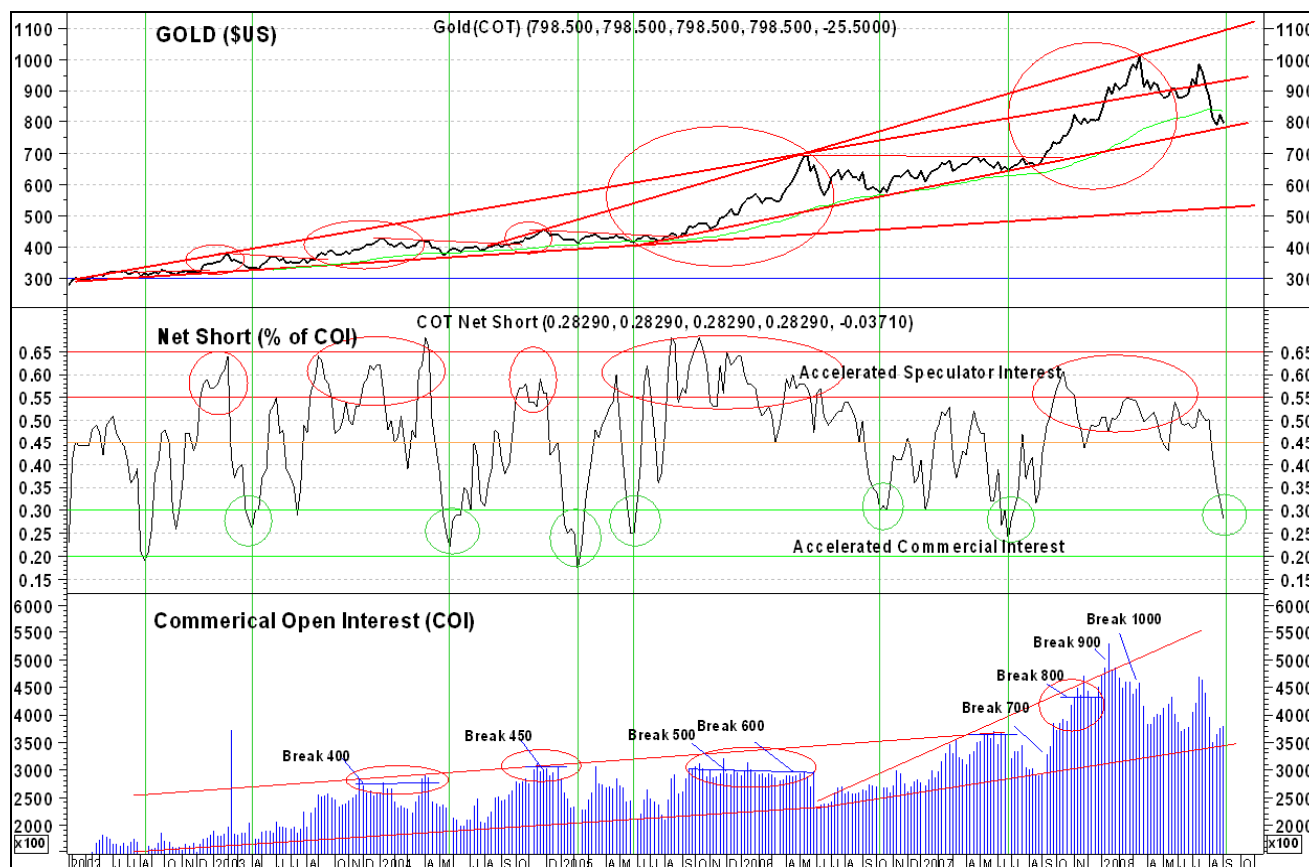


PHYSICAL MARKET SETS THE PRICE

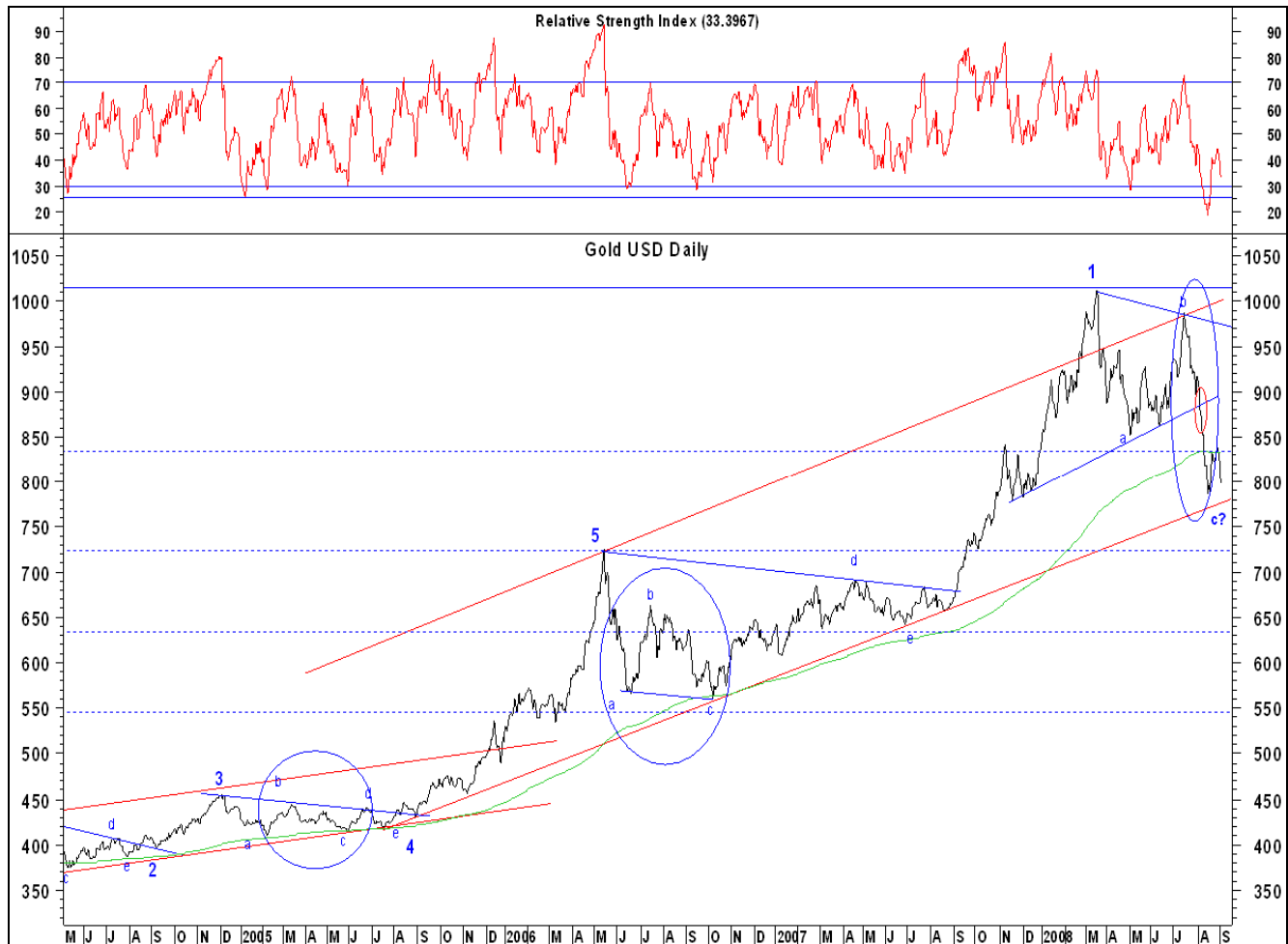
The following is an extract from the August 08 Issue of **The Global Speculator** sent to subscribers on the 8th of September 2008.

