Bullion Weekly

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Bullish

- The impact of competitive devaluation
- Equities look set for a correction
- Bargain hunters

Bearish

- Central bank support for the dollar
- Optimism for economic recovery
- Limited physical demand

Outlook

Short Term	Build a base	$925/35
Medium Term	Move up to tackle highs at	$1,006
Long Term	Set new highs above	$1,050

Last Week:

- Markets as a whole have been quite choppy and trading has been largely directionless as traders fluctuated between pro-risk and risk-averse on a busy line-up of economic data as well as the US Federal Reserve's rate decision and, perhaps more importantly, the accompanying statement. Despite being relatively upbeat, suggesting the rate of economic decline was slowing and consumer spending was stabilising, markets remained subdued as the Fed's comments on inflation dented confidence.
- Reflecting the rather listless tone in most markets, the Dow Jones Industrial Average declined 1.2% across the week while the Dollar Index posted a small loss of 0.5%, closing below 80. The Reuters-Jefferies CRB Index was down 0.6% week on week, as was crude oil.
- For gold and silver, the dollar again influenced market direction, although the correlation between gold and the EUR/USD cross eased somewhat to 0.64 from 0.92 in the previous week. Yet despite the relatively choppy trade, neither metal strayed particularly far from recent ranges, with gold posting a low on Tuesday of $913.25 and a high on Friday of $948.50, while spot silver traded between $13.65 and $14.25.

The Week in Numbers NYSE-Liffe

Gold Aug	Mon 22	Tue 23	Wed 24	Thu 25	Fri 26	Week*
High	934.80	927.40	944.50	940.60	949.10	949.10
Low	918.10	913.20	922.80	930.90	936.70	913.20
Close	921.00	924.50	934.60	939.50	940.70	19.70
Silver Jul						
High	14.085	13.874	14.104	14.032	14.299	14.299
Low	13.675	13.613	13.767	13.817	14.041	13.613
Close	13.710	13.860	13.900	13.985	14.100	0.390

* week's high, week's low & change on week

The Week Ahead:

The bullion markets continue to track the dollar inversely; the US currency remains the primary driver in this market. The US markets are closed on Friday for the July 4 holiday and, with the end of month, quarter and half year on Tuesday, we could see some last-minute window-dressing from fund managers. Beyond Tuesday, trading could then turn quiet as few probably want to take large positions into the holiday weekend.

The dollar received both short-term support and criticism last week from the People's Bank of China governor Xiaochuan Zhou. But the release of a spate of economic data, especially on Thursday when the US employment report is released, is likely to lead to further choppy trading conditions.

Last week's record US Treasury sales saw increased foreign demand, which was a vote of confidence for US Treasuries. If this continues, it could further dampen investment demand for bullion in the coming weeks.

But gold is at an interesting juncture. Massive government attempts to reflate the global economy are potentially inflationary but at present there is little sign of inflation and, indeed, deflation is still a threat.

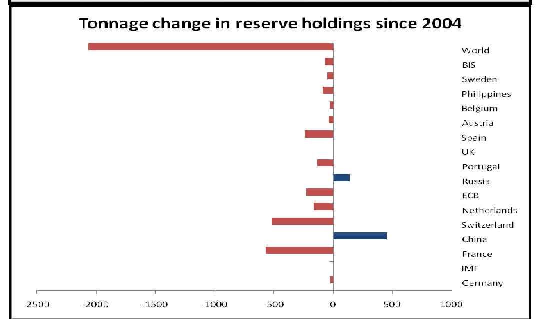
As such, gold could pull back but in the back of many minds is the fear that the dollar and other hard currencies are undergoing competitive devaluation, which is potentially very bullish for gold. If gold has now established a base, it could be getting ready to rally again.

