

PRECIOUS METALS (GOLD & SILVER)

Dec 26 - 31, 2005

MAJOR ACTIVITY HIGHLIGHTS

- Gold closed the year with positive note with strong surge towards the end of the year. The metal was supported by strong investment and physical demand during the year especially in the last quarter. Gold February futures at NYMEX closed the shortened week at \$518.9 at a gain of \$14.1 (2.79%) for the week, meanwhile it touched as high as \$519.5 on Friday. The January contract of metal at NCDEX also ended the week and the tear on the positive note and added Rs 201 for the week at Rs 7640.
- Following its leader gold, the white metal also recovered smartly from the recent dip and closed the year with some handsome gains. Silver for January delivery closed the week with a gain of Rs 401 (3.17%) at Rs 13048 on Saturday, meanwhile it touched as high as Rs 13168 mark.
- The U.S. dollar gained modestly against key counterparts Friday, closing the year with roughly 15% gains against the euro and the yen. The greenback came back on the positive note this year after three-year decline. The greenback remained fluctuating in the firmer side through out the week against its major counterparts, thanks to gains in the consumer sentiments and supportive interest rates differential with its counterparts. European common currency shed 0.35% against dollar during this week and was trading at \$1.1824 per Euro Friday. The greenback ended the week with a gain of 1.52% against Yen at 117.98 yen per dollar.
- The crude prices remained on the positive side during the most part of the week on the back of bullish supply data and expected production cut by OPEC. February crude at NYMEX ended the week at a gain of \$2.61 per barrel or 4.46% at \$61.04 per barrel Friday. Crude supplies surged by 1.3 million barrels in the week ended Dec. 16 against analyst's expectation of fall of 1.2 million barrels.
- The University of Michigan's report showed consumer sentiment rose to 91.5 in December from November's 81.6 and a preliminary 85.5 reading from early December.
- The president of the OPEC said the group will not cut crude oil production by 2 million barrels per day at its next meeting, although it will make a reduction.
- The Energy Department said crude stocks rose by 100,000 barrels in the week ended Dec. 23, and remained well above the upper end of the average range for this time of year.
- The Conference Board said U.S. consumer confidence recovered in December to its highest level since Hurricane Katrina hit. The index rose to 103.6 from a revised 98.3 in November, crossing the 103.1 levels forecast by economists.
- Third quarter U.S. growth increased at a 4.1% rate, slightly lower than previous estimates of a 4.3% growth rate, the Commerce Department said Wednesday. The downward revision was unexpected by economists, who had forecast Q3 GDP to be unchanged at a 4.3% rate.

PRICES

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

Date	Delhi	London
Dec. 26, 2005	12629.00	...
Dec. 27, 2005	12742.00	...
Dec. 28, 2005	12911.00	876.00
Dec. 29, 2005	13228.00	890.50
Dec. 30, 2005	12964.00	883.00
Dec. 31, 2005	13208.00	...

Silver Futures (Rs/Kg)

Date	NCDEX JAN. Contract of Silver	NCDEX Chandi 30 kg Silver Jan. Contract
Dec. 26, 2005	12669.00	N.A.
Dec. 27, 2005	12837.00	N.A.
Dec. 28, 2005	13110.00	N.A.
Dec. 29, 2005	12950.00	N.A.
Dec. 30, 2005	13006.00	N.A.
Dec. 31, 2005	13048.00	N.A.

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

Date	Mumbai	London (am fix)	London (pm fix)
Dec. 26, 2005	7481.00
Dec. 27, 2005	7522.00
Dec. 28, 2005	7557.00	509.15	518.00
Dec. 29, 2005	7657.00	517.00	513.00
Dec. 30, 2005	7593.00	513.00	..
Dec. 31, 2005	7642.00

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

Date	COMEX Feb. Contract	NCDEX JAN. Contract	Gold NCDEX 1 kg Gold Jan Contract	Sona
Dec. 26, 2005	...	7453.00		N.A.
Dec. 27, 2005	510.1	7519.00		N.A.
Dec. 28, 2005	516.3	7618.00		N.A.
Dec. 29, 2005	517.5	7600.00		N.A.
Dec. 30, 2005	518.9	7624.00		N.A.
Dec. 31, 2005	...	7640.00		N.A.

