currency. The series of U.S. economic data released this week were mixed for the buck. On one hand, the huge contraction in trade gap by 5.8% in November to \$64.2 billion underpinned the greenback and the same surged to \$1.2034 per Euro levels on Thursday as compared to \$1.2126 per Euro on the previous trading day. A day after the release of this data, the currency got severe hitting by tamer than expected inflation data. The core PPI rose a modest 0.1% against expected 0.2%. The inflation friendly data gave indication that fed would end its tightening policy soon and thus the interest hike will be restricted. Such concerns in the market applied downward pressure on dollar and the currency fell to \$1.214 per Euro on Friday, washing away all the gains of Thursday. Earlier, the currency started the week on a positive note thanks to positive wholesale inventory data released on Tuesday. However, it couldn't maintain the charge and fell sharply on Wednesday on concerns that ECB would release some hawkish comments after the meeting. Against this ECB and Bank of England both held their key interest rates at the earlier levels and no hawkish comment was made by ECB.

The crude prices remained slightly volatile this week and shed some of the gains of the last week. The prices slipped initially on the warmer than normal weather forecast and then it recovered the initial losses on sharper than expected fall in crude inventory. The crude prices also got some support from the concerns over supply disruption from Iran. Recently, Iran issued statement that it will restart its nuclear research; this statement got sharp criticism from U.S. and European leaders. If the issue, results in a dispute, there are chances that sanctions might be imposed on Iran, which in turn would result in the supply disruptions in crude oil as the country exports around 2.4 million barrels per day of crude oil. The crude prices then fell finally on the last trading day of the week following increases in U.S. supplies of heating fuels and gasoline.

Dancing dollar and swinging crude prices on fluctuating fundamental resulted in volatile week for the hard currency. However, gold managed to close the week on a positive note with strong surge towards the end, thanks to weaker dollar and still higher crude oil prices. Gold February futures at NYMEX closed the week with a gain of \$15.8 (2.91%) at a record level of \$557, meanwhile it fluctuated sharply during this period and traded in the range of \$540.7-558.8. The February contract of metal at NCDEX mirrored the movements at COMEX and made a healthy addition of Rs 122 (1.54%) to its previous weeks levels. The contract closed at Rs 8002 on Saturday after trading in the range of Rs 7800-8011 during the week. Silver showed very volatile movements during the week before closing with a modest loss. The metal reacted sharply to the negative movements in gold whereas it responded sluggishly to jump in gold prices; this resulted in moderate loss in silver during the week against gains in gold. Generally the metal follow the movements in gold, which

itself follows the economic conditions, silver also moves on the supply demand changes. Silver for February delivery at COMEX closed the week at similar levels as that of previous week at 913.5 cents. February Silver at NCDEX closed the week at a loss of Rs 83 (0.62%) at Rs 13279. The contract traded in a large band of Rs 13449 - 13014.

