DGCX
بورصة دبي للذهب والسلع
DUBAI GOLD & COMMODITIES EXCHANGE

Weekly Market Views

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27th June 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.

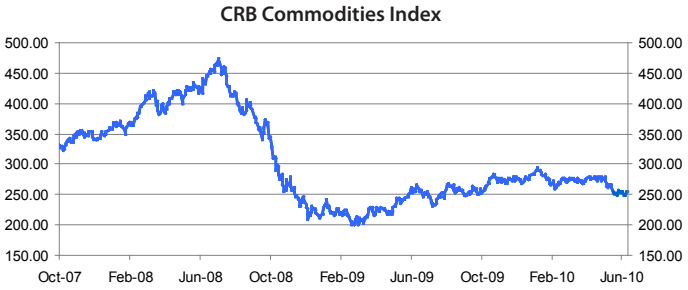
Please note that the observations and views expressed in this newsletter do not reflect the views of DGCX and are solely the view of the writer (CPM Group).

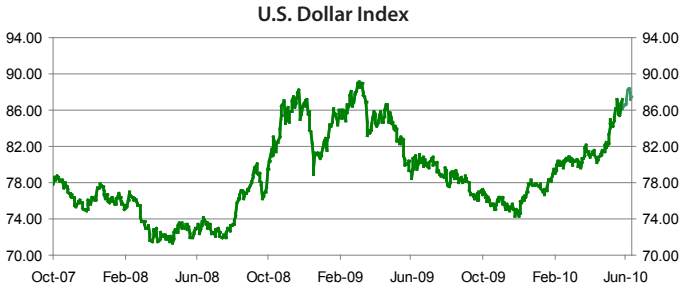
Commodities Overview

Most commodities prices traded in broad ranges last week. Ongoing euro zone sovereign debt and deficit problems, an easing in equity values, and resurfacing investor pessimism about overall economic conditions capped commodity price gains that had emerged the previous week. Gold managed to set record highs again, although the gains were made on the back of these very issues. Silver and oil prices meanwhile tested resistance levels. While economic data continue to point toward a global economic recovery, recent data releases and comments by monetary officials suggest a moderation in the pace of economic expansion. Current tight bank lending conditions and low levels of resource utilization are tempering commodity price gains, but as these conditions improve demand for commodities is likely to improve. This week and perhaps this next month may see commodity prices consolidate in wide ranges. Sustained improvement in financial markets and economic activity will eventually warrant higher prices, assuming there is not another shock to the financial system. Gold and silver prices, however, will have scope to move higher in the near term as investors will continue to look toward safe haven assets to hedge against financial market vulnerability and volatility.

Currencies Overview

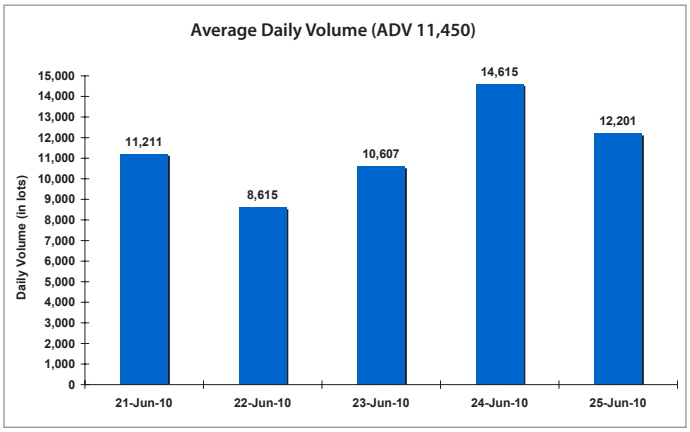
The People's Bank of China announced on 20 June that it would allow the yuan to appreciate against the dollar once more. This should not have surprised anyone in the market, since the PBOC has been saying for months it would do this. It should be viewed as part of a broader move by the PBOC and the Chinese government to take a more prominent position in international monetary affairs. CPM Group expects a high level official from the Bank of China to be named Deputy Managing Director at the International Monetary Fund later this year, for example. While the yuan appreciation plan is a positive long-term development, it will do virtually nothing to resolve the more problematic long-term trade, deficit, and debt problems in the industrialized nations. Given the stickiness in import demand for Chinese goods in industrialized nations it will exacerbate some of these trends initially, worsening trade deficits in the United States, Japan, and Europe. This will apply added pressure on those governments to be more serious about the reforms they need to impose on government spending and domestic economies. It is not a panacea for the industrialized nations' problems.





