

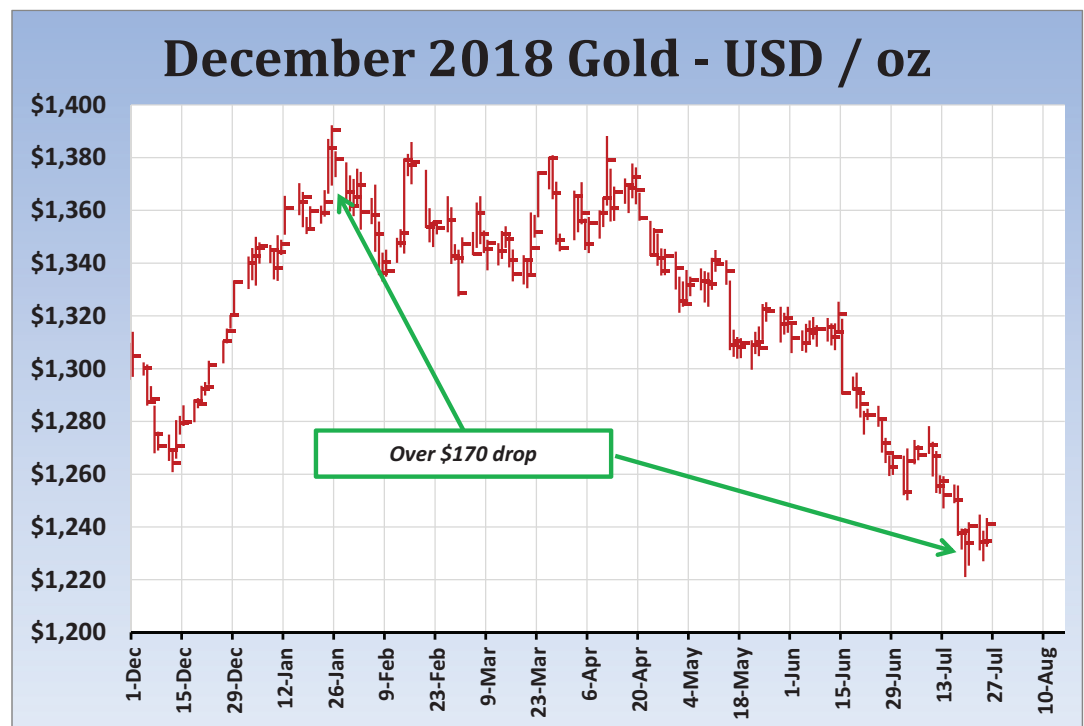
July 27, 2018

## Metals Market Update Spec and Fund Longs "Mostly Liquidated" in Precious Metals

### Buy a Sharp Break in Gold

In addition to copper, gold, silver platinum and palladium have taken a severe beating from the trade retaliation threats, and they will probably remain in a downward trend over the near term. Threats against physical demand look to dominate safe haven interest as long as world financial markets refrain from excessive anxiety. The World Gold Council has predicted an increase in gold demand for the second half of the year due to increased safe haven interest and currency-related reversals, but we find that hard to believe in the short term. WGC predictions of rising inflation are particularly difficult to embrace given the recent pattern of CPI and PPI readings. But if aggressive tariff escalation sets up a chain reaction of rising prices, it could catch much of the marketplace

off balance. Given the July 19th Presidential threat of tariffs on as much as \$500 billion worth of Chinese imports, one should expect the whole trade situation to reach an inflection point soon.



