

Introduction

XAU Gold Ratio

The North American Silver Index (NASI)

The TSX Gold Index

The Australian Producers Index

The Australian Theoretical Price of Gold Update

Closing Comments

Disclaimer

Contact Details

Email:

troy.schwensen@bigpond.com

Internet Address:

www.globalspeculator.com.au

INTRODUCTION

Action a plenty for the month of July 07 as we saw the XAU Gold index break stiff resistance at 145-150, only to come crashing back down again with the widespread falls on the equity markets. Despite the carnage, the Gold price has managed to hold up relatively well finding strong support at the US\$660 mark. This is consistent with the 150 day Moving Average as well as an intermediate term trend line which has been in place since July 2005. A look at the chart below shows the Gold price continuing to consolidate nicely into the apex of a triangle. As most chart technicians know, the apex of a triangle signals a significant move is about to occur in either direction. My bias continues to be to the upside with an imminent breakout to occur at resistance around the US\$680 mark. On a successful break, I have a longer term upside target of about US\$830. If support at US\$660 fails to hold, I have two downside targets of US\$605 and \$505 respectively.



XAU



A look at the chart of the XAU for the month of July 07 shows the XAU definitively breaking out above the stubborn resistance at 145-150 and rallying as high as 158.94 before retreating with the mainstream markets. At least in the early stages of the market sell off there were encouraging signs that the precious metals sector was starting to decouple from the mainstream markets with the XAU and Gold price rallying on days the mainstream markets were being sold off. The severity of the sell off however and a brief US dollar rally eventually saw everything decline including the Gold and Silver prices which resulted in the pull back in the XAU we see above. A look at the XAU/Gold ratio in the third section of the chart shows a decisive rally during July 07 with a fall away occurring late July early August. The question most precious metals sector investors are now asking is: **Have we seen yet another failed breakout attempt prolonging the consolidation or was the rally and breakout we witnessed in July 07 something more significant?**

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% |
| 13/03/2007 | 0.20 | 128.55 | -16.63% | 650.80 | 14.04% | -30.66% |
| Current (02/08/07) | 0.22 | 146.48 | 13.94% | 664.60 | 2.12% | 11.82% |

Despite recent weakness, the precious metals shares continued to outperform the metal over the course of July 07 and with the XAU successfully breaking strong resistance at 145-150 (Even if it was for just a short time), I am reasonably confident that the tentative low we had in place for the XAU/Gold ratio on the 13/03/07 is now a key bottom. I have been of the opinion for some time that the consolidation we have endured for **2006/2007** bears similar resemblance to that of **2002/2003**. The breakout which occurred June/July 2003 also saw a pull back of the XAU and XAU/Gold ratio before the main event. The pull back saw the XAU find support at its 150 day moving average which was at about 75 and saw the XAU/Gold ratio retreat back to 0.214 from an interim high of 0.23 in early July 03. The rally we saw in July 07 took the XAU Gold ratio to an interim high 0.232 on the 20/07/07 before falling back down to 0.22 (As at 02/08/07) and as at Friday's close of 143.72 we are looking at 0.214. The 150 day moving average is presently at about 141, which is where I think the XAU should also find some support over the next week or so before we begin a more sustainable rally.

OUTLOOK

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

Scenario 1: The precious metals shares should find support at 140-141 and will resume their recent strong performance versus the metal which will see the resistance at 145-150 for the XAU broken again and a more sustainable rally to follow. This should coincide with the Gold price breaking US\$680 before going on to take out the all important US\$700 mark in the not too distant future. I presently support this scenario.

Scenario 2: The precious metals market gets caught up in a broad commodity sell off and/or a panic sell off in the stock market, resulting in the XAU falling all the way down to either support at 135 or in a worse case scenario, the long term support lines at either 115 or 100. Despite what we have seen in the last week, I continue to see this scenario as unlikely at the present time, but given the overall weakness and the volatility of world markets, a significant risk still remains.

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 latter half of 2007 or early 2008.

NORTH AMERICAN SILVER INDEX (NASI)



The Silver index like the XAU broke out in July 07 only to pull back and find support at around 7,500 towards the end of the month. If we look at the middle section of the chart, we can see that despite the recent pull back the Silver shares continue to outperform the metal with an upward trend that has been in place since May 2006. The RSI support also remains in an uptrend which continues to be bullish in its implications.

OUTLOOK

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

Scenario 1: Support at 7,500 will hold and the Silver Index will rally higher over the coming months with a much more sustainable rally. I presently support 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 Stock market, we could see a worse case scenario of a breakdown of the present consolidation pattern and a move of the index back towards the long term support line at around 4,500. Whilst these risks should be considered, 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 latter half of 2007 or early 2008.

