

Introduction

XAU Gold Ratio

The North American Silver Index (NASI)

The Australian Producers Index

The Australian Theoretical Price of Gold Update

Closing Comments

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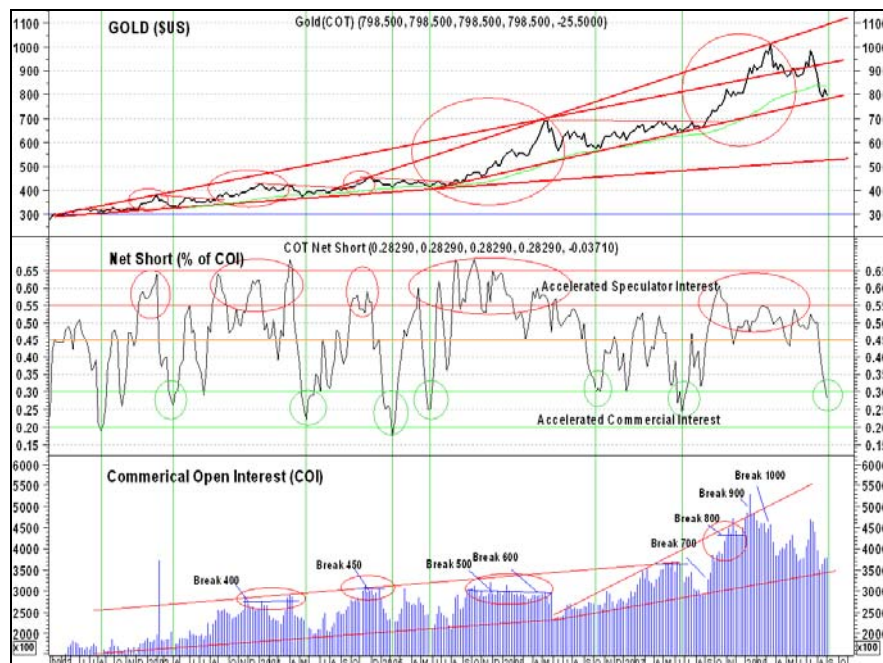
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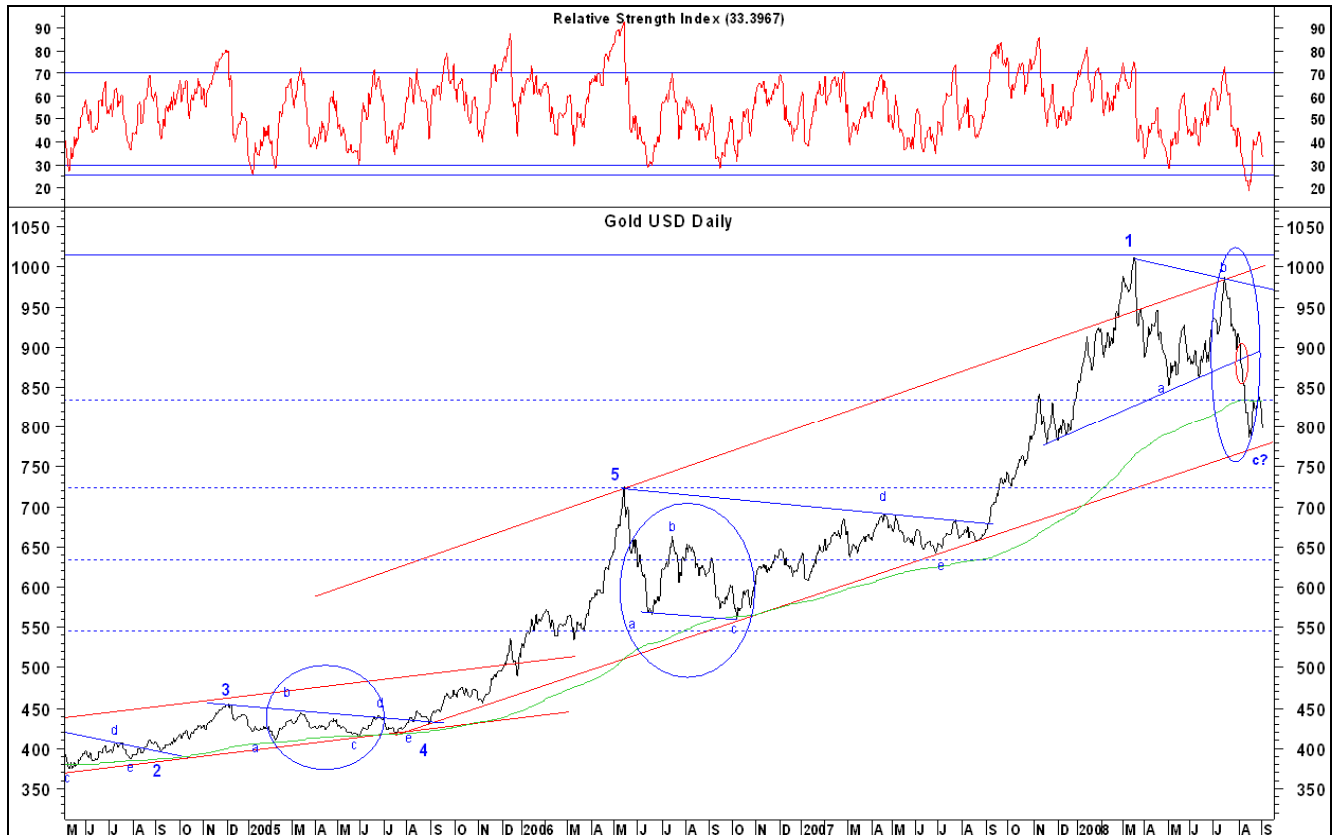
INTRODUCTION