Another month has passed by and the precious metals markets continue to fall. Nobody can say with any degree of certainty or confidence just how much longer this is going to last. As many of you are fully aware, the futures markets for gold and silver have wreaked havoc on prices whilst the physical market remains extremely robust for both metals. While the price of both gold and silver is ultimately set by the physical market, prices in the short term can be heavily influenced by activities that occur in the paper market. It's a good opportunity to revisit our Commitment of Traders (COT) report to see where things are placed. When the proportion of Commercial Open Interest (COI) that is short exceeds 45-50%, this coincides with the biggest price movements higher in gold as speculators are largely on the long side of these trades driving prices higher. While this is bullish for gold at the time, it does leave the market vulnerable to potential shake outs where speculators get "bullied" out of their positions. On the plus side, once a large portion of these speculators exit the market this avenue for price correction is largely negated. If we look at the chart below, we can see the net short position for commercials has come right back as they have used lower prices to cover and start going long. This is consistent with previous corrections and very often corresponds with long term support for gold, which at the present time is around US\$780 an ounce (green lines).

Gold COT Report



Gold Wave Analysis Update



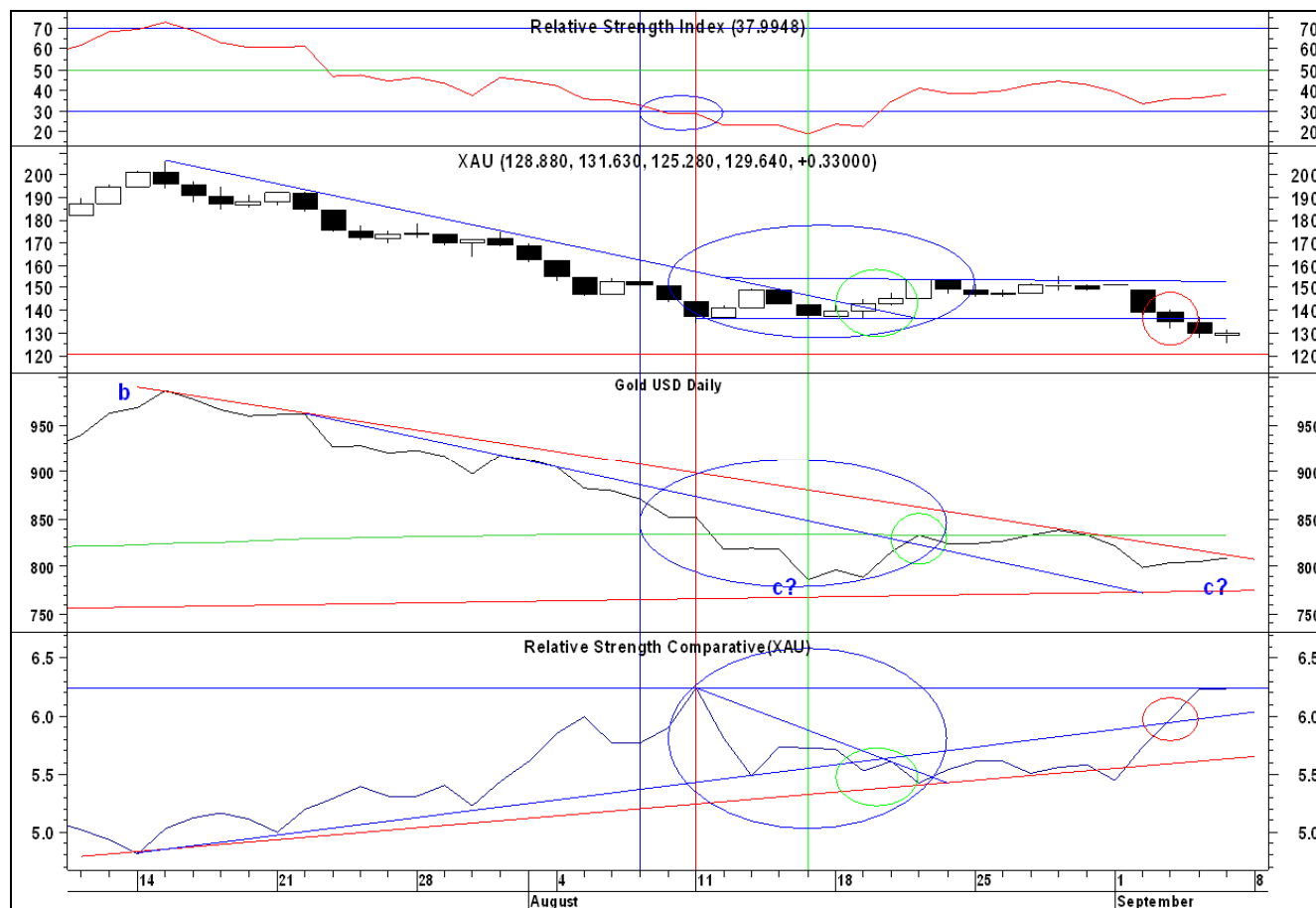
We are still in search for the C corrective low which I am fairly confident will correspond with excellent longer term support at around US\$780 an ounce. The gold shares, as measured by the XAU, remain my barometer of choice. This is despite giving us a false signal earlier in August, where the gold share strength was not confirmed by corresponding gold price strength, thereby satisfying our requirements.

