Global Macro Research | US
TOM PAWLICKI
tpawlicki@mfglobal.com

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MF Global Daily Report

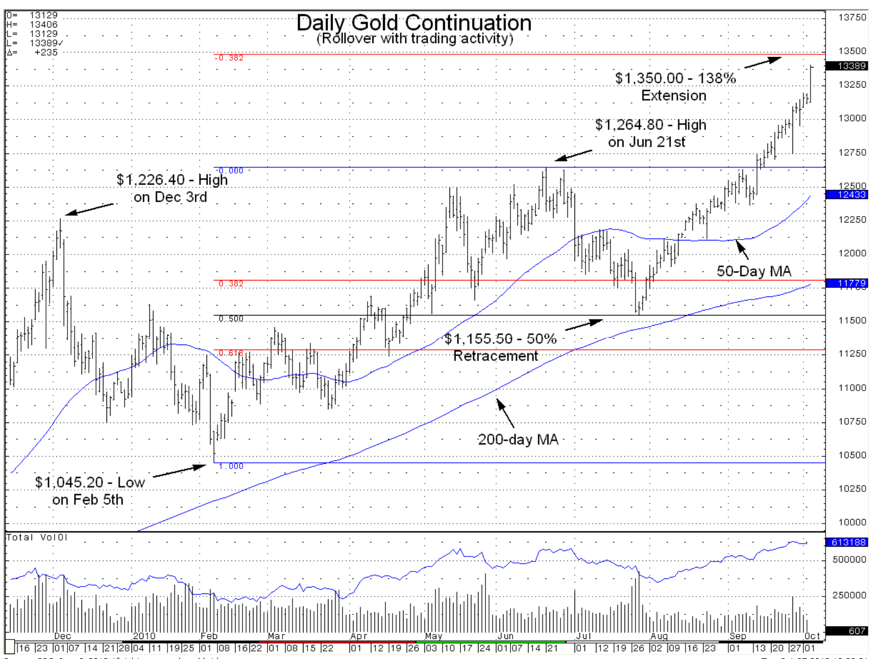
COMMODITIES | PRECIOUS METALS

Precious Metals

MF Global
440 S. LaSalle
Chicago, IL 60605

Price Outlook

The gold market is likely to maintain its upward trend, as evidence is building that a super-spike is being made. The next upside resistance is at $1,350.00 from a Fibonacci extension. Support will continue to come from fear that monetary authorities are attempting to weaken their currencies, miner hedge unwinds, and the likelihood that central banks buy additional amounts of gold. These factors could keep the market on an upward path beyond the $1,350 level. Potential risk comes from the slightly downward trend in open interest, especially as prices test the $1,350 level. We favor continuing to trade the market as a positive affair up to $1,350.



Yesterday's trade in gold and silver rallied sharply higher on continued worry over currency valuations. The BOJ cut rates and announced a ¥5T asset fund to inject capital into the economy. Further pressure on currencies was also caused by the RBA, which left rates unchanged despite expectations for a hike. The fresh weakness in currencies was added to by the Fed's ongoing desire to implement additional QE at its next meeting on Nov 3rd, and is raising fears in the gold market of competitive devaluation. We think it's unlikely that the Fed will make any additional indications prior to that Nov 3rd date for fear that they may influence the mid-term elections on Nov 2nd. Such lack of comment may keep the gold market buoyed until then. The magnitude of broad-based currency weakness has raised the fear of competitive devaluation by gold traders, who continue to see gold as the alternative currency.

While competitive devaluation may be positive for gold prices, the opposite isn't always necessarily negative. Following initial weakness in the yen and Australian dollar yesterday, both currencies later recovered, but were unable to cause gold prices to reverse lower. Gold's upward trend was also maintained throughout the session even though there were stronger PMI numbers in the Eurozone, UK, and U.S. Those favorable figures boosted global stock markets, which also failed to pressure gold, even though no safe-haven instrument was needed. The lack of safe-haven need was acknowledged by the bond market, which closed 7/32 lower in the 30-year futures. It may also indicate that gold is dragging in the late-comers, as even bad news doesn't push prices lower. A risk to the rally could come from a change in Fed opinion away from quantitative ease. Ex-Clinton advisor Stiglitz said yesterday that the Fed's actions have done nothing for the U.S. economy and are bringing chaos to the rest of the world. MFGR would agree, as just the expectation of QE has boosted commodity prices. We think that commodities could continue rising until Fed policy is normalized. Another indication that the smart money may be ready to exit is the trend in open interest, which is -6,220 contracts since peaking on Sep 28th. The latest COT data showed that there were 13,636 new longs added in gold through the w/e Sep 28th, but the open interest data is more current and implies that caution needs to be taken in this market. That may be especially important as prices advance toward $1,350 Fibonacci resistance.

