

Gold, Silver and Platinum prices are under pressure as the opportunity cost of holding precious metals is high. The exception is Palladium, where strong fundamentals are keeping the bull market alive.

- Gold prices have broken below support at \$1,260 per oz; recent selling seems to be in anticipation of a US interest rate rise when the FOMC meets on 13th December.
- We saw similar sell-offs ahead of the December 2015 and December 2016 FOMC meetings – they also marked the price troughs.
- Strong equity markets have captured investors' interest, leaving little appetite for precious metals.
- Funds' short interest in Gold remains low - this suggests investors are not bearish on Gold, just not very bullish.
- In the absence of a flare-up in geopolitical tensions, the climate does not feel particularly bullish for Gold, although low prices may attract bargain hunting.

Silver prices were the first to break lower and the chart is looking weak. We would let this sell-off run its course, but be aware this may be a pre-FOMC meeting spike lower.

- We expect Silver to continue to follow Gold's directional lead, but to trade in a more volatile range.

Palladium and Platinum prices remain polarized; with Palladium's fundamentals remaining bullish, prices look set to work higher.

- We see upside in Platinum prices as we think Platinum's demand outlook will improve.

Gold prices weaken as the market anticipates another Fed rate hike

Gold prices consolidated for most of November after the weakness seen in the second half of October, but prices have fallen again in early December, breaking support at \$1,260/oz. So far, prices have been as low as \$1,243.90/oz, but they look set to fall further. We said in the November Metal Matters report that “The current climate, especially if the dollar strengthens further, does not paint too bullish a picture for Gold prices, but we do expect dips to be well supported.” As such, we are unsurprised prices have been weaker, especially with a US interest rate rise likely to be announced when the FOMC meets on 13th December. Indeed, we see this latest weakness as the market anticipating the rate rise. We have seen this play out around the FOMC meeting in both December 2015 and December 2016. So, will history repeat itself and will this early December sell-off turn out to be the next turning point for Gold prices?

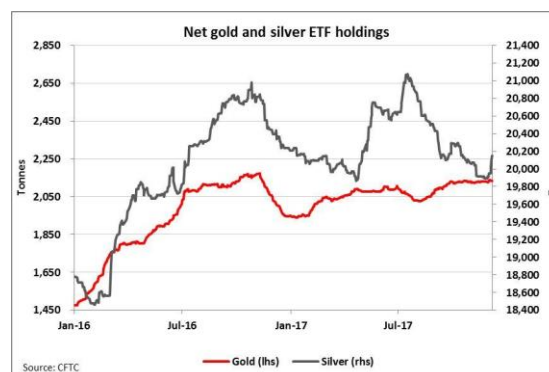
High opportunity cost to hold Gold

Equity markets around the world are buoyant, with many setting fresh, or multi-year, highs. Concerted global economic growth and continuing loose monetary policy in Japan and Europe, combined with the likelihood of tax reform in the US, are fueling equity market rallies. In this environment, it is not surprising that investors are not overly interested in investing in Gold. That said, better economic times may well see a pick-up in fabrication demand for Gold and if better times lead to a recovery in jewellery demand then that could have a meaningful impact on the Gold market.

ETF investor interest flat

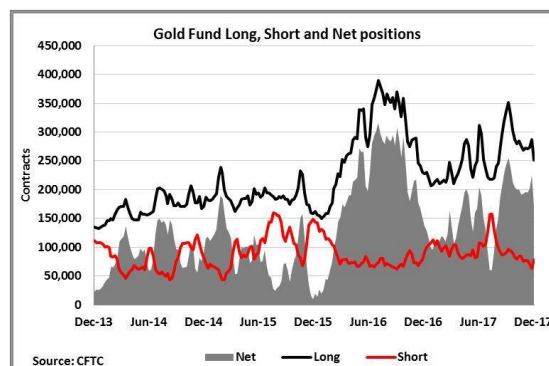
ETF investors do not seem to be the sellers in the market – with holdings at 2,131 tonnes; they are little changed from the 2,129 tonnes at the end of October. The high this year has been 2,137 tonnes, seen in early December – see red line on chart

below. What is interesting, though, is that the recent price weakness in Silver has prompted a pick-up in ETF investor interest so that may flow into Gold too.



