



# Weekly Market Views

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18<sup>th</sup> July 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).

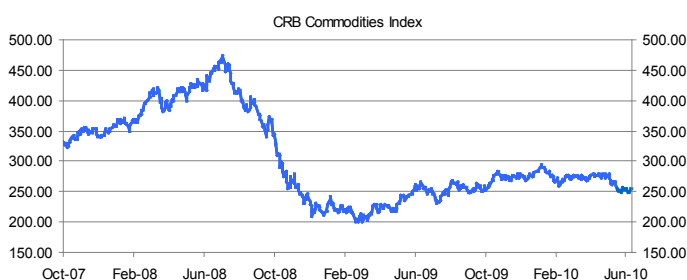
## Commodities Overview

Gold, silver, and petroleum prices were caught up in a broad sell off of assets last Friday, from stocks to dollars to commodities. There were various theories and rumors as to why prices fell, but most of them did not stand up to scrutiny. One rumor related to heavy liquidation by a long gold investor, but the market did not seem to reflect such trades. Given that the selling occurred across a wide spectrum of markets, it is unlikely that it was primarily driven by fundamentals in gold, oil, or any other single asset market. Such conditions may have contributed to the urge to sell, but the selling, which started in Asia Friday morning, was too broad based to reflect such events. The primary factor behind the sell off appears to have been stale-bull liquidation, as investors sought to take profits in various markets that either had risen in recent weeks, or had risen and then had stalled out. Additionally, financial market participants are concerned about the potential unintended side effects of the U.S. financial regulatory reform bill passed by Congress on 15 July. The bill is lengthy and complex to begin with, and devolves many decisions to government regulatory bodies, some of which do not even exist yet.

## Currencies Overview

The dollar took a drubbing against many currencies last week. The majority of the dollar's weakness may be in the market now, however, and the dollar could see some recovery in the coming week. The dollar's recent weakness has reflected many varying economic trends. First, there are signs that the U.S. economy is slowing. This was expected, but some indicators are that the second-half slowdown will be greater than had been anticipated. This has taken some investor interest away from the dollar and dollar-denominated investments. At the same time economic conditions in Europe, the United Kingdom, and Japan are showing signs of greater strength than had been expected. Economic conditions are still weak and vulnerable in these countries and regions, but they are better than the markets had been giving them credit for in May and all of June. In this environment, investors have booked some profits from long dollar trades earlier in the year, and have moved back to a more balanced portfolio posture toward the major traded currencies. This more balanced view is expected to remain in force this week, and possibly for a few more weeks. That suggests that currencies may move sideways. The dollar may stop its recent declines, and could recover some. It is not expected to rebound back to early June levels in the next few weeks, however.

CRB Commodities Index



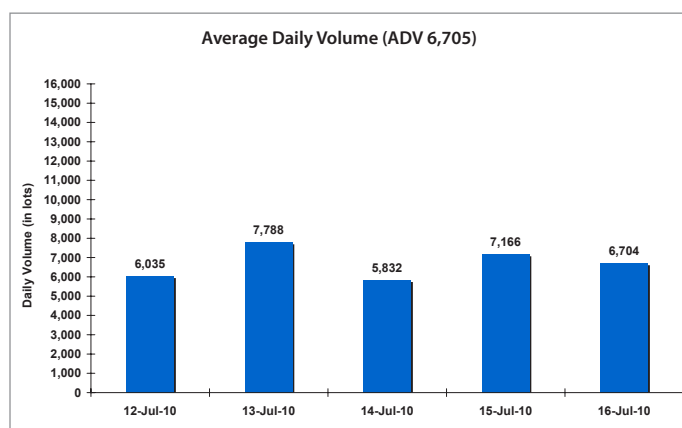
U.S. Dollar Index



## DGCX Prices & Daily Volumes

Market (as at July 16, 2010)	Current Week close	Current Week close	% Change	Weekly High	Weekly Low
Gold futures (\$/ounce)	\$ 1,190.9	▼	-0.55%	\$1,218.40	\$1,186.20
Silver futures (\$/ounce)	\$ 17.865	▼	-0.47%	\$18.505	\$17.790
Euro Futures (\$/Euro)	\$ 1.294	▲	2.06%	\$1.30	\$1.253
GBP Futures (\$/GBP)	\$ 1.5294	▲	0.97%	\$1.544	\$1.495
INR Futures (\$/100 INR)	\$ 2.1195	▼	-0.44%	\$2.144	\$2.117
JPY Futures (\$/100 Yen)	\$ 1.1556	▲	1.98%	\$1.159	\$1.124
WTI Futures (\$/b)	\$ 76.01	▲	0.76%	\$78.10	\$74.33

