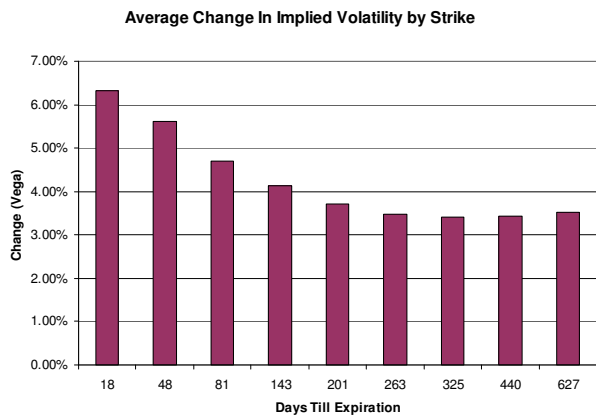
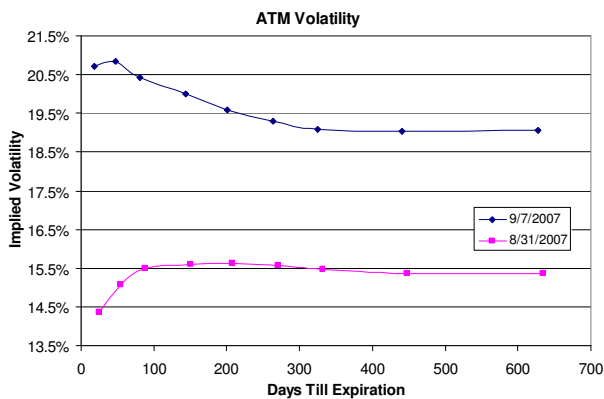


Gold Options Weekly Review



| Weekly | | | Average Daily | | |
|--------|-------|-------|---------------|------|-------|
| Hi | Low | Range | Range | Move | Vol |
| 716.5 | 681.5 | 35.0 | 9.3 | 7.4 | 20.2% |

Past Week Review

It was an eventful week culminating in an options buying frenzy on Friday. Both implied volatility and call skew are up strongly on the week. Implied volatility butterflies are also up on the week.

Flows on the week favored calls. Paper either bought calls outright such as the Dec 750 calls or via a fence, like the Dec 600-800. Both traded on Tuesday. That forced call skew higher every day. Higher skew, in turn, caused ATM volatility to rise as what had previously been OTM calls were now ATM options and were in great demand.

Although options of all expiries were in demand on Friday, the greatest move in implied volatility was in longer dated volatility. That's not exactly right. Normally implied volatility moves on an adjusted basis. The adjustment is for time; basically the longer the maturity of

an option, the smaller move in implied volatility¹. On Friday, the adjustment went out the door as the bidding overwhelmed locals unable to find offsetting option positions. The bidding appeared in both six month and in one year options.

Gold ended the week +4.1% in USD, +3.6 in GBP, +3.3% in Euros and +2.9% in JPY.

Market Observations and Commentary

Two items of note this week:

First, it has been brought to my attention by a reader that lease rates in gold have been climbing. A check on the LBMA web site showed that lease rates are at the highs for the year at about 0.3% from 1 month to 1 year. This compares with about 0.08% at the beginning of the year. Compare that with silver, which has lower lease rates. Certainly it is hardly a coincidence that the gold-silver ratio has been climbing for some time.

Second, implied volatility is above normal levels and call skew is about back to levels from 2005 (but not 2006). There are also higher forward prices. For those looking to hedge a long gold position (vs. taking a volatility position – see below), it makes sense to sell longer dated calls (for example, six months or longer) to take advantage of these two conditions. Call spreads make sense again for those looking to get long gold exposure.

Implied volatility is about one standard deviation rich to “normal.” But the model does not account for an unsettled market overall and the potential for severe dollar weakness over the next couple of weeks. So while one should probably be lighter options than one was last week, it is not prudent to be short either. And, really, if one is to be nervous short options at these prices then it makes sense to buy them from people nervous shorting them. At any rate, the front month ATM straddle is going to be about \$25-\$27 Monday morning. Gold had a \$35 range last week and is at the very top of its range since 2006 on a very sharp move up. It does not seem wise bet large against further movement.

Finally, it seems the market is afraid of a devalued dollar. Don't be surprised to see gold making new highs by the end of the year. That is, if the Fed eases rates on the 18th or the government continues to show signs of throwing money at indigent homeowners.

¹ The adjustment is based on a ratio of time till expiration. Which is a fancy way of saying that the price of calendar spreads stays constant. Anyone interested in the particulars can email for details.

