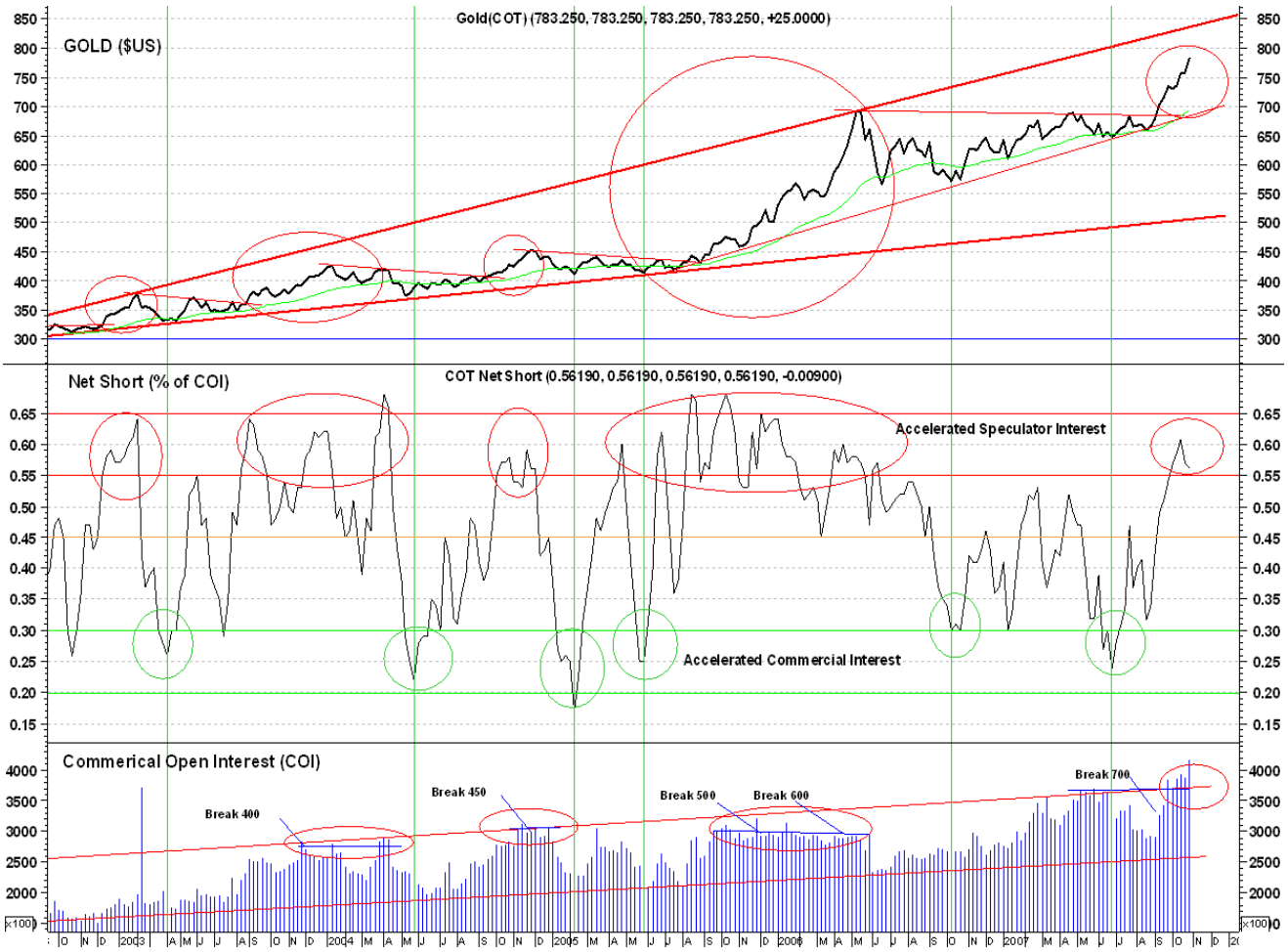
THE GLOBAL SPECULATOR

05 November 2007

SILVER IS POISED

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

Last month we discussed the perils of selling precious metals positions on record commercial short selling, in anticipation of a **"predictable"** pull back. I mentioned the similarities to 2005, where many were caught flat footed trying to play the COT game too cute. The weekly chart below is of the Gold price (Top Section) coupled with a look at the **Commercial Open Interest** (Bottom Section) and finally the **Net Commercial Short Position as a percentage of the COI** (Middle Section). Since last month's article we can see the Gold price has exploded higher whilst the **Net Commercial Short** position has now entered the extreme zone of 55-60% of the COI (We were just shy of this zone last month). If we look back at the past explosive moves in the Gold price (Red circled areas), we can see that these moves have coincided with record levels of commercial short selling (Speculative buying of Longs) after a lengthy consolidation in the Gold price. Since the last COT report the Gold price has obviously surged higher again to breach the US$800 an ounce mark and still appears to have legs.



