

PRECIOUS METALS COMMENTARY

11/02/16

Flight to quality buying combines with currency buying today

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

GOLD +7.50, SILVER +5.20, PLATINUM -9.90

OUTSIDE MARKET DEVELOPMENTS: Global markets were all off sharply with the biggest loser the Nikkei. Apparently seeing the US election race narrow and seeing aggressive dialogue flowing from both camps has unnerved investors world-wide. Surprisingly equities weren't able to benefit from better than expected European economic data overnight. The most important data overnight showed October Euro zone Manufacturing PMI to be better than expectations (at the highest levels in 3 years) and a German October jobless rate declined and therefore the scheduled data flow from Europe contributes to the negative action in the Dollar this morning. The North American economic calendar will start with the October ADP employment survey which is forecast to see a moderate increase from September's 154,000 reading, and that will be followed later in the morning by the ISM New York index. The highlight for global markets will come during early afternoon US trading hours when the results of the latest FOMC meeting will be released, with expectations for no major changes with either rates or policy. Earnings announcements will include Alibaba, Allergan, Time Warner and ADP before the Wall Street open while Facebook, Qualcomm and MetLife report after the close.



GOLD / SILVER

A combination of issues is serving to lift gold and silver prices. Apparently at the top of the bull list are ideas that Trump has pulled even in the election race and that a Trump Presidency will result in a bigger change in US policies and international relations than a Clinton victory. However, sharp and ongoing declines in the Dollar off slack US data and ideas that the Fed is likely to remain on hold later today is clearly another bullish influence. We also think that an escalation of mudslinging and legal wrangling from the US election front will scare more investors to the sidelines and that might funnel more interest toward gold and silver. An issue that might gain some prominence today is the belief that the US Fed will not only remain on hold today but that they will not even hint at a December hike (because of their desire to stay out of the election process). The world's largest gold ETF saw their holdings rise by 2.67 tonnes on Tuesday while silver derivative holdings saw an inflow of 781,000 ounces. An issue that might provide silver with some support today is news that US Mint Silver coin sales reached a 5 month high in October. Given the impressive range up action on the charts overnight (the highest trade in a month and a rally above the 21 day moving average) have to think that some funds are set to be pulled into positions because of technical signals while others might be poised to push toward gold and silver because of moderately severe chart damage in equities over the last 6 trading sessions. However, we would suggest that

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gold and silver are expecting the Fed to remain on hold and they might also be expecting the Fed to be mum on the prospect of a December hike.

PLATINUM

Like gold, the platinum market also ranged up sharply on Tuesday in a move that generally seemed to be flight to quality based instead of physical commodity based. While we think some of the platinum buying yesterday was the result of a shift in technical parameters PGM prices are not following gold and silver prices higher to start today. However, we see little in the way of resistance in January platinum until the \$1,000 level and perhaps not until the 50 day moving average of \$1,013 especially if gold and silver continue to provide cover for the platinum bulls with additional gains. Platinum derivative holdings overnight increased by 26,000 ounces while palladium holdings increased by a lesser 1,486 ounces. As suggested in our gold coverage, many of the safe have issues and weakness in the Dollar look to remain in place today and that could make the \$1,000 level in January platinum support instead of resistance. Like gold and silver PGM bulls need the Fed to be non-committal on a December rate hike.

MARKET IDEAS: The gold market would seem to have a number of bulls themes working in its favor to start today. With evidence of growth in the Euro zone overnight and rising angst off the US election the US Dollar is set to remain under pressure and gold looks to remain in vogue. However being long gold is betting on an on-hold Fed (a good bet), being long gold is banking on more incendiary comments from Trump (another good bet) and being long gold is expecting Hillary Clinton/Democrats to begin aggressive legal/headline damage control in the coming days. While we can't fully predict the Fed, they probably want to get by today with almost no impact on the electorate and while we can't predict near term US data, it would appear that the Dollar is going to remain weak because of mostly non-descript data. Near term upside targeting is seen up at \$1,307, but we can't rule out an even bigger spike if an election battle becomes extremely ugly.

COPPER COMMENTARY

11/02/16

Overbought in the face of rising economic uncertainty

Speculative buying off hopes from improved Chinese demand in the wake of a 2 year high in a Chinese factory reading yesterday put December copper prices up to the highest level since early August. In fact, Chinese January through August copper imports were reported at a record level and that gave the bull camp plenty of reasons to expect improving copper demand going forward.

Adding into the range up action yesterday was developing and significant weakness in the Dollar and reports of longer term fund buying interest moving into position. However, the biggest



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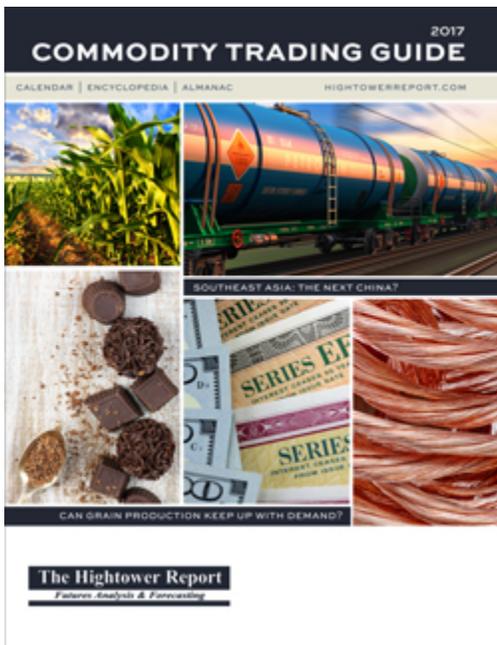
Futures Analysis & Forecasting

threat to copper today is the prospect of a macroeconomic meltdown in the face of an equity market debacle, a hawkish spin from the US Fed and or soaring economic uncertainty in the event that Trump pulls ahead in the polls. For the time being a Trump Presidency is seen as greater change and that outcome might be negative to industrial commodities like copper.

MARKET IDEAS: There might be little in the way of support seen until the \$2.1985 level as the Trump surge and the equity market slide is starting to evoke some long profit taking in copper and other high flying commodities. We also think that some longs simply want to get out of the way of the Fed decision later today. In fact, if copper were trading directly off global economic data it should be trading higher to start today as data from the Euro zone was positive. In conclusion the market was significantly overbought from the stellar run of the last two weeks and rising global uncertainty is cause for long profit taking and perhaps even a weak wave of outright selling.

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