THE TSX GOLD INDEX



The TSX Gold Index found support at 265 during the month and did stage a rally which saw the 150 day moving average touched at about 300 before the recent sell off. The Relative Strength Comparative with the Gold price has held support during the month with a successful break of an intermediate term down trend that has been in place since about December 06 before a pull back on the sell off.

OUTLOOK

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

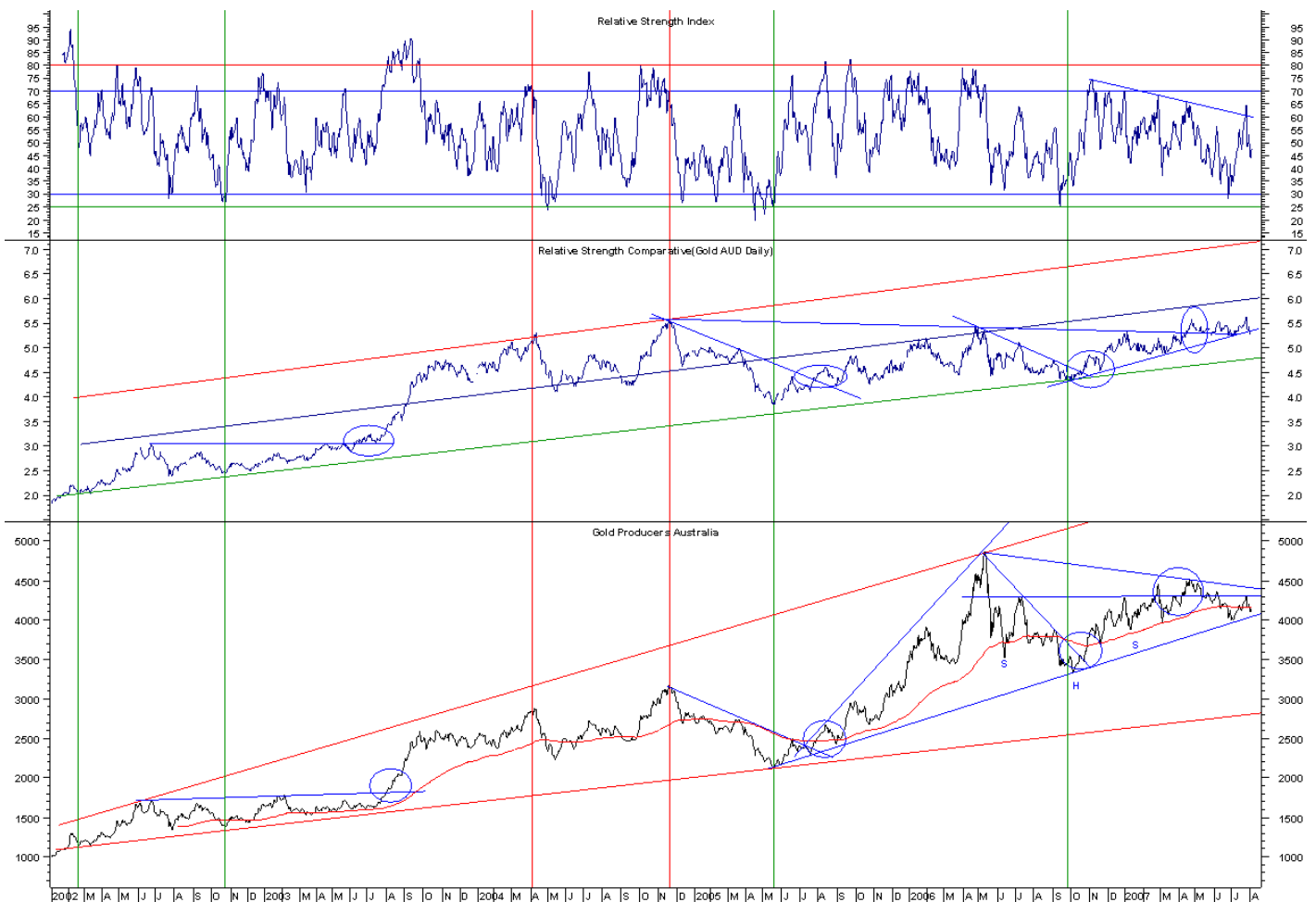
Scenario 1: The TSX Gold Index will continue to consolidate within its present range of 265 - 330. This is the scenario that I am leaning towards.

Scenario 2: If the Gold and Silver prices get caught up in a sharp fall with the other commodity prices or a prolonged sell off in the Stock market, we could see a worse case scenario of a move of the index back towards the long term support line at around 190. I do not support this scenario at the present time.