Gold 2008 Corrective Stage (b to c) Update

The chart below clearly shows where we have been in recent weeks. Gold shares have demonstrated excellent strength from Aug 11th to Aug 22nd as gold looked to put in a corrective low in London trade of around US\$785 (which still holds). What we needed to see was a decisive rise in the gold price breaching ideally US\$850, ultimately providing confirmation of the gold share strength. What in fact transpired was heavy selling pressure in gold. After moving briefly above US\$840, gold very quickly got smashed back down towards US\$800 an ounce. The gold/XAU ratio (bottom section) also fell away sharply on gold's retreat and has since challenged existing

high as the XAU has gone on to make fresh lows just under 130. This signals more short term weakness to come, which I will elaborate on in my more detailed review of the XAU.

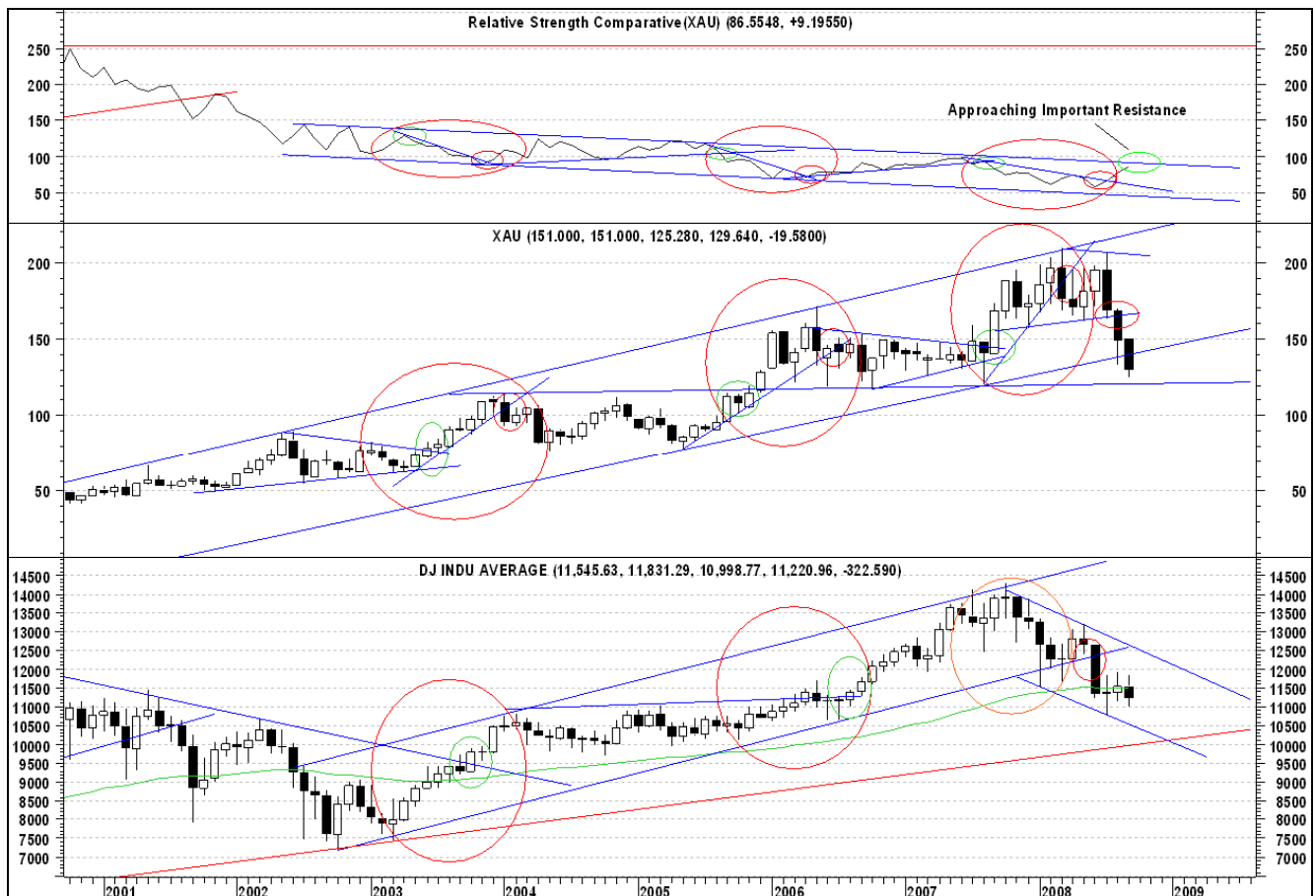
Gold 2008 Corrective Stage (b to c)



DOW JONES VS XAU (MONTHLY)

If we return to our monthly chart of the Dow Jones versus the XAU below, we can see the channel the XAU has been trading in is threatening to break depending on where it closes out September. A close below 145 would be bearish in its implications. When we look at the relative strength index versus the Dow Jones (Top section), we can see that we are nearing important resistance representing unique turning points for the XAU in the past.

DOW JONES VS XAU



CLOSING COMMENTS