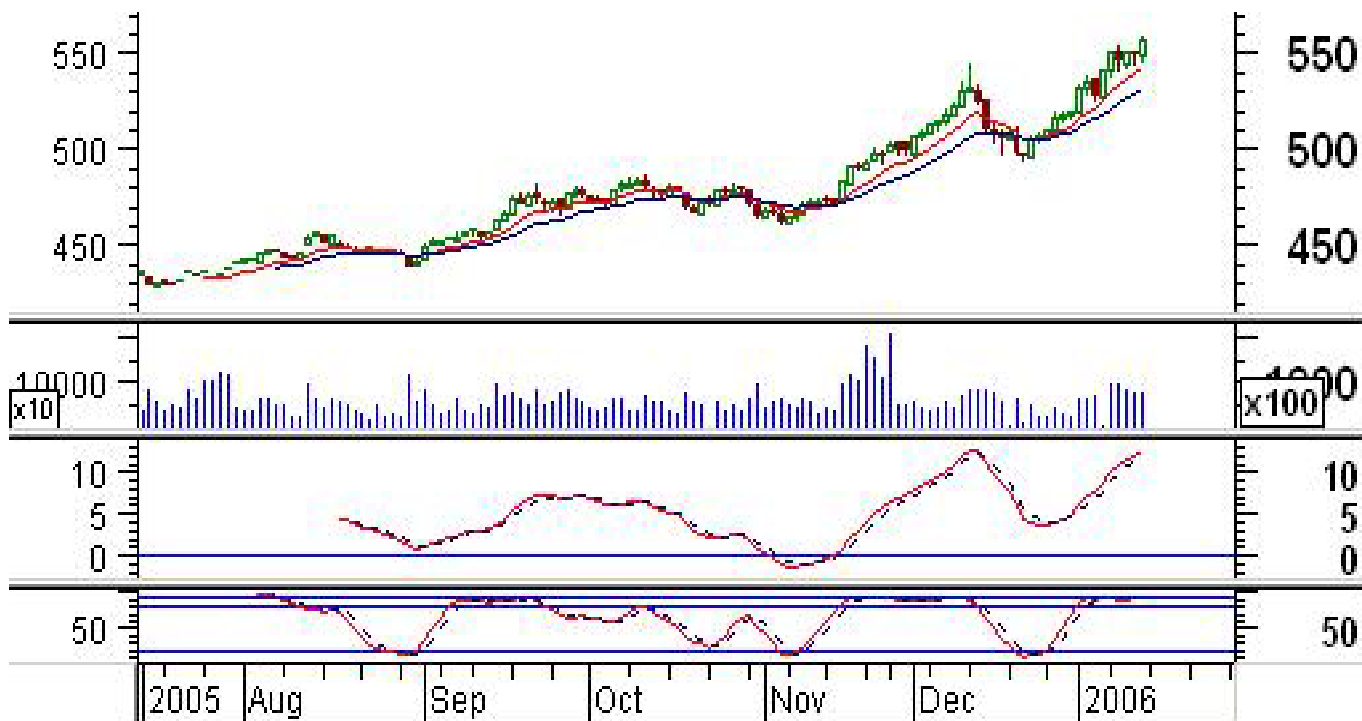
The largest economy seems in good health as the data released this week depicts. The trade gap reduced, core inflation under control speaks in favor of the economy. But at the same time the large deficits are still creating some doubt about the same. Crude prices are expected to retreat slightly as the stock position is good and weather is warmer

than normal. If Iran issue rises further and creates chances of sanctions the prices will definitely get underpinned. The metal is still looking positive and set to make new records, thanks to socio economic uncertainty surrounding the world economy. Some expected central bank buying and China's reserve diversification stance also lends some hidden support for the metal. But the road ahead will be bumpy depending upon the economic environment. So the main path will be up with intermediate corrections as buying opportunity. However, the yellow metal is not looking as strong as gold fundamentally. It can be dragged up by gold but the pace will be slower as seen during last week. The downside risk is larger than gold.

## Commodity: GOLD

Contract: COMEX February Contract (GCG06)

Term: Short-term (Weekly)



## Technical Analysis

MACD is still above its signal line but gap between the two is narrowing, this shows somewhat neutral position of the indicator. %K line has made bearish crossover with %D line in the overbought levels but frequent crossover is making the significance of the signal less. Overbought levels warrants some caution on the part of the bulls. Close above 9 days EMA and 18 days EMA is a positive sign. Candlesticks are showing positive sentiments.

The indicators are showing mixed sentiments in the market with bullish inclination. The prices are expected to remain

volatile and every notable fall should be considered as a buying opportunity.

**Recommendation:** Those who are long can maintain their positions. Fresh positions can be taken on dips as there are fair chances of such opportunities.

## Support and resistance Levels:

Contract	S-1	S-2	R-1	R-2
COMEX Feb'06	542.5	533.8	563.0	569.0
NCDEX February'06	7853	7763	8148	8286

Commodity: SILVER  
 Contract: NCDEX February Contract  
 Periodicity: Weekly



### Technical Analysis

MACD is running downward after making bearish crossover with its signal line, showing medium term bearishness in the prices. %K line is moving downward below %D line in the neutral region, indicating weakness in the prices. Close above 9 days EMA and 18 days EMA shows bullishness in the market. Candlesticks are showing indecisive position of the market.

The indicators are giving mixed signals and hence the prices are expected to remain volatile.

**Recommendation:** The white metal is looking indecisive with some positive bias. The tentativeness in the prices is making it vulnerable to correction. Buy cautiously on dips. One can take short positions near first resistance levels.

### Support and resistance Levels

Contract	S-1	S- 2	R- 1	R - 2
NCDEX February'06	13163	13022	13453	13515

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