141 W. Jackson Blvd. Suite 4002
Chicago, IL 60604
(800) 662-9346
www.HightowerReport.com

The Hightower Report
Futures Analysis & Forecasting

PRECIOUS METALS COMMENTARY
12/21/16

Building consolidation pattern is discouraging the bear camp

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD +3.70, **SILVER** +1.80, **PLATINUM** -4.80

OUTSIDE MARKET DEVELOPMENTS: Global equity markets were mixed overnight with some international markets catching a lift from the US gains in the prior trading session. The markets continue to watch for a 20,000 Dow print and there does appear to be some optimism in place today ahead of the holidays. The Asian economic calendar featured the October Japanese all-industry activity index which bested expectations with a +0.2 reading. The European schedule started out with November French PPI which registered a fairly hot reading and that was followed by November UK public sector net borrowing (PSNB) which also saw a sizable jump from October's reading. The North American trading session will feature November existing home sales that are expected to downtick from October's reading. Earnings announcements will include Accenture and Paychex before the Wall Street open with Micron Technology, Red Hat and Bed, Bath & Beyond reporting after the close.

GOLD / SILVER
The overnight action in the gold market saw prices maintain within the prior 3 session's range, and that might hint at the prospect of a temporary bottom. However, at the risk of sounding like a "broken record", the focus of the gold market will probably remain on the Dollar and in the short term it is difficult to find reasons to project noted weakness in the Greenback. Another issue that is somewhat discouraging for the bull camp is the lack of bargain hunting investing in ETF's, and for that matter in futures. Overnight Gold derivative holdings declined by 14,358 ounces while silver derivative holdings declined by 758,556 ounces. However, there were reports of favorable jeweler buying in India overnight and the Dollar is showing minor weakness and that leaves a modestly positive tilt into the US trade action. Furthermore volume in gold and open interest has fallen off for the last 2 months and that might be a sign that longs have liquidated and that shorts are becoming increasingly more hesitant to attack the market below the $1,200 level. An issue that might favor the bear camp is talk of producer hedging as mining companies are apparently concerned about profit margins turning negative and that could provide a "sell rallies" mentality among the commercial players. Perhaps the miners are also fearful of the forecasted series of US rate hikes ahead and what that might mean to the Dollar in the coming months!

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PLATINUM

With a big range down washout and rejection of the $900 level yesterday and that action yesterday carried out on a sharp uptick in trading volume it is possible that another layer of weak handed longs exited and it is also possible that some bargain hunting buying was seen into the even number print on the charts. However, the PGM complex was probably hit in the wake of news yesterday that Swiss platinum imports in November declined to their lowest level since the middle of last summer. In fact, November Swiss total imports of raw material were down sharply relative to the October figures. In conclusion, the fundamentals might favor the downside but we would not want to sell in such close proximity to the 2016 lows.

TODAY'S MARKET IDEAS: There are some signs of an intermediate bottom in gold prices, but the fundamental case doesn't appear to signal a strong reason to predict a bottom yet. It is possible that February gold has found some measure of value within a range defined as $1,146 and $1,124. In fact an issue that might lend some fresh support to gold is news that Russian central bank gold reserves are on the rise with the latest purchases the second month in a row of noted gains. It would be our guess that sharply higher crude oil prices are providing the needed cash to rebuild the Russian financial structure following the western sanctions impact. In the short term, gold might be a little more positively correlated with crude oil because of the potential for further Russian central bank gold reserve buying ahead.

COPPER COMMENTARY

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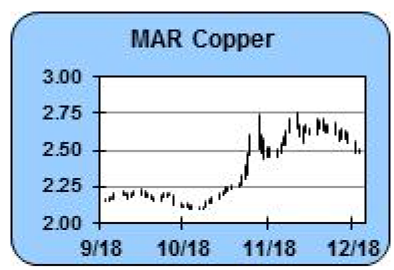

GENERAL: With the March copper contract initially avoiding a fresh new low for the move on Tuesday and the market clawing higher to start this morning, it is possible that copper has found some form of fundamental and technical value around the $2.50 level. In fact, seeing copper check up in the face of adversity from the Dollar and noting that the December slide was seen off very low volume that would seem to suggest that a dip to $2.40 might not be in the cards in the short term. Arguing against the prospect of a bottom is news yesterday from the International Copper Study Group that the world refined copper markets was at a deficit of only 15,000 tons as of September. With the recovery in the Chinese economy taking place after that timeframe it is not surprising to see such a narrow deficit. It is slightly supportive that LME copper stocks have now seen 2 days of declining warehouse stocks.

MARKET IDEAS: The $2.50 level might become some form of weak value zone in the days ahead but that view is based more in the technical perspective than the fundamental perspective! However a decline of 4,400 tons in

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LME copper stocks might disappoint the bears and embolden the bull slightly today. We continue to be a little concerned with the prospect of a burdensome spec and fund long and we are also fearful of trying to pick a bottom in face of persistent Dollar strength. In addition to a critical pivot point around $2.50 additional support is seen down at $2.4775.