

## PRECIOUS METALS COMMENTARY

01/05/17

**The path of least resistance remains up**

### OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

**GOLD +6.20, SILVER +4.80, PLATINUM +11.00**

**OUTSIDE MARKET DEVELOPMENTS:** Global equity markets had a mostly positive tone overnight but the Nikkei, CSI 300, FTSE, Euro Top 100 and the MICEX bucked the trend with declines. The FOMC meeting minutes for their December gathering released yesterday expressed concern over the potential for expansionary fiscal policy, but the notes indicated little change to expectations for several Fed rate hikes this year. The Asian economic calendar featured the Caixin Chinese services PMI number for December and that measure reached the highest level in 17 months. The European session started out with November Euro zone PPI which managed a gain of 0.3% and that left the annual change in Producer prices at the highest since June of 2013. The North American session will start out with a weekly reading on initial jobless claims that are forecast to see a modest decrease from the previous 265,000 reading. The December ADP employment survey is forecast to show a notable downtick from November's 216,000 reading, and that will be followed by the December Challenger job cuts number. The December ISM non-manufacturing index is expected to see a moderate decline from November's 57.2 reading.



## GOLD / SILVER

Talk of improving physical demand for gold this week combined with weakness in the Dollar is pulling in buyers. With February gold also extending its uptrend to 8 days and reaching the highest level since December 8th it is also likely that some of the buying is technically related. In fact, with prices climbing above a two-month-old downtrend channel resistance line yesterday and extending sharply above that line again this morning one can conclude that momentum is building instead of waning. It is also possible that a portion of this week's gains are the result of beginning of the year asset reallocation. As we have suggested for nearly 2 weeks, there would seem to be a positive pattern for gold, silver, platinum and palladium prices at the beginning of calendar years, and seeing favorable technical action so far this week suggests that the uptrend is capable of extending. In fact, open interest in gold has begun to increase incrementally from last week in a potential sign of bargain-hunting buying and we also think that the US Dollar is poised for even more declines ahead in the wake of weakness yesterday that surprisingly took place in the face of Dollar-supportive US data flows.

## PLATINUM

While platinum and palladium posted positive action on Wednesday the magnitude of the gains wasn't surprising

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considering positive leadership from gold, a much weaker Dollar and favorable US auto sales data. We also have to think that the PGM complex will continue to benefit from beginning of year fund allocation windfalls. All things considered, the sharp gains in palladium are probably in some way connected to talk that China is set to move aggressively to reduce air pollution in 2017 especially with Beijing effectively shut down for the second straight day this week because of red alert conditions. Given further gains in palladium ahead, we suspect that platinum will be in for some catch-up gains in the second half of the month.

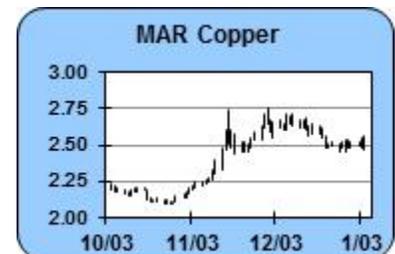
**TODAY'S MARKET IDEAS:** We leave the trend in favor of the bull camp. In fact, we suspect that gold and silver will remain in an upward track well into next week. As suggested already overt and seemingly significant weakness in the Dollar, (especially in the face of supportive scheduled data yesterday) would seem to point to even more declines in the Dollar ahead. If the Dollar can't rally in the face of positive data and Fed hints of multiple rate hikes in 2017 it might be headed sharply lower. Therefore we remain bullish toward gold and silver with near term upside targeting in February gold seen up at \$1,175 and then again up at \$1,182 with support moving up today to \$1,168.60.

### COPPER COMMENTARY

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#### Demand expectations continue to improve

**GENERAL:** The copper market has flashed higher this week and it has managed to reach up to the highest level since December 16th, and we suspect that some of those gains were the result of fears of a fresh supply threat at the Escondida mine in Chile. It is also likely that developing weakness in the dollar, spillover support from gold, rising crude oil prices and hope of increased Chinese demand (off a large infrastructure project) added to the rally. We suspect that technical issues are also providing a lift to copper this week as the March contract managed to rise above ten days of consolidation highs this week and that probably prompted some momentum buying from the funds. It also goes without saying that declining LME copper stocks, mostly favorable US auto sales results and a declining US Dollar have given the bull camp plenty of ammunition this week. Just to top off the bullish flow of news this morning the copper bulls were also favored by news that Chinese Service sector PMI data reached a 17 month high and therefore it is not surprising to see the copper trade move to improve the copper demand outlook.



**MARKET IDEAS:** With an impressive range up extension again overnight and the highest price since December 16th, it is clear that prices under \$2.50 were considered too cheap given the anticipated outlook for economic

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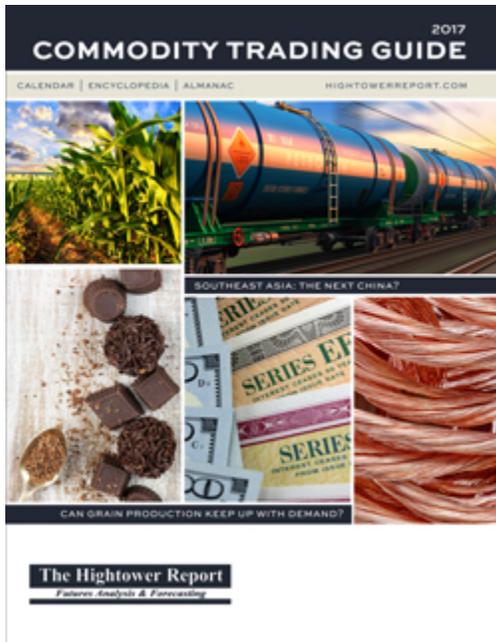
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conditions ahead. In conclusion overall improvement in the global macroeconomic condition (both inside and out of the US) and a supply side threat from labor troubles in Chile would seem to leave the March copper contract poised to claw its way up to the \$2.60 level ahead.

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