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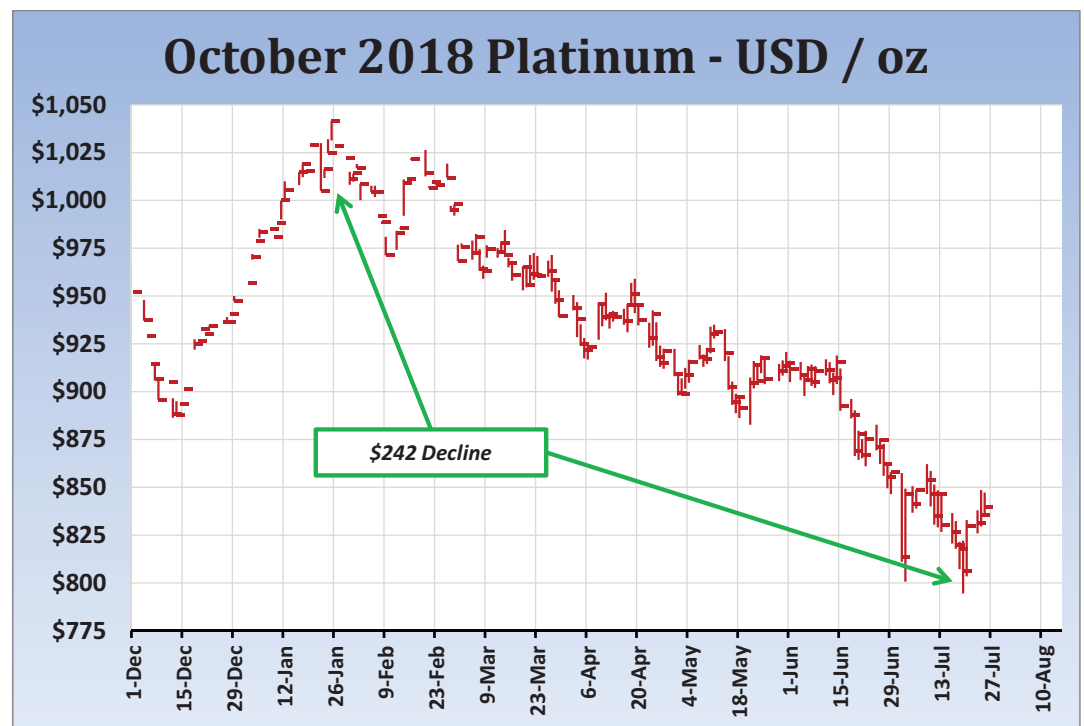
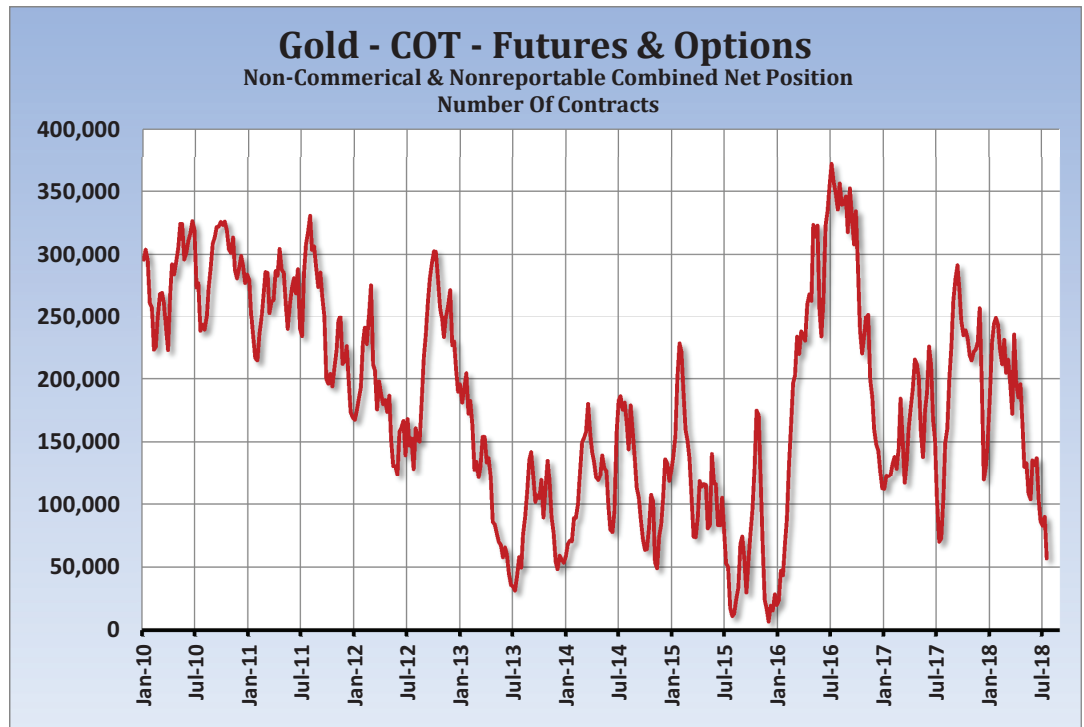
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Gold prices have declined \$170 (12.3%) since their peak in January, while silver has fallen \$2.72 (15.1%). The spec and fund net long in gold has fallen to roughly 100,000 contracts from 235,000 in January. We would judge the market to be “mostly liquidated” when that position is down around 50,000 contracts. The silver net long has not declined as much (relatively speaking), and therefore we think gold will probably bottom first and perhaps to a greater degree than silver. It may take some sign of progress on the trade front for the markets to bottom, and prices look to get hit even more before a major reversal is seen. But if gold extends its losses sharply, it could set the stage for \$90 recovery, given that trade fears have already sparked steep declines.

