

## PRECIOUS METALS COMMENTARY

06/27/18

**The bears control still control more down**

### OVERNIGHT CHANGES THROUGH 3:16 AM (CT):

**GOLD +0.50, SILVER -2.10, PLATINUM -8.00**

**OUTSIDE MARKET DEVELOPMENTS:** Global equity markets were under pressure overnight as signals from China pointed to a trade war posture. Apparently the markets are unnerved by significant declines in the Chinese currency, as that is seen as a possible tool to be used by the Chinese in a trade war. Overnight economic data included UK housing prices, which showed slower than expected growth at a five-year low of 2% on a year-over-year basis. From Europe, French consumer confidence came in below expectations and below the previous month, Italian manufacturing confidence readings matched expectations but were below the previous month, Italian consumer confidence readings were much stronger than expected and significantly above the previous month, and euro zone corporate lending hit a post-crisis peak. The North American session will start out with a weekly private survey of mortgage applications followed by May durable goods, which are expected to see a modest uptick from April's -1.6% reading. May US wholesale inventories are forecast to show a minimal increase from April's 0.1% reading. The May goods trade balance is expected to show a modest increase to the monthly deficit. May pending home sales are forecast to have a moderate increase from April's -1.3% reading. Fed Vice-Chair Quarles and Boston Fed President Rosengren will speak during midday US trading hours. Earnings announcements will include General Mills and Paychex before the Wall Street opening.



## GOLD / SILVER

With the gold market early this morning failing to benefit from distinct safe haven conditions in the wake of significant weakness in global equities and ideas that China is preparing for a trade war, the bull camp has to be very disappointed. With other safe haven markets like Treasuries and the Japanese Yen rising overnight, the weaker early action in gold is further confirmation of its lack of interest in market anxiety. However it is not entirely surprising to see gold fail to benefit from safe haven, as it has become a physical commodity of late with a very tight correlation with equities. Just to add another disappointment for the gold and silver bull camps, it seems as if a softening of tone from the US President on trade overnight has been summarily ignored. The early action today appears to set the stage for a return to last December's lows down around \$1,251.90 in the August contract. Furthermore, with the recovery in the dollar nearing a 4 day high, fresh currency related selling is likely, especially since a deflating Chinese yuan should provide the dollar with an added and perhaps concentrated lift. The best argument of the bull camp is that the market is becoming short term oversold and is also getting intermediately oversold technically.

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## PLATINUM

While the PGM markets rejected new lows for the moves and forged fairly impressive recoveries off their lows yesterday, that bullish technical action was lost with the bearish overnight action in global equities. With tariffs on autos seemingly coming to the front line of trade wrangling, it is not surprising to see auto catalyst demand fears surface and for PGM prices to come under fresh pressure as a result of today's condition. With both markets fresh off impressive recovery action yesterday, that naturally leaves them vulnerable to at least short term stop-loss selling. Given the magnitude of the early declines in equities, we have to think that the path of least resistance in platinum and palladium is pointing downward and that a slide back to \$932 in September palladium could be seen, with a similar slide in platinum down to \$862.20 likely.

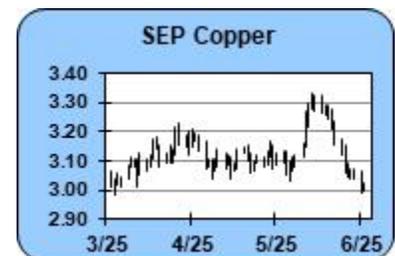
**TODAY'S MARKET IDEAS:** Certainly the risk to fresh shorts is rising with the sharp range down washout yesterday and the additional extension down this morning, but from a chart perspective, control has yet to shift away from the bear camp. For now, trading precious metals is effectively trading equities, as risk-on is bullish and risk-off is bearish, at least until there is a clear shift away from trade-war conditions. Therefore, a retest of the December 2017 lows (roughly \$9.00 down from the Tuesday close) would appear to be likely in gold. Weak support in September silver is seen this morning at \$16.22 and then not until \$16.00. As we have said already this week, we think the gold market will bottom with a significant volatility event and therefore could temporarily overshoot our downside targeting.

## COPPER COMMENTARY

06/27/18

**The bias is down as copper is attached to the equity markets**

**GENERAL:** While the copper contract on Tuesday managed to hold above the big spike low washout from Monday, prices have failed below that level early today in the wake of the definitive global risk-off condition. This week the copper market doesn't seem to care that daily LME copper stocks have managed declines, nor does the market look to garner much support from what appeared to be a slight tempering of trade comments from Trump overnight. Furthermore, sharp declines in the Chinese currency could make it more difficult for China to purchase foreign physical commodities. Therefore the copper trade for the time being will probably continue to discount the threat of disrupted supply from labor problems in Chile.



**MARKET IDEAS:** While the \$3.00 level could still provide some support, the bull camp will need to see global equity markets recover, otherwise more copper declines will probably unfold. The most recent COT report showed

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a large spec and fund long, and we assume that has and will continue to fuel selling. The \$3.00 level has managed to support prices four times in the last 10 months, and that level might have some fundamental value, but fundamental value ideas will take a back seat today.

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