

## PRECIOUS METALS (GOLD & SILVER)

Feb 13Feb18, 2006

### MAJOR ACTIVITY HIGHLIGHTS

- Warming crude prices on concerns of terrorist attack in the 8<sup>th</sup> largest producer country- Nigeria and inflation concerns underpinned the metal prices on the last trading day of the week. Gold for April delivery recovered the initial losses of the week and closed at almost no change levels at \$554.6 per ounce. March gold at NCDEX also showed similar movements and ended the week with marginal gains of Rs 11 (0.13%) at Rs 8011.
- Silver recovered most of the initial losses towards the end of the week at both domestic markets. March silver at NYMEX contract added mere 4 cents (0.42%) for the week after trading in the range of 905.5-950.5 cents per ounce. March silver at NCDEX also climbed towards the end of the week recovering most of the initial losses. The contract traded in the range of Rs 13245-13440 before closing the week at a loss of Rs 31 (0.23%) at Rs 13440.
- The greenback slipped initially and then recovered towards the end of the week against its major counterparts. Euro slipped from \$1.1903 to \$1.19535 during first half of the week and then recovered towards the end to close the week with some marginal gains of 0.3% at \$1.19385. However, dollar closed the week at marginal gains of 0.16% against Yen at 117.04 Yen per \$ after weakness during first half of the week.
- The crude prices slipped during earlier part of the week, but then recovered slightly on Nigeria issue towards the end. Crude for March delivery at NYMEX closed the week at loss of 1.67% at \$59.88 after seeing the lows of \$57.55.
- U.S. consumer sentiment eased in February, the University of Michigan sentiment index fell to 87.4 in February from 91.2 in January. Economists were expecting it around 91. The current conditions index fell to 107.7 from 110.3, while the expectations index dropped to 74.4 from 78.9.
- U.S. PPI recorded biggest gains in January, with price increases for cars, trucks, electricity and drugs leading the way. The producer price index increased 0.3% in January, while core prices rose 0.4%. The economists were expecting 0.2% gains in both the headline PPI and in the core PPI.
- Japanese economy grew at a faster-than-expected 1.4% in the fourth quarter, an annualized rate of 5.5%, fueled by robust corporate spending and housing investment. But the gross domestic product deflator, a key gauge of the level of deflation, declined 1.6%, the 31st consecutive quarterly decline.
- Manufacturing activity in the New York area held steady in February. The New York Bank's Empire State Manufacturing Index rose to 20.3 in February from 20.1 in January. Readings over zero indicate expansion. The pace of growth in February matches the average of the past several months.
- The U.S. capital flows fell to \$56.6 billion in December after hitting a revised \$91.6 billion in November. The private investors bought \$12.7 billion of Treasuries in December, down from \$50.8 billion in November. Official institutions bought \$5.6 billion of Treasury bonds and notes in December, up from \$3.7 billion in November.
- Prices of goods imported into the United States rose by 1.3% in January as the price of imported petroleum rose 6.4% economists expected import prices to rise 1.0% in January after December's 0.1% decline.
- U.S. jobless claims rose by 19,000 to 297,000 in the week ending Feb. 11, The four-week average of seasonally adjusted new claims rose by 6,250 to 283,000.
- New construction of U.S. homes soared 14.5% in January to a seasonally adjusted annual rate of 2.276 million, the highest rate for seasonally adjusted starts since March 1973.

### PRICES

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

Date	Delhi	London
13February 2006	13444	926
14February 2006	13433	922
15February 2006	13439	932
16February 2006	13428	920
17February 2006	13486	946
18February 2006	13518	....

Silver Futures (Rs/Kg)

Date	NCDEX -SILVER (March. Contract)	COMEX -SILVER (March. Contract)
13February 2006	13301	542.1
14February 2006	13367	548.9
15February 2006	13273	542.7
16February 2006	13364	548.8
17February 2006	13428	554.6
18February 2006	13440	...

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

Date	Mumbai	London (am fix)	London (pm fix)
13February 2006	7942	546.60	549.30
14February 2006	7854	540.50	539.70
15February 2006	7902	544.30	540.50
16February 2006	7860	540.65	538.75
17February 2006	7951	545.75	551.70
18February 2006	8022	...	.....