DGCX Prices & Daily Volumes

Market (as at June 25, 2010)	Current Week close	Current Week close	% Change	Weekly High	Weekly Low
Gold futures ($/ounce)	$ 1255.50	▼	-0.20%	$ 1266.60	$ 1225.70
Silver futures ($/ounce)	$ 19.055	▼	-0.86%	$ 19.370	$ 18.370
Euro Futures ($/Euro)	$ 1.239	▲	0.11%	$ 1.247	$ 1.222
GBP Futures ($/GBP)	$ 1.503	▲	1.51%	$ 1.504	$ 1.469
INR Futures ($/100 INR)	$ 2.173	▲	0.11%	$ 2.191	$ 2.144
JPY Futures ($/100 Yen)	$ 1.122	▲	1.71%	$ 1.121	$ 1.095
WTI Futures ($/b)	$ 78.86	▲	2.18%	$ 79.90	$ 75.35



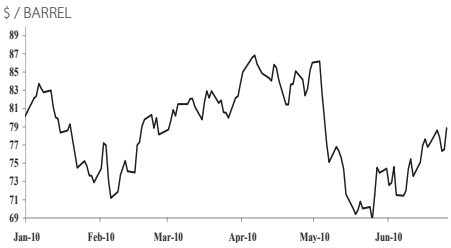
Economic Indicators

Indicator		Value	Change	% Change
CRB Index	▲	265.61	2.68	1.0%
U.S. Dollar Index	▼	85.33	-0.37	-0.4%
T-Bills	▲	0.13%	0.04%	0.0%
DJIA	▼	10,144	-306.83	-2.9%
FTSE All World	▼	183.18	-5.31	-2.8%

Source: Bloomberg data

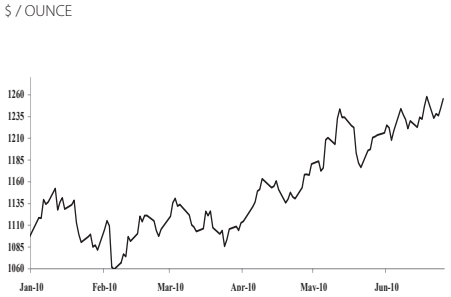
COMMODITIES

Crude Oil



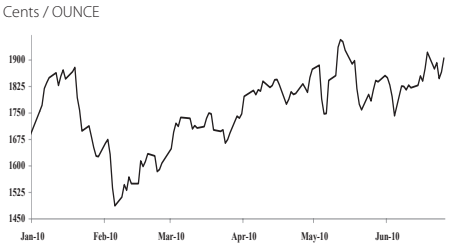
WTI oil prices are likely to move between $75 and $80 this week, amid shifting investor sentiment over demand prospects, supply concerns, and economic conditions. Prices moved lower last week after a federal judge ordered the lifting of a moratorium on off-shore drilling in the Gulf of Mexico, easing supply concerns. Prospects for demand also dimmed amid resurfacing worries over euro zone sovereign debt problems affecting economic activity abroad. These factors have more to do with sentiment and expectations than they do with underlying fundamentals. Recent IEA data showed that implied global oil demand was higher than pre-recession levels during the first five months of this year. Global oil supplies also rebounded above pre-recession levels, mainly due to strong growth in OPEC natural gas liquids and non-OPEC crude oil production. Taken together, these two trends have led to higher than expected inventory builds across the OECD. The outlook for economic growth will continue to push and pull at oil prices. However, fundamentals may eventually push prices above $85 during the summer months.

Gold



Gold prices have the potential to set record highs again this week. Last week was the third consecutive week of record prices for gold. While financial markets have stabilized over the past two weeks compared to the high levels of volatility seen in May and early June, there remains a great deal of investor anxiousness. Demand for gold remains firm while there continues to be a reluctance to sell substantial amounts of gold investments. Short-term investors have been active in the gold market, relying on technical trading cues. Longer term investors meanwhile continue to add to their gold holdings. Combined exchange traded fund gold holdings rose to a record 65.15 million ounces as of 24 June, up 297,797 ounces from previous record of 64.85 million ounces at the end of the previous week. Financial and economic activity has recovered over the past few quarters, but remains vulnerable. Ongoing euro zone sovereign debt problems are increasingly being expected to moderate the pace of the global economic recovery, pushing investors toward safe haven assets.

