



# Weekly Market Views

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29th August 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.

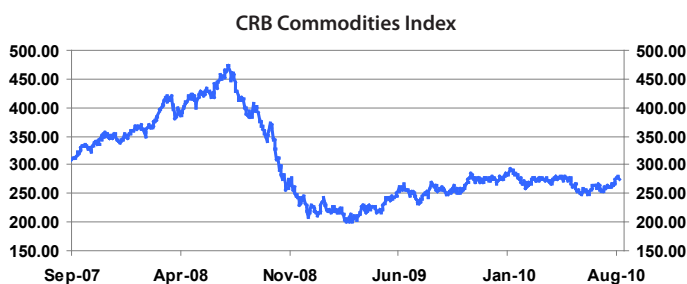
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## Commodities Overview

Gold and silver prices may remain elevated this week, at least during the first few days. Investors remain interested in these metals, as portfolio diversifiers and safe havens in the face of greater concern over U.S. economic performance. Industrial commodities may move sideways. They weakened early last week as investors reduced their expectations for fabrication demand in the face of lower U.S. overall economic growth, but recovered late in the week as the markets moved away from the gloomy assessment. Investors realized U.S. economic conditions, while weakening, still were expanding, with the more important realization that economic conditions in the rest of the world still were in better shape. Even with the slower growth projected for China as the government there seeks to rein in growth demand still is expected to remain vibrant. Oil prices rose late last week in part on short-covering, and are vulnerable to declining once again based on ample supplies and some anticipated seasonal moderation in demand for distillates. Overall investors remain interested in commodities, but they are seeking a more balanced level of enthusiasm based on the economic realities of modest real economic growth on a global basis.

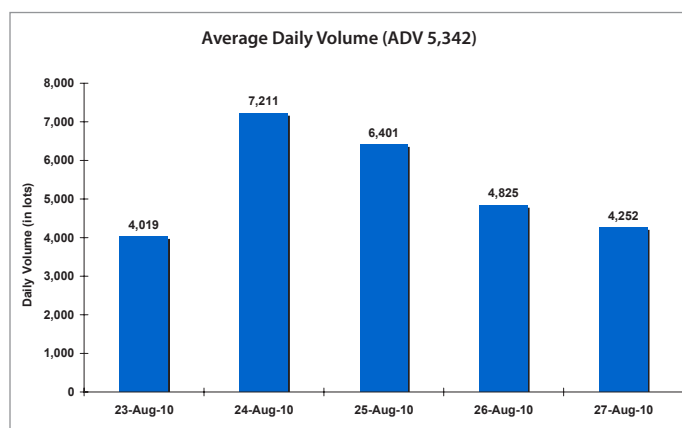
## Currencies Overview

Since July there has been a measurable deterioration of real economic activity, in the United States in particular but also in China and a few other nations. Investor pessimism and concern over economic trends and seemingly ineffectual governance compounded with the political impasse in the U.S. government are reducing capital expenditures, new business and real estate investments, and consumer spending, and economic growth and are threatening to push the U.S. economy into a new recession. It is not clear that this trend will result in an actual recession, but real economic activity clearly is suffering and the odds of much weaker economic performance in the United States have risen sharply. The upcoming U.S. midterm elections will worsen matters: They are likely to be extremely negative and should be expected to increase investor and consumer pessimism further. In this environment, the dollar already has halted the strong recovery that began at the end of 2009. The dollar is likely to trade sideways in a wide and volatile fashion over the next few months, with a possible range for the rest of this year of \$1.15 to \$1.40 against the euro. Investors' concerns over U.S. economic trends will be countered by caution over European and Japanese economics.