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

Date	COMEX -GOLD ( April. Contract)	NCDEX-GOLD (March. Contract )
13February 2006	911.8	7880
14February 2006	931.5	7933
15February 2006	921.5	7843
16February 2006	937.0	7916
17February 2006	942.0	8007
18February 2006	....	8011

**SUPPLY AND DEMAND STATISTICS of GOLD (LATEST)**

Supply and Demand with Old Gold (2003-2005)												
Particulars	2003	2004	% Change 2004vs03	Q1'04	Q2'Q4	Q3'04	Q1'05	Q2'05	% Change			
									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 recovered the initial losses of the week towards the end on some warmth in crude prices and inflation concerns. The metal showed volatile movements on mixed sentiments due to falling crude and strong economic data. It ended the week on a firm note recovering initial losses. Gold slipped initially on a greasy path created by falling crude prices but then recovered towards the end on some warmth in energy prices and inflation concerns. The white metal also recovered initial losses following gold. As the 21-day public comment period has ended at the Securities and Exchange Commission (SEC) regarding Barclays' proposed silver ETF, iShares Silver Trust, but investors continue to wait for any indication of further progress. In the absence of any progress on the issue the metal is following gold traditionally.

The easing crude prices were seen during the earlier part of the week on piling stock position of crude oil. Crude for

March delivery slipped to the lows of \$57.55 and then some recovery towards the end of the week was seen as Nigeria issue underpinned the price. The contract closed the week at loss of 1.67% at \$59.88. The tensions in Nigeria, the 8<sup>th</sup> largest exporter of oil, is continuing, as Nigerian militants threatened a new round of attacks against oil facilities as the government tried to contact them to negotiate the release of nine foreign hostage. Further, a cut in oil production is likely at OPEC's meeting next month as over-supply may reach 2 mln bpd in the second quarter, according to the Kuwaiti energy minister. All these points towards the higher energy prices in the coming week, however, good stock position in crude oil is there to limit the gains .

The greenback saw volatile movements this week and remained weak during the earlier part of the week, on some

weaker economical data, before recovering towards the end on inflationary data, which suggested further hike in interest rates. The U.S. core PPI rose sharply by 0.4% in January, which raised the concerns over inflation and now expectations have increased that the Fed will increase interest rates. On the same line dollar improved towards the end of the week. However, the PPI is not the main inflation gauge that Fed officials watch; they prefer to watch CPI, which will be released on Wednesday. So, the eyes will be on the data for the direction of Buck.

Fluctuating dollar on mixed data and swinging crude prices lent volatility to the metal this week. Gold for April delivery recovered the initial losses of the week and closed at almost no change levels at \$554.6 per ounce. March gold at NCDEX also showed similar movements and ended the week with marginal gains of Rs 11 (0.13%) at Rs 8011. Silver recovered most of the initial losses towards the end of the week at both domestic markets. March silver at NYMEX contract added mere 4 cents (0.42%) for the week

after trading in the range of 905.5-950.5 cents per ounce. March silver at NCDEX also climbed towards the end of the week recovering most of the initial losses. The contract traded in the range of Rs 13245-13440 before closing the week at a loss of Rs 31 (0.23%) at Rs 13440.

As it looks the crude prices might see some warmth on the supply concerns due to tensions in Nigeria and production cut by OPEC, the same might translate into firmness into the yellow metal. Germany is not expected to sell its gold reserves and probably there won't be any pressure from supply concerns. However, the greenback might see some mixed sentiments depending upon the CPI data and socioeconomic factors. This would make gold slightly volatile. Further, physical buying has still not revived and calls for further consolidation, as the recent one was not enough to attract physical buyer. The short-term factors are mixed with negative bias, but long-term fundamentals point upwards strongly. Silver investors are waiting for any development in the ETF issue and till then it is likely to follow gold.

**Commodity: GOLD**

**Contract: COMEX April Contract (GCJ06)**

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



#### Technical Analysis:

MACD has turned flat in the positive zone and is indicating bearishness in the prices to continue. %K line has made bullish crossover with %D line, indicating possibility of bullish reversal in the trend. But left hand crossover is making the signal weaker. Close above 9 days EMA and below 18 days EMA favors bulls in short term. Indicators are showing mixed sentiments with bullish bias.

**Recommendation:** The bearish trend has still not reversed and prices are expected to remain volatile during the week. Buy on major dips.

#### Support and resistance Levels:

Contract	S-1	S-2	R-1	R-2
COMEX April'06	537	531	558.9	564.9
NCDEX March'06	7911	7879	8130	8186

Commodity: SILVER  
Contract: NCDEX March Contract  
Periodicity: Weekly



### Technical Analysis

MACD has turned flat in the negative zone and is about to make bullish crossover with its signal line, bullish signal is still awaited. %K line has made bullish crossover with %D line, indicating possibility of bullish reversal in the trend. But left hand crossover is making the signal weaker. Close above 9 days EMA and 18 days EMA favors bulls. Indicators are showing mixed sentiments with bullish bias.

The silver prices are expected to remain volatile during the week.

**Recommendation:** One should wait for reversal in this short-term bearish trend to taking long position. Buy on dips

### Support and resistance Levels

Contract	S-1	S-2	R-1	R-2
NCDEX February'06	13378	13299	13565	13642

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