



# Weekly Market Views

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21<sup>st</sup> Feb 2010

Welcome to the Weekly Market Views report from DGCX, providing you with a snapshot of what's happening in the energy, precious metal and currency futures markets.

Please note that the observations and views expressed in this newsletter do not reflect the views of DGCX and are solely the view of the writer (CPM Group).

## Commodities Overview

Commodities prices may be volatile this coming week, but with an upward bias. Over the past few weeks oil, gold, and other commodities have demonstrated strong support around recent price levels. Sharp increases in the dollar, the IMF's announcement that it was moving toward public sales of 191 metric tonnes (6.1 million ounces) of its gold, the U.S. Fed's raising the discount rate, evidence of stronger economic growth in the United States and other parts of the world, and stronger corporate earnings and equity markets all have failed to trigger a major sell-off in gold. Prices have dipped in response to announcements related to these developments, but the declines have not been particularly large. Nor have they been protracted. Each dip has been answered by significant buying from investors seeking to add to their gold positions whenever prices drop. Energy prices may take a breather this week, following strength last week. Even so, demand remains in an upward trend, and investors remain interested in energy assets as likely to appreciate in value as real economic activity continues to expand in most parts of the world. Periodic bouts of investor doubt over the course of economic trends will occasionally push prices, however, but the trend is upward.

## Currencies Overview

The U.S. dollar is expected to continue along the path of recent weeks, showing overall strength but consolidating its gains against major currencies rather than running away to higher levels. The dollar is showing strength, reflecting investor attitudes that the U.S. economy may register stronger growth in 2010 and 2011 than Europe and Japan. The strength in the dollar has not been one-way, however: The dollar's exchange rate against the euro and other currencies has been and is expected to continue to be volatile. While there is a clear upward bias emerging for the dollar, it also is clear that on-going fiscal, budgetary, and trade concerns remain in the forefront of investors' minds. The dollar is looking stronger against other major traded currencies such as the euro, pound, yen and Swiss franc, but it is a matter of degrees of unattractiveness that is helping boost the dollar at this time. As a result, the dollar may show signs of consolidation this week, as part of a longer term upward trend against other major traded currencies. The dollar will remain vulnerable relative to the rupee and currencies from emerging economies and commodities exporting nations, however. Political tensions also could hit the dollar this week.

CRB Commodities Index



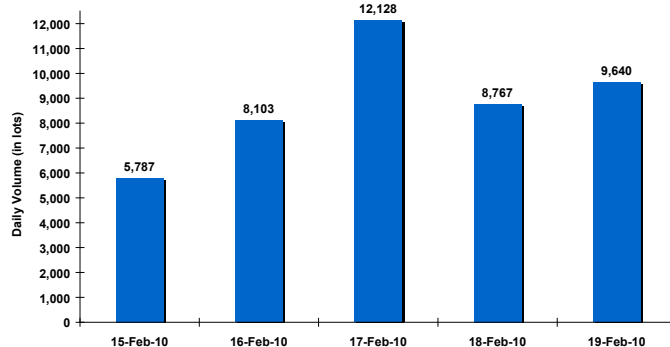
U.S. Dollar Index



## DGCX Prices & Daily Volumes

Market (as at Feb 19, 2010)	Current Week close	Current Week close	% Change	Weekly High	Weekly Low
Gold futures (\$/ounce)	\$ 1121.10	▲	2.69%	\$ 1127.80	\$ 1092.10
Silver futures (\$/ounce)	\$ 16.345	▲	5.45%	\$ 16.345	\$ 15.700
Euro Futures (\$/Euro)	\$ 1.359	▼	-1.79%	\$ 1.379	\$ 1.346
GBP Futures (\$/GBP)	\$ 1.546	▼	-1.39%	\$ 1.581	\$ 1.536
INR Futures (\$/100 INR)	\$ 2.163	▲	0.46%	\$ 2.174	\$ 2.151
JPY Futures (\$/100 Yen)	\$ 1.090	▼	-1.91%	\$ 1.115	\$ 1.086
WTI Futures (\$/b)	\$ 79.810	▲	7.66%	\$ 79.81	\$ 73.92

Average Daily Volume (ADV 8,885)





**Economic Indicators**

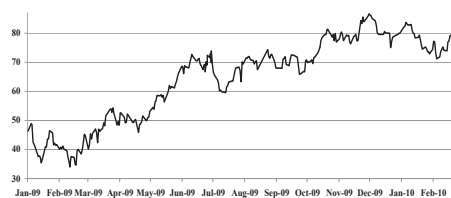
Indicator		Value	Change	% Change
CRB Index	▲	277.47	9.55	3.6%
U.S. Dollar Index	▲	80.55	0.33	0.4%
T-Bills	▲	0.10%	0.01%	0.0%
DJIA	▲	10,402	303.21	3.0%
FTSE Global All-Cap	▲	190.82	4.28	2.3%

Source: Bloomberg data

**COMMODITIES**

**Crude Oil**

\$ / BARREL



Light, sweet crude oil prices bounced off of their recent lows and gravitated toward \$80 at the end of last week. In the United States, both crude oil and gasoline inventories increased from the prior week while distillate stocks fell in line with the typical seasonal withdrawal season. While demand is recovering on account of seasonal and cyclical factors, the market has a healthy inventory cushion and the threat to prices

is that supply growth outpaces demand growth. OPEC is expected to produce into the price rally and the organization has stated that prices above \$80 could trigger an output quota increase. On a fundamental basis, oil appears fairly valued between \$75 and \$80 at present. This week profit-taking could push prices back toward the lower end of this range.