Average Daily Volume (ADV 6,705)





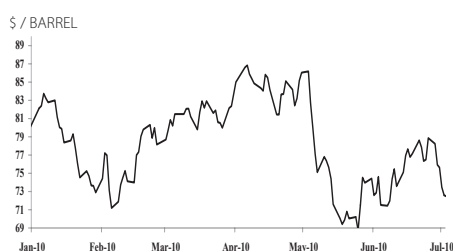
## Economic Indicators

Indicator		Value	Change	% Change
CRB Index	▲	262.22	1.60	0.6%
U.S. Dollar Index	▼	82.49	-1.46	-1.7%
T-Bills	▼	0.14%	-0.00%	-3.4%
DJIA	▼	10,098	-100.13	-1.0%
FTSE All World	▼	184.78	-0.32	-0.2%

Source: Bloomberg data

## COMMODITIES

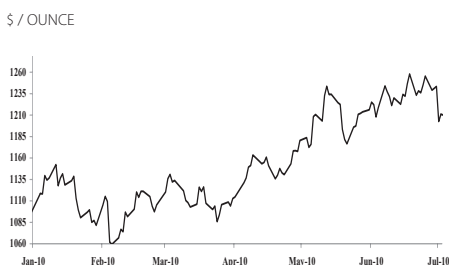
### Crude Oil



WTI oil could trade within a range between \$74 and \$78 this week. Last week's increase in refinery utilization rates to 87.1% likely contributed to the recent rise in oil product inventories. This has been good news for United States crude oil inventories, which fell by 5.1 million barrels last week. Although stock draws may ease into August as refiners rein in production, the outlook for oil prices in the latter half of this year remains positive. The International Energy Agency's

oil demand forecast for 2010 was recently revised upward to 86.5 million barrels a day, a 2.1% increase from the prior year. Oil prices rose to an intraday high of roughly \$78 early last week but then fell back toward \$75 later in the week as weakening investor sentiment weighed on the market. Prices may continue to take their cues from macroeconomic data, buffeting prices between \$74 and \$78.

### Gold



Gold prices are expected to test \$1,180 this week. That level is expected to hold. Prices may rise back toward \$1,220 or \$1,230 as short positions are later unwound. At the end of last week prices were pushed sharply lower in line with a broad sell off across financial markets, from stocks to currencies and commodities. The sell off appeared to reflect profit taking by nervous investors across markets. There were rumors that a prominent long gold investor was liquidating part of its position, but that did not seem likely. A tame U.S. consumer price index report, released by the U.S. Department of

Labor on 16 July may have aided the selling. A break below \$1,180 could trigger a plunge to \$1,140, but such a decline seems unlikely. If it occurs it would be expected to be short-lived. Gold prices could rise ahead of these release of reports of the European banks stress tests on Friday 23 July. The contract roll in the futures market in New York may provide additional support to gold prices over the next two weeks. Combined gold exchange traded fund holdings reached 65.75 million ounces on 15 July, up from 65.71 million ounces on 9 July.

### Silver



Silver is forecast to trade between \$17.60 and \$18.80 this week. A drop to \$17.40 is possible earlier in the week, and the historical tendency of silver to plunge \$2 or so quickly should not be forgotten. It happened as recently as May. The weakness in silver prices on Friday 16 July opened up a buying opportunity for investors. Investors in exchange traded funds increased their holdings in these instruments at a rapid pace last week, especially in relation to net additions in other recent weeks. Investors added 2.07 million ounces of silver to

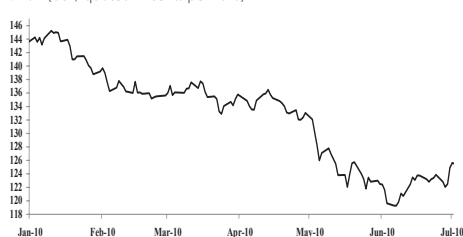
holdings during the first four days of last week. Renewed buying at relatively lower prices should help push silver higher this week, although there could be some weakness first on Monday. Fabrication demand for silver from the electronics sector is expected to be robust going forward. Large electronics chip manufacturers such as Intel and AMD released strong sales results last week, and forecast continued strength in chip sales. This is positive of silver fabrication demand, as the metal is used extensively in these chips.

