Key Trade 18th November 2010

New Position

1. Buy Gold

Go long Feb 11 Gold @1354.50. ½ Position. Stop 1240.

The Technical Trader's View:

Weekly Bar chart

The market is in the grip of a continuation triangle suggesting a minimum move up as far as 1480 or so.

The recent pullback provides an opportunity to get in.

Stops beneath the upper rising diagonal of the Triangle.

Look closer.

TEL +44 (0) 7849 922573 E-MAIL MSTURDY@SEVENDAYSAHEAD.COM JLEWIS@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM

Daily Bar chart

The stop is a long way away- beneath the horizontals from the Prior Highs at 1271 and 1254.

<u>We are looking to add on any further weakness.</u>

The Macro Trader's view:

Gold sold off at the end of last week and for much of this on several factors:

1. The failure of the G20 to agree any meaningful mechanism for correcting growing global trade imbalances which are contributing to currency volatility,
2. The deepening Euro zone Sovereign debt crisis which saw peripheral Euro Zone Bond yields hit record levels,
3. International criticism of the Fed's QE2 policy, and
4. Fears China was about to tighten monetary policy.

Given the array of concerns one could have been forgiven for thinking that Gold might well have rallied, but the confluence of the above served to give rise to a bout of risk aversion and all asset classes sold off, except the Dollar which strengthened and partly explains gold's "brief" weakness.

We judge the Fed was right to opt for QE2; just look at US CPI levels, the fear of deflation isn't without foundation. Additionally Housing starts collapsed this week showing there is still a long way to go before the US housing market is in recovery.

And what of the Euro zone debt crisis? Clearly the Euro is under threat. Germany wants onerous conditions put in place to allow access to the rescue fund, meaning Bond yields could rise further if an Irish/Peripheral rescue is put in place with German conditions.

We judge the Dollar is also fundamentally still weak and that weakness will begin to re-assert if an acceptable Euro zone rescue is agreed.

Therefore we remain long term Bulls of Gold, but to allow for the inherent volatility in this market we advise going long ½ a position with a long stop.

Mark Sturdy

John Lewis

Seven Days Ahead

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