

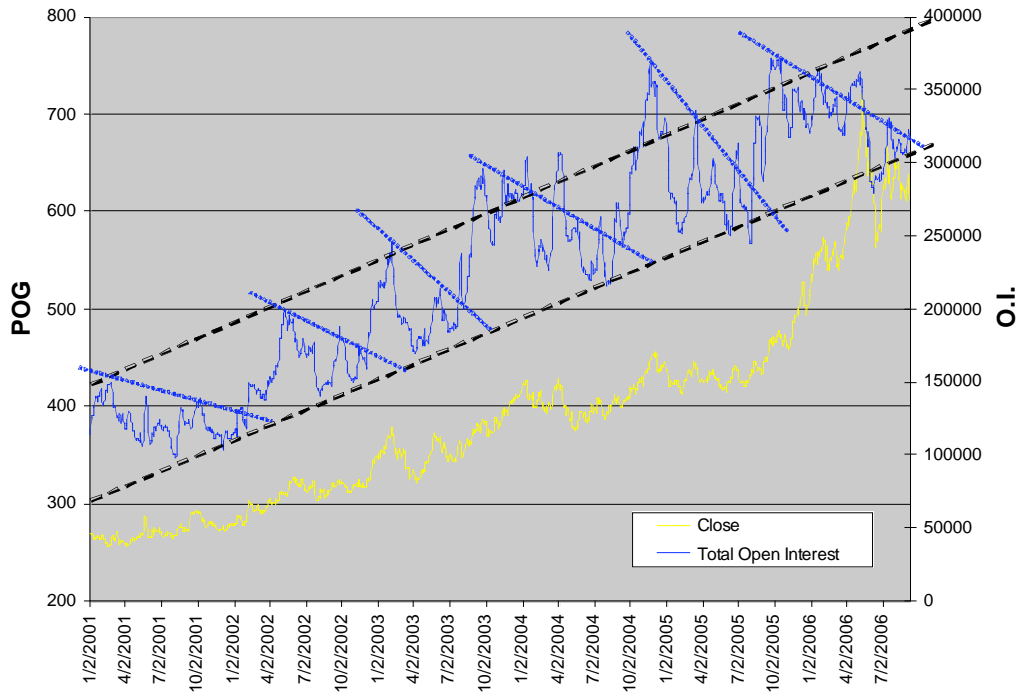
INTERESTING OPEN INTEREST!

By Adrian Douglas

On September 11, 2006 gold and silver were mugged and bludgeoned. The affect on investor sentiment is, as could be expected, very dramatic. There are press reports talking of the end of the precious metal bull market and the end of the commodity bull in general. That's interesting because Wall St. and the analysts never recognized the beginning of the bull run, but now we are led to believe that they can recognize the end of it!

The only way gold can increase in price is when more people are looking to buy it. This means, in general, open interest should be rising. Let's look at the Open Interest trend of the bull market to date.

POG & OPEN INTEREST



You can see that the total Open Interest is in a rising channel trend. When the OI peaks near the top of the channel it then declines in a series of lower highs (see the dotted blue lines) until it reaches the lower support line of the channel. The lower highs may give rise to a higher gold price that what was seen at the OI

peak but it is nonetheless a form of market consolidation. When the OI reaches the bottom support line it is always a good market entry point NOT a market exit point.

What is surprising is that the OI peaked in October 2005 when gold reached \$475/oz! It has been declining ever since. This means that the recent POG peak of \$720/oz was not driven by some blow-off buying frenzy. In fact, fewer people were interested in gold at that point than when gold was \$475! The peak OI reached in October 2005 with gold at \$475 was about the same as it was when gold reached \$450 in December of 2004.

Today the Open Interest has almost reached the lower support line of the trend channel. If history is a guide this is a sign gold is about to launch a strong new upleg. It is unlikely to wither and die as some reports are predicting.

This does not mean that gold will not grind a little lower from here but it is certainly re-fuelling for a big upward move.

Adrian Douglas

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