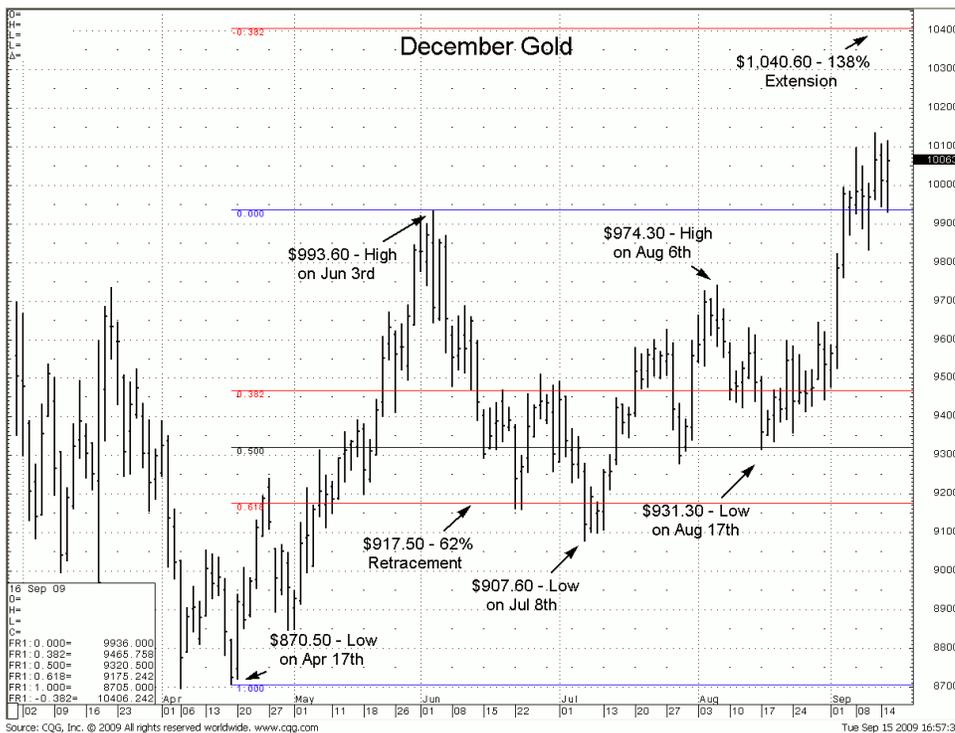


**Price Outlook/Trade Recommendations**

Precious metals are expected to hold in a mixed-to-higher trading range over the near-term. Our bias isn't 100% solid at this point, since fundamentals are still generally negative and the market is overbought. However, prices should make gradual improvements on recent trading ranges due to ongoing expectations for higher inflation down the road and due to potential weakness in the dollar. Our preferred trade would be to take advantage of possible near-term failure near \$1,000/oz and to buy breaks near \$965-\$975/oz.



**Perspective**

As we wrote in yesterday's report, we believe that the main source of support in the near-term will be potential for weakness in the dollar caused by economic and political issues. We believe that mixed messages sent by the current administration on trade and rewards for risk as well as an aggressive tone toward Wall Street will offer long-term pressure on the dollar and therefore support for metals prices. We would add in today's report some of the positive aspects of Monday's GFMS update to its 2009 Gold Survey, which we also summarize in the analysis section below. GFMS said that prices could run out of steam in the near-term after the market's recent run-up, but that the market could eventually rebound as high as \$1,100/oz over the next six months. Support

would come from a weaker dollar amid risk appetite in equity markets, but potentially also from risk aversion if equities reversed lower after the current rally runs out of steam. Such an end to the equity rally could be seen from Fed Bernanke's comments yesterday as well as those from multiple other Fed members recently that economic growth will be moderate at best. Such an argument would be based on precious metals becoming a favorite for fresh investment once again. Some investment has already been seen, with CFTC non-commercials gaining 40,175 contracts in old in Friday's update to reach a new record.

Positive sentiments will be countered by moderately negative fundamentals. India's monsoon rainfalls are nearly 20% below normal, according to the country's farm ministry. An article in this week's Economist details the plight of individual farmers in both paying off debts and dowries in the event of a poor crop this year. Gold demand during the upcoming festival season may suffer as a result. Turkey reported gold jewelry exports down 32.7% to 33.0 tonnes on a y-t-d basis in Aug, indicating potentially weak Indian demand. Officials from Italy's Vicenza Jewelry Fair revealed expectations for a 20% decline in 2009 sales, along with poor expectations for 2010 sales as well.

**Trade:** Buy GCZ9 at \$965.00, target \$1,100, risk \$940.00

### Upcoming Metals/Dollar Events

Wed - U.S. CPI  
 Wed - U.S. TICS Data  
 Wed - U.S. Industrial Production  
 Thu - U.S. Housing Starts  
 Thu - Philadelphia Fed Index  
 Tue - FOMC announcement  
 Sep 26-29 - India's Durga Puja  
 Sep 27th - German Election  
 Sep 28th - India's Dussehra  
 Oct 15th - India's Dhanteras  
 Oct 17th - India's Diwali/Deepavali

U.S. ETF Holdings	SPDR Gold Shares ETF Holdings	Barclays Gold ETF Trust Holdings	Barclays Silver ETF Trust Holdings
As of 9/14/09	34,686,124 oz	2,400,677	280,553,742 oz
As of 9/11/09	34,646,882 oz	2,400,677	280,553,742 oz
Inception	11/18/04 - 260,000 oz	1/28/05 - 34,997	4/28/09 - 20,999,768 oz
Max Size As Amended			320,000,000 oz

