

PRECIOUS METALS COMMENTARY

05/04/17

Still no reason to take control away from the bear camp

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

GOLD -14.70, **SILVER** -7.10, **PLATINUM** -3.00

OUTSIDE MARKET DEVELOPMENTS: Global equity markets were mostly mixed overnight with a slight edge to the bulls. The Asian economic calendar featured the April Caixin Chinese services PMI that was expected to see a modest uptick from March's 52.2 reading but instead the measure fell to an 11 month low. The European session started out with services and composite PMI readings from around the region. Euro zone April services PMI showed a slight improvement, Germany showed a slight decline but bested expectations, French readings saw a decline and were worse than expectations while Italian PMI readings improved dramatically from the prior month and were much better than forecasts. Uncertainty off the French election continues to fall in the wake of a poor debate showing by the already trailing Le Pen. UK Services PMI data was better than forecast and better than the prior month with consumer lending in the UK declining and mortgage approvals also declining in March. The North American session will start out the April Challenger survey of job cuts, followed by a weekly reading on initial jobless claims that are expected to downtick from the previous 257,000 reading. The March international trade balance is forecast to see a modest increase in the monthly deficit. March Canadian international merchandise trade is expected to see a modest decline from February's monthly deficit. March factory orders are forecast to see a minor decline from February's +1.0% reading. First quarter non-farm productivity and first quarter unit labor cost readings will also be released during morning US trading hours. Earnings announcements will include Anheuser Busch InBev, Dominion Resources, Occidental Petroleum, Kellogg, Apache and Cheniere Energy before the Wall Street opening.



GOLD / SILVER

After a subdued start, the precious metals markets came under significant pressure on Wednesday and could not find their footing as they finished Wednesday's trading in a free-fall. Therefore the sharp downside extension in gold prices this again morning is not surprising especially with the uncertainty off the French election falling in the wake of a poor debate showing by the already trailing Le Pen. We would also suggest that mostly favorable Euro zone PMI services data further syphons off economic uncertainty. The failure to see a bounce in gold, silver, platinum and palladium in the wake of an on-hold Fed decision and statement yesterday makes it clear that the trade instantly shifted to expectations of a stronger chance for a June rate hike. Apparently the trade is giving the US dollar/economy the benefit of the doubt as US data over the last month has not instilled confidence in the growth pace of the US, but talk of a June rate hike this week clearly leaves the US closer to higher rates than any

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other key central bank in the world. While the dollar managed a four day high yesterday, until it takes out 99.20 in the June contract one really can't suggest the dollar is making significant upside headway. In our opinion, the dollar might be in the process of buying the rumor of a decent monthly nonfarm payroll reading on Friday, and that could mean ongoing currency-related pressure on gold and silver until the release on Friday.

PLATINUM

The PGM's ended up with heavy losses on Wednesday as platinum and palladium have been weakened by sluggish US and German auto sales figures this week. In our opinion, seeing both platinum and palladium fall aggressively and fall in sync with each other is a very bearish development especially with the ongoing negative drag from gold again this morning. While platinum has reached some form of chart support around the \$900 level June palladium could have another \$19 down before it finds similar chart support. In the wake of softening auto sales, a rising dollar, fears of a June US rate hike, fears of moderating US growth and significant chart damage, it is difficult to take control of the PGM complex away from the bear camp. Initial critical support today in June palladium is seen at \$787.10.

TODAY'S MARKET IDEAS: Until the dollar shows signs of weakening, there are more prevalent geopolitical anxieties in the headlines and there is a fresh and haunting development from North Korea there could be little to prevent June gold from a downside extension to \$1,224.90. Similar downside targeting in July silver is seen all the way down at \$16.00. With the most recent COT positioning report in gold still rather lofty, the path of least resistance could be expected to remain down. With the recent spec and fund long in silver weighing in at near a record high long, the prospect of a decline down to \$16.00 in silver is also very high.

COPPER COMMENTARY

05/04/17

The bears still hold control at least until Payrolls Friday

GENERAL: Copper prices were on the defensive yesterday as they finished Wednesday's trading with heavy losses. In fact they dropped nearly 16 cents (5.8% lower) from Monday's highs and that fosters fears of margin and capital liquidation. While the market managed another fresh lower low for the move this morning the July contract has been able to respect the \$2.50 level and that could give the bull camp a glimmer of hope. However, with LME copper stocks overnight posting another massive inflow of 32,000 tons and Chinese Iron Ore imports softening in the most recent report, the overall outlook for copper is at best poor! In fact with copper seen as the most economically sensitive physical commodity, it would appear that longs in copper are throwing in the towel because of the lack of



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consistently positive US data. However, the most recent COT positioning report in copper showed a net long of only 12,000 contracts and nearby futures from that mark off date have now fallen by eight cents a pound, and that should mean copper is close to a level or perhaps even a net spec short level.

MARKET IDEAS: While we think the \$2.50 level is some form of value and we also think copper has nearly leveled its spec long positioning, we can't rule out temporary action below \$2.50.

In fact without a positive improvement in global economic data and more positive outside market signals from the stock market, we can't rule out a temporary spike down to the \$2.4905 level. In order to turn the tide around in July copper probably requires a trade today back above \$2.5570.

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