

The Hightower Report

Futures Analysis & Forecasting

PRECIOUS METALS COMMENTARY

03/01/18

The path of least resistance is down unless US data is soft

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):

GOLD -6.70, **SILVER** -9.70, **PLATINUM** -14.90

OUTSIDE MARKET DEVELOPMENTS: Global equity markets were weaker with the exceptions the Shanghai stock exchange composite and the CSI 300. Asian stocks were seemingly put off balance again because of the hawkish US Fed comments from earlier the week. The markets were presented with UK house price growth that contracted from the growth pace seen in the prior month. Also out were Italian, German and French manufacturing PMI results which all came in below the prior month's result. A series of UK borrowing figures showed slowing in mortgage lending and softer consumer credit. Euro zone unemployment for the month of January came in unchanged from estimates in the prior month's reading at 8.6%. The North American session will start out with a weekly reading on initial jobless claims that are expected to see a modest uptick from the previous 222,000 reading. January personal income and January personal spending are forecast to see minimal downticks from their December readings. The February Markit US manufacturing PMI is expected to hold steady with January's 55.9 reading. The February ISM manufacturing index is forecast to have a modest downtick from January's 59.1 reading. January construction spending is expected to see a modest downtick from December's 0.7% reading. February total vehicle sales figures will be released during the day, with the market looking for a slight uptick from January's 17.1 million annualized rate. Fed Chairman Powell will have his second day of congressional testimony this week, this time in front of the Senate Banking Committee while New York Fed President Dudley will speak during morning US trading hours. Earning announcements will include Anheuser-Busch Inbev, Best Buy and Liberty Media before the Wall Street opening while VMware reports after the close.



GOLD / SILVER

All things considered, the action in the gold and silver markets yesterday was quite impressive given that the dollar remained strong and crude oil prices were under noted pressure in a fashion that undermines sentiment toward most physical commodities. However gold and silver this morning have come back under noted pressure and in both cases have severely damaged their charts. In fact given the damage on the charts a swift return to at least the early February lows looks to be directly ahead. While the dollar gains this morning are not significant the currency index did manage yet another higher high and nearly took out the January 18th high of 90.76 in a fashion that suggests more gains are ahead. With the first monthly loss in four months posted yesterday and a relatively large net spec and fund long positioning a large number of traders might be vulnerable to liquidation pressures. While the negative impact from the hawkish Fed dialogue hangs over the market, that influence could

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temporarily moderate this morning in the event that US data later this morning shows weakness especially given the fact that US scheduled data yesterday disappointed the trade. In other words, the upward momentum in the dollar should be challenged as string of data widely looks to be soft today. It should be noted that expectations for today's initial unemployment claims call for a modest rise of 4000 claimants. It would also appear as if the demand side of the equation in gold favors the downward track as Indian buyers are apparently holding back from buying even though prices have declined sharply over the last two weeks. Pushed into the market today we favor the downside in April gold with a potentially important pivot point seen fairly close in at \$1,306.40. Conservative traders might consider selling a US data driven bounce of \$3.00 to \$5.00. In addition to the potential spillover pressure from gold and the rising dollar, the silver market also faces fresh negative supply-side developments from reports that Mexican December silver production leapt by 20.9% relative to year ago levels. Mexican silver production is significant to the silver futures trade at 373,126 kilos.

PLATINUM

Surprisingly, the platinum group metals spent most the Wednesday trade in positive territory as if soft data, periodic weakness in gold, adverse dollar action and weakness in other industrial commodities was irrelevant. The platinum market should have seen some support from news that Zimbabwe was going ahead with a 15% tax on platinum exports which was designed to force value-added refining inside the country and that might hinder the flow of supply from that country. However, the tax is not effective until January 1st of next year and the Zimbabwean government official indicated that the ultimate tax would be lowered in the future. Therefore, platinum producers in Zimbabwe might attempt to escalate their exports ahead of the January 2019 deadline which could provide an influx of supply to the world market this year. While palladium appears to have support at \$1,007.00 and platinum looks to have support at \$969, we think the PGM complex will remain vulnerable to further downside action today.

MARKET IDEAS: The near term trend in gold comes down to the ebb and flow of US scheduled data, as soft data from the US on Wednesday creates a minor crack in the recent dollar rally and a second wave of soft data from the US this morning could temporarily stall the nine day rally in the greenback. However as indicated already, economic readings outside of the US this week have largely been disappointing and that lowers the bar for US data capable of lifting the dollar further. Therefore, we continue to favor the downward tilt in gold and silver with sell points in April gold seen up at \$1,317.90 and similar sell points in May silver seen up at \$16.34.

COPPER COMMENTARY

03/01/18

The bear camp controls again today

GENERAL: In addition to resurgent negative big picture macroeconomic pressures, the copper market this week has also been presented with fresh and



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significant chart damage for the 3rd straight day. Other issues undermining copper this week are reports that Mexican copper output in December rose by 4% over year ago levels with that output weighing in at 40,134 tonnes! In what should have been a major countervailing force of the Mexican production news is the fact that Chilean copper output in January declined as Chilean production levels are considerably larger than Mexican production levels. However the bears can also trumpet the fact that Chinese PMI readings were softer than expected this week, even if that weakness was thought to be the result of holiday influences. Other negative influences in copper are seen from ongoing choppy/weaker action in equities and the unfolding weakness in the crude oil market.

MARKET IDEAS: Typically, negative Chinese economic news has a multi-day impact on copper prices and given the sharp range down washout again overnight there would appear to be little in the way of a sub \$3.10 trade in the coming session. In fact, given further weakness in global equities, further strength in the dollar and soft economic readings in the US later this morning, a return toward the February lows could be ahead.

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