	Lease Rates (as of 8/28/09)			Previously (as of 8/21/09)		
	Gold	Silver	Platinum	Gold	Silver	Platinum
1 month	-0.05%	-0.20%	-0.05%	-0.05%	-0.20%	-0.05%
3 month	0.00%	-0.15%	0.05%	0.00%	-0.15%	0.10%
6 month	0.35%	0.25%	0.55%	0.30%	0.25%	0.60%
1 year	0.70%	0.70%	1.25%	0.70%	0.75%	1.25%

## Global Economic & Dollar News

The dollar index traded +0.30 at the metals' open and -0.10 at their close. The dollar traded heavy throughout the NY session yesterday after the stock market began to advance. Some dollar support was seen after stronger retail sales, but it was unable to maintain the gains. The sterling fell after BOE's King hinted at cutting bank remuneration rates.

- **RBA Meeting Minutes** showed that the Australian economy was stronger than earlier forecast.
- **The PBoC** said that it will be cautious in promoting the yuan as an international currency.
- **Germany's ZEW Economic Sentiment** was 57.7 vs. 60.0 expected and vs. 56.1 previously. A ZEW economist said that he doesn't see a risk of a double dip recession and that there's no need for further ECB actions.
- **BOE's King** said it would be "sensible" to cut the rate at which banks reserves are remunerated. The statement essentially would provide a disincentive for banks to hoard cash and encourage them to lend.
- **U.S. Retail Sales** were +2.7% vs. +2.0% expected and vs. -0.1% previously. Sales ex-autos were +1.1% vs. +0.4% expected and vs. -0.6% previously. Motor vehicle sales rose 10.6%.
- **U.S. PPI** was +1.7% vs. +0.8% expected and vs. -0.9% previously. Core PPI was +0.2% vs. +0.1% expected and vs. -0.1% previously.
- **Fed's Bernanke** said that "the recession is very likely over at this point." He also countered by saying that growth is likely to be quite moderate and therefore it's unlikely that momentum will build in a way to generate a quick drop in the unemployment rate.

## Precious Metals News Stories

- **India's Sensex Index** was +1.5%, China +0.2%, and Japan +0.2%.
- **India's Gold Jewelry Exports** rose 40% y/y in Aug to \$545.3M.
- **Turkey's Gold Jewelry Exports** fell 37.75% y/y in Aug to 4.18 MT. On a ytd basis, exports are -32.68% to 32.969 tonnes from 48.977 previously.
- **SPDR Gold ETF Holdings** rose 39,242 ounces on Monday evening, or about 1.2 tonnes.

## Copper News Stories

- **Copper Stocks** on the LME were +2,750 MT yesterday.

## Analysis

### GFMS 2009 Gold Survey Update

On Monday, GFMS updated its 2009 Gold Survey, which was initially released in early April. The survey provides in-depth analysis of supply and demand trends that are similar to those provided by the World Gold Council every quarter. For our needs, the survey presented a debate on price potential in the gold market over the next six months, and drew a somewhat bullish conclusion which we generally agree with. It said that near-term prices are likely to correct after their recent run higher, but could rebound as high as \$1,100/oz in the next six months. GFMS presented two scenarios, which we summarize below.

The first scenario was a bearish one that viewed the early-Sep rally as a last gasp of a bull market that was “long-in-the-tooth.” Prices could fall toward \$800/oz within a few months under such a scenario, with disinflation offering a key source of pressure. Selling could be reinforced by an economic recovery that will be difficult and drawn out, with focus shifting back toward the risk of deflation. A resulting price drop in gold would stimulate jewelry demand, and “mop up” additional supplies coming from investors exiting the market. Jewelry demand may not be strong though, as likely risk aversion would drive up the dollar and therefore local gold prices in major consuming nations.

The alternative view is a positive one which MFGR agrees with, and suggests that prices could correct before eventually rebounding as high as \$1,100/oz over the next six months. Lifting prices above \$1,000/oz would be a return of investment driven by an upsurge in inflationary expectations coupled with a fall in the dollar. Scrap supplies hampered gold’s strength during Q1 ’09, but GFMS doesn’t see as much scrap readily available as in Q1. Support could also come from the official sector’s switch to the demand side, at least until the IMF sales begin. GFMS did address the lack of investment inflows since the end of Q1 and generally expects declines to continue over the next few months. A resurgence in investment could occur, however, when optimism in the equity market is dented and causes fear-based buying to return to the gold market.

Other notes from the report worth considering were comments on producer de-hedging and official sector sales. Over the last decade, de-hedging has acted as a demand input on the supply/demand balance table, as prior forward sales were unwound through offsetting purchases. De-hedging totaled 31 tonnes in 1H ’09, according to GFMS, implying that 31 tonnes of gold were bought. De-hedging was countered by an offsetting 38 tonnes in official sector sales, but both categories have been diminishing from 400+ tonnes per year just a few years ago. It’s therefore slightly tougher to make a bullish case for gold due to fewer official sector sales while at the same time, short-covering through de-hedging is diminishing.

### **Geopolitical Tensions/Developments**

**Afghanistan:** U.S. Joint Chiefs Chairman Mullen said that the U.S. will probably need more troops in Afghanistan.

**Iran:** The WSJ reported yesterday that Pres Obama may “events are fast pushing Israel toward a pre-emptive military strike on Iran's nuclear facilities, probably by next spring.”

**Nigeria:** A Nigerian presidential adviser said that 6,000 gunmen have accepted the Niger Delta amnesty plan and is confident that key rebel leaders will follow.