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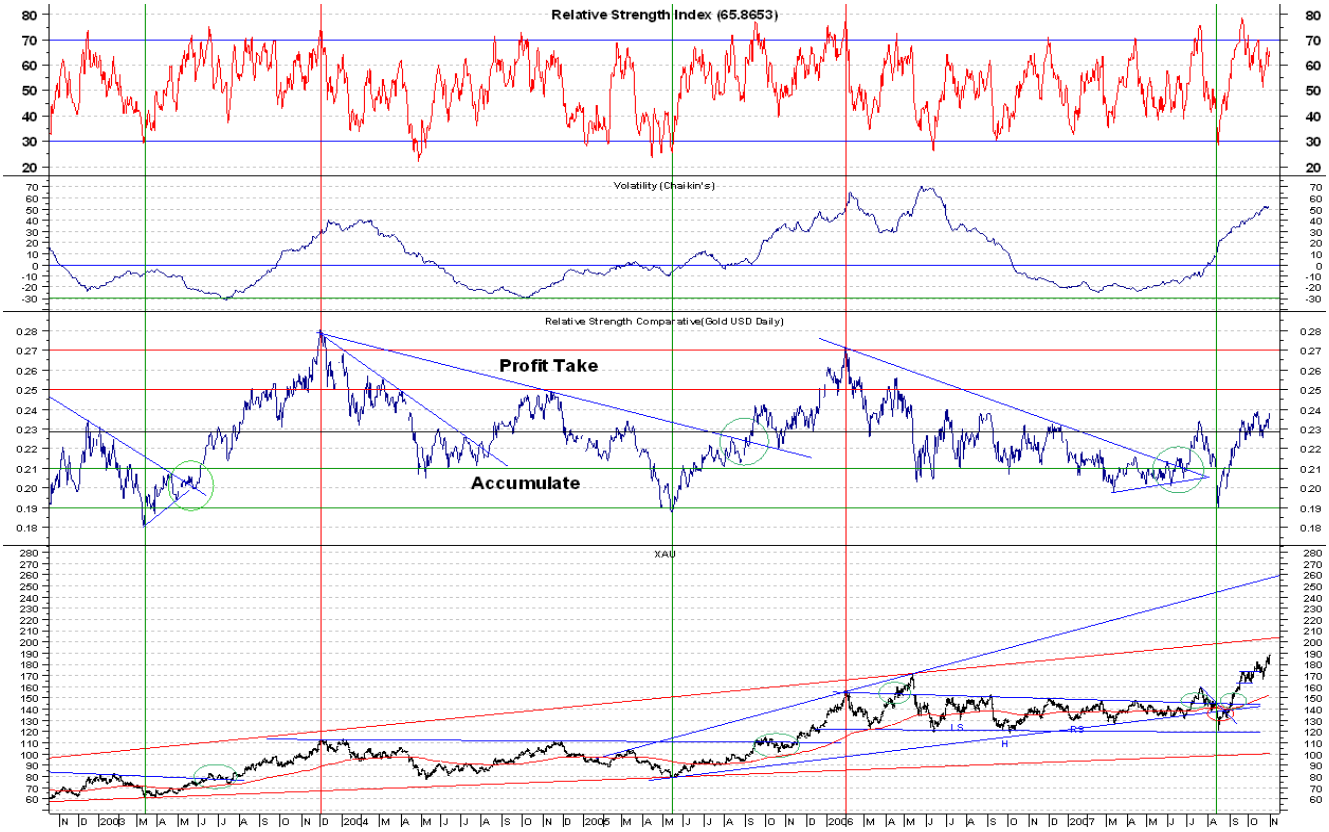
XAU



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 (02/11/07)	**0.23**	**187.63**	**48.92%**	**806.00**	**21.70%**	**27.21%**

A look at the chart of the XAU for the month of October 07 shows the XAU rallying strongly to 188, an increase of over 13%. The XAU/Gold ratio has remained steady at 0.23 and is still considerably below the profit taking region of 0.25 – 0.27, indicating this rally has potentially further to run. Since the low for the XAU/Gold ratio was put in on the 16th August, the XAU has rallied nearly 49% and the Gold price 21.7%. As per usual the 16 month wait has been well worth it as the precious metals markets have more than made up for the lost time.

