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SPECIAL REPORT

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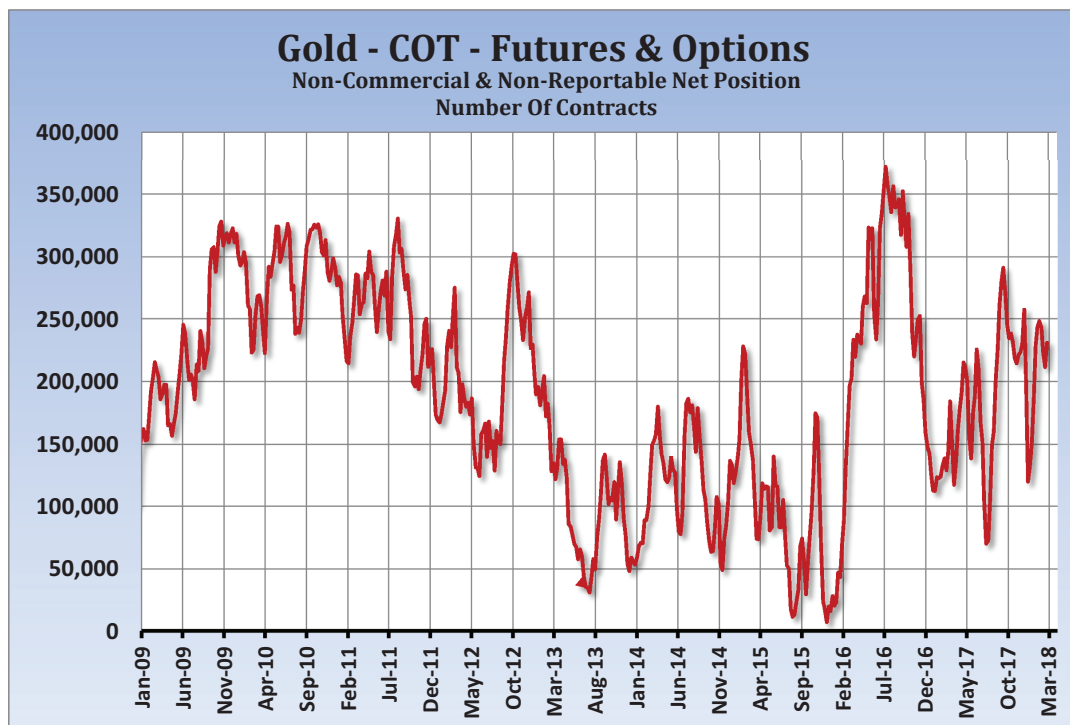
February 28, 2018

Metals Market Update

Asia Demand + US Growth + US CPI/PPI = Reflation

Last month we called for a temporary top in gold, and the market ended up posting a high to low slide of \$56. For March, we are looking to pick a bottom on a further correction below the early February consolidation range bound by \$1313 and \$1309. In the near term we think the gold market will continue to be dominated by the action in the dollar and by fears of higher US interest rates.

It appears that the pendulum of expectations on the number of rate hikes this year has swung to four, with some portions of the financial markets expecting as many as five! It also appears that the recent positive correlation between equities and gold is being reversed, as good news on the economy would add to the rate hike concerns at this point. Fortunately for the gold market bulls, anxiety from the equity market crash in early February may have softened the economic data from that period, and it could temporarily forestall the rate-hike threat.



The spec and fund net long positions in gold and silver have probably come down somewhat in the recent selloffs, but those positions were quite lofty to begin with, which means the gold market could be vulnerable to additional long liquidation ahead. The Commitments of Traders as of February 20th showed non-commercial and

