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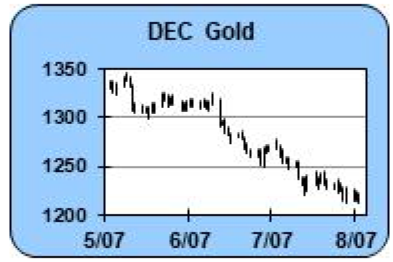
The Hightower Report
Futures Analysis & Forecasting

PRECIOUS METALS COMMENTARY
08/09/18



The trend is down but global uncertainty is growing
OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD +1.60, **SILVER** +6.30, **PLATINUM** +9.30

OUTSIDE MARKET DEVELOPMENTS: Global equity markets overnight were largely weaker with the exceptions of the Shanghai and Australian markets, which managed fairly impressive gains. Apparently the topic of concern centered on fears that sanctions will now weigh on the Russian economy, and given the sharp declines in the Turkish and Russian currencies, some economists are growing fearful of a potential financial crisis developing in the region. From the US/China trade front, it appears that the war is escalating daily, with the Chinese official media outlets overnight reiterating they have many weapons they will utilize against the US, that they are prepared for a "soybean showdown," and they are issuing warnings against travel to several US West Coast cities. Japanese machinery orders fell more sharply than expected, and that dents recent hopes of a Japanese recovery. July Swiss unemployment declined to 2.4% from 3.0%, but it was right on market expectations. Saudi Arabia has instructed its national investment arm to divest all Canadian assets due to the deterioration of relations between the two countries. The North American session will start out with July Canadian housing starts, which are expected to see a moderate decline from June's 248,100 reading. Initial jobless claims are forecast to have a minimal uptick from the previous 219,000, while ongoing jobless claims are forecast to see a moderate increase from the previous 1.724 million reading. The July producer price index is expected to hold steady with June's 3.4% year-over-year rate. June wholesale inventories are forecast to see a moderate downtick from May's 0.6% reading. Chicago Fed President Evans will speak during morning US trading hours. Earnings announcements will include Worldpay and Cheniere Energy before the Wall Street opening, while Microchip Technology, Dropbox and News Corporation report after the close.

GOLD / SILVER
All things considered, the gold market held together fairly well yesterday, rejecting a three day low from early in the session, and it is showing some positive action this morning with a 3 day high. However, the dollar has bounced back, and that is limiting the initial upward tilt in the metals. Certainly the sharp slide in crude oil pricing Wednesday combined with the latest tariff announcement puts physical demand fears back into the marketplace. Unfortunately for the bull camp, Chinese and Indian currencies continue to erode against the dollar, and that might necessitate even lower flat prices of gold and silver to entice those key buyers into action. We are approaching a favorable period for Indian demand, but that is unlikely to outweigh what appears to be entrenched bearish outside market factors. Another negative is news late yesterday of higher January-June Russian gold output compared to year ago levels. While we leave the edge with the bear camp, it should be noted that the

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number of geopolitical hotspots is escalating rapidly, with Russia, Turkey, Iran, North Korea, Saudi Arabia, Canada, China and the US all presenting potential flight to quality events. Precious metals so far have not responded positively to geopolitical events because of concerns about slowing physical demand, but seeing any of those geopolitical issues explode could bring back safe-haven buying. The silver charts continue to be less negative than gold, but silver might come under renewed and aggressive selling if the constant deterioration of economic sentiment accelerates because of the US/Chinese trade spiral.

PLATINUM

The pattern of consolidation in platinum and ongoing erosion in palladium looks to continue for another trading session. Obviously, escalating trade conflict has cast a cloud over physical commodities, and the palladium market seems to be acutely impacted. For now, we still have no fundamental cause to project a bottom in the PGM complex. On the other hand, the platinum market showed a spec and fund net short in the last COT measurement, so it is not surprising that the platinum has held within a tight consolidation range at the same time that palladium and gold have declined. The PGM complex should continue to track physical commodity market fundamentals, and that leaves the edge with the bear camp. October platinum would appear to have decent support at $821.30, while September palladium has thin support at $885 and might not have solid support until $875.

TODAY'S MARKET IDEAS: Certainly silver and platinum are showing signs of some value with their consolidation action and their ability to stand up to weakness in gold and palladium. Silver and platinum have also (somewhat) rejected the influence of strength in the dollar, and they also generally discounting the sharp slide in energy prices. The gold and palladium markets remain locked onto the action in the dollar, and they continue to fret over slackening physical demand, and that leaves the recent consolidation lows at $1,214.40 and $1,212.50 in December gold as likely near term targets. We are taking note of a very long list of developing geopolitical/currency related issues, with several flashpoints that could spark safe haven interest, particularly if the US/Chinese trade battle finally ruptures global sentiment or currency weakness in Turkey and Russia creates a contagion.

COPPER

Multiple supply fears and better Chinese imports bullish

GENERAL: The copper market extended this week's pattern of higher highs and higher lows yesterday, and it has exploded higher overnight in a move that would seem to be justified by a number of fundamental developments. In addition to technical breakout momentum, the market is also drafting fresh buying interest from news late Tuesday that Chinese July copper imports of concentrates and ore reached new record highs, especially with Chinese July

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overall copper imports jumping to 452,000 tonnes from 440,000 in June. While the import data might be a one-off as a result of China securing forward supply against tariff threats, the market is also lifted by the threat of slowing Russian copper exports due to sanctions. The threat of a strike at the world's largest copper mine in Chile remains in the wings, and an Australian company has recently indicated that they see industrial metals exports to China strong and expect them to remain so.

MARKET IDEAS: There has been fresh evidence of strong Chinese demand this week as well as a continued threat against supply at the world's largest copper mine, and that seems to have resulted in a sharp upside breakout and a six day high overnight. The potential for disrupted Russian copper exports and economic readings from China suggesting they are not yet slowing have reversed several bearish themes that pushed copper down to the bottom of the last 40 days' consolidation. Given the fundamental reevaluation and the thick consolidation pattern discouraging the bear camp, it was not surprising to see copper prices jump back toward the upper end of the consolidation. Near term upside targeting in September copper is seen up at $2.8285, and critical support moves up to $2.7800. Those that took our advice to enter a December copper bull call spread should hold those positions until the late August highs are tested up at $2.8670.