

## PRECIOUS METALS (GOLD & SILVER)

Jan 23-28, 2006

### MAJOR ACTIVITY HIGHLIGHTS

- Gold witnessed a week of trader's remorse and moved sideways in a range through out the week. February futures at NYMEX closed the week with a modest gain of \$4.8 (0.86%) at \$558.8, meanwhile it traded in the band of \$549.3-566.9. The February contract of the metal at NCDEX mirrored the movements at COMEX and ended a sluggish week at a gain of Rs 27 (0.35%) at Rs 8064. The contract traded in the range of Rs 8011-8130 during the period.
- Silver showed climbed to the astronomical high levels on Barclays silver ETF news. Silver for March delivery at COMEX closed the week at hefty gains of 67.5 cents (7.55%) at 960.5 cents per ounce. February Silver at NCDEX closed the week smiling at Rs 13513 pocketing Rs 409 (3.21%).
- The greenback slipped sharply on Monday on worrisome political events and concerns over possible the shrinkage of interest rate differentials with its counterparts. Then the buck never looked back and kept strengthening through out the week on healthy economic scenario. Greenback closed the week with marginal gains of 0.32% against Euro at \$1.20905/Euro; similarly the currency gained 1.778% against Yen at 117.405 Yen per.
- The crude prices started the week at higher levels on concerns over Iran and Nigeria issues and then retreated slightly towards the mid week on the expectation that OPEC wouldn't cut the production, also warm weather and good supply kept pressurising the prices. Finally the crude prices again recovered on Iran and Nigeria related concerns. The March crude oil at NYMEX shed 1.05% during the week at \$67.76 per barrel. It traded in the range of \$69.2 -\$65.31 per barrel.
- The index of leading economic indicators rose 0.1% in December. Six of the 10 indicators increased in December, led by improving consumer expectations, rising money supply, higher stock prices, lower jobless claims, a narrower interest rate spread and new factory orders for consumer goods. The negative contributors were worsening vendor performance, lower new orders for non-defense capital goods, a drop in building permits and a drop in factory hours.
- First-time claims for state unemployment benefits rose 11,000 to a seasonally adjusted 283,000 in the week ended Jan. 21, economists were expecting initial claims to rise to about 305,000. Orders for U.S.-made durable goods rose 1.3% in December despite a large decline in aircraft orders. The 1.3% gain was much stronger than the 0.5% expected.
- Growth in the U.S. economy slowed dramatically to a 1.1% annual rate in the fourth quarter, the weakest growth in three years, economists were expecting growth to slow to 2.7% in the quarter.
- Sales of new homes increased a surprising 2.9% in December to a seasonally adjusted annual rate of 1.269 million, economists were expecting sales to fall slightly to a 1.23 million rate.
- SEBI allowed mutual funds to launch gold exchange traded funds (GTEF) by amending the SEBI (Mutual Fund) Regulations, 1996, on Tuesday. Barclays Silver ETF on the verge of launch as the SEC had approved the AMEX listing of iShares Silver Trust and initiated the 21-day public comment period.

### PRICES

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

Date	Delhi	London
23 January 2006	13161	892.50
24 January 2006	13230	900.00
25 January 2006	13467	942.50
26 January 2006	...	949.00
27 January 2006	13602	969.00
28 January 2006	13604	.....

#### Silver Futures (Rs/Kg)

Date	NCDEX -SILVER (FEB. Contract )	COMEX -SILVER (March. Contract)
23 January 2006	13192	907.3
24 January 2006	13299	922.8
25 January 2006	13435	951.0
26 January 2006	....	960.5
27 January 2006	13505	960.5
28 January 2006	13513	....

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

Date	Mumbai	London (am fix)	London (pm fix)
23 January 2006	8059	558.50	554.50
24 January 2006	8060	556.65	557.25
25 January 2006	8124	562.25	561.75
26 January 2006	...	562.25	556.50
27 January 2006	8091	559.75	561.75
28 January 2006	8090	.....	....

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

Date	COMEX -GOLD ( FEB. Contract)	NCDEX-GOLD (FEB. Contract )
23 January 2006	558.7	8060
24 January 2006	558.1	8058
25 January 2006	562.5	8093
26 January 2006	559.9	...
27 January 2006	561.5	8062
28 January 2006	558.8	8064

## 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. Q3'05		% change ytd'05 vs ytd'04
										Q3'04	Q3'05	
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 faced trader's remorse during the week and couldn't break the shackles to move ahead. It was a very calm and sluggish week as far as the movements in gold are concerned. However, silver has the every reason to shine on as the silver market got the news that Barclays silver ETF is on the verge of launch. The news underpinned the metal as traders expected that the investment demand of silver would shoot up once the Fund is launched. It was this news, which made silver move opposite to gold, an unusual scenario.