Funds turned bearish

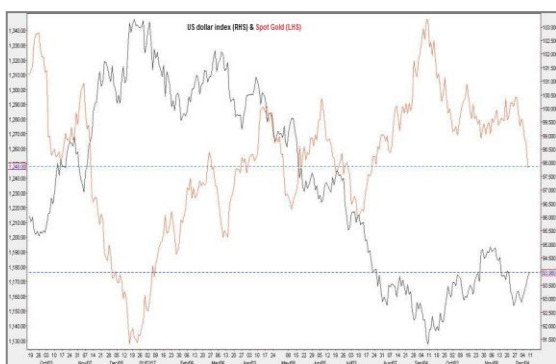
The funds trading Comex Gold have turned more bearish, with the early December net long fund position (NLFP) dropping 51,088 contracts to 173,329 contracts. While the longs have been liquidating for a while (see black line on chart below), the latest data showed 14,938 contracts of fresh short selling, this was the first time in four weeks that the gross short position has increased. What is interesting is that despite the bearish price action since September, the market shorts have only just started to increase their short exposure, up until then it had been long liquidation that had been the bearish factor.



Low geopolitical tensions

North Korea remains a dangerous thorn in the side of the world peace, but despite this, geopolitical tensions are not running high. Even North Korea's latest

missile test, which experts suggested meant North Korea's missiles could reach anywhere in the world, has not escalated the situation, at least not publicly. We still expect the North Korean problem to lead to a rise in geopolitical tensions at some stage down the road and that will prompt safe-haven buying of Gold. In addition, we expect the weaker Gold price will attract a pick-up in investor interest as they take advantage of the weak price to build in some insurance against a correction in other markets.



Dollar still looking bullish on balance

Another push higher in the dollar, as seen by the rise in the dollar index (see black line in chart above), has no doubt weighed on Gold prices in recent days. The weakness seen in the dollar during most of November does appear to have helped underpin the firmer tone in Gold, so for now the inverse relationship between Gold and the dollar does seem to be in force. The pullback in the dollar did raise questions about whether the September-to-November rally in the dollar was the start of a bull market, or whether it was a counter trend move within the 2017 dollar bear market. We have favoured the former due to interest rate differentials and if the dollar does continue to run higher then that is likely to be a headwind for Gold prices, unless safe-haven demand picks up more. When safe havens are in demand, then Gold and the dollar can rise in tandem.

Big picture view - Gold prices are at an interesting juncture in that monetary policy in the major economies is likely to shift from easing to tightening in the months and

years ahead. It is already underway in the US, the UK has also started to tighten interest rates, and strong growth in Europe is likely to see it follow in 2018. Given Gold prices did well under quantitative easing, it may be that Gold prices suffer when monetary policy normalises. That said, there are potential shocks waiting on the sidelines which could be either geopolitically or financially-based and that may keep investor interest in Gold alive.



Technical – Gold prices have broken below the support line and former support at \$1,260/oz, with the break lower suggesting a second down leg after consolidating in a continuation pattern during October and November. The count from the continuation pattern is for a \$45/oz drop, which would target \$1,223/oz. The stochastics are bearish, so for now the market is looking weak.

Summary – Gold prices have turned quite bearish; we have not viewed the climate as being bullish for Gold for some time, especially since investors have got over their concerns about North Korea. The stronger dollar is a headwind, but it may be that this latest bout of weakness is in anticipation of a US rate rise at the December FOMC meeting. Given high equity markets and the potential for corrections, we would expect these lower Gold prices to attract some investor interest as a means of insurance.

