

**Gold has set a new record high above \$1,040/oz and the move up to this level does not look over extended yet**

- Dollar weakness on the back of a rise in interest rates in Australia promoted the rally, but there have been other developments too
- Fabrication demand is very poor and these higher prices will not help, but there must be considerable pent up demand
- Investor interest is strong at the fund level and with ETF holders
- All looks bullish, but be wary in case equities start to correct, in which case precious metals are likely to suffer too - initially

**Silver's rebound is looking robust and with Gold in uncharted waters Silver has little excuse not to play catch up again**

- However, if economic sentiment dips then Silver as an industrial metal could suffer more than Gold, but expect dips to be bought

**PGMs are rising steadily, but do seem to be avoiding a lot of the hype being seen in Gold and Silver**

- The poor US vehicle sales after the end of the 'cash for clunkers' programme seems to have been a reality check for the PGMs

**Gold breaks out of its consolidation pattern and rallies to new record highs**

Trading in early September saw Gold prices break higher out of the consolidation pattern that had contained prices for most of June, July and August. Having broken higher prices accelerated up to the high \$990's/oz, paused and then extended gains to \$1,024.25/oz, some \$8/oz below the highs seen in March 2008 at \$1,032.50/oz. The market then consolidated either side of \$1,000/oz, before pushing higher to set new record highs at \$1,043.80/oz. In recent weeks, sentiment across the broader markets does seem to have taken a turn for the worse as some important economic data has disappointed the market and that might well trigger a much awaited correction in equities. In the past, Gold prices have suffered during the early part of any broad based risk reduction sell-off and it may well do so again. That said, generally this time around money coming out of equities may well move more quickly into the likes of Gold, especially with the dollar under further pressure following the rise in interest rates in Australia.

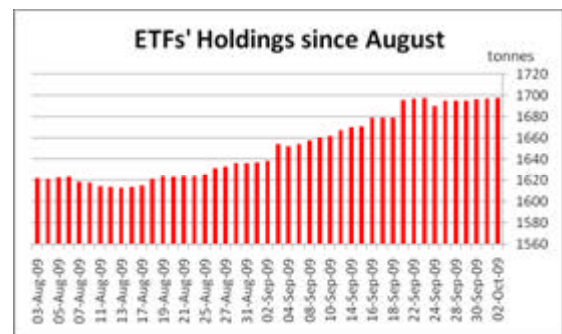
**Fabrication demand remains depressed**

Indian Gold imports in September were estimated at 34-40 tonnes, down 54% yoy. In the January to September period, India has imported just 131 tonnes, compared to 315 tonnes in the same period in 2008. Imports over the past eight years have averaged 688 tonnes, India's imports so far this year on an annualised basis would be 175 tonnes. Turkey's September imports were just 1.7 tonnes; in the January to September period imports have totaled 32.9 tonnes, down 80% from the 164.6 tonnes imported in the same period in 2008. With the drought in India adding to the hardship caused by the global recession and with high prices deterring what buying interest there is, the near term outlook does not look good. Indeed it rather looks as though Gold prices have choked off demand in India and parts of the Middle East. Could it be that Indian Gold jewellery demand follows a similar

path to Chinese Platinum jewellery demand between 2003 and 2007, which eventually fell 48%. In China, the change happened just because of high prices but in India as Gold is so much part of the culture we doubt the dearth of demand will last. Indeed we feel there is a high degree of pent-up demand waiting for any price dip.

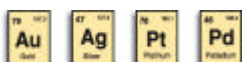
**Funds pour into Gold futures**

In early September, the net fund Gold position jumped from 184,501 contracts to 236,749 contracts on 22<sup>nd</sup> September before slipping slightly to 231,336 contracts by month end. This has set a new record and as such alarm bells were ringing that a correction is overdue. However, we are not so sure - there may be a pull-back at some stage, but we feel the fact that Gold has moved to new highs, at a time when equities are booming, suggests that all is not well with the broad based 'V' shaped recovery we have seen since March. Indeed recent economic data has been indicating this too. As such, we feel a correction in the broader markets could well see more buying come into bullion, albeit after an initial correction.