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

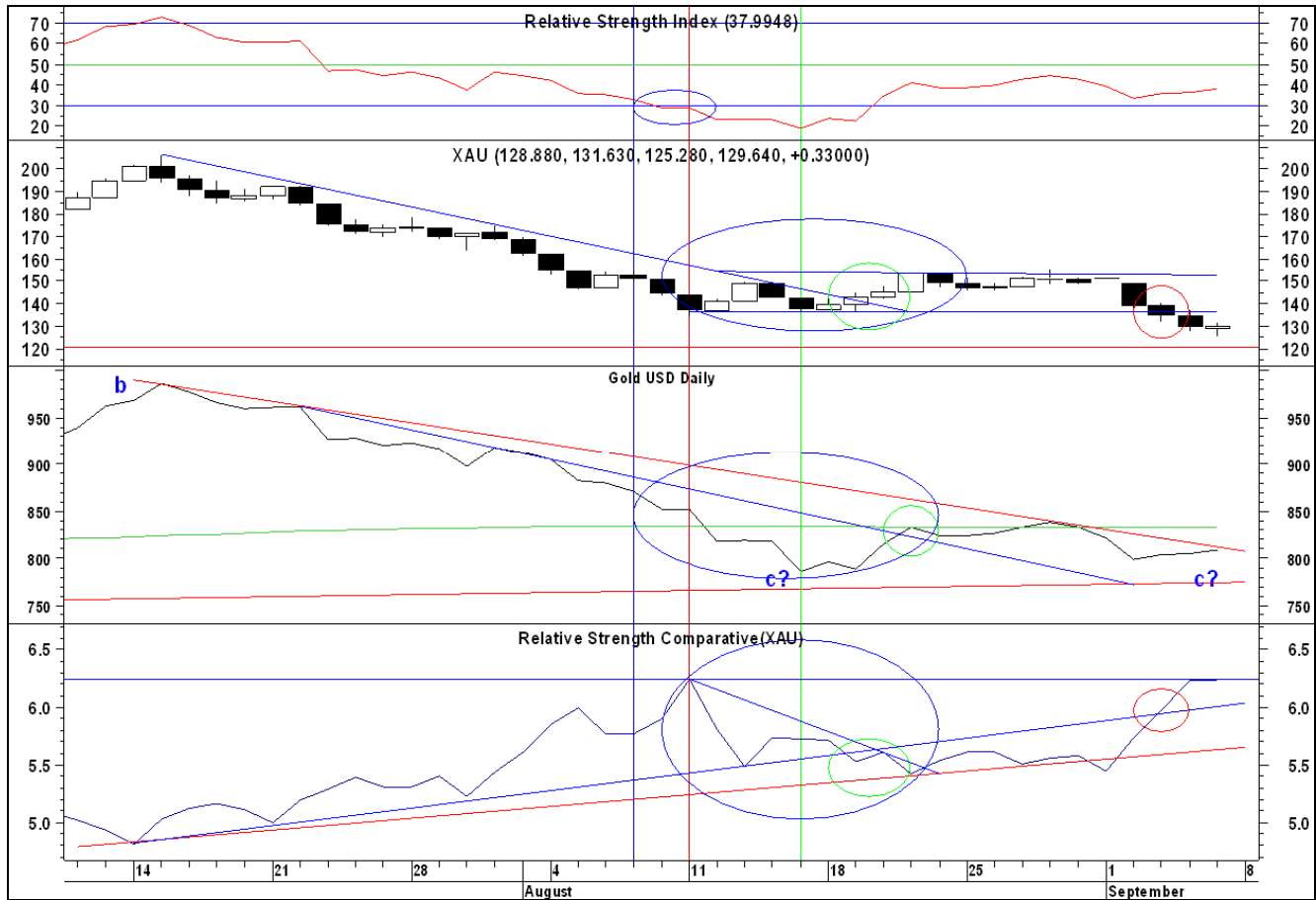


We are still in search for the C corrective low which I am fairly confident will correspond with excellent longer term support at around US\$780 an ounce. The gold shares, as measured by the XAU, remain my barometer of choice. This is despite giving us a false signal earlier in August, where the gold 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 highs 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)