Silver



Silver prices are expected to rise this week. Prices could face some resistance at $19.80 or $20.00. These may be the high for the week, although strong demand could push prices briefly over $20.00. The roll of the July contract in the New York futures market is expected to help push silver prices higher this week. Any weakness in silver prices this week is expected to be contained above $18.20. Investors remain interested in silver and are expected to buy if prices slip to this level. Silver exchange traded funds (ETFs) holdings reached 475.8 million ounces on 24 June. This level was off from the record high 477.1 million ounces of silver held by ETFs on 16 June, but is still at extremely high levels. Healthy demand from the electronics and solar energy industries also is expected to be supportive of prices.

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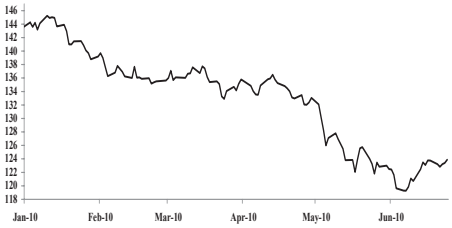
CURRENCIES

Euro / Dollar

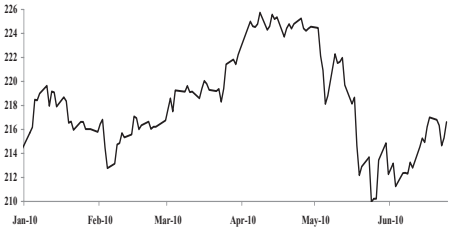
DEUR (US $ quoted in cents per Euro)



The euro may move in a wide band this week, between $1.21 and $1.25. The euro fluctuated sharply in this range last week after recovering from four-year lows. Investor concerns resurfaced last week over euro zone sovereign debt problems, but not to the levels earlier in June. Yields on Greek debt have been rising over the past two weeks, increasing concerns over the rising costs of insuring financially burdened euro zone member countries' debt obligations. Recent comments by the Federal Reserve increased expectations that the economic recovery in the United States would moderate, removing some support from the dollar but also providing incentive for safe haven buying. Market participants may take some direction from commentary by government officials from the G-20 meeting, which commences on 26 June.

Indian Rupee / Dollar

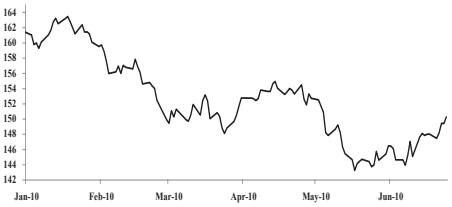
DINR (US $ quoted in cents per 100 Indian Rupees)



The rupee may trade between 214 cents and 218 cents per 100 rupees this week. The rupee edged higher early last week as sentiment improved over financial markets and economic conditions. Equity values in India also had risen into Monday last week. Sentiment shifted over the course of the week, however, as the rupee ended lower. The Federal Reserve's comments raised concerns about the strength of the global economic recovery, which tempered investor interest in developing economy markets. Despite these concerns, foreign institutional investor fund flows surged last week to $1.3 billion, up sharply from $635.21 million in the previous week. This helped provide support for the rupee, given still strong investor expectations of fundamental economic conditions for India.

Sterling Pound / Dollar

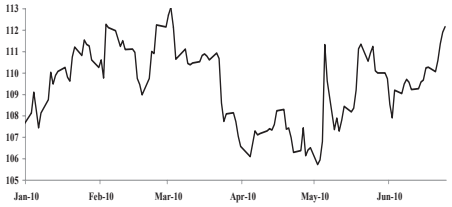
DGBP (US $ quoted in cents per Pound)



The pound may trade between $1.48 and $1.50 early this week, but could move toward $1.52 later in the week. The pound rose last week after the United Kingdom's government announced its budget plans to reduce its fiscal deficit. The fiscal tightening plans received positive comments from two ratings agencies. Minutes of the Bank of England's (BOE) monetary policy meeting indicated that a member of the monetary policy committee had voted to raise interest rates. This lent support to the pound on expectations that the BOE may increase interest rates sooner than previously had been expected. Although investor concerns over the United Kingdom's public finances have been allayed momentarily, weak economic activity could keep the pound below $1.50.

Japanese Yen / Dollar

DJPY (US $ quoted in cents per 100 Yen)



The yen may test 113 cents early this week, but could decline toward 111 cents by week's end. Investor sentiment over financial markets and economic conditions was mixed last week, but edged toward being less optimistic than in the previous week. Concerns over the global economic recovery moderating pushed investors into safe haven currencies. World equity values also declined. Sovereign debt and deficit problems in the euro zone remain, and structural problems persist. The United States also suggested last week that it would keep interest rates exceptionally low for an extended period given recent developments in financial conditions. The yen meanwhile is receiving support from moderate export figures month-on-month, but more positive figures year-on-year.

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