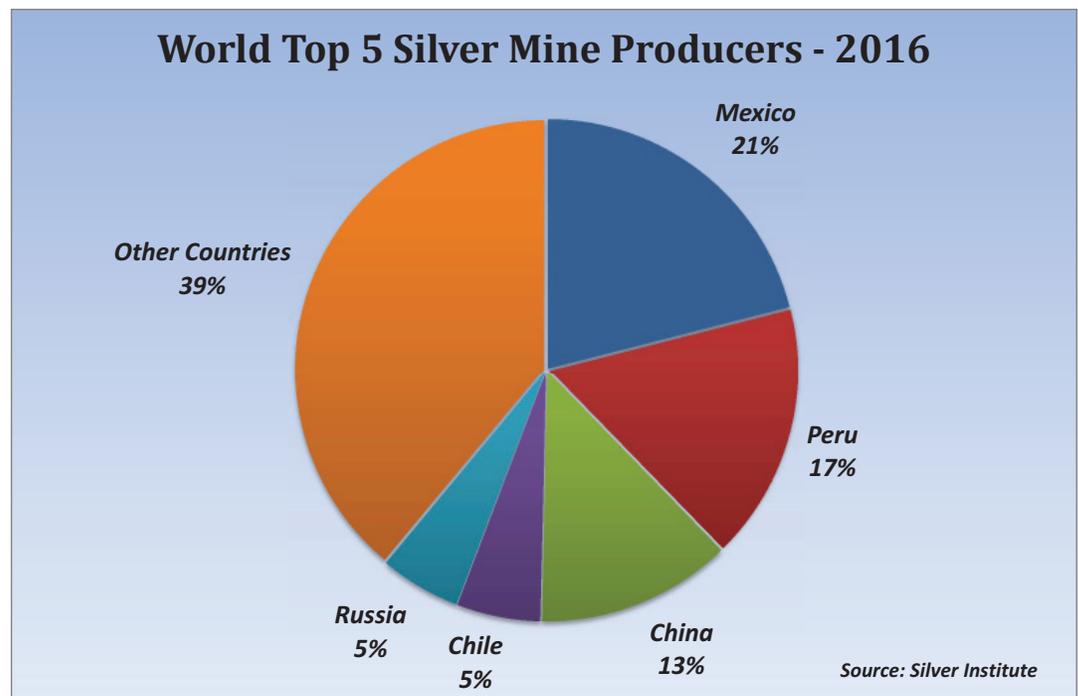


April 9, 2018

Silver - Underpriced and Undervalued

Heading into the second quarter of 2018, we see a shift in leadership away from gold and towards silver, platinum and palladium, due to reduced safe haven anxiety (off moderating trade war fears) and a revitalized US dollar. Some will suggest that global economic sentiment has moderated slightly, but we think that stellar Chinese retail sales readings and a much better than expected US February nonfarm payroll tally confirm that global synchronized growth remains in place. We also think this will foster stronger industrial demand for the metals. Silver, platinum and palladium are sitting near the bottom of their ranges of the past ten months, while gold is in the upper quarter, so they could be in a better position to rally.



Certainly gold will continue to derive support from the unrelenting pattern of declining South African production. It should also benefit from ideas that Indian and Chinese physical demand will recover along with the recovery in the global economy. Gold's primary focus looks to remain on the prospects of further weakness in the

US dollar, renewed concerns of a trade battle between the US and China, and the general uncertainty in the equity markets. However, it now appears that trade tensions are moderating, that US rate hike prospects will support the Dollar, and that equity market volatility will moderate. Therefore, gold's primary bullish force could dissipate.