## DGCX Prices & Daily Volumes

Market (as at Aug 27, 2010)	Current Week close	Current Week close	% Change	Weekly High	Weekly Low
Gold futures (\$/ounce)	\$1,236.30	▲	0.63%	\$1,244.50	\$1,211.00
Silver futures (\$/ounce)	\$19.060	▲	5.92%	\$19.315	\$17.830
Euro Futures (\$/Euro)	\$1.273	▲	0.23%	\$1.276	\$1.259
GBP Futures (\$/GBP)	\$1.552	▼	-0.09%	\$1.561	\$1.539
INR Futures (\$/100 INR)	\$2.134	▼	-0.23%	\$2.146	\$2.123
JPY Futures (\$/100 Yen)	\$1.172	▲	0.39%	\$1.195	\$1.171
WTI Futures (\$/b)	\$75.17	▲	1.83%	\$75.30	\$70.85





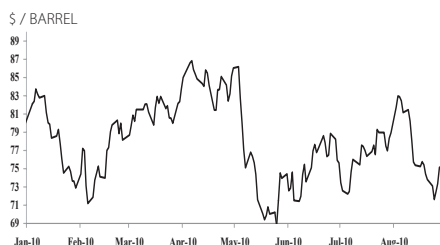
## Economic Indicators

Indicator		Value	Change	% Change
CRB Index	▲	267.27	0.26	0.1%
U.S. Dollar Index	▼	82.92	-0.14	-0.2%
T-Bills	-	0.14%	0.00%	0.0%
DJIA	▼	10,151	-62.97	-0.6%
FTSE All World	▼	185.21	-1.12	-0.6%

Source: Bloomberg data

## COMMODITIES

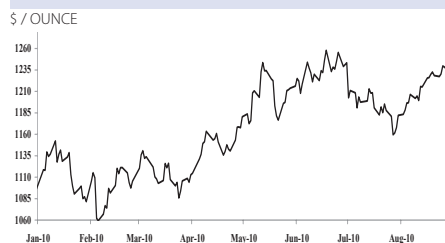
### Crude Oil



WTI oil prices could fluctuate between \$71 and \$77 this week. Last week crude oil prices were buffeted by swings in investor sentiment toward the United States economic recovery. Prices fell slightly below \$71 early last week but investors were quick to purchase oil at these lower prices. Short-covering contributed to the price rally late last week. Elevated stock levels and seasonal weakness in oil product demand could weigh on crude oil prices this week, but declines seem likely to be met with firm

support around \$71. Interruptions in North Sea crude oil production helped push Brent oil, a benchmark crude oil grade in Europe, to a premium over WTI oil on 17 August. This premium has since strengthened. European refiners may import more crude oil if Brent prices continue to outperform WTI prices. Roughly 20% of United States crude oil exports are bound for Europe. If last week's strengthening of prices extends into this week oil could move toward \$77.

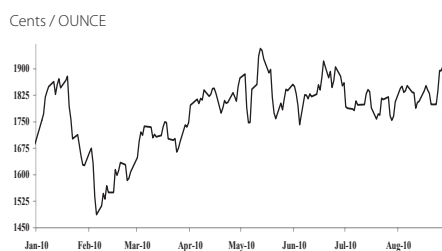
### Gold



Gold prices seem most likely to trade above \$1,220 this week. Prices may make a run toward \$1,260. Investor demand for gold in the face of weaker and worrisome U.S. economic data is likely to keep investors focused on gold this week, along with the roll in New York market silver positions. Prices could spike below \$1,220, but any move down to \$1,210 or other levels probably would trigger fresh buying. Lower than expected July home sales and durable goods orders point toward a slowdown in U.S. economic activity. On Friday 27 August, U.S. second quarter GDP was revised lower to 1.6% from the previous estimate of 2.4%.

The revision lower was less than what the market expected, however, which ranged from 1.1% to 1.4%. U.S. economic growth is expected to remain soft for the remainder of 2010. Negative economic data supporting and reinforcing this weakness are expected to continue being released, which should help keep investors interested in gold and prevent any significant decline in gold prices in the near future. Demand for gold is expected to pick up in India ahead of the festival season, although high gold prices may temper this buying over the next few weeks.