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

It was a year of new dimensions for the yellow metal. Gold witnessed a strong surge in prices during the fourth quarter of the year thanks to the higher crude prices and resulting inflation fears, higher investment and physical demand and weaker supply. Huge deficits of the largest economy, hurricanes and geopolitical uncertainty also induced the investors to look for some safe investment heavens like gold. The yellow metal ended the shortened week with good gains despite slightly stronger dollar; however, higher crude prices supported the rising gold.

The last quarter of the year witnessed dramatic change in relationship of the greenback with gold. Generally there is an inverse relation between gold and dollar, but the last quarter of the year witnessed this relationship weakening and the yellow metal gained along with the strong dollar. The greenback continued its gaining streak this week against its major counterparts, closing the year with roughly 15% gains against the euro and the yen. It came back on the positive note this year after declining for consecutive three years. This week also saw Dollar kept fluctuating on the firmer side against its major counterparts, thanks to gains in the consumer sentiments and supportive interest rates differential with its counterparts. European common currency shed 0.35% against dollar during this week and was trading at \$1.1824 per Euro Friday. The improved consumer confidence index supported the buck against Euro and the same gained despite the improvement in the German consumer confidence index. U.S. consumer confidence index rose to 103.6 from a revised 98.3 in November, topping the 103.1 reading forecast by economists, where as GfK German consumer-confidence indicator signaled a 3.8 reading for January, above consensus forecasts, and revised the December figure to 3.4 from 3.1. The greenback ended the week with a gain of

1.52% against Yen at 117.98 yen per dollar. The Japanese currency depreciated after the market expected that there would be no increase in Japanese interest rates in near future. Though the buck is stronger, the inverted yield curve in the treasury market hints some possibility of economic slowdown, a case favourable for the yellow metal.

The crude prices kept fluctuating through out the week mostly on the positive side on expected production cut by OPEC. However, warmer than normal weather forecast and bearish supply data limited the gains. February crude at NYMEX ended the week at a gain of \$2.61 per barrel or 4.46% at \$61.04 per barrel Friday. Crude supplies surged by 1.3 million barrels in the week ended Dec. 16 against analyst's expectation of fall of 1.2 million barrels. The present situation in the crude is mixed with good supply position and warm weather pulling it down and fears that OPEC would cut the production supporting higher prices. We expect the crude prices on slightly lower side but any sharp fall will be checked by OPEC's stand.

Despite strong dollar the yellow metal climbed high during this week on the back of higher crude prices. Further demand from Japan due to cheaper Yen also supported the metal. Gold closed the year with positive note with strong surge towards the end of the year. Gold February futures at NYMEX closed the shortened week at \$518.9 at a gain of \$14.1 (2.79%) for the week, meanwhile it touched as high as \$519.5 on Friday. The January contract of metal at NCDEX also ended the week and the tear on the positive note and added Rs 201 for the week at Rs 7640. Following its leader gold, the white metal also recovered smartly from the recent dip and closed the year with some handsome gains. Silver for January delivery closed the week with a

gain of Rs 401 (3.17%) at Rs 13048 on Saturday, meanwhile it touched as high as Rs 13168 mark.

