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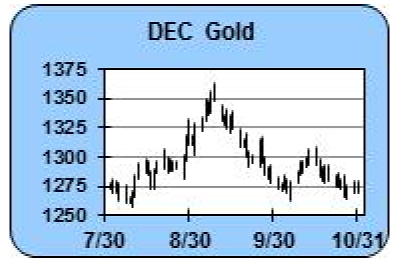
The Hightower Report
Futures Analysis & Forecasting

PRECIOUS METALS COMMENTARY
11/01/17

The bulls regain the edge off very strong Chinese demand



OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD +9.50, **SILVER** +30.20, **PLATINUM** +10.90

GOLD / SILVER

While the action in the gold market yesterday had to be very discouraging to the bull camp a definitive recovery this morning has not only reversed bearish sentiment but it has probably sparked a wave of fresh speculative buying in the early going today. With the dollar trading slightly higher the $10 plus rally in gold overnight is certainly not the result of currency related forces and with global equities also flashing into higher ground again it would not appear as if safe haven arguments are feeding the run up. Some might suggest that expectations of an on-hold Fed are providing the market with buying fuel but we would suggest that classic physical demand is likely the source of the buying pulse. Certainly seeing Chinese January through September gold output decline by almost 10% is supportive but the news of a 15.4% January through September increase in Chinese gold consumption means that gold is probably feeding higher off the latest influence of the Chinese commodity demand machine. In fact if Chinese gold production continues to divergence with consumption, that should make China a positive 800 pound gorilla import influence in the gold "space". It is also possible that the gold market is garnering a delayed lift from news yesterday from Gold Fields Mineral Services that global gold production in 2017 might decline. The market has clearly discounted news that October gold sales from the Australian Mint declined as that news isn't necessarily a key leading indicator of global demand for gold. On the other hand the Perth Mint did note a sharp 43% increase in silver sales for the month of October and that should give a rather quiet silver market a minimal demand lift. While the December gold contract has climbed above a three week old downtrend channel resistance line with the rally overnight and it also rejected the 200 day moving average again the market will face a critical junction later today in the form of the Fed decision and statement. While many economists suggest that inflation is not yet a concern for the Fed and that growth from the numbers is disjointed we have to wonder if the Fed will be nudged toward hiking rates because of the irrational exuberance action in the stock market. With the gold market sliding sharply over the last two months it is likely that an on hold Fed later today will allow for more short covering action.

PLATINUM

Apparently the palladium market was undeterred in the wake of softer than expected Chinese factory orders data earlier this week and the market even surged higher in the face of weakness in the rest of the precious metals complex yesterday. Evidence of the significance of the palladium rally in 2017 was seen last week in a Bloomberg article that suggested catalytic converter thefts in Chicago were increasing rapidly in the wake of the dramatic appreciation in palladium prices this year and the positive demand theme also continues to ring in the Press overnight with suggestions that global gasoline vehicle demand for palladium is set to prompt even more stellar gains in palladium prices ahead. It is possible that part of the gains yesterday in palladium prices were the result of the potential for renewed labor problems in South Africa following the progression toward a mine closure that had been in the works for a long time. With the upside breakout in December palladium, the next upside resistance isn't seen until $1,002.75 and support comes in down at the top of last week's consolidation highs around $989.25.

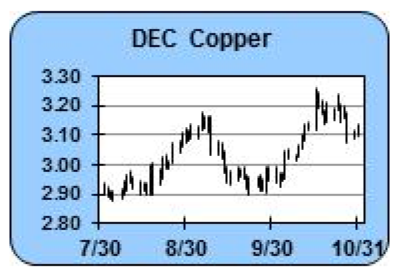
TODAY'S MARKET IDEAS

The fortune of the gold and silver markets have clearly did a "180" in the last 12 hours as poor chart action and fears of a hawkish Fed have been tossed aside and the trade appears to be benefiting from short covering and perhaps even fresh speculative buying. However the long side will not be without risk as the Fed could decide to hike rates today because of the frothy psychology flowing from equity markets and perhaps from anticipation of a tax reform bill on Thursday. At least to start today favorable physical Chinese gold demand news should give credence to the newfound bull case and that might set the stage for a December gold trade back above the next key resistance level of $1,283.80. Consolidation low support for today's action is seen at $1,273.60 and a secondary upside targeting is seen up at $1,292.90 and perhaps even $1,300 in the event that the Fed remains on hold and the rate hike threat is delayed until December. In fact a clearly on hold Fed combined with the surprise Chinese gold demand evidence overnight could set the stage for a return to the October high up at $1,308.40. Like the gold market the silver market is benefited from favorable demand news and the market is also benefiting from a technical reversal and fresh new high for the week. Near term upside targeting and resistance is seen at $17.075 and then not until $17.255 in the event the Fed passes on a rate hike today. Some might suggest the 200 day moving average in silver up at $17.32 could be a target in silver following an on hold Fed.

COPPER COMMENTARY

11/01/17

Risk-on sentiment steps back into control early today



GENERAL: At first blush it would appear as if the copper market is joining in with other physical commodities for a broad-based risk on rally. Surprisingly the market has not only thrown off emerging negative technical dialogue from yesterday afternoon it has also embraced a definitively positive near term demand outlook. In retrospect the $3.10 level has become a stronger value zone and the prospect of a near term rise back above $3.20 looks very strong. We get the sense that many commodities are "benefiting from reflation" in the wake of ongoing and almost unbelievable strength in global equities. We also get the sense that many physical commodities are in some way factoring in an on hold Fed and therefore some measure of volatility could be seen in the early afternoon trade today. Apparently the copper market has ignored news of start up production from a new Australian copper mine perhaps because of news that a massive Chinese/Russian joint venture processing facility was brought into operation.

MARKET IDEAS

A noted shift in psychology in price action has caught a wave of sellers in bad positions at the same time that a measure of reflation/risk on buying of commodities has catapulted prices back toward the $3.20 level. Given the magnitude of the range up action a certain amount of positive momentum can probably be expected especially if equities improve on early strength and broad-based optimism reigns in the press. Logical resistance is seen up at $3.20 and then not until a spike high up at $3.2390. While close in support is seen at $3.1380 support could be a relative term today given the potential for expanded two-sided volatility into the Fed window later today.