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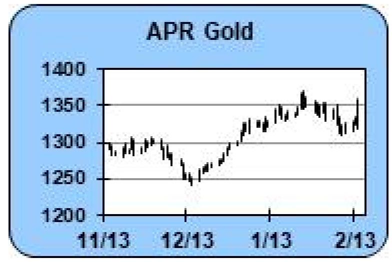
The Hightower Report
Futures Analysis & Forecasting

PRECIOUS METALS COMMENTARY
02/15/18

The bulls are getting a surprising combination of outside mkt action



OVERNIGHT CHANGES THROUGH 3:15 AM (CT):
GOLD -1.10, **SILVER** +3.20, **PLATINUM** +8.70

OUTSIDE MARKET DEVELOPMENTS: Not surprisingly global equity markets were all higher overnight in a catch up move to the gains posted in the US session on Wednesday. Overnight the market saw January Japanese industrial output that came in better than expectations with a 2.7% gain. Offsetting the optimistic industrial output readings from Japan were machinery orders that fell by 11.9%. Also out overnight was Australian January unemployment which ticked downward to 5.5% from 5.6% in December. The early European session saw French unemployment for the fourth quarter fall down to the lowest level in eight years. Also out from Europe were Italian trade balance figures which showed a narrowing surplus. The markets were also presented with euro zone Eurostat trade figures for the month of December which were slightly weaker than the prior reading. The North American session will start out with the New York Fed's February Empire State manufacturing survey, which is expected to see a modest downtick from January's 17.7 reading. The January producer price index is forecast to see a modest RISE from December's 2.3% year-over-year reading. A weekly reading on initial jobless claims is expected to see a moderate uptick from the previous 221,000 reading. The February Philly Fed manufacturing survey is forecast to see a moderate decline from January's 22.2 reading. January industrial production is expected to show a modest decline from December's 0.9% reading. The February NAHB housing market index is forecast to hold steady at a 72 reading.

GOLD / SILVER

One might suggest that the gold and silver markets saw a perfect storm of action yesterday as US inflation numbers were finally inflationary, but the surprising thing is that news did not support the dollar or sink US equities. In other words, gold and silver got a very favorable mix of surprising outside market action yesterday and sentiment looks to extend again today as the Dollar forged another lower low overnight. Keep in mind the main focus of the gold and silver trade has been the dollar, but traders have also been emboldened in the wake of stock market gains. In fact gold has also been pressured in the wake of large stock market losses and that solidifies a positive correlation between gold and equities! Therefore, the bulls have to like their positions and the bears should be rocked back on their heels because of the sharp range up move to the highest level since the Mid-January highs. In conclusion gold and silver seem to be facing a reflationary environment a safe haven environment off deficit fears and even a risk on physical commodity market condition that might be expected to extend off today's US PPI report. In other words we expect a replay of yesterday if stocks can weather declining

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Treasuries and the Dollar fails to be lifted by the PPI result. Other issues that might lend support to gold and silver ahead are the unrelenting deficit war in Washington, renewed strength in crude oil and an influx of fund buying as the reflation trade appears to have re-entered the game especially if US PPI confirms the CPI result with a reading above +0.3%. While the gold market could be held back by news last night that DRDGold posted an 11% gain in production in their earnings report the market also saw a contraction in production from Russian miner Polyus. We would also suggest that supply is of little consideration in the current market as financial demand is clearly dominating.

PLATINUM

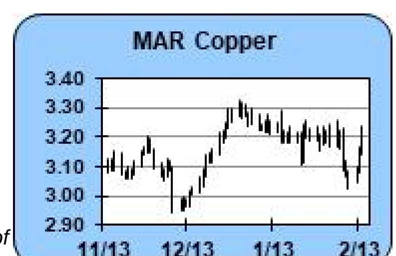
Like the gold and silver trade, the PGM complex has joined the broad-based risk on physical commodity market bounce and both markets have extended that track in the early going today. However, the platinum market is clearly outperforming the palladium market in a manner that suggests the pro-growth spread play of owning platinum and shorting palladium is back in vogue. It is possible that the PGM complex benefited from the possibility of a Russian and South African effort to cooperate on the "use" of PGM's, but we think that story is suspect especially if in reality means cooperation on the supply-side of the equation. Given the massive range up extension in April platinum the next resistance point might not be seen until $1,013.40. Critical pivot point support in April platinum today moves up to the $995.50 level but the bear camp has to be knocked back as a result of the $23 rally yesterday. While the palladium market might continue to benefit from outside market bullishness it should rise more slowly than platinum and it would appear to have a significant pivot point right on the market at $1,024.

MARKET IDEAS: As indicated already, the massive range up extension yesterday should have caught a number of shorts leaning in the wrong direction and that action should leave the bear camp hesitant. As we have indicated already, the gold and silver trade saw a nearly perfect storm of outside market developments yesterday some of which were not typical in their fundamental correlations and that speaks of a trend condition ahead. In other words, the combination of inflation without dollar strength surprised traders and fueled a rally that might be able to extend to the January high up at $1,370.50 in the event that PPI later today is also "hot". We see critical pivot point support in April gold moving up to the $1,348.20 level today while initial resistance in the contract is pushed up to $1,362.70.

COPPER COMMENTARY

02/15/18

The bias remains up unless PPI undermines market sentiment



GENERAL: Like other physical commodities, the copper market ranged sharply higher Wednesday and reached up to the highest price since February 5th in a move that would seem to embrace fresh positive inflation views and renewed growth hopes. Clearly seeing a weaker dollar, positive leadership from a host of physical commodities and strength in equities suggests that copper demand views are once again improving. The copper market was also benefited as a result of an upward revision in six month guidance for copper prices from UBS yesterday, and we have to think that funds are moving back into copper in hopes of a full return to risk-on gains in base commodities. Issues that might limit copper prices today are the fact that copper over the prior five trading sessions have now forged a gain of $0.22 and the market is also seeing signs that Freeport is hopeful of getting authorization to resume exports from Indonesia.

MARKET IDEAS: While we think the copper market has overreacted to the shift toward more favorable economic fundamentals, it is difficult to argue against an extension today in the event that US equities follow global equities higher today, the dollar extends its early fall and the markets generally discount the rising rate threat thought the PPI report. In order to replicate the big range up action from the prior two trading sessions today copper needs to see the reflation story reiterated and even more fund buying activity in a host of physical commodities. Critical pivot point support in March copper today comes in at $3.1975, and there might not be much in the way of resistance until $3.2595.