



PRECIOUS METALS, OIL AND VOLATILITY OVERVIEW

For the week of
October, 17th - 21st, 2011

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Welcome

I will analyze the precious metals of gold and silver, oil, and the volatility index for the week ended 23/11/2011.

The tools I used for analysis are:

- Technical analysis
- Market overview and behavioural analysis
- Commitment of Traders Weekly Report

Gold Analysis

Gold opened at week Monday at 1686.80 and closed lower on Friday at 1640.60. The minor selloff has largely been due to no new negative developments in Europe and the \$USD gaining strength in the past two weeks. Gold is trading in a horizontal channel between 1600 and 1700. A break above could signal retest of historic highs, while a break to the downside would signal a test of the 200 SMA.



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GOLD - COMMODITY EXCHANGE INC.									Code-088691	
FUTURES ONLY POSITIONS AS OF 10/18/11										
NON-COMMERCIAL						COMMERCIAL		TOTAL		NONREPORTABLE POSITIONS
LONG	SHORT	SPREADS	LONG	SHORT	LONG	SHORT	LONG	SHORT	LONG	SHORT
(CONTRACTS OF 100 TROY OUNCES)									OPEN INTEREST:	437,739
									<u>COMMITMENTS</u>	
175,224	48,246	23,258	182,341	341,494	380,823	412,998	56,916	24,741		
CHANGES FROM 10/11/11 (CHANGE IN OPEN INTEREST:									-351)	
-3,901	3,623	881	2,592	-6,733	-428	-2,229	77	1,878		
PERCENT OF OPEN INTEREST FOR EACH CATEGORY OF TRADERS										
40.0	11.0	5.3	41.7	78.0	87.0	94.3	13.0	5.7		
NUMBER OF TRADERS IN EACH CATEGORY (TOTAL TRADERS:									320)	
170	74	84	53	49	262	173				

The Commitment of Traders report is released weekly by the U.S. Commodity Futures Trading Commission and is accessible on www.cftc.gov.

Non-Commercial future holders had a net long position in Gold while the commercial category had a net short position in gold. Non-commercial future holders are hedge funds, individual traders, and large institutions. Commercial holders are involved in the production, processing, or merchandising of a commodity.

The commercial category is the smart money in the market, and they were net short for the week ended 18/10/11. The commercial holders had a positive change in long positions from last week, and a negative change in short positions. If a larger number of commercial holders jump on the long side of gold, it could drive prices higher.

Silver Analysis

Silver opened the week at \$32.25 and closed Friday at \$31.55. It had a negative week along with Gold, with many of the same reasons as gold such as subsiding fear and lower safe haven appeal. Silver is still in a long term uptrend signalled by the 200 SMA, and backed by China's demand for which has surged dramatically in the past couple years.

Lower volumes of Silver were traded last week. It is also trading in a horizontal channel of around 35.50 and 30. A break above or below could signal a retest of highs or lows. The 50 SMA is approaching the 200 SMA; a cross below would be a bearish signal.



SILVER - COMMODITY EXCHANGE INC. Code-084691
FUTURES ONLY POSITIONS AS OF 10/18/11

NON-COMMERCIAL							COMMERCIAL		TOTAL		NONREPORTABLE POSITIONS		
LONG	SHORT	SPREADS	LONG	SHORT	LONG	SHORT	LONG	SHORT	LONG	SHORT			
(CONTRACTS OF 5,000 TROY OUNCES)											OPEN INTEREST:		103,357
											<u>COMMITMENTS</u>		
23,005	12,653	20,205	40,121	58,895	83,331	91,753	20,026	11,604					
<u>CHANGES FROM 10/11/11 (CHANGE IN OPEN INTEREST: 3,659)</u>													
-566	1,030	1,377	2,531	477	3,342	2,884	317	775					
<u>PERCENT OF OPEN INTEREST FOR EACH CATEGORY OF TRADERS</u>													
22.3	12.2	19.5	38.8	57.0	80.6	88.8	19.4	11.2					
<u>NUMBER OF TRADERS IN EACH CATEGORY (TOTAL TRADERS: 153)</u>													
58	36	42	38	41	123	100							