OUTLOOK

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

Scenario 1: The XAU and the gold price will continue to rally with the XAU breaking 200 and the Gold price continuing its move higher up towards the US$820–US$830 mark. Volatility will continue to be the order of the day with some violent moves in either direction. I am leaning towards this bullish scenario.

Scenario 2: The precious metals sector again gets caught up in a panic sell off in the equity markets, resulting in the XAU falling all the way down to support at 165 – 170 (The previous high). The markets continue to look shaky despite the recent rate cut which signals the risk of this scenario has increased. The gold price theoretically should perform well in these circumstances 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:

My next target for the XAU is 200 – 205. I would expect some degree of consolidation if and when the 200 mark is breached (This will have meant a rally of over 60% since August!). I have an intermediate term target for the XAU of 255 with the timing dependent on what sort of consolidation we see once the 200 mark is definitively breached.

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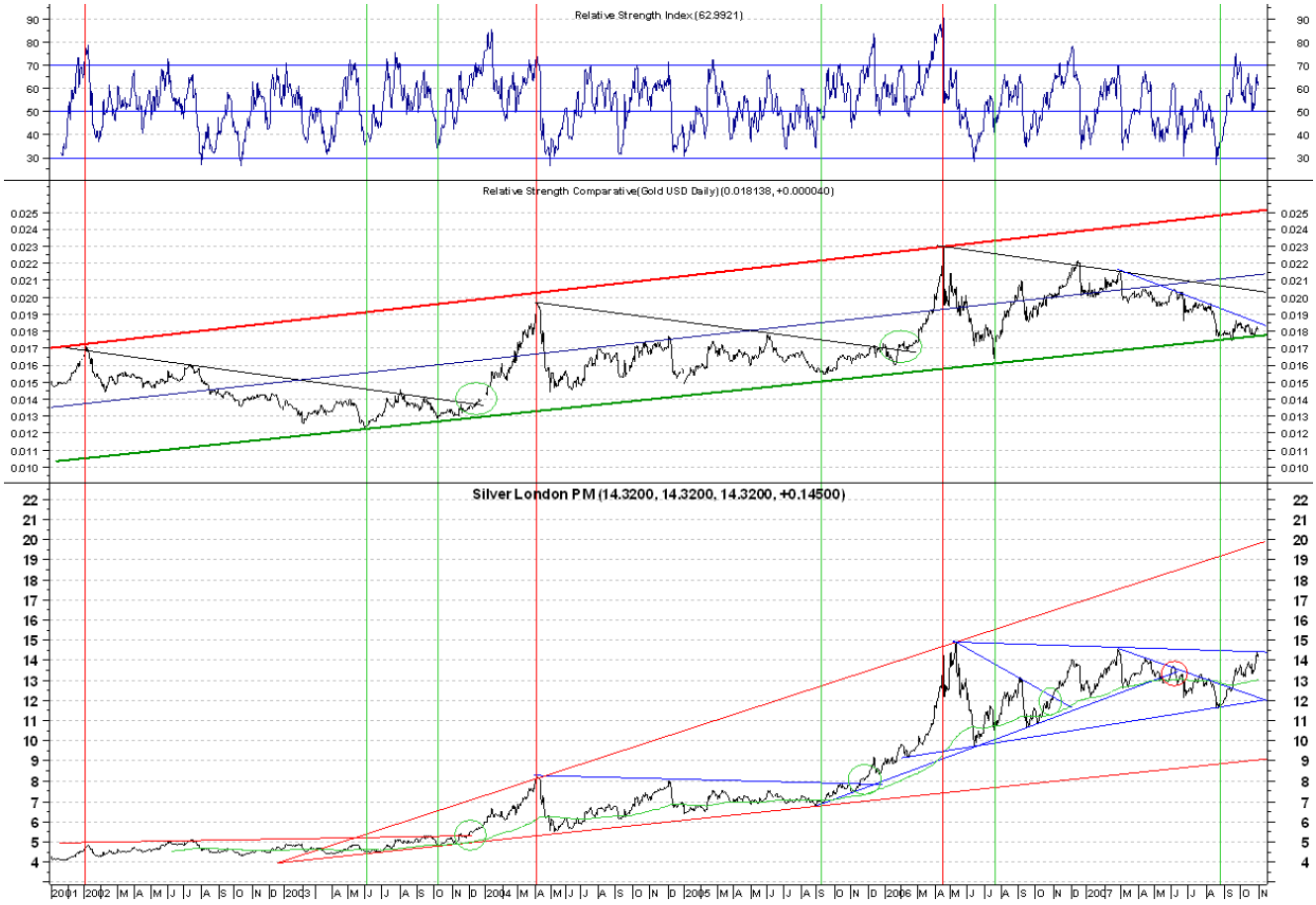
WHAT'S HAPPENED TO SILVER?



