

PRECIOUS METALS COMMENTARY

02/22/18

The bias is down unless US numbers cause a \$ reversal

OVERNIGHT CHANGES THROUGH 3:15 AM (CT):

GOLD -7.40, SILVER -23.20, PLATINUM -6.10

OUTSIDE MARKET DEVELOPMENTS: Global equity markets overnight were weaker with a few exceptions to that rule. International markets overnight appeared to be undermined as a result of the rising interest rate theme but also because of somewhat disappointing corporate earnings flow from Europe. Overnight the markets were presented with French business climate readings that failed to reach expectations and were under the prior month's tally. Even more significant is the fact that French CPI contracted as that should have tempered rate hike psychology somewhat. Germany saw an Ifo business climate report that was weaker than expectations at the same time that Italy saw industrial orders come in much stronger than a prior reading. Other reports released overnight were UK GDP that came in softer than expectations, Italian consumer prices which were unchanged but in positive territory and Italian industrial sales figures that posted a noted gain from the prior month. The North American session will start out with a weekly reading on initial jobless claims that is expected to hold steady with the previous 230,000 reading. December Canadian retail sales are forecast to hold steady with November's 0.2% reading. The Kansas City Fed's February manufacturing index is expected to see a modest uptick from January's 16 reading. The Conference Board's January leading indicators index is forecast to hold steady with December's 0.2% reading. New York Fed President Dudley will speak during morning US trading hours while Atlanta Fed President Bostic and Dallas Fed President Kaplan will speak during the afternoon. Earnings announcements will include Newmont Mining, Hormel Foods and Sanderson Farms before the Wall Street opening while Intuit, Hewitt Packard and First Solar report after the close.



GOLD / SILVER

While the April gold contract yesterday managed to initially reject a fresh four day low and showed some respect of the \$1,325 level, we can't call an end to the downward bias in prices from a technical perspective. In fact with the dollar breaking out to a fresh higher high overnight, crude oil prices showing weakness, equities tracking in negative territory early and gold and silver prices posting significant declines already the bear camp has a long list of forces working in its favor. While the gold and silver markets were temporarily cheered by the somewhat even dialogue from the Fed meeting, Treasuries continue to throw off signs of rising rates and that threat might be difficult to eradicate through a relatively active US report slate today. Classic fundamental news for gold overnight was minimally supportive as Sibanye gold saw its fiscal year gold production fall to 1.24 million ounces versus 1.29 million and another study indicated that large gold producer's production is likely to decline into a potential

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turn up in investor demand. However gold and silver are clearly not cheered by the Fed's gradual rate hike description from yesterday and more gains in the dollar off positive scheduled data could throw prices back down toward the early February low.

PLATINUM

Unfortunately for the bull camp, the PGM complex did not seem to get as much initial benefit as gold from the dovish Federal Reserve meeting minutes from January yesterday afternoon and that hints a more declines ahead. Perhaps both platinum and palladium need further corrective action to remedy the overbought short-term technical condition created by the compacted six day rally on the charts. With April platinum forging a fresh lower low this morning and the market lacking a definitive chart support point close in it is possible that a quick extension down to \$986.40 is ahead. In a minimally negative development Sibanye gold saw its annual platinum production rise from 1.1 million ounces to 1.15 million ounces and that provides a measure of bearish supply fodder to the equation. In the end spillover pressure from gold and a rising dollar should combine to send the platinum market down to the early February consolidation low pattern around the \$975 level. Relatively speaking the palladium market continues to hold up better than the platinum market but it probably can't avoid some erosive action given the totality of bearish outside market forces. Close in support in March Palladium is seen at \$1011.65 with significant resistance just above the market this morning at \$1025.

MARKET IDEAS: The failed rally attempt in the wake of the Fed meeting minutes yesterday highlights a deteriorating fundamental condition for the metals complex. With fresh damage on the charts adding into the selling bias and the dollar potentially lifted further by US scheduled data later today it is unlikely that April gold will be able to consistently hold above the \$1325 level. A more logical downside targeting is seen at \$1316.30 with similar downside targeting in March silver coming in relatively closer than gold from consolidation low support at \$16.32.

COPPER COMMENTARY

02/22/18

The bear camp has internal & external factors in its favor

GENERAL: While the copper market managed to aggressively reject the lower low yesterday it has forged another lower low this morning and appears to be poised to extend the three day slide for another trading session. Obviously the commodity markets have come away from the Fed meeting fearful of rising rates and a strengthening dollar as the net reaction in commodity prices from the Fed release has been definitively negative. Copper prices might be supported by International Copper Study Group predictions that global refined copper balance for the first 11



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months of last year posted a deficit of 195,000 tons especially since that deficit is 27% wider than the same period in 2016. However as we have indicated a number of times the copper market was extensively overbought into the February high (perhaps at a record spec and fund long) and therefore the magnitude of the selling could be significant. Not surprisingly the copper market this morning is not drafting support from indications overnight that Anglo American PLC expects production to be restrained this year.

MARKET IDEAS: With the technical and fundamental factors in the bear camp today and the March copper from the mid-February rally overbought due to the aggressive and compacted nature of the February rally more outsized declines should be ahead. Initial support is seen at \$3.1535 and then not until \$3.1390.

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