**Platinum Group Metals  
 Key Lows have been found!**

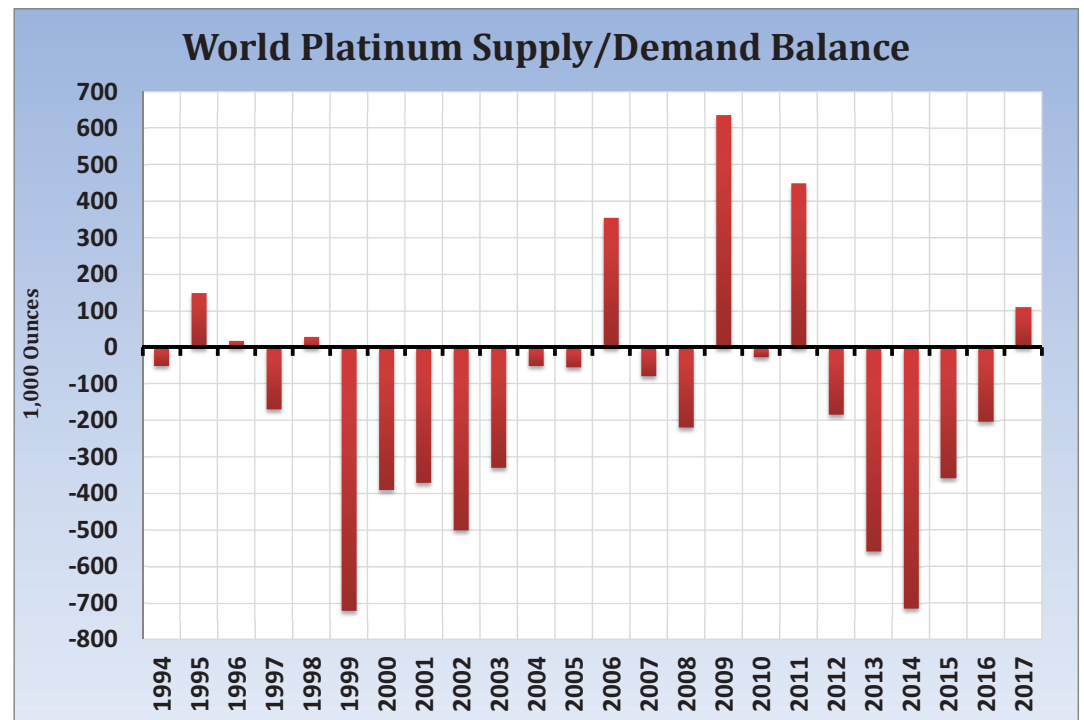
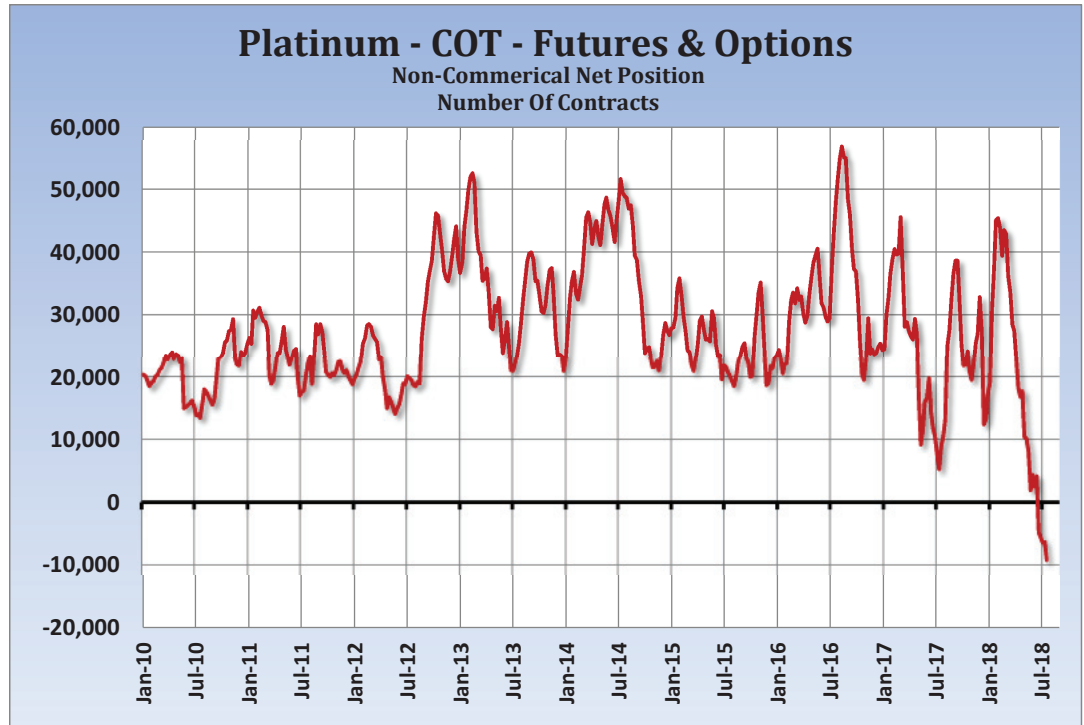
From its 2018 high, the palladium market has already seen a slide of \$242, and it appears to have factored-in a moderate slowing in the world economy due to trade issues. Palladium has also seen its spec and fund net long position fall below 5,000 contracts; perhaps it was nearly liquidated into the July 19th spike low. We would also