Gold kept swinging in both directions during the week driven by economic data released and swinging crude prices. Data released this week were mostly favoring the largest economy, as leading indicator showed moderate increase for the year, orders for U.S. made consumer goods rose 1.3% during December and Sales of new home increased 2.9% during December all pointing good economical health. However, most surprising was poor growth of GDP (1.1%) during fourth quarter, though the same was compensated by good growth in GDP during the year 2005 by 3.5%. Dollar kept recovering on these data after initial stumble, however it fell sharply after the GDP data and then again recovered as strong housing data supported it. All in all the currency ended the week with some strength. Greenback closed the week with marginal gains of 0.32% against Euro at \$1.20905/Euro; similarly the currency gained 1.778% against Yen at 117.405 Yen per.

The crude prices started the week at higher levels on concerns over Iran and Nigeria issues and then retreated slightly towards the mid week on the expectation that OPEC wouldn't cut the production quota, also warm weather and good supply kept pressuring the prices. Finally the crude prices again as the on Iran and Nigeria

related concerns kept haunting the market. The March crude oil at NYMEX shed 1.05% during the week at \$67.76 per barrel. It traded in the range of \$69.2 -\$65.31 per barrel. At the stage the crude prices are already on upper side and looking at the prospective decision of OPEC against the production cut and warmer weather together with good supply position are expected to restrict any large gains ahead. However, the concerns over Iran and Nigeria issue will keep pressuring the prices. We see some consolidation in the crude prices after OPEC meeting on Tuesday provided the decision comes as expected.

The resultant impact of the economic scenario and crude prices was a range bound movement in the yellow metal during the week. Also, the higher prices themselves seemed acting as a hindrance for moving further high. The metal looked trapped in trader's remorse and ended the sluggish week with moderate loss. February futures at NYMEX closed the week with a modest gain of \$4.8 (0.86%) at \$558.8, meanwhile it traded in the band of \$549.3-566.9. The February contract of the metal at NCDEX mirrored the movements at COMEX and ended a sluggish week at a gain of Rs 27 (0.35%) at Rs 8064. The contract traded in the range of Rs 8011-8130 during the period.

Silver story this week was a bit different and exciting from the dull gold. The metal all of a sudden got wings to fly on in a new horizon and left chasing sluggish gold. Silver climbed to the astronomical high levels on Barclays silver ETF news. It was this expectation -that once this fund is launched, the metal's investment demand would surge, aggravating the existing SND imbalance- which caused the prices to soar high. Silver for March delivery at COMEX closed the week at hefty gains of 67.5 cents (7.55%) at

960.5 cents per ounce. February Silver at NCDEX closed the week smiling at Rs 13513 pocketing Rs 409 (3.21%).

At the stage the factors driving gold are mixed and the metal seems lacking buying power at the higher levels. It should take one major correction to before surging to higher levels. One should take those dips as entry points. At the moment, dollar is getting back some of the strength it lost recently, especially after the Friday's U.S. housing starts data. Further U.S. consumer spending and personal income data to be released Monday are expected to remain strong, which if comes as expected would boost the greenback. Then Fed's interest rate decision due Tuesday is most likely to result in another quarter point increase in the key interest rate. So, scenario seems dollar friendly, at

least at the stage and hence supports some correction in the yellow metal. However, crude prices are surging on the tensions in Iran and Nigeria, giving some underlying support to the metal. OPEC's decision regarding production quota in the meeting to be held Tuesday, will be important for the crude prices. We see the crude prices are at already higher levels and if OPEC decides against production cut, which is likely, the prices will cool down a bit. In a nutshell, the metal is indecisive at the stage and as and when these cards of U.S. data and OPEC decision will open, gold will find direction accordingly. Silver, however, is running high and high fueled by the ETF news and ballooning day by day. The ETF news has already factored in the prices and if gold sees any major correction to consolidate, silver will be there to follow.

**Commodity: GOLD**

**Contract: COMEX February Contract (GCG06)**

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



### Technical Analysis

MACD is running downward below its signal line; which indicates bearish sentiments to continue. Also the bearish divergence between MACD hints in the same direction. %K line has turned slightly upward above the %D line indicating short-term bullishness in the prices. Close above 9 days EMA and 18 days EMA shows bullishness in the short and medium term. Candlesticks are showing indecision in the market.