XAU



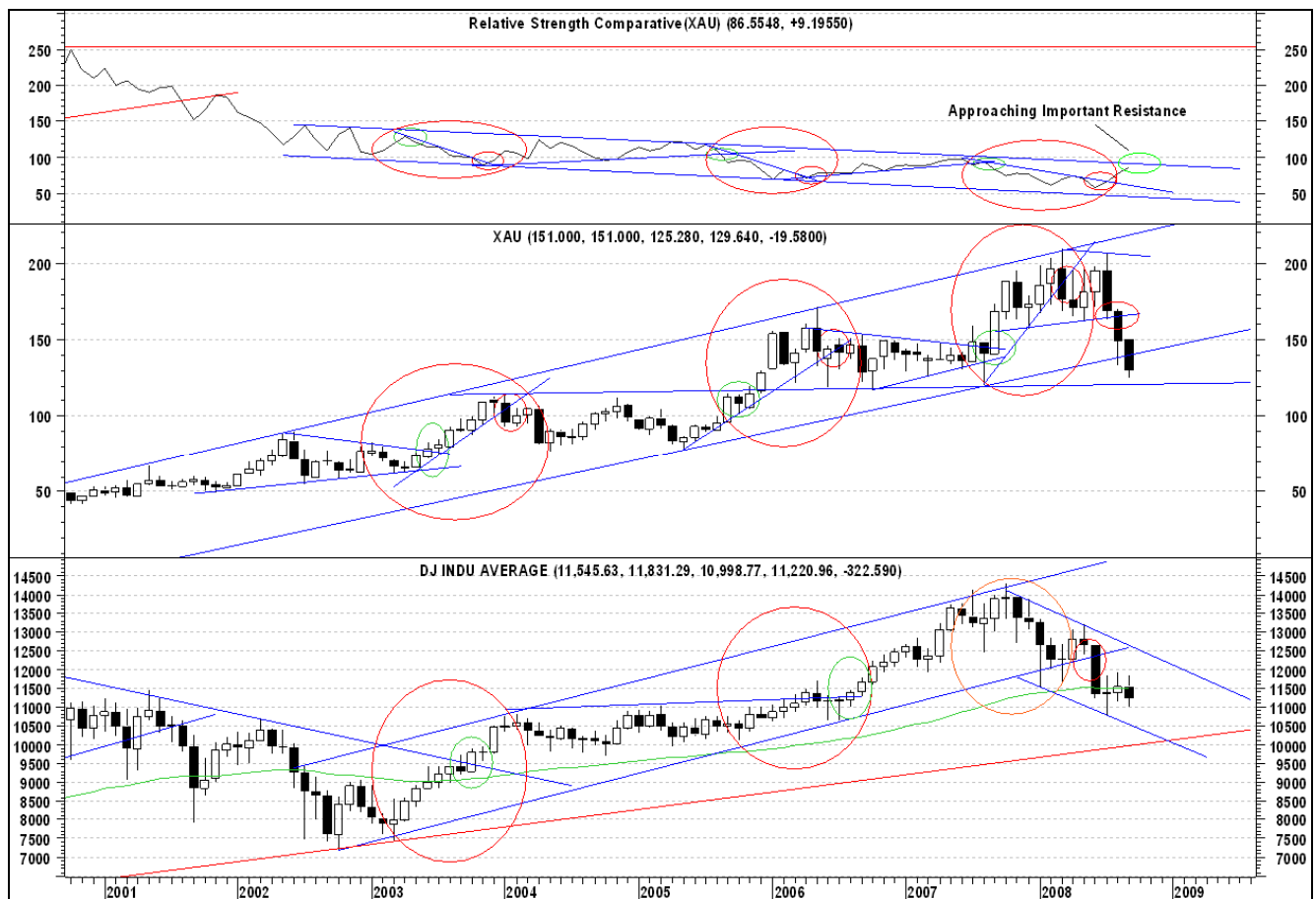
XAU GOLD RATIO

Extreme Key Dates	XAU/Gold	XAU	XAU Performance	Gold Price	Gold Performance	Net Position
17/11/2000	0.16	41.85		265.25		
28/05/2002	0.27	88.65	111.83%	325.50	22.71%	89.12%
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%
Current (05/09/08)	0.16	129.64	-15.92%	802.90	40.68%	-56.60%

The XAU, for the month of August 08 and early September 08, rallied from a low of about 136 up to back over 153 before falling away again to be just under 130 as at the 5th of September. The XAU gold ratio has again challenged the lows made at the end of the last bear market in November 2000. After a brief spike as high as 0.18, it capitulated with the gold price.

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 (MONTHLY)



OUTLOOK

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

Scenario 1: The XAU will continue to demonstrate weakness and attempt to put in a new low at around 120 which has demonstrated both stubborn resistance and subsequent support since late 2003. I will again be looking for a similar scenario, with the gold shares demonstrating strength as the gold price successfully tests its lows at US\$775 - \$780.

On confirmation of this, I would expect to see a sharp rally in both the XAU and the gold price. I continue to support this scenario.

Scenario 2:

The XAU fails to hold support at 120 and the gold price breaches important support at US\$775 - US\$780. This will be technically significant and signal ongoing weakness over the short to intermediate term. It could also see the long term support for the XAU at 105 - 110 challenged. While still a distinct possibility, I do not presently support this scenario.

Intermediate Term Outlook:

