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The Hightower Report
Futures Analysis & Forecasting

PRECIOUS METALS COMMENTARY

12/06/17

Temporary downside pause but the bears retain control

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD +5.30, **SILVER** +6.70, **PLATINUM** -4.80

OUTSIDE MARKET DEVELOPMENTS: Global equity markets overnight were lower with the US markets also starting off under pressure. Overnight German industrial orders came in stronger and fostered upbeat dialogue toward the euro zone recovery. The North American session will start out with a weekly private survey of mortgage applications, followed by the November ADP employment survey that is expected to show a moderate decline from October's 235,000 reading. US 3rd quarter non-farm productivity is forecast to show a modest uptick from the previous 3.0% reading, while third quarter unit labor costs are expected to see a minimal downtick from the previous 0.5% reading. The highlight for global markets will be the results of the Bank of Canada's latest monetary policy meeting which is forecast to have no changes to rates or policy, but could have some hawkish post-meeting commentary. Earnings announcements include H&R Block and Brown Forman before the Wall Street opening while Broadcom and Lululemon Athletica report after the close.

GOLD / SILVER

A moderate portion of the burdensome spec and fund long positioning in gold seemed to throw in the towel yesterday off further macroeconomic optimism flowing from the widening belief that US tax reform will pass. Adding into classic technical liquidation from the charts, the gold market also saw the strength in the dollar as a justification to exit and move to the sidelines. Apparently the threat of a US government shutdown has been temporarily shunted to the sidelines, but that issue should not be forgotten into next week. While the UAE saw their gold reserves climb and the US trade deficit expanded again (possible safe haven development) those issues will only lend minimal support to prices during today's trade. In fact news that Russian January through August gold output rose by 14 tons over last year starts the Wednesday trade out with a fresh fundamental negative and that could limit the capacity to bounce off minor weakness in the Dollar. It should be noted that Russian January through August silver output saw a 6 ton expansion from the same period last year. While the net spec and fund long in the gold market has probably come down moderately following the $36 high to low slide since the last COT positioning report was measured, that positioning was very lofty at 257,486 contracts and therefore it is difficult to suggest that gold is "sold-out". However, as long as the tax reform effort remains "likely", we leave the path of least resistance in the gold market pointing downward. In fact it would seem like the trade is fully expecting a December rate hike and some are suggesting that the passage of a tax reform bill will be another issue pushing the Fed toward notching rates higher. Higher rates and improved growth expectations lift the Dollar

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which adds yet another negative into the equation. While the market might have found temporary support just above $1,260, that level would appear to be a logical near term downside target if the dollar continues to give Congress the benefit of the doubt on the completion of tax reform legislation before the winter break.

PLATINUM

With both platinum and palladium off sharply in the prior trading session, it would appear that spillover weakness from Chinese demand fears has surfaced once again. Surprisingly both markets are falling in sync which suggests to us that the bearish force is broad-based big picture orientated. It is also possible that forecasts for international PGM flows for 2018 are not as optimistic as many have expected. In fact, given that palladium prices at current levels are $277 an ounce above the level seen last year at this time, it would be logical to assume lower discretionary demand for palladium because of price sensitivity. Near term downside targeting in March palladium is seen at $968.55 while downside targeting in January platinum is seen at $912.90. It would not be surprising to see the premium of palladium narrow substantially over the coming three trading weeks.

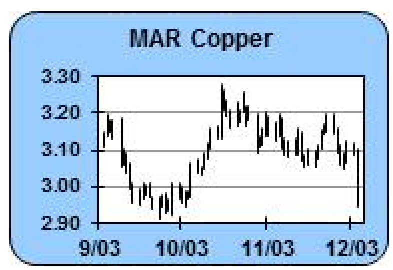
TODAY'S MARKET IDEAS

The bear camp should continue to control gold and silver in the short term unless the perceived tax reform progress is derailed, US job sector news is weak or there is a concerning geopolitical headline from Washington. In fact, euphoria from talk of the stimulus benefits of the tax plan and talk of the wealth effect from soaring equities as well as a poll that predicts a high probability of a US rate hike this month looks to set the table for a decline in February gold down to the $1,250 level. In fact if the BOC hikes rates today that could increase the odds of a US hike even further. Even the silver market looks to remain in what could be a freefall with next downside targeting seen at $15.88 and then again down at $15.81. With the recent net spec and fund long in silver sitting above 70,000 contracts the market may have further stop loss selling before bargain-hunting buying surfaces.

COPPER COMMENTARY

12/06/17

We expect prices to stabilize above yesterday's low



GENERAL: While the trade was tossing around the idea that a build in LME copper warehouse stocks justified the massive weakness in copper we think a much bigger issue is responsible for the largest daily slide in years. With a recent report suggesting that a large portion of the 2018 copper physical contract negotiations are currently taking place, it is possible that forward buying volumes (particularly from China) might be coming in less than expected. While the copper trade has seen favorable copper demand stories on one day and extremely dismal Chinese copper demand forecasts on the following days, the market might be justified in fears of a decline in Chinese industrial metals consumption as a result of the aggressive Chinese government pollution control efforts. However we think those fears are overblown and that a large measure of the washout yesterday was the result of year end maneuvering. In other words we think a portion of the washout yesterday came as a result of the chart damage but we also think that many fund traders rushed to bank/protect long profits from the year-long rally. After all the 2017 copper bull market was one of the most impressive commodity market runs and the large specs were clearly heavily long into this week.

MARKET IDEAS

While it is difficult to rationalize the magnitude of the washout in copper off available fundamentals, the most recent net spec and fund long position in copper was lofty at 50,446 contracts and that suggests some form of large technical break was justified. We do think physical traders are seeing reduced customer orders for 2018 because high prices have forced buyers to go hand to mouth, hoping to book further quantities at lower prices. We also stand on the idea that funds are banking profits and/or moving (rotating) into other cheaper valued commodities. Near term downside targeting in March copper is now seen at $2.9385, but a closer in pivot point is seen at $2.9455.