Many people have been disappointed with the performance of Silver (Bottom section of chart) in this recent bull market run. With Gold having smashed the previous high that was made in 2006, Silver hasn't been able to replicate this performance. If we have a look at the Silver/Gold ratio (Middle section of chart) we can see that we are firmly entrenched on the support of a channel that has been in place since 2001/02 (Strong Trend). If we look at previous break outs in both the Silver price and the Silver/Gold ratio (Green circles), we can see that they tend to occur later in the cycle, typically around November/December. If we fast forward to where we are today, we can see that the Silver price is presently flush against intermediate term resistance at around US$14.50. I believe a break of this trend line is imminent and once this occurs I will be watching the Silver/Gold ratio very closely for clues as to when the Silver price is likely to outperform. The first sign will be a break of the short term trend line at about 0.0185 (or 54.05 for those that prefer the Gold/Silver ratio) followed by a move through the more significant trend line with resistance presently around 0.02 (or 50 for the Gold/Silver ratio). On a successful break of both these trend lines I have a target for the Silver price of about $18.00 - $20.00.

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NORTH AMERICAN SILVER INDEX (NASI)

The NASI for the month of October 07 has managed to break free of the stiff resistance at 7,800 – 8,000 and has started entering record territory after a lengthy period of consolidation. This is a bullish development in that there is now effectively no overhead resistance. A look at the Relative Strength Index comparative with the Silver price (Middle Section), indicates the Silver shares continue to outperform the metal (A trend in place since May 06) which goes a long way to supporting our earlier theory of an imminent Silver price breakout. If you look at the timing of the breakouts (Green circles) you will see they tend to occur in the September/October period, 1-2 months prior to the breakouts in the Silver price which generally occur in November/December (Shares generally lead the metal).

OUTLOOK

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

Scenario 1: The Silver index will continue its rally higher and start to accelerate as the Silver price breaks out. A look at previous surges in the Silver index in 2003/04 and 2005/06 demonstrates just how powerful these moves tend to be, with rallies that last well into March and April. I am presently leaning towards this scenario.

Scenario 2: If the gold and silver price were to get caught up in the sharp fall in the equity markets, we could see a worse case scenario of yet another false start and a retrace back to the previous resistance which should now act as support at 7,800 – 8,000. Whilst this remains a very real risk in the current climate of uncertainty, I don't support this scenario at the present time.

Intermediate Term Outlook:

Over the intermediate term my next target for the NASI is around the 11,000 mark towards March and April 2008.

CLOSING COMMENTS

The precious metals markets have put in a stellar month in October 07 and look to be carrying this momentum well into November 07. I continue to keep a close eye on the XAU/Gold ratio for signs that this rally in Gold equities may be overextended. At the first sign of this, I will be personally looking to rotate some profits out of the larger precious metals companies into some of the smaller riskier companies that haven't benefited much from the recent run as yet (There is no shortage of candidates). Many of these companies come into their own in the December to March period (Seasonal) and should be carrying little downside risk given many are trading only marginally above their recent lows. For anyone interested I write a free newsletter on the precious metals market which you can sign up for at the website below. Past issues of the newsletter may also be accessed at the website below.

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The Global Speculator

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