Intermediate Term Outlook:

Over the longer term my next target for the TSX Gold index is around the 500 mark towards the latter half of 2007 or early 2008 depending on when we get a break in the consolidation pattern.

AUSTRALIAN PRODUCERS INDEX (API)



During the month of July 07, the Australian Gold Producers index has continued to consolidate with support presently holding at 4,100. The Relative strength comparative (RSC) with the Australian Gold price has recently pulled back but continues to hold support at an intermediate term trend line which has been in place since late September 2006.

OUTLOOK

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

Scenario 1: The API should continue to hold support at 4,000 – 4,100 in the short term hopefully buoyed by a stronger international precious metals sector in general over the coming weeks and months. I continue to support this scenario.

Scenario 2: If the Gold and Silver prices get caught up in a sharp fall with the other commodity prices or a sharp sell off in the Stock market, we could see a worse case scenario of a breakdown of the present consolidation pattern and a move of the index back to the long term support line at around 2,800. As we threaten to break support this remains a valid risk.

Intermediate Term Outlook:

Over the intermediate term, my next target for the API is around 5,200 (Close to previous highs) consistent with the measurement of the Reverse Head and Shoulder formation. I have a longer term target of 6,500 towards the latter half of 2007 or early 2008, again depending on when the present consolidation ends.