Gold Statistics	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Q2 2017</u>	<u>Q3 2017</u>	<u>Oct-17</u>	<u>Nov-17</u>
London Prices (US\$/oz)								
AM fix	1410.80	1266.34	1162.49	1248.16	1257.89	1277.96	1280.68	1283.19
Pm fix	1411.03	1266.20	1161.3	1248.34	1256.96	1277.84	1279.51	1282.28
Average	1410.92	1266.27	1161.89	1248.25	1257.43	1277.90	1280.10	1282.74
Parity prices								
Australian - A\$/oz	1,454	1,403	1543.9	1,679	1,675	1637	1,644	1,683
South Africa Rand/kg	433,964	440,562	474,410	589,051	532,959	540,737	563,120	580,930
Japan ¥/g	4,252	4,146	4,355	4,203	4,329	4393	4,481	4,486
India Rupee/oz	81,973	77,077	74,310	83,721	80,959	82,069	83,333	83,181
COMEX - futures contracts								
Stocks ('000oz)	8,103	8,203	7,422	8,962	8,801	8707	8,698	8,977
Vol (million contracts)	46.27	40.52	41.76	51.84	15.89	19.95	6.67	8.62
OI ('000 contracts)	398	380	418	551	467	512	533	455
CFTC (futures only data)								
Net Spec position Long (Short)	68,381	98,265	88,022	201,250	162,799	178,157	191,385	173,329
TOCOM								
Stocks ('000oz)	120	146	127	120	76	67	58	61
Volume ('000 contracts)	12,223	8,744	7,928	8,540	1,456	1,233	484	490
OI ('000 contracts)	111	88	94	88	79	92	103	104
Other Indicators								
FT Au Mines Index	1,789	1,409	1,061	1,579	1,481	1,566	1,451	1,404
Dow Jones Index	15,090	16,837	17,524	18,062	21,180	22,096	23,394	24,246
US\$ Index	81.3	83.0	96.7	97.1	97.3	92.9	94.5	93.0
Gold Bullion Imports, tonnes (exports)								
Dubai	350	136	118	~				
China	2192	1297	1,610	1,281				
India	824	776	949	582				
Italy	107	103	~	~				
Japan	28	-80	-107	~				
Singapore	225	284	~	~				
South Korea	24	24	~	~				
Taiwan	20	22	30	27.5				
Turkey	266	102	49	106				

Data: Financial Times; Bombay Bullion Association; LBMA; TOCOM; COMEX; CFTC, REUTERS

Figures are period averages unless marked by *, indicating the period end. OI= Open Interest on the exchange

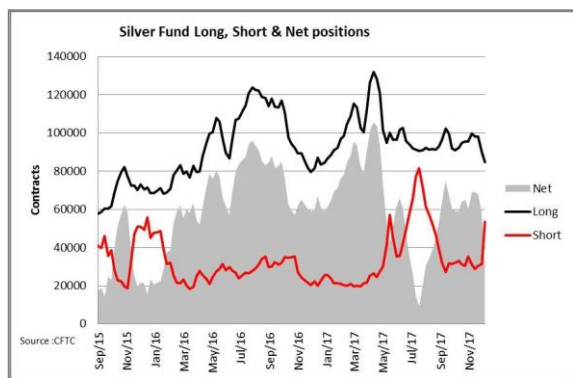
~ = data not available yet, *italics* = estimates

Silver prices lead the slump in the precious metals prices

The precious metals are out of favour with the market and that has accelerated in late November and early December. The weakness is not just in the precious metals, but has been seen across the base metals too. This suggests a degree of stale long liquidation ahead of year-end. Silver prices rebounded after the September sell-off but then traded sideways either side of \$17/oz, so stale long liquidation seems to have set in. More recently, the prospect of a rise in US interest rates when the FOMC meets on 13th December seems to have increased selling pressure. We are not particularly perturbed by the weakness as we saw similar weakness ahead of the December FOMC meetings in 2015 and 2016, when interest rate rises were all but certain. Once rate rises had been announced bullion prices rallied.

Price weakness attracts bargain hunting

ETF investors have started to buy into the falling Silver price, but earlier they had been reducing exposure. ETF holdings peaked at 21,072 tonnes in July this year, they fell to a low of 19,890 tonnes in late November, but have started to climb in early December – see ETF chart in Gold section. This suggests scale down buying, which should help underpin Silver prices.



Funds suddenly turn bearish

Up until 5th December, the funds trading Comex Silver had not been that bearish in that short selling had been limited, with the

weakness being seen from long liquidation. However, that has now changed, with the funds shorting 22,123 contracts in the week to 5th December. The longs have also continued to cut exposure.