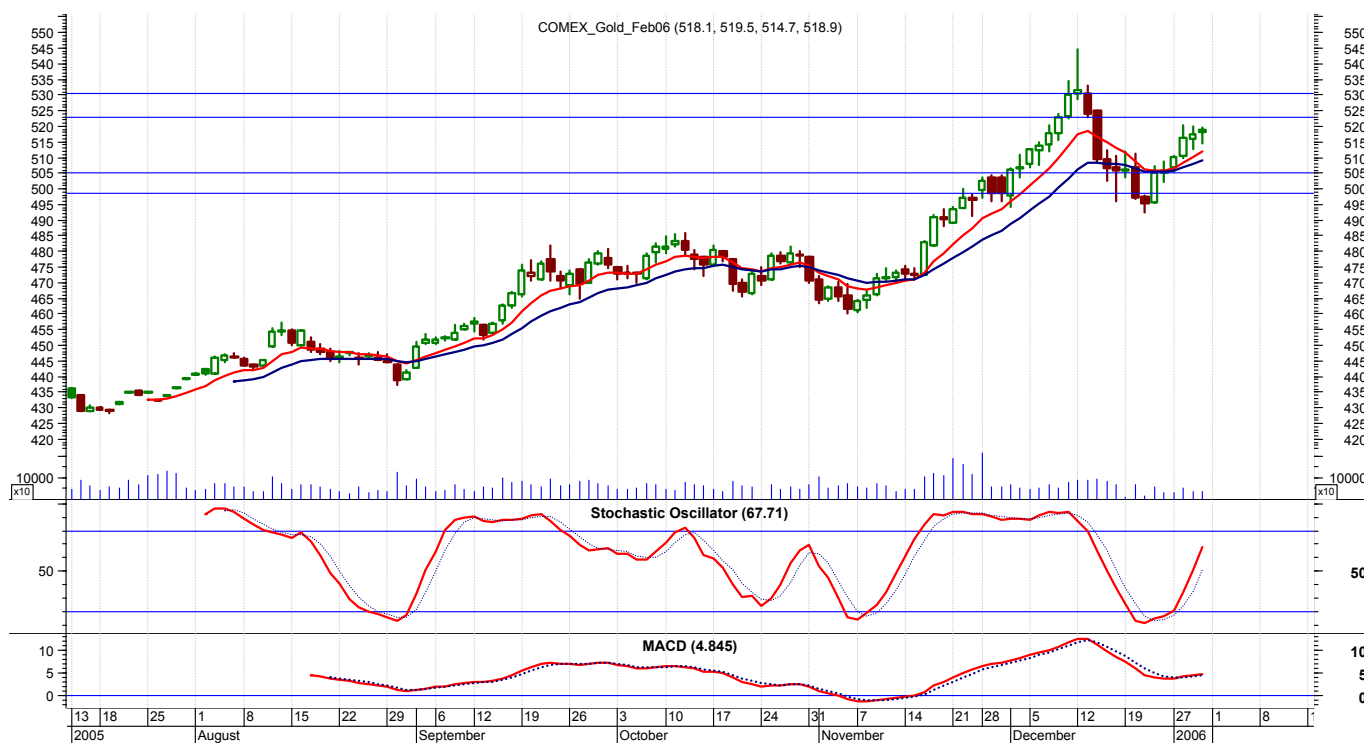
As the prospects of surge in crude prices is gloomy because of expected warm weather and good supply position at the same time dollar is expected to at least maintain its strength there is not much scope for gold to surge higher. But, looking at the recent weakening in relationship of dollar with gold and OPEC's stand to cut the production of crude oil we can expect some stability in the price of the yellow metal. At the moment the metal is in indecisive position, but if dollar improves further or

maintains its strength against Yen, the Japanese demand for the metal due to cheaper currency would immerge again. Also, some fresh buying by funds in the New Year is also expected to support the metal. On summation we expect the metal to remain volatile during the week with some positive bias as the metal is in long-term bullish trend and there is still no strong reason for the trend reversal. However, higher prices itself may act as deterrent for the demand at some time. The white metal also has no clear direction and is likely to follow the movements in gold. We expect the metal to show some volatile movements with positive bias.

Commodity: GOLD

Contract: COMEX February Contract (GCG05)

Term: Short-term (Weekly)



MACD has made bullish crossover with its signal line and moving upward in the positive territory, indicating medium term bullishness in the prices. %K line is moving upward above %D line in the neutral region, there is no sign of reversal in the current trend. Close above 9 days and 18 days EMA indicates the market is still bullish in the medium term. Candlesticks has formed hammer pattern showing possible reversal in the trend. The indicators are showing bullishness to continue in the medium term, however, the prices may show little tentativeness in the short run.

