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Gold poised to hit new high next week

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The gold futures for February are expected to hit a new high next week on the Comex division of the New York Mercantile Exchange on strong buying support above $1,400. On the Multi Commodity Exchange (MCX), the gold February futures are likely to move past Rs 21,000 per 10 grams on a strong long build-up above Rs 20,500. February gold settled at $1,421.40 an ounce up 2.96 per cent on the week as speculators preferred to hold long positions even above $1,400.

The gold futures closed above $1,400 and also ear dayâ€™s high level in all the five trading sessions of last week as traders covered short positions after observing a strong undercurrent above $1,400. The volume picture chart for five trading sessions shows 75-100 per cent volume below the dayâ€™s closing levels, mostly though a change of hands. The open interest in February futures remained unchanged despite gold futures gaining 3 per cent last week.

The precious metals rally is likely to continue into the first week of 2011 as the concerns over the euro zone debt, fiscal and monetary stimulus in the US and currency considerations will remain steadfast, indicate gold analysts. Bloombergâ€™s market picture chart (MKTP) for the week is hinting at a volume-driven price level of $1,434-1,438 and the TPO based support at $1,400. The 21 days moving average also indicates an upside of $1,432 and support at $1,400.

Some market watchers warn that the potential for profit taking in January is possible, but many say strong demand under the market will limit significant losses and wonâ€™t change the long-term bullish trend. The options traders expect a big rally in the gold prices as despite the price level moving closer to the new high, the 1,420-1,440-strike call options saw a significantly poor volume last week. The put writing was seen in $1,410-1,420-strike puts, indicating strong support based at that level.

Gold futures rallied 30 per cent this year, climbing to an intra-day record $1,432.50 an ounce on December 7, amid Europeâ€™s debt woes. "Gold has done so well this year because government activity indicates record deficits, low interest rates and an obvious lack of fiscal discipline," said Tom Winmill, who manages the Midas Fund in New York. "Goldâ€™s rally will continue next year as inflation pressures continue to build and currencies remain weak," said Li Ning, an analyst at China International Futures (Shanghai) Co.