9 September 2007

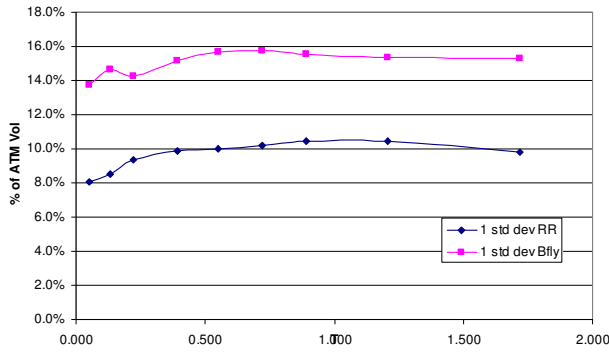
Gold Options Weekly Review

Next Week

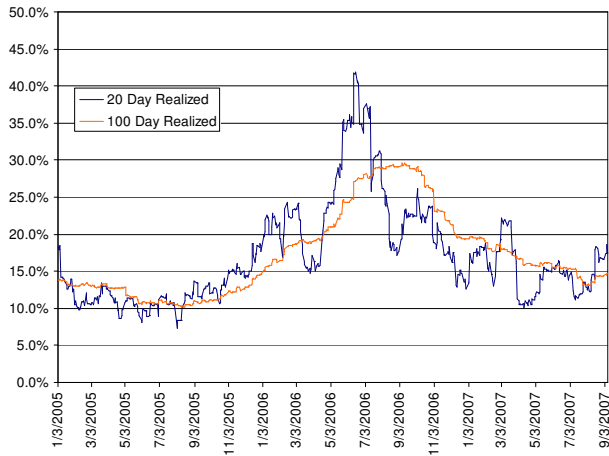
It is a mostly light schedule for US data although Friday has a full slate. Europe and the UK have a full schedule. Japan has a busy early week. The market's attention will be on the FOMC meeting on the 18th. October expiration is September 25th.

Chartbook

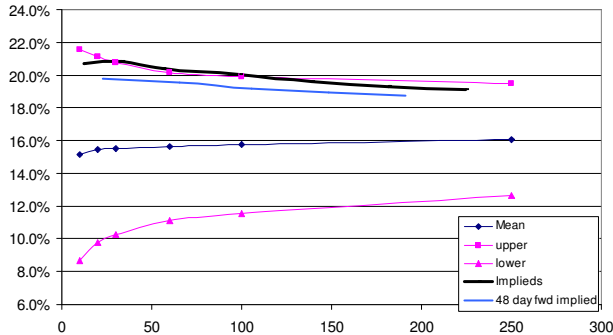
Implied Skew & Kurtosis Measures



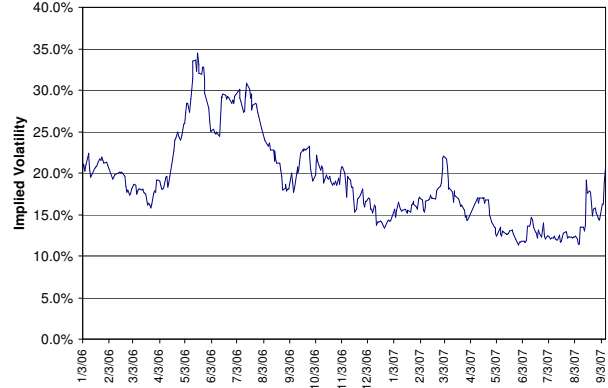
Realized Volatility



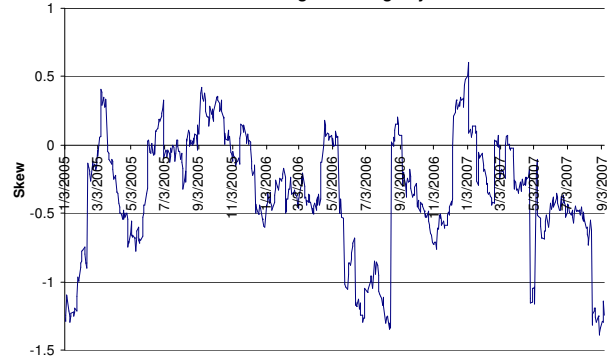
One Standard Deviation Volatility Cone
 Data: 1/1/2000 - Present



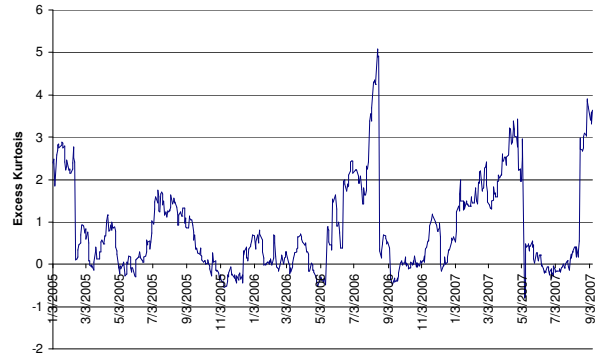
30 Day ATM Implied Volatility

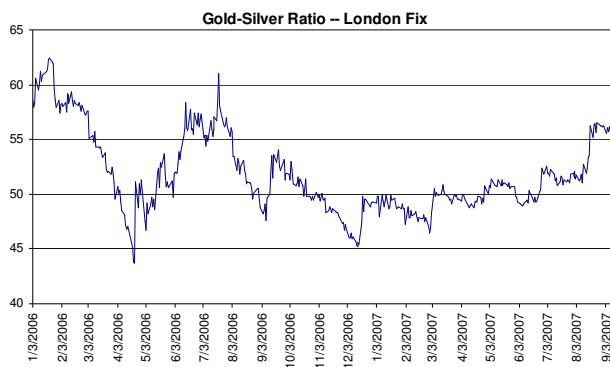


Realized Skew: Rolling 45 Trading Day Measure



Realized Excess Kurtosis: 45 Trading Day Rolling Measure





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