Recommendation: The yellow metal is still looking in positive note, but; slight correction during the earlier part of the week is expected. One should buy dips. However,

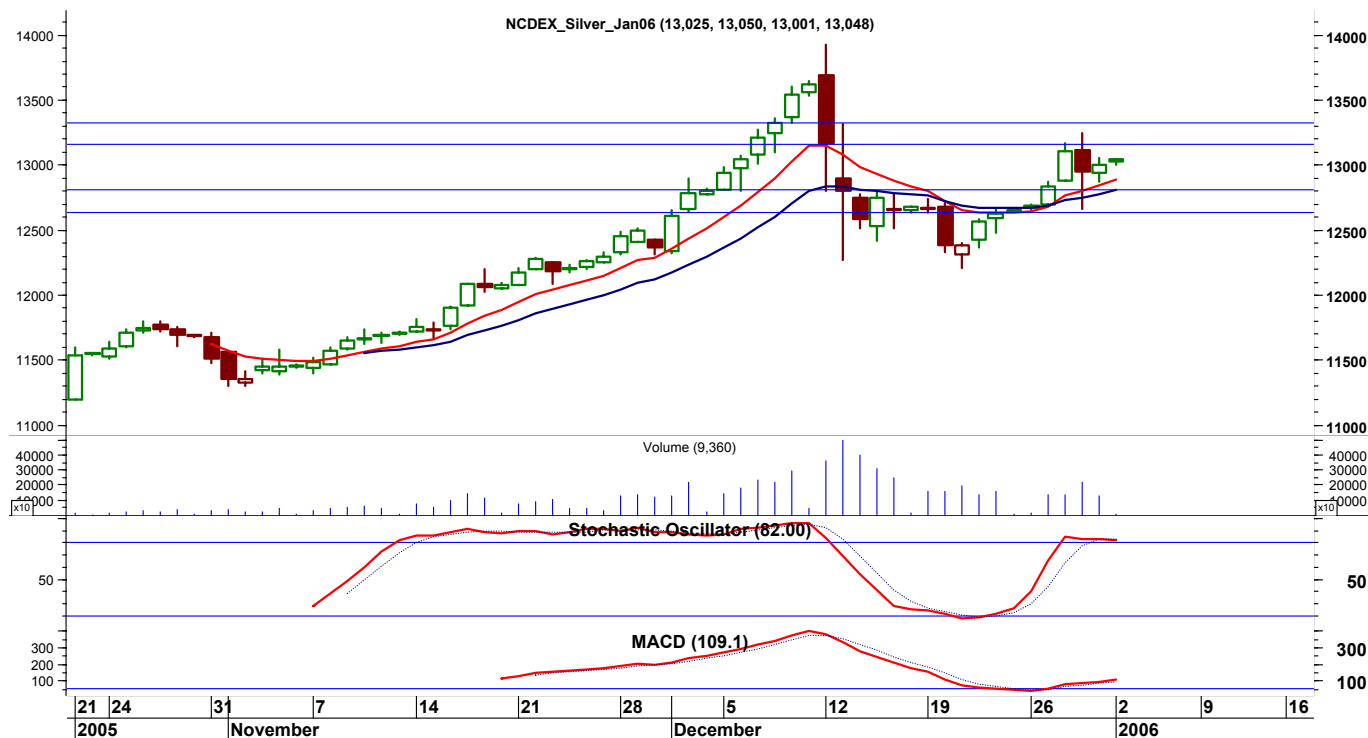
caution at these high levels on the part of bulls is always advisable.

Support and resistance Levels:

Contract	S-1	S- 2	R- 1	R - 2
COMEX Feb'06	498.7	505.1	523.0	530.6
NCDEX January'06	7481	7350	7721	7826

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 has made bullish crossover with its signal line and moving upward in the positive territory, indicating medium term bullishness in the prices. %K line has made bearish crossover with %D line indicating possible correction in the prices. Close above 9 days and 18 days EMA indicates the market is still bullish in the medium term. Candlesticks are showing some slowing down in the upward pace. The indicators are showing bullishness to continue in the medium term, however, some short correction in the prices in short run is expected.

Recommendation: : The white metal is still looking in medium term positive trend, but; correction in the prices during the earlier part of the week is expected. One should plan to enter the market on dips. However, caution at these high levels on the part of bulls is always advisable.

Support and resistance Levels

Contract	S-1	S- 2	R- 1	R - 2
NCDEX January	12810	12634	12258	12329

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