### Silver



Silver prices are expected to move between \$18.60 and \$20.00 this week. Investor demand and the roll of September positions forward in the New York market are seen as supporting prices following last week's rise. Strength in gold prices is likely to provide support to silver prices as well. Silver is considered by many as a safe haven investment similar to gold. Investors in silver exchange traded funds (ETFs) added around 2.3 million ounces of silver to holdings

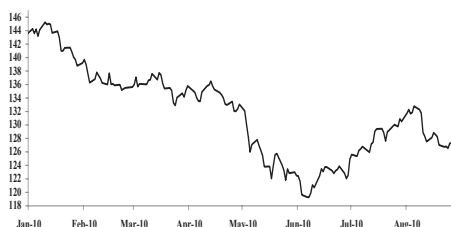
during the first four days of last week. These additions took combined silver ETF holdings to 493.3 million ounces, a record high. Silver ETF investors have made net additions of 4.8 million ounces of silver to total ETF holdings, between 1 August and 26 August. Demand for silver jewelry is expected to increase in India ahead of the festival season. Demand for silver jewelry also is likely to benefit from its relative affordability compared with more pricey gold jewellery.



## CURRENCIES

### Euro / Dollar

DEUR (US \$ quoted in cents per Euro)



The euro may trade between \$1.25 and \$1.29 this week. The euro moved in this range last week and could continue to do so in the next few trading sessions. Soft economic data from the United States last week outweighed Standard and Poor's recent downgrade of Irish sovereign debt. Increased Spanish bond sales to international banks last week reduced the country's reliance on the European Central Bank, boosting confidence among investors. European equity values have been trending lower over the past few

weeks, but recently began to climb higher. Downside concerns remain, however. The cost of insuring against sovereign debt default in Europe continues to trend higher. Increasing uncertainty in financial markets and weakening investor sentiment toward economic conditions could push the euro lower if these investors decisively moved back toward the dollar this week. Economic data from the U.S. to be released this week could increase volatility, pushing the euro outside of the above stated range.

### Indian Rupee / Dollar

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



The rupee may trade sideways to higher this week. The rupee has been trending lower since the beginning of August and could continue to face weakness amid rising uncertainty in financial markets and weakening investor sentiment toward emerging economies and risky assets. Indian equity values fell last week after having trended higher this month and the Sensex settled below 18,000 for the first time since 30 July on 27 August. GDP for the second

quarter of this year is set to be released on 31 August and could support the rupee. Domestic economic prospects have been positive so far this year. Inflation is expected to be curbed by improved crop output over the next few months. A rise toward 216 cents could occur, although continued negative economic data being released from the United States and Europe would likely restrain the rupee's rise this week.

### Sterling Pound / Dollar

DGBP (US \$ quoted in cents per Pound)

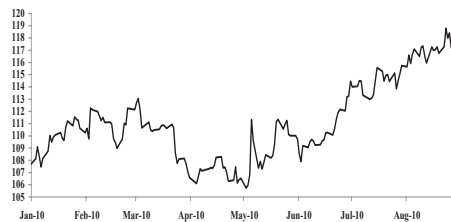


The pound may consolidate around \$1.55 this week. The pound fell slightly below \$1.54 last week after a member of the Bank of England's monetary policy committee signaled the economic recovery in the United Kingdom may be slowing. The pound then recovered to \$1.55 later in the week as the second quarter GDP growth estimate for the United Kingdom was revised upward

to 1.2% year-on-year from the previous estimate of 1.1%. While the government's recent efforts to draw down its fiscal deficit pushed the pound to a high of nearly \$1.60 in early August, investors may have begun to question the sustainability of the recent economic recovery in the United Kingdom. This may keep the pound subdued in the near term.

### Japanese Yen / Dollar

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



The yen could move around 118 cents this week. The yen rose as high as 119 cents early last week before falling back below 118 cents on 27 August. Bearish sentiment over the United States economic recovery continued to drive safe-haven demand for yen. Speculation that the Federal Reserve might step in with more monetary easing helped the yen rally. The yen at current high levels is increasingly vulnerable to Japanese government intervention, and to

market speculation that the government may intervene. Policymakers in the Japanese government and the Bank of Japan have agreed on the need to prevent further yen appreciation. The Japanese Prime Minister is expected to announce additional stimulus measures in early September. Unless these measures are significant enough to turn market sentiment the yen could retain some upward momentum in the near term.

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