Monday October 16, 2017

PRECIOUS METALS COMMENTARY
10/16/17

More reflation as Chinese economic news stokes buying interest

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD +2.80, SILVER +3.90, PLATINUM -1.00

OUTSIDE MARKET DEVELOPMENTS: Global equity markets overnight were mostly higher with the exceptions the Shanghai stock exchange, the CSI 300, RTS index and the IBEX 35 which traded lower. Overnight the Asian trading session saw a September reading on Chinese inflation that was expected to decline but instead it made the largest gain in six months. Also out overnight were predictions from the PBOC that the Chinese second half growth would be 7%. Another indication of inflation was seen from German wholesale price inflation for September which came in at twice the level seen in the prior month. The North American session will be highlighted by an October reading on the New York Fed's Empire State manufacturing survey that is expected to see a moderate downtick from September's 24.4 reading. Minneapolis Fed President Kashkari will speak during evening US trading hours. Earning announcements will include Netflix and Celenese after the Wall Street close.

GOLD / SILVER
The gold and silver markets posted a very impressive weekly gain last week, and orchestrated the majority of the run up last week off the ongoing weakness in the dollar. However, it would also appear as if further "reflation" trades in many commodities added to the upward track in precious metals prices with the most prominent reflation reaction being seen in the crude oil market, and that along with stellar gains in copper creates a favorable environment for the gold and silver bulls. The reflation trade was given added credence overnight by a sharp jump in Chinese September producer prices, strong Chinese second half growth forecasts and a noted jump in German wholesale inflation. In fact the Chinese inflation story contained coverage suggesting that the numbers would contribute to "global" inflation. Throughout the deflationary periods of the past 10 years low Chinese wages and fears of Chinese economic turmoil contributed significantly to the downward track in many commodity prices. While there was weekend talk that the Indian Festival season was looming and that demand might be set to rise, reports from the region suggest that the GST, somewhat expensive flat prices and difficulty obtaining cash could keep demand under wraps. However, the gold market appears to have shifted several technical elements in its favor with the breakout above a 22-day downtrend channel resistance line, a close above the psychologically important $1,300 level and a close above the 50 day moving average. At least to start this week, the trade will be watching for yet another lower low for the move in the December dollar as that would mark the seventh straight session of lower action! Fortunately for the bull camp, the net spec and fund long positioning has yet to register moderately overbought readings but this week's readings are certainly understated due to the $11 an ounce rally after the report was compiled. The Commitments of Traders Futures and Options report as of October 10th for Gold showed Non-Commercial and Non-reportable combined traders held a net long position of 238,590 contracts. The Commitments of Traders Futures and Options report as of October 10th for Silver showed Non-Commercial and Non-reportable combined traders held a net long position of 70,548 contracts. Like the gold market the net spec and fund long in silver is clearly understated due to the rally of $0.21 following the report mark off but the positioning is still not at a level to restrict near term buying interest. The world's largest gold ETF saw their holding fall by 5.32 tonnes on Friday and reached their lowest level since October 5th.

PLATINUM
The sharp range up extension in the palladium market this morning would appear to be the direct result of the stronger-than-expected Chinese second half growth views from the PBOC and to a lesser degree from the stronger than expected Chinese inflation readings. Apparently the palladium market has come under the "Chinese spell" again in a similar fashion as copper and the two markets will continue to rise and fall with the economic fortune of China. As in gold and silver, the net spec and fund long positioning in platinum is probably understated.
due to the rally after the report was marked off but the net long is not yet at a level to rob the market of additional buying capacity. Similarly, the palladium market is becoming overbought but not at a level to fear a top and reversal. However, traders should note that total palladium derivative holdings fell sharply at the end of last week in a fashion that could suggest some investors are deciding to bank profits off the $300 2017 rally. The Commitments of Traders Futures and Options report as of October 10th for Palladium showed Non-Commercial and Non-reportable combined traders held a net long position of 21,313 contracts. The Commitments of Traders Futures and Options report as of October 10th for Platinum showed Non-Commercial and Non-reportable combined traders held a net long position of 28,887 contracts.