**Longer term ETF buying continues**

The combined holdings amongst the Gold ETFs has gone up 62 tonnes since the end of August, taking the year to date rise to 533 tonnes. In the same period in 2008, the gain was 203 tonnes. So with the long term investors and the more speculative funds increasing exposure, appetite for Gold is strong,



although buying has slowed noticeably during the consolidation in recent weeks. It will, however, be interesting to see how the Gold ETFs do perform if prices pull back. If redemptions are kept to a minimum then it will suggest a confident Gold market.

**Central Bank Gold Agreement No.3**

The third Central Bank Gold Agreement (CBGA-3) started on 27<sup>th</sup> September and will run until 26<sup>th</sup> September 2014. It limits Gold sales to 400 tonnes per year. Given that over the past four years sales did not reach the 500 tonne maximum amount allowed, it will be interesting to see whether the lower allowance is reached. In the CBGA year just ended, sales made under the agreement were just 155 tonnes. The new CBGA allows for the 403 tonnes the IMF wants to sell, but there is even talk that China and other central banks may want to buy the Gold off-market from the IMF. China and Russia seem keen to diversify their dollar reserves so the opportunity to buy a meaningful amount (which would be hard to do in the open market) would make sense. If this happens, then it would be a bullish outcome for Gold. In addition, with the IMF looking to review the composition of its Special Drawing Rights (which currently include the dollar, euro, yen and sterling), other countries, notably China and Russia want their currencies included. The feeling is that if these currencies have a larger Gold backing, then they will be more eligible. In turn, this could lead to these countries absorbing more of their country's Gold production. One way or another, Gold seems set to become more monetized at the central bank level and that is likely to make it even more appealing to investors.

**After a lull, geopolitical risks have risen**

Iran's nuclear ambitions have come back into focus with the revelation of a second nuclear plant. With US patience running thin, the market is fearful of a rise in geopolitical tension. The possibility of tough sanctions may have prompted a pick-up in

Gold purchases in the Middle East in case overseas bank assets are frozen.



**Technical** – Having set new record highs Gold prices are in uncharted waters. The next level to overcome is the \$1,050/oz level, but forecast are likely to be looking at numbers such as \$1,250/oz and \$1,500/oz. Considering the break into new high ground, prices do not look too extended above the uptrend line, or indeed the 100 week moving average. At the previous peak at \$1,032.50/oz prices were \$333 above the average, at the \$1006/oz peak they were \$195 above and now prices are \$149 above the average. That's an average distance of \$225/oz which could see this peak rise up towards \$1,120/oz. More to the point the fact a new high has been set suggests the uptrend is intact.

**Summary** – Having just set new highs it is difficult to say anything other than that Gold is looking bullish and not overbought. Fabrication demand is weak and will be even weaker now and that puts more emphasis on investors. However, our big picture outlook remains bullish for Gold. We would not be surprised to see corrections get underway in equities and industrial metals and that is likely to rub off negatively for the precious metals as a risk reduction is likely to hit all markets. Never-the-less, if the reflex move is to sell Gold we feel the secondary reaction will be for more investors to look to Gold to provide a safe haven.