Concerted global growth bodes well

Base metals have put in strong performances this year on the back of a pick-up in concerted global economic growth, but this has not had much of an impact on Silver. We would expect that the combination of weaker Silver prices and the prospects for robust industrial demand will lead to either consumer restocking, or hedge buying. As such, we do expect Silver prices to run into support before too long.



Technical – The fall in spot Silver prices that have broken support and the support line have damaged the chart considerably. Before the July spike lower (which happened in fast-market conditions), there was support at \$15.63/oz from December 2016. The recent low has been \$15.64/oz, so prices may have found support again, although it is early days given the downward momentum on the chart.

Summary – Given the sideways price oscillations seen in 2017, Silver prices seem rangebound and, given the current climate is not overly bullish for precious metals; we would expect more range trading in the weeks ahead. We do not expect much more room on the downside, but if it is seen then we would view it as a buying opportunity.

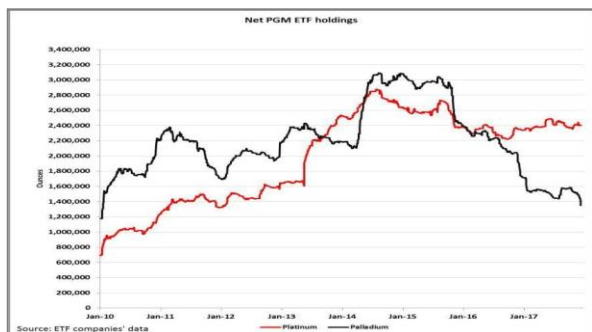
Silver Statistics								
	2013	2014	2015	2016	Q2 2017	Q3 2017	Oct-17	Nov-17
London Prices (US\$/oz)								
Daily Fix	23.83	19.08	15.71	17.10	17.26	16.83	16.94	17.01
Parity (London) prices								
Japan (Y/g)	71.66	70.31	58.92	57.46	59.40	57.87	59.28	59.47
India (Rupee/oz)	1,380.7	1,312.5	1,004.7	1147.5	1,111.1	1,081.2	1,102.6	1,102.7
COMEX – futures contracts								
Stocks (Moz)*	165.9	178.9	171.6	162.1	203.5	216.5	226.8	239.9
Vol (million contracts)	14.5	13.7	13.5	17.0	6.4	6.2	1.8	2.5
OI ('000 contracts)*	136.0	155.8	169.6	188.8	201.4	192.3	206.0	108.5
CFTC (Futures Only Data) non-commercial								
Net Positions *	11,929	19,307	31,269	69,365.6	56,104	44,441	65,120	31,426
TOCOM								
Stocks (Moz)*	0.1	0.20	0.16	0.16	0.20	0.16	0.12	0.11
Futures Vol ('000 contracts)	96.4	86.1	62.6	61.1	5.1	3.8	0.9	0.9
Futures OI ('000 contracts)*	4.1	4.5	3.1	3.28	1.6	1.8	1.5	1.9
Other Indicators								
Gold/Silver ratio*	60.0	67.6	74.4	73.0	75.0	75.8	74.6	78.9
Silver Bullion Imports (tonnes)								
USA	3835	3835	5464	5956				
Japan	1688	1688	1560	1833				
India	5819	5819	7954	2793				
Italy	679	796	843	675				
Hong Kong	948	948	839	659				
China (exports)	1329	1369	2054	-137				
* figures are period averages unless marked; ~ not available yet, <i>italics</i> = estimate.								

PGM prices remain polarised, with Palladium trading at a \$110/oz premium

Palladium’s price premium over Platinum has widened and while Palladium prices seem to be establishing themselves above \$1,000/oz, Platinum prices are testing the lows seen in December 2016. The fundamentals for Palladium are strong and the supply deficit would be even bigger had it not been for ETF redemptions. With another supply deficit expected in 2018 you have to ask the question, what if ETF investors decided to turn bullish again? The Platinum market continues to suffer from poor jewellery demand and from falling demand from the auto industry.