suggest that palladium has seen \$173 in losses almost exclusively from the escalation of the trade battle in early June and that a very slight reduction in trade tensions has provided a knee-jerk recovery of \$83.

In a similar manner, platinum has seen break of \$247 this year, and in the process non-commercial traders forged a record net short position. Furthermore, we suspect that the net short was significantly larger than that into the July 19th spike low.

Certainly one can argue that the 2018 declines in PGM prices were justified by the documented, cyclical slowdown in the auto sector but for platinum in particular, the Volkswagen diesel exhaust scandal has severely reduced platinum catalyst demand. (Platinum is primarily used as a catalyst for pollution control devices in diesel engines, while palladium is used for internal combustion engines.). Offsetting these declines in auto usage have been renewed efforts among platinum jewelry players to build retail demand in China. In China, jewelry represents 70% of their platinum consumption.



The influence of China on the PGM complex is significant, and signs that trade talks are shifting away from “war” and toward negotiations should allow the mid July recovery extend into August. Normal retracement targets would come in at \$888 for October platinum and \$950 for December palladium.

**Suggested Trading Strategies**

- 1) **BUY** December Gold on a spike down to \$1,198. Use an objective of \$1,249, and risk the trade to \$1,187.
- 2) **BUY** December Silver on a spike down to \$15.15. Use an objective of \$15.95, and risk the trade to \$14.95.
- 3) **BUY** October Platinum on a spike down to \$805. Use an objective of \$883, and risk the trade to \$782.

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