<b>Gold Statistics</b>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2Q 2009</u>	<u>3Q 2009</u>	<u>Aug-09</u>	<u>Sep-09</u>
<b>London Prices (US\$/oz)</b>								
AM fix	444.87	604.34	682.34	872.54	922.44	960.07	949.50	996.44
Pm fix	444.88	603.77	682.21	871.71	921.51	960.07	949.38	996.59
Average	444.87	604.06	682.28	872.12	921.97	960.07	949.44	996.52
<b>Parity prices</b>								
Australian - A\$/oz	583	801	820	1,033	1,214	1153	1,137	1,158
South Africa Rand/kg	87,876	126,763	149,669	222,354	242,846	232,692	233,948	232,895
Japan Y/g	1,519	2,175	2,497	2,802	2,785	2,786	2,796	2,826
India Rupee/oz	19,642	27,387	28,454	38,052	44,849	46,813	46,157	48,645
<b>Lease Rates</b>								
1 Month *	0.10	0.09	0.16	0.41	- 0.06	- 0.08	-0.07	-0.06
3 Month *	0.11	0.12	0.20	0.65	0.21	0.02	0.04	-0.08
6 Month *	0.14	0.12	0.25	0.81	0.67	0.29	0.33	0.19
12 Month *	0.19	0.12	0.25	0.80	0.95	0.70	0.72	0.6
<b>COMEX - futures contracts</b>								
Stocks ('000oz)	6,178	7,655	7,354	8,068	8,569	9,204	9,171	9,296
Vol (million contracts)	15.89	15.92	21.30	39.54	2.37	1.99	1.63	1.63
OI ('000 contracts)	302	323	393	393	375	373	375	375
<b>CFTC (futures only data)</b>								
Net Spec position Long (Short)	109,798	96,930	121,423	149,279	156,865	195,713	182,982	231,386
<b>TOCOM</b>								
Stocks ('000oz)	193	356	346	244	162	178	174	178
Volume ('000 contracts)	17,958	22,228	18,203	15,164	1,680	794	798	833
OI ('000 contracts)	315	305	226	140	90	91	91	92
<b>Other Indicators</b>								
FT Au Mines Index	1,696	2,421	2,476	2,658	2,600	2,768	2,662	2,948
Dow Jones Index	10,528	11,457	13,153	11,221	8,372	9,460	9,496	9,712
US\$ Index	88	86	81	77	81	77.7	78.2	76.7
<b>Gold Bullion Imports, tonnes (exports)</b>								
Dubai	240	190	201	229				
Hong Kong /China	(20)	(140)	20	87				
India	807	739	862	720				
Italy	225	178	187	136				
Japan	73	68	54	50				
Singapore	38	46	48	85				
South Korea	40	24	41	32				
Taiwan	22	9	11	13				
Turkey	269	193	231	166				
Data: Financial Times; Bombay Bullion Association; LBMA; TOCOM; COMEX; CFTC, REUTERS								
Figures are period averages unless marked by *, indicating the period end. OI= Open Interest on the exchange								
~ = data not available yet, <i>italics</i> = estimates								

### Silver's rally extends, then consolidates

The rebound off the mid-July lows at \$12.46/oz continued into the first half of September, with prices reaching a peak of \$17.67/oz. Prices then pulled back to consolidate, with the dip reaching \$15.75/oz by the end of the month, before once again rebounding above \$17.40/oz in early October. The main driving force remains the weaker dollar. There was some concern that a pull back in equities and a broad based bout of risk reduction could drag precious metal prices lower - but so far this has been avoided. Indeed developments in early October have added further downward pressure on the dollar and with that pushing Gold into new high ground, more buying of Silver is likely. That said, we would not be surprised if equities do suffer a correction before too long and we therefore remain wary of Silver's current strength.

### Downward pressure on dollar increases

Developments in early October, including a surprise interest rate rise by the Australian Central Bank (the first G20 country to do so since the onset of the recession) and talk by numerous oil producing and consuming countries about using a basket of currencies to trade oil in, added downward pressure to the dollar. We are skeptical as to whether anything will come of the report about trading oil in a currency other than the dollar, as the countries reportedly in these talks are also those that would suffer the most if the dollar lost value quickly. Indeed, a look at recent central bank data shows that many US creditors have actually been increasing their exposure in an attempt to underpin the dollar.

### Investor interest remains strong

The net fund long position on Silver grew steadily in September to 47,410 contracts, up from late August's level of 29,130 contracts, an increase of some 62%. Interestingly, whereas the run up in the net fund Gold position has taken it to record highs, Silver's net fund position is still well



down from the highs of 66,730 contracts seen in late 2005. ETF holdings peaked at 11,112 tonnes in August, but have since drifted to 10,955 tonnes as some profit taking emerged.



**Technical Outlook** - Prices extended their rally to \$17.67/oz in mid-September, then spent the second half of the month consolidating in a flag, before rebounding strongly in early October. Judging by the robust turnaround in the stochastics and the move back towards the September highs, it does not look as though it will be long before prices are setting new highs for the year. Prices are now back in the area between the two horizontal lines on the chart that contain the band of supply dating back to April-August, 2008. A break above the \$17.67/oz high would therefore have to start to erode this supply before challenging the 2008 highs.

