

PRECIOUS METALS COMMENTARY

01/17/18

The Dollar remained weak overnight therefore gold bulls rule

OVERNIGHT CHANGES THROUGH 3:15 AM (CT):

GOLD -1.20, **SILVER** +2.10, **PLATINUM** +1.60

OUTSIDE MARKET DEVELOPMENTS: Global equity markets overnight were mostly weaker with the Shanghai stock exchange composite and the Hang Seng managing to post minimal gains against the tide. The US markets are showing early signs of more new record highs in a fashion that reverses the overnight negativity. The Asian session started with a November reading on Japanese machinery orders which came in up 5.7% which bested expectations and posted the highest November reading in 10 years. Economic data from Europe overnight included euro zone inflation which rose over the prior month and met expectations. The euro zone inflation readings excluding food and energy also met expectations. Bitcoin continues to show weakness with the latest price at \$10,450. The North American session will start out with a weekly private survey of mortgage applications. December industrial production is forecast to see a modest uptick from November's 0.2% reading, while December capacity utilization is expected to increase from November's 77% reading. The January NAHB housing market index is forecast to see a moderate decline from December's 74 reading. The highlight for global markets will come with the results of the Bank of Canada's latest monetary policy meeting. While the BOC is widely expected to hike benchmark Canadian rates by 0.25%, their post-meeting comments will be highly scrutinized for clues on upcoming policy moves as well as Canadian economic prospects. The latest FOMC Beige Book will be released during afternoon US trading hours. Chicago Fed President Evans, Dallas Fed President Kaplan and Cleveland Fed President Mester will speak during afternoon US trading hours. Earning announcements will include Bank of America, Goldman Sachs, US Bancorp and Charles Schwab before the Wall Street opening while Kinder Morgan and Alcoa report after the close.



GOLD / SILVER

After a fairly expansive trade to start the week the February gold contract overnight remained within the Tuesday range with a slightly negative bias to start. With the gold market seemingly tightening its inverse relationship with the dollar and the dollar temporarily breaking out to the downside overnight the gold market appears to have thickened up support above yesterday's low of \$1,332.10. However as was seen in the Tuesday trade persistent recovery action in the dollar from the early lows can easily undermine the bull case in gold. While it remains unclear what the actual relationship is between gold and bitcoin the crypto currency was sharply lower overnight in action that could spark some financial market uncertainty. With the last COT positioning report showing the gold market to have added 42,311 contracts in one week, we have to consider an expansion in volatility with the

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potential for a corrective dip. However in the event that the dollar index sees another print below 90.00 all bets on a corrective dip are off. A normal retracement of the January rally would only project a corrective slide down to \$1329.50 with a 50% retracement potential seen down to \$1,324.80. However given the dollars lower low overnight and the appearance of an entrenched downtrend in the greenback, we can't rule out a rise back above the next critical resistance point of \$1,350. Unfortunately for the bull camp the markets are expecting a slight improvement in US December industrial production but that could be quickly offset by a downtick in the NAHB index. Traders should be on the lookout for Fed inspired impacts on the dollar as the Fed Beige book will be released later today and there will be several Fed speeches sprinkled throughout today's trade.

PLATINUM

With another range up new high for the move overnight in platinum the path of least resistance remains up and a near term rise back above \$1,025 would appear to be in the cards. Another potential target is an old double top up at \$1,027.80. Even the palladium market is showing recovery action off a large range trade with a lower bent yesterday. It does appear as if platinum has taken over leadership from palladium with the platinum market still relatively cheaper than the March and September 2017 highs in the metal! Critical support in April platinum is seen at \$1002.20 and critical support in March Palladium is seen at \$1,088.15. Both markets have apparently factored in and generally discounted yesterday's 12.3% increase in South African platinum group metals production for November which would seem to add to the bullish market environment.

TODAY'S MARKET IDEAS

While the gold market is expected to maintain its singular focus on the dollar, the dollar in general this morning continues to give off signs of further weakness. However without a clean sweep of positive data from the US and at least one or two hawkish statements from Fed speeches today, the dollar bias will probably remain down. In fact inflation readings from the US continue to be mild and the market is still operating off a disappointing monthly nonfarm payroll reading from December and that should keep the Fed on the sidelines. Uptrend channel support in February gold today is seen down at \$1323.60 but closer in pivot point support is seen at \$1333.30.

COPPER COMMENTARY

01/17/18

There is no reason to take control away from the bear camp

GENERAL: Like a number of other physical commodities, the copper market on Tuesday forged a huge trading range to start the holiday shortened trading week and since that range included a fresh lower low we leave control with the bear camp. Other issues providing downward pressure on copper prices came overnight from word that a Chinese player might have liquidated some long



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positions on the Shanghai exchange and that combines with information from earlier in the week of rising copper production in Kazakhstan, fears of rising Rio Tinto output in 2018 and another rise in daily LME copper stocks for a bearish tilt. Furthermore as pointed out in the Tuesday comments the net spec and fund long in the copper market did post a new record at 63,602 contracts last week and that obviously puts some would be buyers on the sidelines and leaves other longs poised to be stopped out. Another issue that could apply some pressure to copper directly ahead is weakness in other base metals prices.

MARKET IDEAS

We think the bear camp retains control over copper, especially with prices venturing back toward the downside breakout lows from yesterday. Another failure to hold above the \$3.20 level this morning should open up the record spec and fund long position to renewed aggressive selling. In order to turn the tide around probably requires a near term trade back above \$3.2745.

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