141 W. Jackson Blvd. Suite 4002
Chicago, IL 60604
(800) 662-9346
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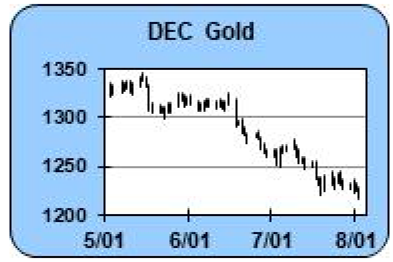
Futures Analysis & Forecasting

PRECIOUS METALS COMMENTARY

08/03/18

Fresh highs in the $ & fresh contract lows in gold project further losses



OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD -2.90, **SILVER** -1.00, **PLATINUM** +2.10

OUTSIDE MARKET DEVELOPMENTS: Global equities were mixed, with Asian and Pacific Rim markets lower, European markets higher and early action in the US waffling around both sides of unchanged. The Asian session featured the July Caixin Chinese services PMI, which softened and saw some measures within the report posting the weakest results in 8 months. The European session started out with Markit services and composite PMI readings from around Europe, which were largely below pre-report estimates, while June Euro zone retail sales were also below expectations and level to the prior month's reading. The North American session will start out with the highlight for global markets, the July Employment Situation report. July non-farm payrolls are expected to come in around 190,000 to 200,000 versus June's 213,000 reading. July unemployment is forecast to decline to 3.9%, while July average hourly earnings are expected to hold steady with June's 2.7% year-over-year rate. The June international trade balance is forecast to see a moderate increase from May's $43.1 billion deficit. June Canadian international merchandise trade is expected to see a modest decline from May's monthly deficit. Both the July Markit US services PMI index and the July Markit composite PMI index are forecast to hold steady with their previous readings. The July ISM non-manufacturing index is expected to see a modest downtick from June's 59.1 reading. Earnings announcements will include Kraft Heinz, Enbridge, DISH Network and CBOE Global Markets before the Wall Street opening.

GOLD / SILVER

The gold market remains under pressure as a result of an ongoing list of bearish factors. Clearly the thrust higher in the dollar this week leaves liquidation selling pressure in place again today, but news of soft second quarter global gold demand from the World Gold Council earlier this week adds a more permanent element of internal fundamental pressure to the outside market pressures. If the outside market conditions weren't so persuasively negative, the potential supply threat from a South African gold producer/union wage negotiation might have offered some support to prices, but fresh lows for 2018 are hardly stirring buying interest this morning. The South African mining companies have offered a wage increase of 3.2% for the first year of the upcoming contract, and there has apparently been limited progress in the talks. It would be our opinion that the gold mining companies will have little room to negotiate given that gold prices are down sharply from the high this year and are at their lowest levels in a year. As if the bear camp needs any more ammunition, it is likely that today's US nonfarm payroll readings will add even further strength to the dollar, which in turn should facilitate an extremely poor finish

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to the trading week in both gold and silver.

PLATINUM

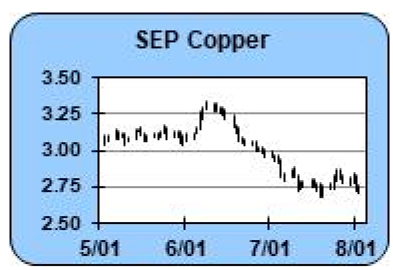
The ability to reject the new lows for the move in the PGM complex yesterday and the ability to hold up against a rising dollar and the washout in gold this morning is impressive. However, with a South African mining minister suggesting that Impala Platinum acted in bad faith with the announcement earlier this week to eliminate over 13,000 jobs, it is possible that the unions and/or the government might be set to enter into a battle that could eventually threaten supply. In the past, mining unions have shown solidarity and have walked off the job to support workers likely to lose their jobs, but we don't think supply fears will be significant enough to cushion prices against more declines. Unfortunately for the bull camp, the outside market negatives weighing on the PGM complex are pervasive, and demand concerns remain on the lips of market participants in the wake of soft Chinese Services PMI readings overnight. Given the market setup, a quick improvement in conditions seems unlikely and the bias looks to remain down. However, given the rejection new low yesterday in September palladium and the respect of the $900 chart level, a pulse back up to the top of the recent range at $934.30 is possible. In the end we are not ready to call for an end to the last two weeks' liquidation pattern. While the platinum market also rejected a lower low for the move, it sits closer to overhead consolidation resistance on the charts and a bounce could be limited to $842.

TODAY'S MARKET IDEAS: The bear case continues to build almost to the point where one wonders where the bear camp will find additional ammunition. However, the dollar action looks to remain a primary driving force for even lower metal and other commodity prices ahead. If the gold and silver markets were tracking classic physical commodity market fundamentals, they might be able to draft support from positive US payrolls, but instead, positive payrolls looks to add further strength to the dollar! Support in August gold is now seen down at $1,200, but lower lows are expected. September silver also has critical pivot point support down at $15.25, but we expect spillover weakness from gold to pressure silver further today.

COPPER COMMENTARY

08/03/18

The trend remains but risks to the shorts is escalating



GENERAL: On one hand, there is talk that the US and China are still negotiating behind the scenes on trade, and the press is rife with stories suggesting that both the US and China are feeling the pain of the conflict, but there still isn't a specific reason to think the trade issue is set to get off the back of the copper market. In the end until there is some form of minimal progress documented, the path of least resistance is expected to remain down. Given the somewhat disappointing Chinese Caixin PMI figures overnight, ongoing weakness in Chinese stocks, and the

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Chinese currency falling further, trade pressure looks to remain in place. As for the potential strike threat at the world's largest copper mine, the latest offer has apparently been rejected, but the union has given BHP until August 6th to improve its offer. One could suggest that the unions have softened their tone, as they have voted to strike already but they continue to try to negotiate. It should be noted that BHP (the holder of 57% of the Chilean mine in question) saw its shares fall sharply this week, and that could be a sign that investors, analysts and those on the ground are girding for a strike. Also in the bull's defense, there has recently been a pattern of declining Shanghai copper stocks, and the decline of 4,251 tons this week should provide minimal support to prices this morning.

MARKET IDEAS: With negotiations at the world's largest copper mine apparently continuing despite the strike vote earlier in the week, it is clear that a strike is still possible but not a given yet. Therefore, it is difficult to throw off the bear case until the threat against supply is more imminent. On the other hand the $2.70 level has displayed the capacity to support prices in the past, and the slide in Shanghai copper stocks for the week might provide some support today. The bias is still down, and without a positive economic sentiment takeaway from US payrolls, a slide below $2.70 is likely.

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