**Summary** – Prices seem to be launching themselves at the high ground and with the dollar weak and Gold in uncharted waters further gains look likely. Expect pullbacks, but likewise expect dip buying.

<b>Silver Statistics</b>								
	2005	2006	2007	2008	2Q 2009	3Q 2009	Aug-09	Sep-09
<b>London Prices (US\$/oz)</b>								
Daily Fix	7.31083	11.55	13.39	15.02	13.73	14.70	14.35	16.39
<b>Parity (London) prices</b>								
Japan (Y/g)	25	41.68	48.88	48.47	41.48	42.63	42.26	46.48
India (Rupee/oz)	323	524.76	553.86	646.87	676.11	716.75	697.50	800.05
<b>COMEX – futures contracts</b>								
Stocks (Moz)*	109.6	112.4	129.2	134.1	118.7	116.6	116.4	115.2
Vol (million contracts)	5.5	5.4	7.6	8.31	0.44	0.66	0.77	0.77
OI ('000 contracts)*	117.9	112.9	120.9	124.12	97.8	100.3	101.5	101.5
<b>CFTC (Futures Only Data) non-commercial</b>								
Net Positions *	39,986	34,830	30,780	33,672	23,353	32,622	29,130	47,410
<b>TOCOM</b>								
Stocks (Moz)*	0.6	0.36	0.43	0.37	0.28	0.24	0.23	0.23
Futures Vol ('000 contracts)	818	859	536	301	20.0	7.8	4.9	9.8
Futures OI ('000 contracts)*	17.8	16.5	14.0	7.93	2.4	1.7	1.3	1.9
<b>Other Indicators</b>								
Gold/Silver ratio*	60.6	60.60	52.29	60.89	62.80	63.0	63.5	60.0
<b>Silver Bullion Imports (tonnes)</b>								
USA	4545	4681	4985	4676				
UK	1250	5720	2943	2809				
Japan	1141	1748	1389	1909				
India	3343	535	1958	5048				
Italy	1458	1329	1235	926				
Hong Kong **	2576	4384	3972	3082				
China (exports)	(3558)	(4000)	(4500)	(4043)				
* figures are period averages unless marked; ~ not available yet, <i>italics</i> = estimate.								

### PGMs extended gains in September as optimism boiled over

The run up in PGM prices that started in early July continued until mid-September, with Platinum rising to \$1,350/oz and Palladium reaching \$306/oz. Strong equity markets and a weaker dollar set the stronger tone for the metals generally and then the PGMs were given an extra boost when US vehicle sales recovered in August. However, towards the end of the month, concerns grew that perhaps the markets were running ahead of themselves and it did not take a genius to realize that the end of the US government's 'clash for clunkers' programme would see auto sales drop. As such, PGM prices pulled back in the second half of the month.