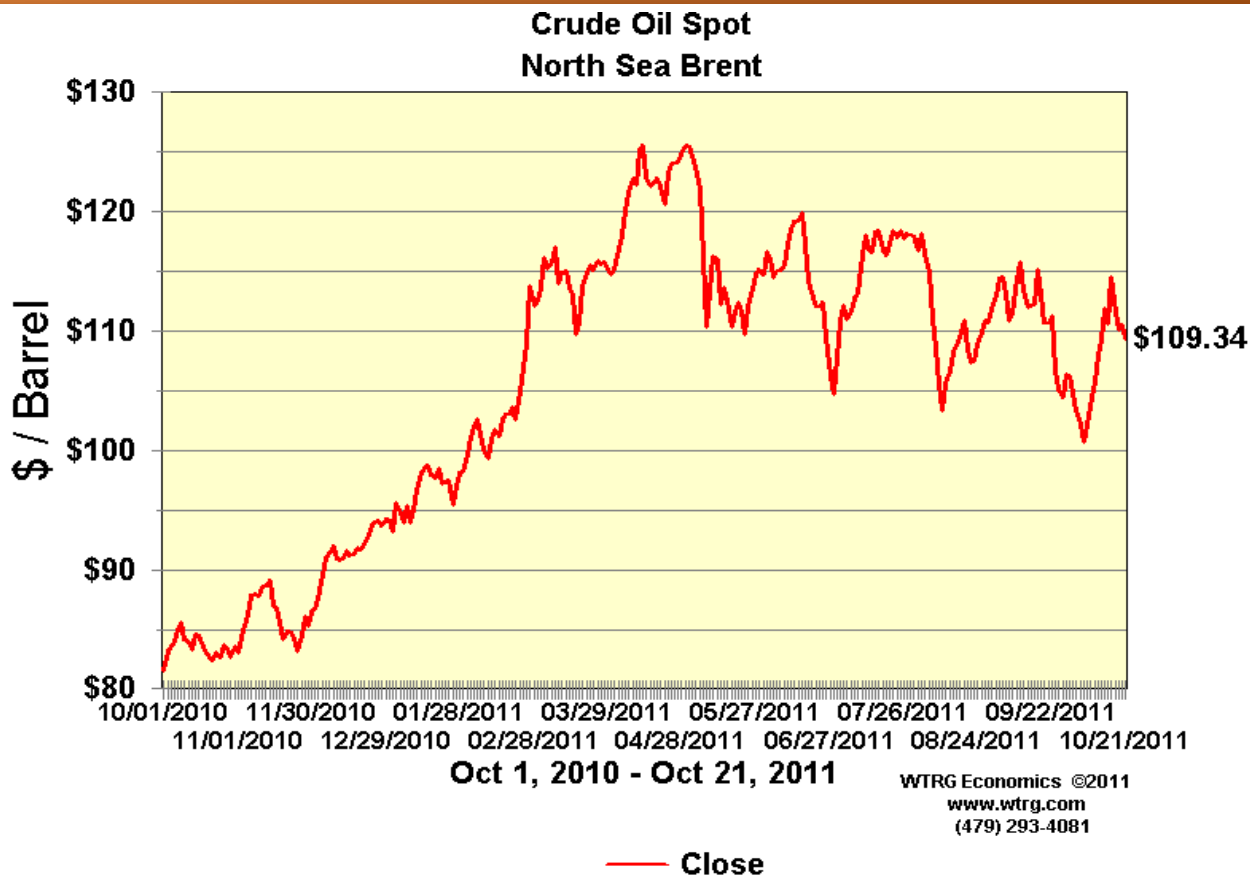
The commercial holders of silver futures are net short, although more long than short positions were opened this week (2,531 compared to 477 contracts). Non-Commercial speculators and traders added 1030 contracts short, and closed 566 long positions. If many commercial future holders reverse their position from short to long, it could squeeze out other shorts and drive prices higher.

Light Sweet Crude and Brent Analysis

The West Texas Intermediate light crude oil and Brent crude are world's two main oil benchmarks. I will first examine WTI, which opened the week at \$87.71 and closed Friday at \$87.17.



WTI established a horizontal channel this past week. The price was rejected at a test of \$90 and formed a double top technically. There is a bearish divergence in the MACD indicator when you compare the two most recent tops. Look for a breakout above the trading channel or a retest of the lows. WTI has an inverse correlation with the \$USD, and could retest either the top or bottom of the channel.



Brent is trading in a downward channel, as WTI looks to close the gap between the two. The historic premium for Brent Oil compared to WTI stands around \$4, which is much smaller than the \$20+ premium it holds currently.

Volatility Index (VIX) Analysis

The VIX is often referred to as the fear index. It measures the market's expected volatility for the next 30 days. It ranges from 0-100, although historically is in the 10-20 range. Recently however, due to the financial crisis in 2008 and new economic worries, it trades at a much higher range.

VIX opened the week at \$30.95 and closed Friday slightly above, at \$31.48. There was a small increase in volatility midweek due to the anticipation of the European Summit on Sunday regarding Europe's debt solution.

As Europe's financial rescue plan is worked out in the next few days, VIX will represent the fear in the market. It could retest channel highs if investors aren't confident in the rescue plan, or if the solution is not found promptly. On the other hand, if European leaders announce that a solution has been created it could rally equities and lower the fear in the market, which would drive the VIX lower.

Technically, the VIX is still trading in a horizontal channel with a top of \$47 and the bottom around the \$30 mark, which is an important support. If it breaks the support, prices could retest the 200 SMA at 24 dollars before encountering any more heavy support.



Conclusion

This marked another volatile week in the stock and commodity markets fueled mainly by European debt worries and France and Germany's indecisiveness. The German chancellor and the French President acknowledged that a full solution would not be reached at the Euro Summit on Sunday October the 23rd.

It will be another interesting week as investors await a solution to Europe's debt problems. A lot of cash is on the sidelines and confidence is needed to make equities rally into the end of the year.

Disclaimer:

Investors should be cautious about any and all stock recommendations and should consider the source of any advice on stock selection. Various factors, including personal or corporate ownership, may influence or factor into an expert's stock analysis or opinion.

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