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Week in review: Nov 30-Dec 4

Gold

Gold's rally did not stop on the Dubai news. After a steep drop last Friday the yellow metal brushed its shoulders off and stretched its legs. The metal started the week sluggish as gold sold off in the early part of the morning to an intra day low of $1165, it quickly recovered as oil prices rallied. Gold staged a massive rally as it shot to new highs of $1218 in overnight trading. Traders continued to sell U.S. dollars over the past 12 hours as they begin to lay on positions ahead of Friday's non-farm payrolls report. Expectations for November's report are high with some people on the street even whispering about a positive number. Gold continued its assault higher; in overnight trading it shot to an amazing high of $1226, still on the heels of a weaker USD. What is truly surprising in this bull market is that gold continues to trade higher as the equity markets recover. This equity markets to precious metals relationship is usually an inverse, which has many questioning the real validity of the so called "recovery". Gold ran into some trouble ahead of the US job data as Thursday we saw a decline in the metal as it sold off to $1203, before finally closing at $1217. With the release of the US job data, gold took a nose dive as the results were much better than expected. The drop in the unemployment rate from 10.2 to 10.0 percent suggests that joblessness may have finally peaked.

"The whole market is short US dollar and the number and the revisions were much better than expected," a London trader said. "There is no risk/reward here."

Gold dropped as much as $38 to an intra day low of $1167.10; as profit taking and positive job reports took precedence. We continue to see significant buying on the dips.

Now, the question many people are asking is, "Is this the high in gold?" No matter what, the fundamentals that are currently driving the price of gold higher have not changed. The two main factors that are influencing the yellow metal at the moment are the lack of confidence that investors have regarding the major currencies - especially the US dollar, and the changing attitude of central banks. While we have seen the price of crude oil have an influence on the gold price, recently this relationship doesn't seem to be that important. As the huge bailout packages and massive deficits are not going to disappear overnight, the value of the US dollar is likely to decline even further in the coming months. And, if the central banks continue to buy gold, its price is poised to make new highs.

During the month of November, the Reserve Bank of India snapped up 200 tons of gold offered by the International Monetary Fund (IMF). There was speculation in the market that China would probably buy the remaining 203.3 tons. But, Sri Lanka and Mauritius quickly snatched a few tons on offer and now there is talk that India is negotiating to buy the balance.

Like we have said many times before nothing ever goes straight up, we will always see a correction. Markets must correct as traders are always looking to book profits. The next few months will be critical as we will see if the US economy can sustain those positive job numbers and whether the Fed will consider raising the US interest rates sooner rather than later.

We look for support to now come in at $1167, $1137, $1123. Resistance shows at $1200, $1212 and all time highs at $1226.

Silver

Silver set to soar? With the silver market coming out of its doldrums over the past week there are big plans for it to finally continue its move higher. We saw silver at the beginning of the week sell off to its intra day's lows of $18.12; well it has made quite a recovery. We have seen it rally to July 2008 highs of $19.47 before slipping, see our gold comments for reasons why.

Silver has rose 14% in November and was one of the top performing asset classes. Industrial applications for silver have always been significant, but they have really ramped up over the past few years. Silver is now increasingly being used in cell phones, flat screen TVs, computer monitors and with demand for these items in many households strong, we see the impact it will have on the price of silver to jump.

Silver is undervalued versus gold with the gold silver ratio at 63:1 ($1226/$19.47), the ratio has been trading in such a tight range over that past year; 58-65:1 that it is really hard to make a case for it to diverge away. One thing to remember is that at the height of this recession it was trading at 84:1, we have come a long way. With the ever increasing investment demand such as ETFs and such it is not such a crazy thought to see $54 silver in the coming years. As with gold, there will always be corrections: silver corrections will always be deeper, but the buying is more profound. Look back to last Friday: silver made a low of $17.68, within a few minutes it was back trading above $18. That trend will continue as we look for traders to seek bargain basement buying.

Silver support comes in at $18.40, $18.28, $17.80. We see resistance at $18.92,$19.22, and July 2008 highs of $19.47.

Trading Department - Cache Metals Inc.
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