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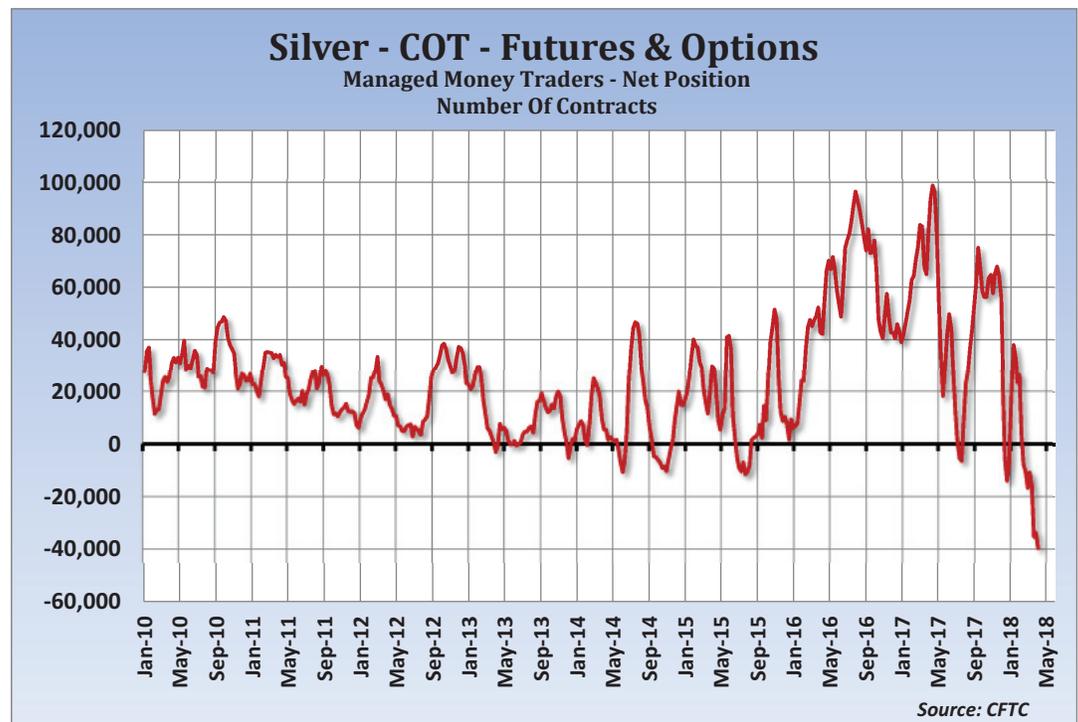
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Moderating economic/trade uncertainty and evidence of ongoing global growth could not only increase demand expectations for industrial metals like silver, platinum and palladium, it could also result in a divergence between those metals' prices and those for gold. April could see a decline in safe haven/currency-dominated interest in gold and a revival in classic, demand-driven interest in the industrial metals.

While South African gold production remains in a long term declining pattern, the silver market has also seen evidence of declining production recently, with Mexico's production in January down 13.6%. Mexico is the largest silver producer in the world, and a pattern of declining output could inspire speculative and physical interest.

Silver Underpriced – Fundamentally and Technically

Compared to gold, silver could be considered fundamentally and technically undervalued, having recently reached its cheapest level relative to gold since April 2016. It should also be noted that the speculative crowd has all but vacated the long side of silver. A recent COT futures and options report showed that as of March 20th non-commercial and non-reportable traders were holding their smallest net long position since the COT started compiling



the data. The reports also showed silver managed money traders were holding a record net short position of 39,604 contracts. This suggests that bearish sentiment could be reaching a zenith.

Open interest surged 26,992 contacts (14.1%) in just 15 trading sessions in late March, as funds built their net short positions. It might not take much of a rally to force those traders out. The resulting stop loss buying could catapult prices back toward the 2018 highs above \$17.75.

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Suggested Trading Strategies

- 1) **BUY** May Silver on a break to \$16.02. Use an objective of \$16.86. Risk the position to \$15.89.
- 2) **BUY** a June Gold \$1,330 put for \$15 (\$1500) and then **SELL** a June Silver \$15.75 put for 15 cents (\$750). Use a net combined gain on the combination of \$1,200. Risk the combination to a net loss of \$450.

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