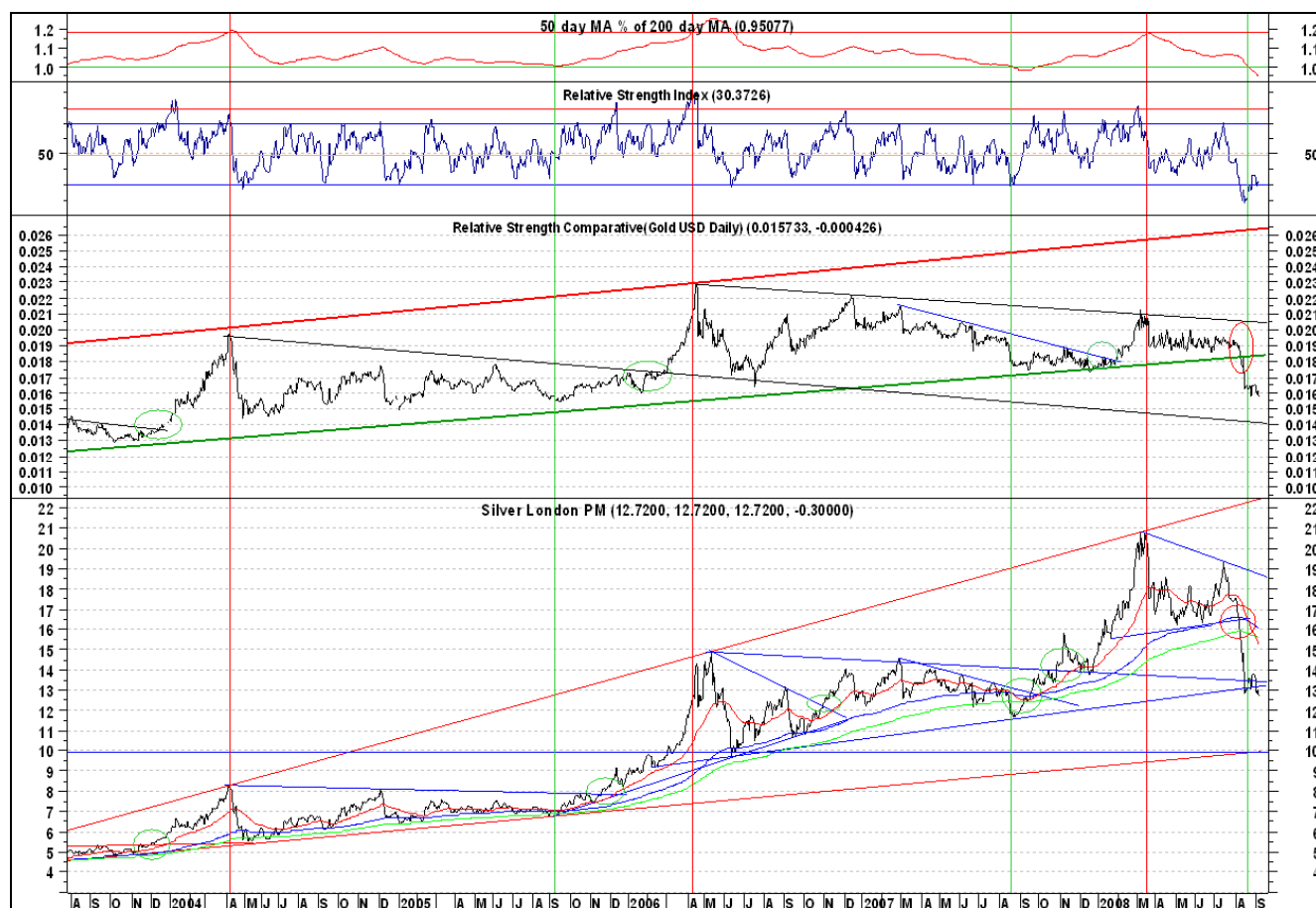
Our next intermediate term target is 260 towards the first half of 2009.

NORTH AMERICAN SILVER INDEX (NASI)



The NASI, for the month of August 08, continued to fall as the bottom fell out of the silver price. The Relative Strength Comparative with silver, while pulling back after a brief rally, has not made new lows despite the index continuing to fall substantially. This divergence may be encouraging in that it signals the silver price is more than likely close to a low.

Silver Chart (\$US)



The 300 day moving average (green) was well and truly breached as silver dived all the way to below US\$13 an ounce. The Relative Strength Comparative with gold, having stubbornly held the support line of a channel that had been in place since 2001, finally gave way which ultimately spelt trouble for the white metal. The 50 day moving average has crossed the 200 day moving average which in the past, has been a pretty reliable buy and sell indicator (green and red vertical lines). The cross occurred at approximately US\$13 an ounce. Silver has been hovering above and below this point ever since. The next downside target for silver is US\$10 an ounce where it should find long term support.