Date	Economic Agenda	Expected	Previous
Tuesday 30th June	US Chicagon PMI	38.9	34.9
	US Consumer Confidence	55.4	54.9
Wednesday 1st July	Japan Tankan Manufacturing	-43	-58
	US Construction Spending	-0.5%	0.80%
	US Pending Home Sales	0.70%	6.70%
	US Crude Oil Inventories	-1.6M	-3.8M
	US Total Vehicle Sales	9.8M	9.9M
Thursday 2nd July	EU PPI	0.10%	-0.1%
	ECB Interest Rates	1%	1%
	US Jobless Claims	612K	627K
	US Non Farm Payrolls	-345K	-345K
	US Unemployment Rate	9.60%	9.65
Friday 3rd July	EU Retail Sales	-0.1%	0.20%
	US Holiday		

Focus –

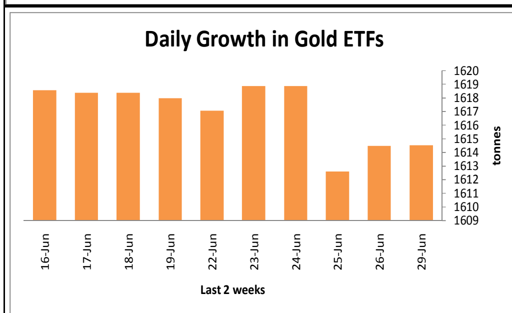
China has been making fresh ripples over the past few days amid renewed comments and speculation over the nation's huge reserve assets, estimated to exceed $1.6 trillion and by far the largest overseas holding of US debt. China carries a lot of clout, particularly given repeated calls for the reform of the international currency system. A report last Friday reiterated a proposal by PBOC governor Xiaochuan Zhou in March to use Special Drawing Rights, the synthetic currency developed by the IMF, as a super-sovereign reserve currency. While Xiaochuan has quashed speculation of an immediate dollar exodus, saying China will stick with its current foreign-reserve policy, questions remain over the role of the dollar in reserve portfolios. In contrast, gold could form a larger part of China's reserves following comments last week from Li Lianzhong, a senior researcher with the ruling Communist Party. "Should we buy gold or US Treasuries?" Li asked. "There is no doubt that the dollar will fall. So gold should be a better choice."

While we do not expect China to rush into the market to buy gold – as it has with base metals – we expect the PBOC to absorb more locally produced metal, while the proposed IMF sales would offer a good off-market opportunity for China to buy gold.



Other observations

- ETF holdings declined 3.5 tonnes last week to 1,614.5 tonnes
- Premiums for gold bars dipped to 0.50/oz from $0.70/oz in Singapore
- A slow start to the monsoon may further dampen bullion demand in India this year
- In the first half of 2009, India's gold imports are estimated to have fallen to 60 tonnes, down 57 percent year on year



Technical Analysis - Gold

The metal closed last week forming a spinning bottom formation, which could be part of a reversal pattern or simply evidence of indecision in the market. We can see that, as last week, the metal is under pressure from the 5-week moving average [WMA] at [$942]. The 20 WMA is currently lending support [$930]. The stochastics look fairly neutral at the moment and this supports the belief that there is general indecision in the marketplace. Overall, we are neutral on the metal in the short term but we would get bullish again if it can break and close above $950; conversely, if gold closes under $925, we shall join the bears.

Technical Analysis – Silver

Silver closed last week forming a long-legged Doji, a good indication of indecision. The metal currently has support from the 20 WMA at $13.72 and resistance from the 5 WMA at $14.50. Both of these levels are near important Fibonacci levels for the metal [38.2% at $14.50, 50% at $14.05 and 61.8% at $13.66]. Therefore, to confirm the existence of a new trend or the continuation of the prior correction, silver will need to break above $14.60 or below $13.66. The stochastics are currently trending lower. With this in mind, we are neutral to bearish on the metal in the short term and expect choppier trading this week.

Conclusion – Bullion prices have been choppy in recent days and this has muddied the near-term outlook. The big-picture outlook remain bullish but with equities showing strength there is quite an opportunity cost associated with holding gold. Conversely, in these uncertain times and with the dollar and other hard currencies undergoing competitive devaluation, it is easy to envisage continuing strong demand for gold and silver. We do not rule out further attempts to retest underlying support in the short term but overall we think dips and up trend lines will be well supported and lead to stronger prices.

Trader Talk:

"With a ballooning US budget deficit there is an argument for higher gold prices in the medium term…"
Frédéric Lasserre, Société Générale SA

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