

PRECIOUS METALS COMMENTARY

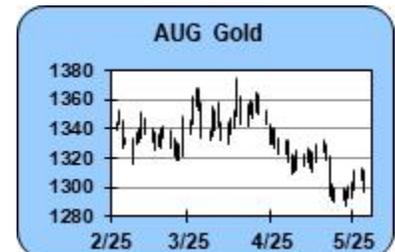
05/30/18

Lingering vulnerability but a Dollar pause supports early today

OVERNIGHT CHANGES THROUGH 3:15 AM (CT):

GOLD -2.60, SILVER -0.80, PLATINUM +0.60

OUTSIDE MARKET DEVELOPMENTS: Global equity markets overnight were mixed, with Asian and Pacific Rim stocks lower and US and European markets generally higher. Japanese consumer confidence reading showed a very minor improvement, and retail sales had a gain of 1.6%. German import prices came in slightly softer than expectations, and retail sales came in much better than expected, while French consumer spending contracted much more than expected. French GDP revisions for the first quarter showed a slight reduction in growth. The German unemployment rate for May showed a minor downtick. Euro zone sentiment/business climate readings for May came in stronger than expected and better than the previous reading. The North American session will start out with a weekly private survey of mortgage applications, followed by the May ADP employment survey which is expected to see a modest downtick from April's 204,000 reading. First quarter gross domestic product is forecast to hold steady with the previous 2.3% annualized rate. April wholesale inventories are expected to see a minimal uptick from March's 0.3% reading. The April goods trade balance is forecast to see a moderate increase from March's \$68 billion deficit. The latest Bank of Canada monetary policy meeting is expected to result in no change to rates or policy. The latest FOMC Beige Book will be released during afternoon trading hours. Earnings announcements will include Analog Devices before the Wall Street opening while PVH reports after the close.



GOLD / SILVER

While the gold market forged a wide trading range of \$14 per ounce on Tuesday and spent most of the action in negative territory, prices have managed to remain within striking distance of \$1,300, and that would seem to attach some value to that level. In the bulls' defense, the gold market held up fairly impressively in the face of significant gains in the dollar, which otherwise could have sent both gold and silver pricing sharply lower. A measure of safe haven interest has surfaced from resurgent Italy/European political & economic problems that in turn seem to be pushing some money toward gold. However, in the short term the most the bull camp can hope for is a slight safe haven cushion to defuse a portion of the currency pressure. Fortunately for the bull camp, the dollar is showing some retrenchment this morning, and that has alleviated some pressure. Beyond the recent strength in the dollar, the bear camp is also facing adversity from falling crude oil prices, deflationary-type global economic sentiment from slack data, and falling safe haven interest from a downshift in North Korean uncertainty, and that should ultimately leave the bear camp in control. Fortunately for the bull camp, the Commitments of Traders Futures and Options report as of May 22nd showed a somewhat liquidated non-commercial and non-

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reportable net long position of 103,927 contracts in gold, which could mean gold will become washed out quickly with even moderate declines. On the other hand, this same category of traders were holding a somewhat vulnerable net long position of 31,727 contracts in silver, an increase of 13,393 contracts on the week.

PLATINUM

The PGM complex showed some divergence to start out the trading week, with the platinum market continuing to show leadership over palladium. However, traders might expect to see palladium hold up better than platinum if a sustained risk off event continues this week, as platinum has become more overbought than palladium in the wake of the of the last two weeks' action. Still, outside market pressures like a soaring dollar, liquidation of industrial commodities and spillover selling pressures from other precious metals leave the bear camp with an edge going forward. A failure to hold above \$898.70 in July platinum or above \$963.60 in June palladium could set the stage for a retest of the May lows this week. The Commitments of Traders Futures and Options report as of May 22nd showed non-commercial and non-reportable traders combined holding a net long position of 11,549 contracts in palladium. This same category of traders was net long position 8,504 contracts of platinum.

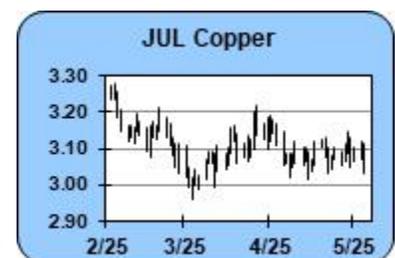
MARKET IDEAS: Unless the situation with Italy becomes more precarious and the trade begins to price in a new "contagion," we doubt that safe haven buying forces will be able to overcome currency-related selling pressure. The fact that gold held a modest spec and fund net long positioning as of early last week could mitigate stop loss selling despite conditions that generally favor the bear camp. On the other hand, the market's ability to regain the \$1,300 level and reject a noted washout early Tuesday suggests some form of value may have been found around \$1,292.20. The silver charts look damaged, and there is much to block the way of a downside extension to the prior key point of \$16.28.

COPPER COMMENTARY

05/30/18

Getting closer to value but US/China trade headlines favor the bears

GENERAL: With a huge trading range of eight cents yesterday and a downside extension early today, the bear camp in copper started the week with a distinct edge. With fears of sagging global demand off the prospect of deteriorating global economic psychology from European travails and renewed US/China trade war headlines, it isn't surprising to see copper prices spike down below the bottom of the May consolidation zone. Negative headlines from China are usually a straight line to lower copper prices, especially given spillover weakness from a number of physical commodities. With sharply lower crude oil, weaker precious metals and recent gains in the US dollar, a number of forces have created a fairly distinct bear case for copper. If there was a supportive overnight development for



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copper, it was the large, 11,375-ton decline in daily LME copper warehouse stocks. However, the Commitments of Traders report as of May 22nd showed non-commercial and non-reportable traders net long 42,027 contracts, which suggests the market is vulnerable to further stop loss selling.

MARKET IDEAS: About the most positive thing one can say about copper today is the market seemed able to reject the brunt of the sharp range down trade on Tuesday. However, going forward we see a critical pivot point today of \$3.030, and it is possible that the market could revisit \$3.01. Traders should take note that on five occasions this month, copper has rejected spike low action toward \$3.00 and subsequently recovered, but as long as US/Chinese trade relations are tense, we would avoid picking a bottom.

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