Will the auto industry use more Platinum

Given the supply shortages facing Palladium and the massive increase in Palladium prices, it does seem likely that manufacturers of autocatalysts will look at increasing Platinum loadings and reducing Palladium loadings in their catalysts for petrol vehicles. While any change is unlikely to be retrofitted into existing models, new models may be designed to have catalysts with higher Platinum loadings. As the World Platinum Investment Council points out, if changes are to be made then although it may take a few years for Platinum demand to rise, automanufacturers’ forward pricing could start to impact Platinum prices ahead of any pick-up in actual demand.



ETF investors take profits in Palladium

Profit-taking continues to see net outflow in the Palladium ETFs, with most of the selling coming from South African ETFs. Rand-

Palladium prices have rallied 56 percent in 2017, compared with 51 percent for dollar-Palladium prices. Total Palladium holdings have fallen 169,680 oz since the end of October and are down 361,000 oz so far this year. By comparison, holdings in Platinum ETFs have been relatively flat; they are down 7,950 oz since the end of October, but are up 56,685 oz so far this year. We will be on the lookout for any change in trend in Palladium ETFs and if they become buyers then that could be doubly bullish for Palladium as it would increase demand while at the same time reducing supply.



Technical & Summary - Platinum prices are under significant pressure with prices back on the year’s lows and testing support. The 2016 low was \$811/oz, some \$74/oz below current prices. We see limited downside risk in Platinum from these oversold levels. Palladium prices are spending more time above \$1,000/oz but are looking overbought considering how far they are above the up trend line. But there is no question that the uptrend is strong. Given the fundamentals we do expect Palladium prices to work higher, but we expect setbacks along the way.

PGM Statistics									
	2013	2014	2015	2016	Q2 2017	Q3 2017	Oct-17	Nov-17	
London Prices (US\$/oz)									
Platinum	1,491	1,390	1,060	976	941	953	922	933	
Palladium	727	809	692	611	818	901	957	1,000	
Rhodium	1,061	1,180	953	694	960	1,077	1,390	1,445	
Japanese Parity Prices (Y/g)									
Platinum	4,501	4,519	3,965	3,278	3,240	3,275	3,226	3,262	
Palladium	2,198	2,636	2,587	2,050	2,817	3,097	3,348	3,495.36	
South African Parity Prices (Rand/kg)									
Platinum	443,938	466,074	417,839	444,891	384,753	388,728	390,911	407,387	
NYMEX Stocks ('000oz)									
Platinum	276.3	195.8	138.8	205.1	222.7	214	195.8	195.0	
Palladium	656.9	347.4	134.0	71.1	45.6	47	54.1	54.1	
CFTC Futures Only Data Long / (short) non-commercial									
Platinum	30,680	35,840	24,585	31,817	15,040	23,972	20,948	27,028	
Palladium	22,369	22,276	12,080	8,765	20,149	21,134	21,615	23,582	
Tocom - Platinum									
Stocks ('000oz)	38.1	46.6	53.8	57.1	48.4	46	46.9	61.5	
Vol (Million contracts)	4.3	4.6	3.9	2.9	0.6	0.4	0.2	0.2	
OI ('000 contracts)	55.7	72.6	69.7	52.7	63.6	60	58.2	55.3	
Tocom - Palladium									
Stocks ('000oz)	4.4	3.2	5.4	11.1	3.6	3	1.2	0.8	
Vol ('000 contracts)	79	77	63	29.6	8.1	5.5	3.1	3.1	
OI ('000 contracts)	2.0	2.0	1.8	1.1	1.3	2	1.5	1.3	
Other Indicators (US\$/oz)									
Pt-Au spread	97	115	-100	-253	-324	341	-352	-357	
Pt-Pd spread	754	568	245	369	94	30	-74	-79	
Platinum Bullion imports (kg)									
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>		<u>2017</u>			
USA	115,765	141,413	238,740	201,412		391,299	(Jan-Sep)		
Japan	48,336	32,684	47,283	44,786		35,377	(Jan-Oct)		
Palladium Bullion imports (kg)									
	<u>2013</u>	<u>2014</u>	<u>2015</u>						
USA	83,200	92,400	82,500	88,800		57,220	(Jan-Sep)		
Japan	58,571	58,429	57,223	58,860		50,343	(Jan-Oct)		

~ = data not available yet, *italics* = estimates

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