

PRECIOUS METALS COMMENTARY

07/18/18

The bears retain firm control again today

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

GOLD -5.20, **SILVER** -17.70, **PLATINUM** -11.90

OUTSIDE MARKET DEVELOPMENTS: Global equity markets were mixed once again with Chinese and Russian stocks lower and the rest of the world markets higher. The European trade started out with a June reading on UK CPI that was forecast to have notched higher but instead came in flat. The UK also released PPI which matched expectations and matched the prior month's reading. Euro zone inflation for the month of June came in at 0.1%, which matched expectations but was much weaker than the previous month. The North American session will start out with a weekly private survey of mortgage applications. June housing starts are expected to see a modest downtick from May's 1.35 million annualized rate. June building permits are forecast to have a moderate increase from May's 1.301 million annualized rate. Fed Chair Powell will have his second day of congressional testimony, this time to the House Financial Services Committee. The latest FOMC Beige Book will be released during afternoon US trading hours. Earnings announcements will include Abbott Labs, Morgan Stanley, US Bancorp and Northern Trust before the Wall Street opening while IBM, American Express, Kinder Morgan and eBay report after the close.



GOLD / SILVER

The gold market came under pressure ahead of the actual Fed testimony to Congress Tuesday but added to the weakness through and beyond the event. Fresh strength in the US dollar and more significant washout type declines this morning confirms the focus on currency market action. It is also likely that further weakness in energy prices is fostering deflationary sentiment, which in turn leaves many commodities, such as gold and silver, under a liquidation watch. The precious metals were unable to benefit from Fed suggestions that US jobs growth would continue well into the future, perhaps because the Fed also seemed to remain on track with persistent interest rate hikes. While the metals have not been dramatically impacted from the ebb and flow of inflationary conditions, the fact that the Fed says low inflation has not been solved yet has to discourage longs and would-be buyers alike. In the end, with the gold and silver markets unable to benefit from the favorable growth/risk-on conditions in the prior trading sessions, it appears that dollar strength will be the driving force for metals prices directly ahead. The trade above 95.00 in the Dollar Index overnight projects gold and silver prices toward the mid-2017 lows on the weekly charts.

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PLATINUM

Like gold and silver, the PGM complex didn't benefit from favorable growth and risk-on conditions in the equities yesterday, and that highlights entrenched bearish psychology. While the platinum market is probably extending its spec net short positioning with the declines this week, we can't rule out an eventual retest of \$800 given the chart damage, residual Chinese economic fears and spillover pressure from a number of outside markets. Similarly, the palladium market damaged its charts again and appears poised to fall back to the 2018 lows down around \$889.80. Unfortunately for palladium bulls, the spec and fund net long showed a net long of nearly 8,000 contracts in the last COT report, and therefore specs are probably still considerably net long, leaving the market vulnerable to liquidation.

TODAY'S MARKET IDEAS: Without a sudden and conclusive reversal in the dollar, signs of positive traction on trade negotiations or some other unforeseen development, the bias in precious metals will remain down, and gold might be poised for another \$10 slide. Similarly, the silver market looks ready to fall to the next lower point of significance on the charts, which is 21 cents below yesterday's close.

COPPER

More downside action off classic fundamentals and \$ strength

GENERAL: Sharp declines in precious metals and energies, significant gains in the dollar, and a five day low early today leaves the bear camp in control. With Chinese June refined copper output jumping by 11.7% on a year-over-year basis and Chinese equity markets lower, the bear camp has bearish Chinese news in its favor today. While copper might have found some temporary value with the recent consolidation pattern, the failure to hold above \$2.7170 early today probably results in yet another sharp range down extension. In fact, September copper managed a four day high and tested the \$2.80 level off of favorable Fed economic views and from spillover from positive equity market action yesterday, but that supportive news hasn't altered sentiment and that could entice the bear camp to press prices again. While copper seemed to find support from a Reuters story suggesting that copper could "survive" a US/Chinese trade war (according to a Western Copper Company official) the trade apparently needs clear signs of trade discussions to alter the downtrend.



MARKET IDEAS: With the copper market this morning ranging down to a five day low and forging fresh damage on its charts, fresh weakness in the rest of the metals, additional declines in oil, and a pulse up move in the dollar, more fresh lows are likely today. Adding into the bearish fundamental tide is news of higher Chinese refined

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copper output, which alone justifies further downside work. The next critical support point in copper (in the event of a fresh lower low this morning) is the top of an old gap nearly 4 cents below the early trade.

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