**TODAY’S MARKET IDEAS:**
As indicated already, the fundamental and technical condition for the entire precious metals complex appears to be settled into the bull's camp. Since we can't call for a definitive end to the slide in the dollar and it would appear as if the reflation trade has some sustainability, we favor the upward tilt to start this week. Initial resistance in December gold is seen at $1,310.80 with similar upside resistance and targeting seen in December silver at $17.63. In the PGM complex, we favor the platinum market over the palladium market after the stellar palladium gains this morning with initial upside targeting and resistance in the January platinum contract seen at $956.

**NEW RECOMMENDATIONS:**
None.

**PREVIOUS RECOMMENDATIONS:**
None.

**COPPER COMMENTARY**
10/16/17

Positive Chinese macro-economic news puts bull move in hyper mode

**GENERAL:** Upon seeing the headline of a stronger than expected Chinese second half growth forecasts from the Chinese central bank we didn't need to look at a chart to know that copper prices would be skyrocketing. With the market already feeding off the inflation trade from last week (which was in large part generated by strong Chinese commodity imports of key commodities like oil) more gains in copper are to be expected directly ahead. Therefore, the strong copper demand theme is supported by the headlines even if the copper market is racing toward a significant overbought technical condition. In fact, the last Commitments of Traders Futures and Options report as of October 10th for Copper showed Non-Commercial and Non-reportable combined traders held a net long position of 45,939 contracts and that positioning is understated given the additional rally of "15" cents from the COT report mark-off!

**MARKET IDEAS:**
As suggested already, the net spec and fund long in copper continues to rise toward levels that could eventually rob the market of buying fuel and increase the prospect of stop loss selling on weakness. However, the presence of reflation action and the entrenched optimistic view toward China would seem to set the December copper contract up for at least retest of the mid-2014 highs on the weekly chart which is roughly 2 cents above the early high today. Critical support now becomes the old high down at $3.1785. Expect significant volatility ahead!

**NEW RECOMMENDATIONS:**
None.

**PREVIOUS RECOMMENDATIONS:**
None.
NET CHANGE  NET CHANGE  NET CHANGE
Metals  Copper  Gold  Palladium  Platinum  Silver
40,205  +6,589  -45,939  -6,465  5,734  -125
214,539  +2,059  -238,590  -4,040  24,051  +1,981
20,678  +296  -21,313  -338  635  +42
21,985  +142  -28,886  -942  6,902  +801
58,351  -230  -70,548  -1,745  12,197  +1,975

METALS TECHNICAL OUTLOOK:
Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

COMEX GOLD (DEC) 10/16/2017: Momentum studies are rising from mid-range, which could accelerate a move higher if resistance levels are penetrated. The market's close above the 9-day moving average suggests the short-term trend remains positive. The market's close above the 2nd swing resistance number is a bullish indication. The next upside objective is 1315.9. The next area of resistance is around 1312.4 and 1315.9, while 1st support hits today at 1299.2 and below there at 1289.4.

COMEX SILVER (DEC) 10/16/2017: The cross over and close above the 40-day moving average is an indication the longer-term trend has turned positive. The moving average crossover up (9 above 18) indicates a possible developing short-term uptrend. Momentum studies are trending higher but have entered overbought levels. The market's close above the 9-day moving average suggests the short-term trend remains positive. Since the close was above the 2nd swing resistance number, the market's posture is bullish and could see more upside follow-through early in the session. The near-term upside target is at 17.586. The next area of resistance is around 17.522 and 17.586, while 1st support hits today at 17.298 and below there at 17.137.

COMEX PLATINUM (JAN) 10/16/2017: Momentum studies are rising from mid-range, which could accelerate a move higher if resistance levels are penetrated. The market's short-term trend is positive on the close above the 9-day moving average. The market's close above the 2nd swing resistance number is a bullish indication. The near-term upside objective is at 956.90. The next area of resistance is around 953.80 and 956.90, while 1st support hits today at 943.20 and below there at 935.70.

COMEX COPPER (DEC) 10/16/2017: Studies are showing positive momentum but are now in overbought territory, so some caution is warranted. The close above the 9-day moving average is a positive short-term indicator for trend. The market has a slightly positive tilt with the close over the swing pivot. The near-term upside objective is at 3.15. The market is becoming somewhat overbought now that the RSI is over 70. The next area of resistance is around 3.14 and 3.15, while 1st support hits today at 3.12 and below there at 3.10.

DAILY TECHNICAL STATISTICS

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Calculations based on previous session. Data collected 10/13/2017
Data sources can & do produce bad ticks. Verify before use.

DAILY SWING STATISTICS

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