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MF Global Daily Report

COMMODITIES | PRECIOUS METALS

Precious Metals

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Price Outlook

Gold prices are expected to maintain their short-term uptrend and approach resistance at the \$1,705 level over the next few days. Support will come from technical factors, favorable COT data reported last Friday, and from the potential that Friday's CPI data in China allow the gov't to ease policy next year. The downside will look to the day-to-day developments in the Eurozone, lingering doubts about final plans for the euro, and the possibility that a correction in an overbought stock market pressures gold. We favor maintaining our bias to trade precious metals as positive affairs in the near-term.



Gold closed -\$6.40 yesterday while silver finished -35.20c. Both markets traded higher in the overnight hours, but began falling shortly before the U.S. session's opening on comments made by a spokesman for German Chancellor Merkel who warned that the plan for EFSF and bailouts may not "fulfill dreams" or solve everything. That caused the euro to fall and for the dollar to benefit from safe-haven inflows. Gold failed to benefit from safe-haven, in our opinion, because there hasn't been many inflows of investment to gold. ETF holdings have been fairly stagnant, while the CFTC data has shown only small buying by non-commercials. We believe that the completion of selling by non-commercials in Aug-Sep is worthy of stopping the downtrend but isn't strong enough just yet to push gold prices much above \$1,705. The on-again/off-again nature of the trade in Europe makes the uptrend much more tedious and subject to volatility. Additional pressure may be offered today by the stock market, which is overbought technically and testing resistance levels. Nasdaq futures broke 46.25 points lower yesterday only one day after the market broke out to a new 2 1/2 month high. The pattern is the inverse of the bottom made in oil two weeks ago and could be bearish in the near-term for both the Nasdaq and gold. S&Ps failed after testing the Aug 31st high at 1229.50.

Upside potential may rest in the Chinese GDP and CPI numbers. GDP is due today at 9.2% compared to 9.5% previously. CPI was out last week and fell to 6.1% from 6.2%. While the changes in the numbers seem small, they

may be evidence of a slowdown in the economy. Such a slowdown could benefit gold prices if it leads to easier monetary policy down the road or cuts in interest rates by the PBoC.

TRADE: None

Upcoming Metals/Dollar Events

Tue - Chinese GDP
 Tue - German ZEW Index
 Tue - U.S. PPI, NAHB Housing Index
 Wed - U.S. CPI, Housing Starts
 Thu - U.S. New Home Sales, Philadelphia Fed
 Fri - German IFO Business Climate
 Oct 25th - Greek €1.05B Coupon Payment
 Oct 31st - ECB Trichet's last day
 Nov 1-2 - FOMC Meeting, Bernanke Press Conference
 Nov 3rd - ECB Meeting (Draghi's first)
 Nov 3-4 - G20 Summit in Cannes France
 Nov 7-8 - Eurogroup FinMin meetings
 Nov 9th - Dollar Liquidity Operation
 Nov 29-30 - Eurogroup FinMin meetings
 Dec 7th - Dollar Liquidity Operation

Global Economic & Dollar News

The dollar traded higher yesterday after a spokesman for German Chancellor Merkel warned that markets may be disappointed by the Merkel/Sarkozy package failing to "fulfill dreams." Equities traded lower throughout the day yesterday, which created a safe-haven bid in the dollar.

- » **Chinese Steel Prices** fell to a 10-month low and may create expectations of a slowing economy, according to Bloomberg.
- » **G-20 Finance Ministers** added pressure on Europe to develop a debt solution, and gave them one week to develop a solution, with the Oct 23rd summit being the deadline.
- » **German Chancellor Merkel** said through a spokesperson regarding the bailout that "dreams that the package will solve everything won't be fulfilled."
- » **London Times** reported that China may make infrastructure investments in Europe if spending is cut.
- » **The IMF** may be involved in the Nov 3-4 announcement by offering credit lines to Italy and Spain.
- » **ECB's Trichet** called for the EU treaty to be changed to help prevent one member from destabilizing the entire Eurozone.
- » **Empire State Index** was -8.48 vs. -4.00 expected and -8.82 previously. Prices paid were +22.47 vs. 32.61 while employment was +3.37 vs. -5.43.
- » **U.S. Industrial Production** was +0.2% which matched consensus and the previous reading. Capacity utilization was 77.4% vs. 77.5% expected and 77.4% previously.

Precious Metals News Stories

- » **Hong Kong** began quoting gold in yuan on the Chinese Gold and Silver Exchange Society.
- » **Indian ETF Assets** tripled in Sep to INR81.73B.
- » **Chinese Jan-Aug Gold Output** was +3.9% on the year to 226.388 tonnes.
- » **Russian Palladium Exports** are falling and likely to stop completely after 2013, according to a Finance Ministry official. Russia will export 24 metric tons this year, and 4.0-4.5 tons each year in 2012 and 2013. The official added that the finance ministry has been directed by the gov't to buy only gold.

U.S. ETF Holdings

| | SPDR Gold Shares ETF Holdings | iShares Gold ETF Trust Holdings | iShares Silver ETF Trust Holdings |
|----------------|-------------------------------|---------------------------------|-----------------------------------|
| As of 10/14/11 | 39,465,716 oz | 5,263,048 oz | 320,037,237 oz |
| As of 10/13/11 | 39,465,716 oz | 5,263,048 oz | 320,037,237 oz |
| As of 8/1/11 | 40,625,345 oz | 5,035,427 oz | 315,878,920 oz |