Well 4 weeks have passed and things unfortunately remain quite bleak. I have noticed a handful of gold analysts that have turned decisively bearish of late. Studying a lot of the technical analysis, I guess it is not difficult to see how one could arrive at this conclusion. Personally, I still see a lot to be positive about despite the blood bath that has taken place. It has given me an opportunity to really study the complex dynamics of the gold market and a get a somewhat better understanding of the relationship between the physical and paper markets. While there is a great deal of speculation, there will always be much volatility and huge swings in **both** directions. Although the paper market can have a significant short term impact, the physical market ultimately sets the price. Having had discussions with an industry expert, I have since learned that there can also be a time lag from when prices fall to when the increased physical demand that results starts to get satisfied. From all reports, the physical demand for gold and silver has been extremely robust. As we saw in the COT report earlier, the speculative long position in gold has been significantly reduced, exhausting much of the fuel used to "manufacture" this decline in the short term. The COT data now closely resembles that of previous corrective lows, restoring some degree of confidence that we are close to a bottom. The last piece of the puzzle for me remains perhaps one last capitulation in the gold price to test the previous lows, with some clear strength being demonstrated in the gold shares during this sell off. Something I will continue to monitor over the

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coming days and weeks. For anyone interested I write a free newsletter on the precious metals market which you can sign up for at The Global Speculator website below. Past issues of the newsletter may also be accessed.

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