TRADE: Buy GCZ0 at $1,290, target $1,350, risk $1,275

Upcoming Metals/Dollar Events

Sep 24th-Oct 6th - Indian inauspicious period to pay homage to ancestors
Wed - German Industrial Orders
Wed - Challenger Layoffs
Wed - ADP Payrolls
Fri - Non-Farm Payrolls
Oct 14-16 - India's Durga Puja
Oct 17th - India's Dussehra
Nov 2nd-3rd - FOMC Meeting
Nov 3rd - India's Dhanteras
Nov 5th - India's Diwali/Deepavali
Dec 14th - FOMC Meeting

Global Economic & Dollar News

The dollar index traded -0.44 at the metals' open and -0.62 at their close. The dollar fell after Moody's said that it may upgrade the rating on Greece's debt, and after the Eurozone services PMI was better-than-expected. The strength in the euro countered weakness in most other currencies which continued to fuel strength in the gold market. The dollar hardly reacted to the better U.S. PMI figure.

- **The BOJ** cut interest rates to 0.00%-0.10%. It also plans a ¥5T asset fund. Gold may see it as an attempt to weaken a currency.
- **The RBA** left rates unchanged despite expectations for a hike. The move created weakness in AUD.
- **Eurozone Services PMI** was 54.1 vs. 53.6 expected and vs. 55.9 previously.
- **Moody's May Downgrade** Ireland's debt, while they may raise the rating on Greece's debt.
- **ECB's Ordonez** said that markets overacted to Spain in the early days of crisis.
- **UK CIPS Services PMI** was 52.8 vs. 51.0 expected and vs. 51.3 previously.
- **Brazil Doubled** the foreign investment tax to 4% from 2%, only for fixed income investments to cool strong demand.
- **The U.S. ISM Non-MFG PMI** was 53.2 vs. 52.0 expected and vs. 51.5 previously.
- **Fed's Bernanke** said that there's little room to cut the federal deficit over the next year or two due to the economy. Said that the budget is on an unsustainable path over the medium-long term.
- **Pimco's Rodosky** said that the best day in treasuries is "probably behind us." Said that Pimco stopped buying treasuries in July.
- **Joseph Stiglitz** said that the Fed's ultra-loose monetary policy is doing nothing for the American economy, but is causing chaos over the rest of the world.

Precious Metals News Stories

- **Harmony & Anglogold** reported two mine worker deaths in recent days in separate incidents.
- **iShares Silver ETF Holdings** were -115,549 ounces in Monday's update.
- **SPDR Gold ETF Holdings** were -13,889 ounces in Monday's update.

Copper/Industrial Metals News Stories

- **LME Copper Inventories** were -350 MT in yesterday's update.

U.S. ETF Holdings

	SPDR Gold Shares ETF Holdings	iShares Gold ETF Trust Holdings	iShares Silver ETF Trust Holdings
As of 10/4/10	41,857,792 oz	3,205,589	314,526,768 oz
As of 10/1/10	41,871,691 oz	3,206,210	314,642,317 oz
Inception	11/18/04 - 260,000 oz	1/28/05 - 34,997	4/28/06 - 20,999,768 oz

Lease Rates

	As of 9/17/10			Previously (as of 9/3/10)		
	Gold	Silver	Platinum	Gold	Silver	Platinum
1 month	-0.14%	-0.35%	0.15%	-0.08%	-0.35%	0.15%
3 month	-0.15%	-0.30%	0.20%	-0.08%	-0.30%	0.20%
6 month	0.00%	-0.12%	0.37%	0.06%	-0.11%	0.40%
1 year	0.28%	0.19%	0.90%	0.35%	0.20%	0.95%