

GOLD IS AT THE CROSSROADS

The following is an extract from the August 07 Issue of **The Global Speculator** sent to subscribers on the 5th of September 2007.

It has been yet another trying month for precious metals investors with resolve being seriously tested by the fallout from world equity markets. Precious metals shares proved they were not immune to the shakeout falling sharply and in the process snuffing out any chance of an imminent rally. The Gold price itself fared much better managing to hold support and continuing to trade in a fairly tight range within a large consolidation triangle. Whether we breach the resistance or support over the next few weeks/months I think will largely determine what will unfold in the ensuing 3-6 month period. A clean breach of the support now at US\$665 could see more pain and a rather swift move down towards the US\$610 mark. On the other hand a clean break of resistance at around US\$680 could see an end to this lengthy consolidation with a sharp move higher.



XAU



A look at the chart of the XAU for the month of August 07 shows the XAU definitively breaking intermediate term support of a trend line that had been in place since the end of the last consolidation back in 2005. We have since had a rally back through that same trend line at about 140 and it will be interesting to see where we go from here. The XAU/Gold ratio has gone on to beat the previous low I had penciled in for March 07 and hit 0.19 on the 16th of August during what was a wild day. Those of you that follow the XAU/Gold ratio and were hanging out for lower levels (I know there were a few of you), congratulations and I hope you took advantage of the wonderful opportunity to pick up some bargains. Whether the low is now in place is difficult to say. The lower the ratio goes obviously the higher the probabilities are of getting closer to the end of the consolidation period as better value starts to prevail.

XAU GOLD RATIO

Key Dates	XAU/Gold	XAU	XAU Performance	Gold Price	Gold Performance	Net Position
19/11/2001	0.18	49.46		272.90		
28/05/2002	0.27	88.65	79.24%	325.50	19.27%	59.96%
26/07/2002	0.18	55.73	-37.13%	303.30	-6.82%	-30.31%
08/12/2003	0.28	112.21	101.35%	406.60	34.06%	67.29%
13/05/2005	0.19	78.99	-29.61%	420.70	3.47%	-33.07%
31/01/2006	0.27	154.19	95.20%	570.70	35.65%	59.55%
16/08/2007	0.19	125.99	-18.29%	662.25	16.04%	-34.33%
Current (04/09/07)	0.21	145.02	15.10%	682.30	3.01%	12.09%

August the 16th saw the XAU dip as low as 120.41 before closing the day out stronger on 125.99. As mentioned above, this has brought about a new key low in the XAU/Gold ratio of 0.19 which is more in line with previous key low levels. Since then, we have seen the XAU quickly rally back up to 145.02 (Just 1.5 points shy of last month) which is quite typical after a capitulation of the magnitude we experienced. There can be no assurances that the low made on the 16th of August will end up being the key low until we see some more strength in the XAU. Even with the July 07 bullish breakout, we were not able to lock in the previous March 07 low which was frustrating to say the least. The key levels now are the previous support (now resistance) at 140 which we have recently broken over the last couple of trading days and the stubborn resistance at 145. A break of this level would obviously be encouraging and go a long way to repairing the technical damage that occurred in August. With the XAU/Gold ratio having made a recent low of 0.19, I have to remain cautiously bullish about the intermediate term outlook for the precious metals sector.

OUTLOOK

The two short term scenarios as I see it over the coming weeks and months:

Scenario 1: The precious metals shares will continue their rally along with the gold price which will have to play a much more important role given the uncertainty in the general equity markets. This will obviously mean the resistance at US\$680 will be broken (As per the above chart) and gold will have a meaningful rally higher. What optimism that remains still leaves me leaning in this direction.

Scenario 2: The precious metals sector again gets caught up in a broad commodity sell off and/or a panic sell off in the equity market, resulting in the XAU falling all the way down to support at 115 or in a worse case scenario 100. This could more than likely be the scenario if the Fed holds rates steady and disappoints the market (Unlikely). Alternatively a rate cut later this month and the mass liquidity pumping efforts may not be enough to alleviate market fears and the markets come under more selling pressure as the credit squeeze tightens its grip. The gold price theoretically should perform well under this scenario but as we saw in August quite often the baby gets thrown out with the bath water (at least in the short term).

Intermediate Term Outlook:

Over the intermediate term my next target for the XAU is 165-170 (Close to the previous high). After a brief consolidation at this level, we could then see a more extensive rally that takes us to 200-230 over the first half of 2008.

NORTH AMERICAN SILVER INDEX (NASI)



The Silver index like the XAU broke support during August 07 and did so in spectacular fashion. The index is presently hovering around the 6,500 mark and with intermediate term support at 6,400 it should take a breather around the present levels. A look at the relative strength comparative with the silver price interestingly enough shows support more or less holding after a sharp retrace (Not really surprising given the silver price has not held up nearly as strongly as the gold price).

OUTLOOK

The two short term scenarios as I see it over the coming weeks:

Scenario 1: Support at 6,400 will hold over the coming weeks and we will see the Silver Index chop in a range between 6,400 and 7,500. If a rally occurs, the important resistance levels are the 150 day Moving Average at 7,400 and the stubborn resistance that exists in the 7,800 – 8,000 range. I am presently leaning towards this scenario.

Scenario 2: If the gold and silver price were to get caught up in the sharp fall of the other commodity prices and/or a sharp panic sell off in the equity markets, we could see a worse case scenario of a breakdown of the next support line at 6,400 and move down towards longer term support at around 4,500. Whilst this remains a distinct possibility given the present climate of uncertainty, I don't support this scenario at the present time.

Intermediate Term Outlook:

Over the longer term my next target for the NASI is around the 11,000 mark towards the first half of 2008.

CLOSING COMMENTS

The gold price is presently at the cross roads technically speaking with the million dollar question being which way are we going to go from here? Fundamentally everything taking place in this financial world of insanity at the present time is bullish for the price of bullion. Technically speaking the gold equities hit a key low level on the XAU/Gold ratio (0.19) on the 16th of August 07 which has reliably seen the commencement of sustainable rallies shortly thereafter on nearly every occasion to date. As far as bull markets go I think it is pretty safe to say we have seen many despondent participants bucked off and left cowering in the fetal position at this stage. That's what bull markets do and that is why it is imperative that as participants we understand as much as we can about the true nature of the sector and why we are investing in it. Without at least a basic understanding the probability of you becoming yet another statistic is very high. For anyone interested I write a free newsletter on the precious metals market which you can sign up for at the website below.

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