OUTLOOK

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

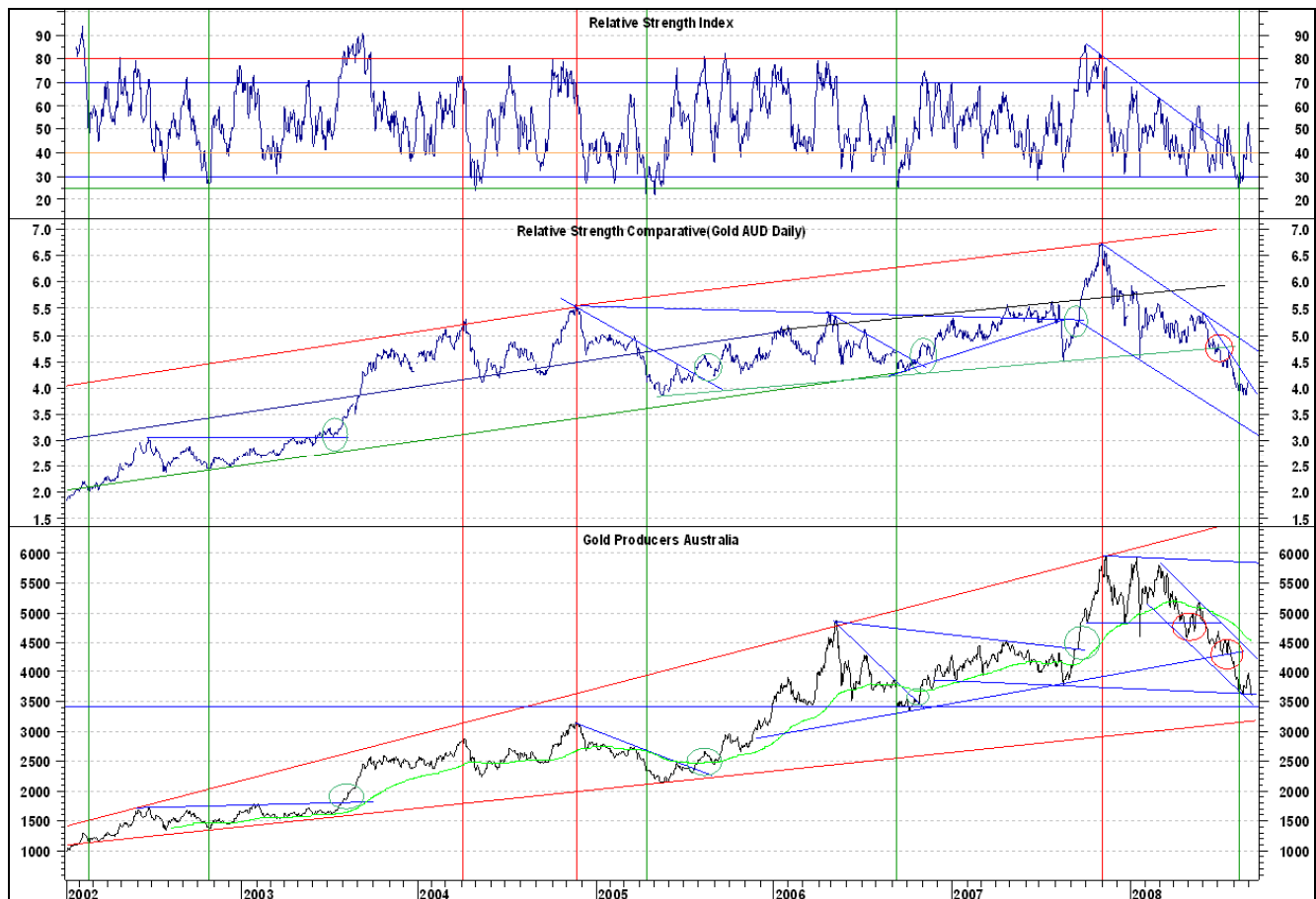
Scenario 1: The NASI will find support at the 4,500 – 5,000 range, before rebounding fairly strongly once the corrective low is in place. The silver price will find a corrective low in the \$10.00 - \$12.00 range. The silver shares have been outperforming the metal. If the silver price does in fact fall further to make an exhaustive low around US\$10, I would expect the silver shares to perform fairly strongly. I support this scenario.

