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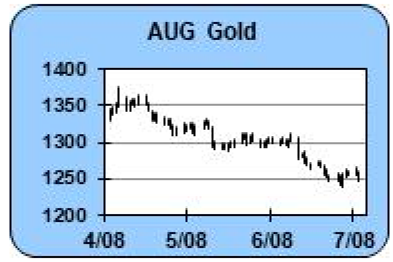
PRECIOUS METALS COMMENTARY

07/11/18

The short term trend shifts down as slowing fears surface



OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD -4.70, **SILVER** -12.20, **PLATINUM** -2.30

OUTSIDE MARKET DEVELOPMENTS: Global equity markets were lower overnight due to the implementation of fresh tariffs by the US and the promise of additional retaliatory actions from China. Shanghai markets were down by nearly 2%, with the rest of the world markets down somewhat less than that amount. After the close yesterday, US Trade Representative Lighthizer announced that the US was going to impose a 10% tariff on an additional $200 billion in Chinese imports. The Asian session featured June Japanese PPI which was up +0.2% as expected and May Japanese machinery orders, which were down 3.7%. The European session will be quiet data-wise today. However there is likely to be incendiary dialogue flowing from the NATO meeting, which could injure economic sentiment. The North American session will start with a weekly reading on mortgage applications. The June producer price index is expected to see a minimal uptick from May's 3.1% year-over-year reading. May US wholesale inventories are forecast to hold steady with April's 0.5% reading. The Bank of Canada's latest monetary policy meeting is widely expected to result in a 0.25% rate hike, but there should be more focus on the BOC's comments on the prospects for future rate hikes this year especially given the uncertainty brought on by trade issues. New York Fed President Williams will speak during afternoon US trading hours. Earnings announcements will include Fastenal before the Wall Street opening while Bank of the Ozarks reports after the close.

GOLD / SILVER

The bull camp will suggest that the brunt of the washout yesterday was rejected into the close, but the market did forge a fresh four day low, and prices have started out under pressure from commodity market liquidation today, which should entice sellers and put off would-be buyers. We suspect the early washout in gold and silver on Tuesday was primarily attributable to the sharp pulse up in the dollar. The dollar’s ability to climb back above 94.00 this morning gives the bear camp a fresh reason to attempt a press below the psychologically important $1,250 level. Cushioning gold is a slight improvement in Indian and Chinese prices, which temporarily allowed those markets to regain premiums relative to official price levels. This can sometimes signal improved retail demand. However, the Indian rupee remains near a record low and Chinese currency values have been falling well before the tariff kickoff. These factors could leave buyers from both countries on the sidelines. One should also note that gold prices managed to bounce off the July lows because of a surprise risk-on condition flowing from the equity markets. That surprise action has obviously been reversed. Deflationary-style selling in gold and silver should set the stage for a retest of the July lows.

PLATINUM

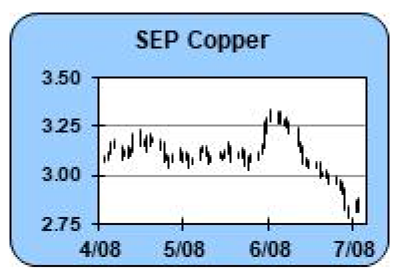
While the PGM markets showed some positive action at one point yesterday, both markets ultimately ranged down sharply, finished poorly and ranged down again this morning in a fashion that projects further downward action directly ahead. In addition to adverse dollar action, the PGM complex is also undermined by sagging equities and weakness in gold and silver. Another negative came from a metals research group, where they predicted a 4th straight annual supply/demand surplus. However, it should be known that the World Platinum Investment Council already forecast a surplus condition for 2018 back in May, which could temper the bearish fundamental impact of the latest surplus forecast. Downtrend channel resistance in October platinum today is seen at $855 and closer-in at $851, Downtrend channel resistance in September palladium is seen at $956.55. The bears look to control, and they might be able to send prices quickly down to consolidation support of $925.

TODAY'S MARKET IDEAS: We continue to favor the bear track as we remain bearish toward physical commodities off the view that global sentiment is in the process of deteriorating from the continuation of tariff implementation but also because of the equity market catch-up to the potential negative global impact of a full-blown trade war. Unfortunately for the bull camp, action in the dollar has also shifted into a negative, and a broad-based washout (in nearly all commodities) means more downside in gold and silver directly ahead. Critical support in August gold is now seen at $1,246.90. Critical support in September silver today is seen at $15.98, $15.915 and ultimately at the recent low of $15.81.

COPPER COMMENTARY

07/11/18

Copper should be the most negatively impacted commodity off trade issues



GENERAL: With the recent recovery bounce correcting the oversold condition in copper and the escalation of the US/Chinese trade battle, it wasn't surprising to see copper ranging down sharply overnight. In addition to the overhang from fears of global slowing off trade problems, the copper market was also presented with bearish news of rising copper production yesterday. Apparently BHP's Escondida mine doubled production levels relative to year ago levels, with January-May output rising by 2.4% from 2017. Adding into the bearish news flow were revelations that Chilean copper production increased by 6.1% in the month of May from year-ago levels.

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MARKET IDEAS: Classic supply and demand fundamentals favor the bear camp. The failure to hold $2.80 projects down to the next target of $2.6855, which is the top of another old gap on the weekly charts.

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