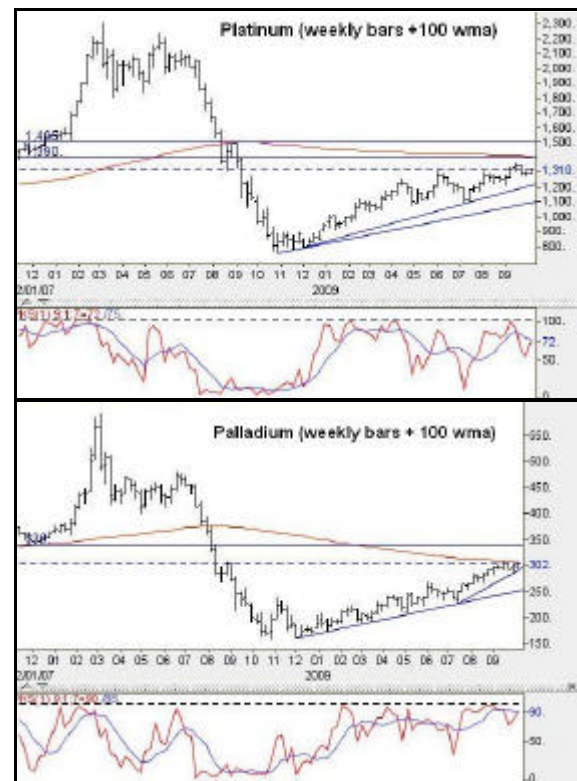
### PGMs follow Gold, but at a distance

Gold's move to set fresh highs in early October did lift PGM prices, but surprisingly the PGMs did not race higher. This does suggest that there is some reluctance to chase the market higher. This fits in with our overall near term view that the markets are more concerned about the possibility of a broad based pull back and the impact that could have on industrial metals.

### Investors' interest remains high

The combined holdings in the Platinum and Palladium ETFs remain at or near all time highs, which shows investors are not too worried about any lasting pull back in prices. The Platinum ETFs are holding record amounts of 565,388 oz, up 47,419 oz, or 9%, in September. The Palladium ETFs hold 1,079,878 oz, off the September high of 1,089,807 oz, but still up 16% on the month. However, the funds seem more worried and have started to take some profits. The net fund long Platinum position was last at 17,371 contracts, down from a recent high of 18,224 contracts, while Palladium (arguably the metal with stronger fundamentals) has seen the net long fund positions retreat to 10,555 contracts, below the recent peak of 13,164

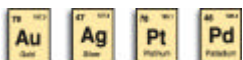
contracts and below the end of August holding of 12,188 contracts. So the more speculative money does seem to be getting cautious.



**Technical & Summary**— These weekly charts show that both Platinum and Palladium are putting in steady rallies, which generally look sustainable. What's more, prices are a long way from the highs seen in 2008. The horizontal lines on the charts show where we would expect the next resistance areas to be. These are at \$1,378/oz on Platinum and \$338/oz on Palladium. Although there seems little on the charts to stand in the way of further price gains, we do feel that a lot of optimism is already discounted in the industrial metal prices and we would therefore not be surprised to see price corrections. That said, with ongoing dollar weakness and strong price trends there are compelling reasons not to buck the trend. Overall, we would expect good scale down buying into any price weakness.

<b>PGM Statistics</b>								
	2005	2006	2007	2008	2Q 2009	3Q 2009	Aug-09	Sep-09
<b>London Prices (US\$/oz)</b>								
Platinum	897	1,144	1,308	1,583	1,177	1,237	1,249	1,294
Palladium	200	323	357	355	236	274	278	295
Rhodium	2,039	4,555	6,198	6,549	1,410	1,603	1,672	1,650
<b>Japanese Parity Prices (Y/g)</b>								
Platinum	3,060	4,118	4,772	5,123	3,558	3,589	3,678	3,670
Palladium	684	1,162	1,305	1,147	712	796	820	837
<b>South African Parity Prices (Rand/kg)</b>								
Platinum	177,105	240,309	286,900	395,276	310,241	299,661	307,730	302,424
<b>NYMEX Stocks ('000oz)</b>								
Platinum	22.0	27.2	38	56	131	144	147.8	146.8
Palladium	710	1,037	508	425	405	466	429	540
<b>CFTC Futures Only Data Long / (short) non-commercial</b>								
Platinum	5,931	3,653	7,294	6,797	8,045	14,039	14,732	17,371
Palladium	5,271.1	4,875	8,243	7,062	7,188	11,009	12,188	10,555
<b>Tocom - Platinum</b>								
Stocks ('000oz)	15.7	14.0	10.7	14.1	13.9	19.8	18.8	20.2
Vol (Million contracts)	8.6	11.0	9.2	6.9	0.91	0.26	0.30	0.25
OI ( '000 contracts)	136.9	105.8	95.2	52.3	35.2	34	35.1	34.3
<b>Tocom - Palladium</b>								
Stocks ('000oz)	22.6	25.8	17.8	25.7	19.4	19.2	20.4	16.8
Vol ('000 contracts)	323	361	208	684	28.1	6.1	8.9	6.0
OI ( '000 contracts)	18.2	14.6	10.9	14.8	4.9	3.4	3.5	3.1
<b>Other Indicators (US\$/oz)</b>								
Pt-Au spread	457	457	611	689	255	289	276	280
Pt-Pd spread	701	701	963	1,200	900	981	940	1,008
<b>Platinum Bullion imports (kg)</b>								
USA	85,300	114,000	161,380	150,066	41,830	<i>Jan- May</i>		
Japan	60,523	65,023	63,652	73,785	42,042	<i>Jan-Aug</i>		
<b>Palladium Bullion imports (kg)</b>								
USA	112,000	119,000	112,600	120,810	21,820	<i>Jan-May</i>		
Japan	77,046	79,689	82,108	75,363	42,642	<i>Jan-Aug</i>		