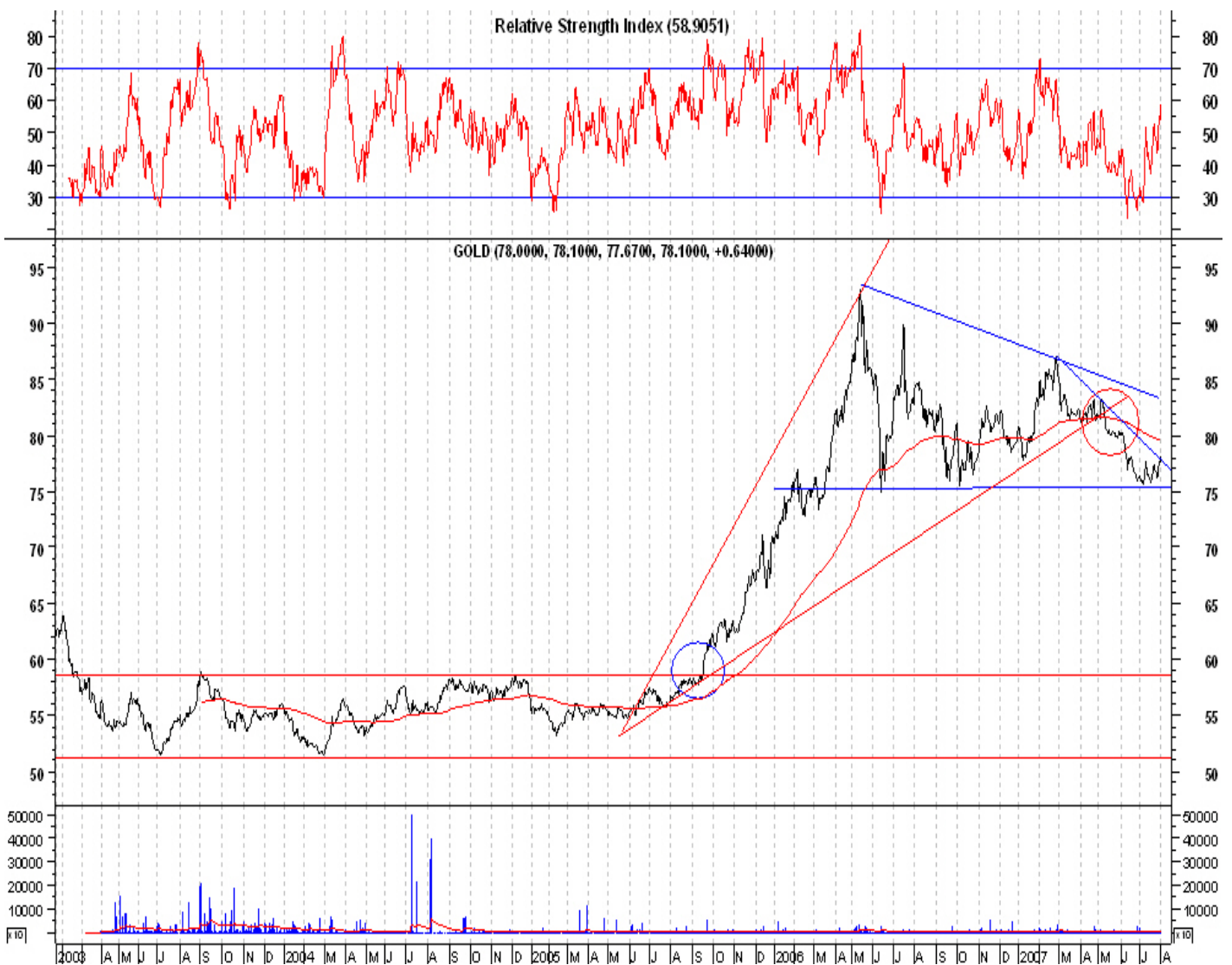
AUSTRALIAN THEORETICAL PRICE OF GOLD UPDATE

| Date | 10 Year BB Interest Rates | Official 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 |
|--------|---------------------------|--------------|---------------------------|------------------------------|--|-----------------------------------|------------------------------|------------------------------|
| Jul-06 | 5.84 | | 749.8 | 0.3480% | 0.14% | 2,422.82 | 834.00 | 34.42% |
| Aug-06 | 5.67 | | 759.9 | 1.3470% | 0.14% | 2,451.97 | 810.00 | 33.03% |
| Sep-06 | 5.51 | 3.90 | 768.5 | 1.1317% | 0.14% | 2,476.18 | 807.00 | 32.59% |
| Oct-06 | 5.66 | | 777.7 | 1.1971% | 0.14% | 2,502.26 | 781.00 | 31.21% |
| Nov-06 | 5.59 | | 784.4 | 0.8615% | 0.14% | 2,520.21 | 809.90 | 32.14% |
| Dec-06 | 5.89 | 3.30 | 802.5 | 2.3075% | 0.14% | 2,574.73 | 804.50 | 31.25% |
| Jan-07 | 5.94 | | 802.9 | 0.0498% | 0.14% | 2,572.30 | 827.00 | 32.15% |
| Feb-07 | 5.69 | | 815.0 | 1.5070% | 0.14% | 2,607.35 | 852.00 | 32.68% |
| Mar 07 | 5.41 | 2.40 | 824.2 | 1.1288% | 0.14% | 2,633.03 | 818.00 | 31.06% |
| Apr 07 | 5.88 | | 833.1 | 1.0798% | 0.14% | 2,657.66 | 819.00 | 30.82% |
| May-07 | 6.02 | | 839.8 | 0.8042% | 0.14% | 2,671.38 | 796.35 | 29.81% |
| Jun-07 | 6.26 | 2.10 | 867.9 | 3.3460% | 0.14% | 2,760.86 | 766.64 | 27.77% |

The month of June 07 has seen M3 increase at an astounding rate of 3.35% and an annual rate for the financial year ending June 07 of 16.15%. This is by far the largest increase I have seen month on month and there is no coincidence that we have experienced healthy retail spending figures for the month of June coupled with a predictable blow out in the trade deficit. The theoretical price of Gold has risen to AUD\$2,760.86 with the actual price now just 27.77% of the theoretical at \$766.64 which is the biggest discount we have seen since June 2005. The strong Australian dollar which has been one of the major beneficiaries of the Yen Carry trade has continued to put pressure on the gold price in Australian dollar terms. There has been some unwinding of the Yen carry trade in recent weeks which has seen some reprieve for the Australian dollar Gold price, presently trading at about AUD\$787 an ounce.

AUSTRALIAN GOLD BULLION

(ASX:GOLD – 1/10 OF AN OUNCE)



CLOSING COMMENTS

We continue to experience a testing time for the precious metals sector with increasing levels of volatility and uncertainty given the severe fallout in international markets. I firmly believe we are going to continue seeing a decoupling of the Gold sector from the mainstream investment markets. Traditionally there has been an inverse correlation between the two which I would expect to see continue over the intermediate to long term. Over the short term it is not unusual to see the markets move in tandem giving the impression that Gold has lost its safe haven appeal on the days the markets get sold off. From the peak of the Dow Jones index on the 31 July 2007 (14,121) to the close on the 3 August 2007 (13,182) we have seen the index lose approximately 6.5%. The Gold price over this same period has risen just over 1% from US\$665 up to US\$672.70. The Australian All Ordinaries index made a high on the 12 July 2007 of 6,469 and as I put the finishing touches on this issue (6 August 2007) it is trading at 5,939, a fall of just over 8%. The Gold price in Australian dollars over this same period has increased about 3% from AUD\$765 up to AUD\$787. I expect to see a substantial improvement on this performance in the weeks and months ahead with the fundamentals for Gold having seldom looked as good as they presently do.

Troy Schwensen

DISCLAIMER

This publication has been prepared from a wide variety of sources which the editor to the best of his knowledge and belief considers accurate. The editor does not warrant the accuracy of the information and forecasts contained in this publication. This information is provided for educational purposes and nothing written should be construed as a solicitation to buy and sell securities.