

## The Hightower Report

Futures Analysis & Forecasting

### PRECIOUS METALS COMMENTARY

12/14/16

**We look for a spike low today**

#### OVERNIGHT CHANGES THROUGH 3:16 AM (CT):

**GOLD** +4.10, **SILVER** +11.80, **PLATINUM** +1.40

**OUTSIDE MARKET DEVELOPMENTS:** Global equity markets were mixed overnight but the markets with positive action were just barely trading in positive ground. The Asian economic calendar started out with the Bank of Japan's quarterly Tankan manufacturing survey which came in slightly below forecasts. Also out during the Asian session, was December Chinese new loans which posted an increase from November's reading which in turn sets the stage for a record amount of new loans for the year. October Japanese industrial production managed a slight gain of +0.1%, while the shipments component of that report also showed a 2% gain. The European economic schedule started out with a flat November French CPI and that was followed by October UK ILO unemployment which showed a decline of 16,000. October Euro zone industrial production was disappointing with a contraction of 0.1%. The North American session will start out with November retail sales which are forecast to rise by +0.3% but that is a softer reading than was posted last month. US November producer price index is expected to see a minimal increase of +0.1%. However, November industrial production is forecast to see a slight decline of 0.2% from October's unchanged reading. The markets will also be presented with new US auto sales readings. However, the highlight for global markets will come during early afternoon hours when the FOMC meeting results will be released. While a 0.25% rate hike is widely expected, there may be more attention paid to the Fed's forecasts and post-meeting comments by Fed Chair Yellen to see if they have become more hawkish. Earnings announcements will include Joy Global before the Wall Street open.



### GOLD / SILVER

The gold and silver markets waffled around both sides of unchanged on Tuesday but they have generally favored the positive side of the ledger in the early going today. While precious metals markets should have found support from weakness in the Dollar early, recent weakness in the Dollar hasn't been enough for gold and silver to overcome liquidation by weak-handed longs ahead of the FOMC meeting. While the trade might suggest that gold and silver have already factored in higher US rates, we have to think that both markets will still see more new lows for the move in the coming 12 hours of trade especially if the trade can glean a minor threat of additional US tightening in the coming quarter. There is an argument to be made that the market has already "sold the rumor" of the rate hike and that gold could bottom once the meeting is concluded but we still can't rule out a knee-jerk reaction to the Fed move. Fed fund futures are assigning a 97.2% probability for a rate hike and a 1 and done result could usher in a bottom in gold prices. But if the Fed's tone is more unambiguously hawkish, which it could

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well be in the wake of recent economic data and possibility that the new Trump administration could bring a sharp increase in infrastructure spending, that could send the market down to a spike low. Both gold and silver derivative holdings declined again overnight!

### PLATINUM

For a change, both PGM metals were able to head in the same direction on Tuesday and although their daily gains were modest at best, that action was in contrast to the selloff in precious metals complex. Platinum has been unable to break out of a 2-month trading range, but is showing signs that the lower portion of that range is a "value zone" for prices. Chinese car sales hit a record high last month, but that may be due to the expiration of a tax break at year-end so it may not have a lasting impact on global auto-catalyst demand. On the other hand, US auto sales could see a boost early in 2017 if the stock market remains well supported and proposed tax cuts come to fruition. In fact the PGM complex will probably take a long look at US new car sales that will be released later this morning as robust sales could help platinum add to the modest pattern this week of higher lows and higher highs.

**TODAY'S MARKET IDEAS:** While we could see some choppy action in gold and silver ahead of the FOMC meeting result today we think the biggest volatility will occur as the trade digests forward guidance statements. As we stated already, a rate hike is probably already priced into the market, but if there is a sense the Fed is more unified its view and/or is turning more hawkish because of the political environment, we could see a large knee-jerk reaction down after the initial report impact. However, the Dollar's sluggishness despite rate hike expectations, stronger economic activity and rising "animal spirits" should give some comfort to the gold bulls. We still want to buy gold and or silver futures on a moderate break, with the ultimate direction in prices to be determined by the action in the Dollar after the Fed reaction has been logged. Those unwilling to wait for a steep break or those that want to be in ahead of the Fed might want to consider buying gold calls instead.

### COPPER COMMENTARY

12/14/16

**The bias is down technically and fundamentally**

**GENERAL:** Copper prices may be running out of steam as they were unable to benefit from a positive set of Chinese data points yesterday. A 3 day build in LME copper stocks of roughly 60,000 tons should not be discounted as that shifts the supply side on the equation squarely in favor of the bear camp. LME exchange copper stock builds this week posted the largest 2-session build since July of 2001 and that highlights the significance of the inflows. With March copper also managing another downside breakout on the charts yesterday and forging the lowest close since



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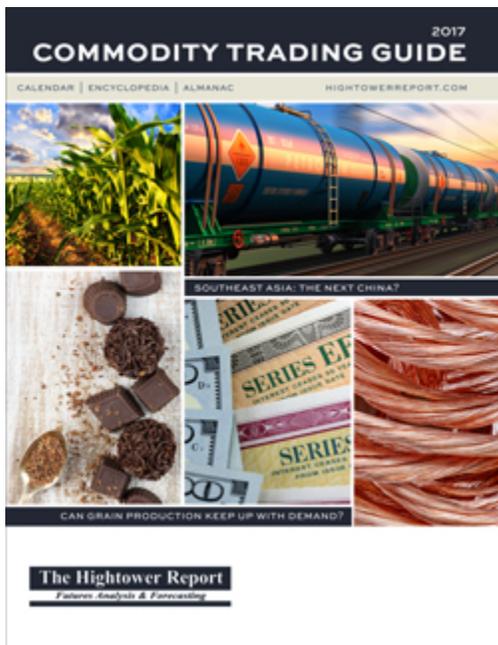
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November 22nd that suggests a breakdown in sentiment may have already taken place. With a looming FOMC rate hike later today, we have to think that a number of position longs have and will decide to move to the sidelines and that could prompt even more long liquidation early today.

**MARKET IDEAS:** Copper's sluggish performance this week may be setting the stage for a downside extension. In addition to a near record spec and fund long in the COT's and the outsized inflows of exchange stocks the copper market is also battling a couple failures of key support around the \$2.60 level on the charts. Near-term support and a possible target for March copper today is \$2.5670.

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