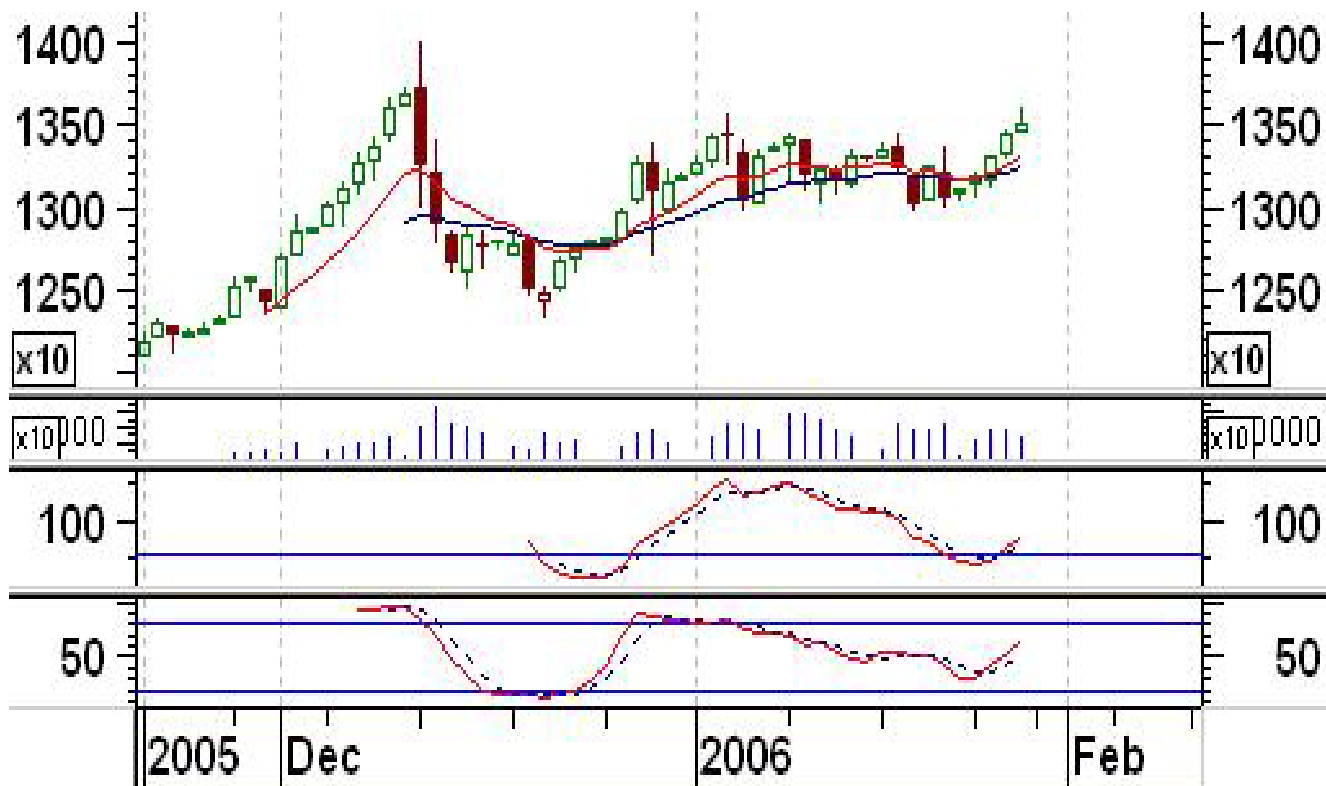
Indicators are showing mixed and indecisive sentiments in the gold market. The prices are expected to take some correction during the earlier part of the week and recover there after. Volatility in the prices are due if overbought position extends further.

**Recommendation:** The gold prices are trading and in such a market long term investors should keep a distance from the market until a clear signal of a trend establishes, however, it creates opportunities for the risk lovers. We expect a good correction in the earlier half of the week and then prices will bounce higher. One should wait for correction to enter afresh. Going short will be against the major trend.

### Support and resistance Levels:

Contract	S-1	S-2	R-1	R-2
COMEX Feb'06	551.6	547.4	565.0	569.0
NCDEX February'06	7994	7951	8113	8184

Commodity: SILVER  
 Contract: NCDEX February Contract  
 Periodicity: Weekly



#### Technical Analysis

MACD has made bullish crossover with its signal line, indicating continuation of the current trend. %K line has made bullish crossover with %D, indicating short-term bullishness in the prices. Close above 9 days EMA and 18 Days EMA shows the bullish sentiments. Candlesticks have formed inverted hammer pattern, which raises questions against the other indicators' signals.

The silver market seems bullish at the stage but as it is approaching overbought levels correction is likely towards the middle of the week.

**Recommendation:** Those who are long are warranted caution. One can take long position on the major correction expected.

#### Support and resistance Levels

Contract	S-1	S- 2	R- 1	R - 2
NCDEX February'06	13340	13272	13610	13738

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