**Gold**

\$ / OUNCE



Gold prices may consolidate this week. Gold may trade between \$1,080 or \$1,100 on the low end and \$1,150 on the high end. Prices have managed to hold up fairly well in light of several factors that in other circumstances may have weighed more heavily on gold. The International Monetary Fund (IMF) stated last week that it would soon move toward selling gold in the market. Prices fell initially, but quickly bounced back. The IMF public gold sales plans do not mean that national central banks may not purchase the gold; such sales still are acceptable to the IMF, if any central banks approach the Fund. Gold prices fell once more the next day, as

the Federal Reserve increased its discount rate. Again, prices soon recovered. Gold held above \$1,100 for most of last week. The Fed had stated several times in recent weeks that it intended to reduce its liquidity programs, and the discount rate hike was seen as the first step in this process. These comments may have contributed to the U.S. dollar strength over the past several weeks and the actual increase in the discount rate may not have been too much of a surprise to the markets. The dollar did strengthen initially, but overall has been consolidating along with gold prices for most of the past week.

**Silver**

Cents / OUNCE



Silver prices could break above \$17.00 this week. Congestion in the New York market appeared last week, both as the roll from March positions into forward positions got underway, and as the physical supplies for fabricators showed some further tightening. These conditions could exert further upward pressure on silver prices this week. Silver prices have been volatile over the past several weeks, but have been trending higher overall. Support for prices is positioned at \$14.75. Expectations of strong industrial demand for silver in the

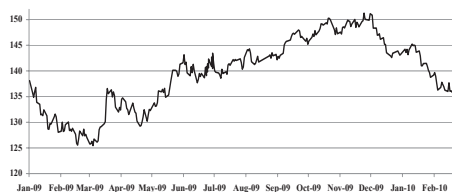
medium-to-long term remain supportive of prices. Macroeconomic data released in recent weeks have been signaling that an economic recovery is underway. This could be positive for silver prices, given silver's use in many industrial applications. There continues to be strong investment demand for silver amid safe haven buying. Combined ETF silver holdings reached a fresh record of 472.7 million ounces as of 19 February, up 0.2% from 471.8 million ounces on 12 February.



## CURRENCIES

### Euro / Dollar

DEUR (US \$ quoted in cents per Euro)



The euro may pare its losses and could head toward \$1.38 later this week. The euro has lost a great deal of value against the dollar over the past two and a half months. It is likely that the euro could consolidate around current levels and even strengthen slightly, at least on a short-term basis. There were signs of this happening already last week, although an increase in the Fed's discount rate rattled currency markets a bit. Many

market participants have been short the euro. If the euro does recover there could be some short-covering that could send the currency sharply higher. Increasingly more positive economic developments in the United States and poor developments in the eurozone will weigh on the euro. Signs of solid resolve over Greece's financial problems may help support the euro.

### Indian Rupee / Dollar

DINR (US \$ quoted in cents per 100 Indian Rupees)

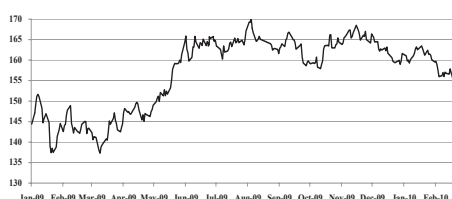


The Indian rupee could move sideways to higher this week, possibly testing 218 cents per 100 rupee. Given the positive macroeconomic data and internal growth in the Indian economy, the Prime Minister's economic advisory panel (PMEAC) recently pitched the government to roll back some of the quantitative measures it took to fight the impact of the global financial crisis. This could be done by raising excise duties.

However, at this point there has been no definite word on it. The PMEAC also forecast that the Indian economy could grow by 7.5% this year. Inflation in India remains at high levels. Consumer price inflation stood at 17.21% in January, up from 14.97% in December 2009. Foreign institutional investors were net buyers of \$234.7 million in Indian equity last week, after being net sellers over the past couple of weeks.

### Sterling Pound / Dollar

DGBP (US \$ quoted in cents per Pound)



The pound may head toward \$1.56 later this week as it bounces off of support levels. There is still potential for further downside, however, as economic conditions in the United Kingdom are lagging behind many other industrialized nations, notably the United States. Recent weaker than expected economic data has sparked increased

expectations that the United Kingdom will have to take further measures to stimulate economic growth. Although this stimulus could come in many forms it is likely to weigh on the pound. That said, the pound already is at nine-month lows and could consolidate before taking firmer direction.

### Japanese Yen / Dollar

DJPY (US \$ quoted in cents per 100 Yen)



The Japanese yen could continue its descent this week, possibly moving toward 107 cents — 108 cents. The yen had been expected to decline over the past several weeks, but that did not actually happen. Last week the yen fell 1.9%. Consumer spending in Japan remains depressed with no signs of improvement, at least in the near future. The Japanese government and the Bank of Japan had conflicting views on ways to

tackle deflation. However, this was resolved last week. The Bank of Japan has taken the lead to handle the threats of deflation. The Bank of Japan in its recent monetary policy meeting kept interest rates unchanged at 0.10%. Domestic exports from Japan has been picking up, especially to Asian nations. A weaker yen against the U.S. dollar makes Japanese goods more competitive in the overseas markets.

## Further Information

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