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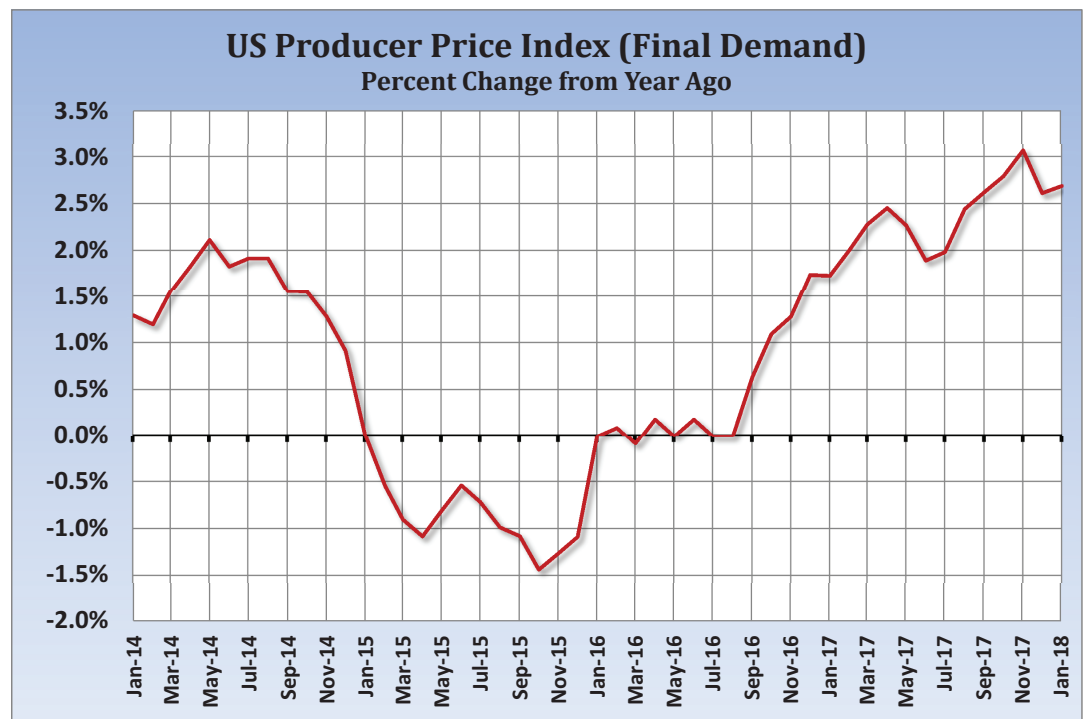
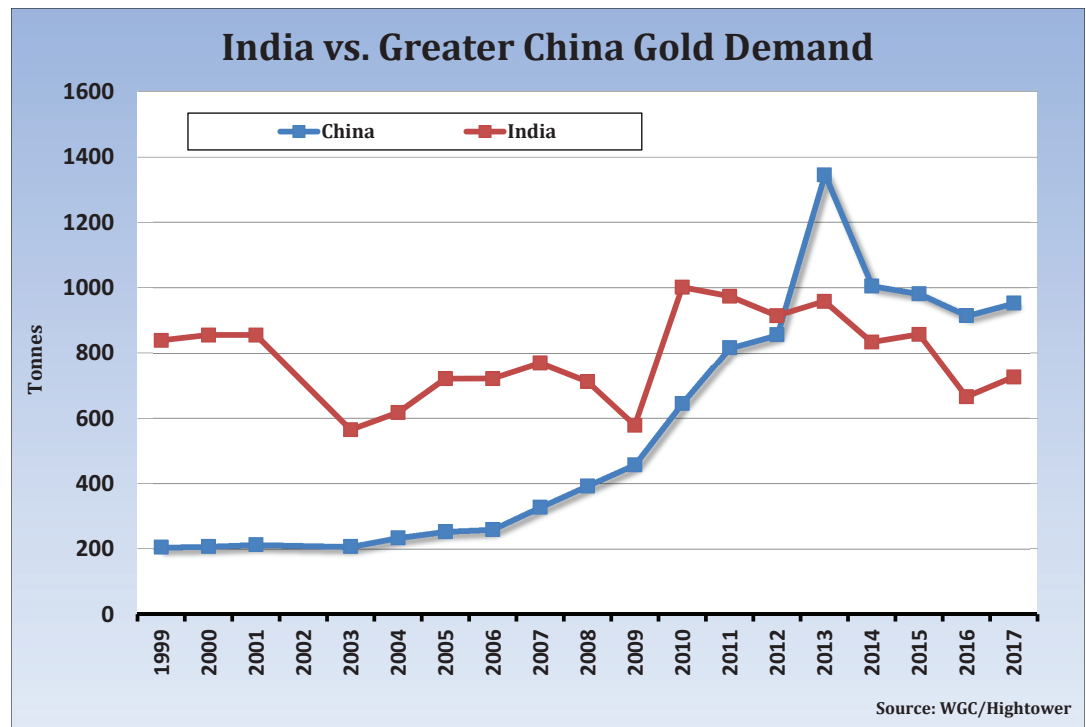
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non-reportable traders holding a combined net long position 230,965 contracts in gold. Our idea of a “balanced” position would be around 150,000 contracts net long.

One final issue that may provide some spillover pressure on gold and silver in the coming weeks would be a correction in crude oil, which appears vulnerable at this time.

From a longer term perspective, strong economic conditions in China and India (as evidenced by the strength in Chinese crude oil and LNG imports and record-high Indian oil imports in January) would seem to be very conducive to increased physical and investment buying of gold in those two nations. That element of global demand has been missing for the better part of four years.

Some recent forecasts have both India and Chinese gold demand climbing back towards 1000 tonnes per year, and that could certainly offset the negative impact from higher interest rates and a stronger dollar. We also think that recent CPI and PPI readings in the US are finally starting to indicate a transition from a lack of inflation to a mild “reflation,” at the monthly inflation readings appear to have broken out to the upside (see enclosed chart).



Upcoming scheduled data in the US will become increasingly important to gold, as it will influence the market's expectations ahead of the March FOMC meeting. We are looking to buy gold on a continuation of the recent washout, but given the market's tendency toward volatile action at the end a downtrend, would wait for a spike down towards \$1306 in the April contract.

Suggested Trading Strategy

BUY April Gold at \$1306 with an objective of \$1362. Risk the trade to \$1287.

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