~ = data not available yet, *italics* = estimates



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To obtain additional information on ScotiaMocatta products and services, call one of the offices listed below.

**CANADA**

**Toronto**  
Scotia Plaza  
40 King Street West  
Box 4085, Station 'A'  
Scotia Plaza  
Toronto, Ontario  
M5W 2X6

**Andy Montano**

andy\_montano@scotiacapital.com  
Tel: 1-416-866-7835  
Fax: 1-416-866-6897

**UNITED KINGDOM**

**London**  
Scotia House  
33 Finsbury Square  
London  
EC2A 1BB

**David Wilkinson**

david\_wilkinson@scotiacapital.com  
Tel: 44-20-7826-5931  
Fax: 44-20-7826-5948

**UNITED STATES**

**New York**  
One Liberty Plaza  
165 Broadway  
New York, N.Y. 10006

**Tim Dinneny**

tim\_dinneny@scotiacapital.com  
Tel: 1-212-225-6200  
Fax: 1-212-225-6248

**MEXICO**

**Mexico City**  
Blvd. M. Avila Camacho #1, Piso 11  
Col. Chapultepec Polanco  
Colonia Polanco 11560  
Mexico

**Jose Maria Tapia**

jose\_tapia@scotiacapital.com  
Tel: 52 55 9179 5142  
Fax: 52 55 5325 3527

**INDIA**

**Mumbai**  
11-13 Maker Chambers VI  
1st Floor  
220 Nariman Point  
Mumbai 400021

**Rajan Venkatesh**

rajan\_venkatesh@scotiacapital.com  
Tel: 91-22-2288-0994 (Direct)  
Fax: 91-22-2288-1078

**New Delhi**

Upper Ground Floor  
Dr. Gopal Das Bhavan  
28 Barakhamba Road  
New Delhi 110001

**Prem Nath**

Prem.nath@scotiabank.com  
Tel: 91-11-5535-2420  
Fax: 91-11-2335-9342

**Bangalore**

25/2 S.N. Towers  
M.G. Road  
Bangalore 560001

**Mahendran Krishnamurthy**

mahendran.krishnamurthy@scotiabank.com  
Tel: 91-80-2532-5325  
Fax: 91-80-2558-1435

**Coimbatore**

Classic Towers  
1547 Trichy Road  
Coimbatore 641018

**Shankara Subramanian**

shankara.subramanian@scotiabank.com  
Tel: 91-422-2301-595  
Fax: 91-422-2301-596

**HONG KONG SAR**

25th Floor, United Centre  
95 Queensway  
Hong Kong

**Alice Lam**

alice\_lam@scotiacapital.com  
Tel: 852-2861-4788  
Fax: 852-2573-7869

**SINGAPORE**

1 Raffles Quay  
#20-01, North Tower  
One Raffles Quay  
Singapore, 048583

**Swee Kiang Teo**

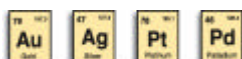
Sweekiang\_teo@scotiacapital.com  
Tel: 65-6536-3683  
Fax: 65-6534-7825

**UNITED ARAB EMIRATES**

**Dubai**  
c/o National Bank of Dubai  
P.O. Box 777  
Dubai

**Pramod Mohan**

Pramod\_mohan@scotiacapital.com  
Tel: 97 14 228 4757  
Fax: 97 14 228 9090



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