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## CURRENCIES

### Euro / Dollar

DEUR (US \$ quoted in cents per Euro)

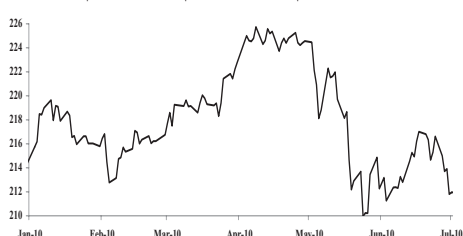


The euro may trade between \$1.25 and \$1.31 this week. The euro settled at \$1.29 on Thursday, 15 July, the highest level since 4 May. The euro's strength is partly a product of weak economic data from the United States. Soft retail sales and industrial production figures for June in the United States point toward weaker growth in the second half of this year. Additionally, the Federal Reserve revised its growth estimates downward for 2010. The European economies have shown some resilience against their sovereign debt problems, meanwhile. Industrial production

in the euro zone rose 0.9% in May from the previous month. While investors' concerns over sovereign debt issues in the Euro zone have eased in the past few weeks, the underlying problems remain. Banks in Spain borrowed \$161.2 billion from the European Central Bank in June, a 48% increase over money borrowed in May. With that, any negative developments regarding the sovereign debt problems in Europe could push the euro down toward the lower end of the stated range.

### Indian Rupee / Dollar

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

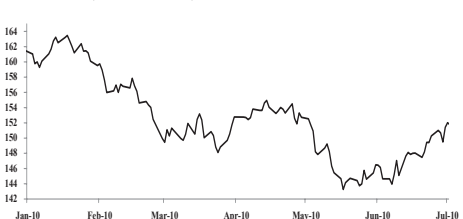


The rupee could move between 211 and 214 cents per 100 rupees this week. The rupee traded higher in the first half of last week and pared gains on Friday. Inflation concerns weighed on the currency and may continue to do so ahead of a Reserve Bank of India policy meeting scheduled for 27 July. Wholesale prices rose 10.55% in June from last year, higher than the 10.16% increase in May. The policy meeting may be centered on raising interest rates for the second time this month. Economic growth in India is

abating, similar to other economies around the globe. Industrial production rose 11.5% in May from last year, which was a slowdown from 16.5% in April. Investor sentiment towards emerging economies has been improving over the past few weeks. Foreign inflows into India's domestic capital markets stood at US\$3.5 billion this month through 15 July, already exceeding the US\$2.4 billion of foreign investment inflows reached in June.

### Sterling Pound / Dollar

DGBP (US \$ quoted in cents per Pound)

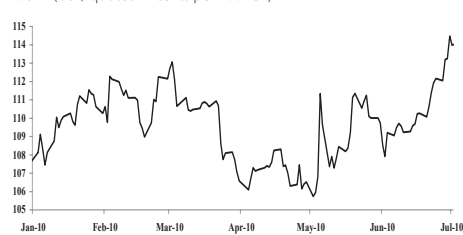


The pound may trade on either side of \$1.53 this week. The pound received buying interest early last week from United Kingdom inflation figures that were well above the 2% target in June. This increases the possibility that the Bank of England will raise interest rates to curb further inflationary pressures. The pound then rose to a two-month high of \$1.54 on 15 July following better than

expected United Kingdom labor data. Although the pound may receive support from a stronger fiscal and economic outlook in the United Kingdom in the longer term, profit-taking may weigh on the pound in the near term. Unless market sentiment improves, the pound is unlikely to break above \$1.54 later this week.

### Japanese Yen / Dollar

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



The yen could consolidate around 115 cents this week. After some initial weakness last week, the yen soared to almost 116 cents on 16 July. This was the highest level since the end of 2009. Demand rose as investors shifted from dollars to other currencies. The yen benefited from weak investor appetites for both the dollar and the euro. While economic conditions are showing signs of better performance in Japan there are indications of a weaker U.S. economic recovery than some investors appear to

have been expecting. Yields declined on U.S. Treasuries while the Federal Reserve revised lower its growth and inflation forecasts. The yen also received a boost from a positive outlook for Japan's economy. The Bank of Japan on Thursday raised its economic growth forecast for fiscal 2010 to 2.6% from its previous estimate of 1.8%. Downside risks still exist for the yen, as the currency remains vulnerable to short-term trading strategies. The yen could fall back to around 113 cents if financial markets improve.

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