Scenario 2: The NASI breaks solid support at 4,500 with the next downside target at 3,000. If Silver fails to hold US\$10, a break of 4,500 could more than likely be expected. I remain confident that a low is close at hand. For this reason I don't support this scenario.

Intermediate Term Outlook:

The next intermediate term target for the NASI is still 10,000, followed by a longer term target of 12,500 towards the second half of 2009. The next intermediate term target for the silver price is \$24.50 to \$26.50 in late 2008 or the first half of 2009 (depending on when the long awaited corrective low is made).

AUSTRALIAN PRODUCERS INDEX (API)



During the month of August 08, the API has fallen further to find intermediate term support at 3,600. A look at the Relative Strength Comparative with gold (middle section) shows some resilience which may be pointing to an imminent low. The fundamentals for the Australian gold mining industry are continuing to improve with the Australian dollar gold price rising in the midst of a falling US dollar gold price (more on this later).

OUTLOOK

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

Scenario 1: The API will find support at 3,400 – 3,600 before a significant surge in the index, once a bottom in the gold price has been achieved some time during September 08. I continue to support this scenario.

Scenario 2: Support at 3,400 fails with the gold price making new lows as it continues to decline. This could see the index fall to longer term support at 3,200. I don't support this scenario.

Intermediate Term Outlook:

My intermediate term target continues to be 6,500 - 7,500 towards the end of 2008 and early 2009.

AUSTRALIAN THEORETICAL PRICE OF GOLD UPDATE

Date	10 Year BB Interest Rates	Headline CPI	M3 Aggregate Money Supply	Rate of Australian M3 Change	Gold Production Av Annual Increase (1.73%)	Australian Theoretical Gold Price	Actual Australian Gold Price	Actual as a % of Theoretical
Jun-08	6.45	4.50	1032.9	2.817%	0.14%	3,231.71	969.36	30.00%
Jul-08	6.23		1034.6	0.165%	0.14%	3,232.52	976.02	30.19%

4 Year Performance Snapshot

	2008/09	2007/08	2006/07	2005/06	2004/05
Actual Gold	0.687%	26%	16%	18%	8%
Theoretical Gold	0.025%	17%	14%	16%	6%
M3 Growth	0.165%	19%	16%	17%	8%
CPI	N/A	4.5%	2%	4%	2.5%

Aug 08 has seen a pretty modest increase in M3, but did see an adjustment for Jun 08 of an additional 1.3% or A\$13.2b which puts Jun 08 up there as one of the highest rates of growth in any one month (2.81%). The theoretical price of gold has jumped to A\$3,232.52 an ounce. The big story over the last fortnight has been the hapless Aussie dollar. Since the Aussie dollar peaked on the 16th of July 2008 at close to US\$0.98, it has since fallen to just under US\$0.82. This constitutes a fall of over 16%. On a trade weighted basis, the Aussie dollar has fallen from 74 down to 64.7 or 12.5%. The RBA has tested the water with an interest rate cut of 25 basis points and the Aussie dollar has been dealt with accordingly. It seems large Current Account Deficits and a large dependence on foreign debt does indeed matter after all. Not long ago the talking heads were calling for dollar parity. The weaker dollar offers some much needed relief for our beleaguered gold mining industry which has suffered under the burden of higher costs. As I type this, the gold price in Australian dollars is A\$984.36, less than 10% below the highs made in March this year. The gold price in US dollars has lost over 22%.

AUSTRALIAN GOLD PRICE



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 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 coming days and weeks.

THE GLOBAL SPECULATOR

Volume 2, Issue 20, 8 September 2008

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