GOLD: unless a new catalyst emerges to jumpstart further investor inflows or DM equities remain under pressure, expectations for Gold repricing higher above $1250 into yearend faces the following headwinds— positive short-term real rates & a resilient $, a return of tabled risk after midterms and typical yearend inventory deleveraging or lending (as $ availability and financial liquidity remains tight). Structurally, the Feds hiking path and equilibrium rate (and thus the Gold outlook) is dependent on the extent that this business cycle can continue to extend. The minutes (of this FOMC) and the December meet will provide better clues.

PLATINUM has been the this months metals outperformer posting gains of ~4%. The move happened rather quickly with many caught off-guard, but gains have largely held with (which is rather unusual for the historical underperformer). ZAR strength, a technical break above $850, futures short covering, and the ‘substitution’ story (albeit a little too early) all contributed to the recalibration higher. Price action in $-terms, and versus Gold and Palladium, indicates Platinum is slowly beginning to distinguish itself away from Gold (which has dictated prices for years now) and is perhaps attracting some PGM-specific inflows; its still very early though to flag excitement as a toppy ZAR Basket remains attractive for producers into yearend

US auto sales fears were somewhat put to rest with Octobers auto sales showing monthly annualized US auto sales reaching their highest point in close to a year at 17.5m units, up from 17.4 mn vehicles sold in September. PALLADIUM will continue to source any reason to rally but as forwards remain tight and well borrowed as we enter yearend and an important switch (Z8/H9), that is beginning to show up in flatprice trading very erratically on an intraday basis.

COPPER (and other base metals) continue to cautiously adhere to US-Sino trade relations and now with the midterms behind us, the focus will turn to the G-20 summit in Buenos Aires later this month as Trumps foreign policy is the most obvious area he can largely operate in without Congressional support. Whiles its still early to expect a formal Trump / Xi trade agreement, its reasonable to assume they attempt to reach some common understanding (an ‘agreement in principle’, and ‘agreement to begin formal talks’ while perhaps suspending tariffs in the interim). The recent appetite for upside calls across all base metals (but especially in Ali and Copper) highlights sentiment is optimistic; Copper has not put a deep and retracted new lower floor even after the most stringent of tariffs were imposed the end of September

ALI has shifted gears completely, becoming less sensitive to politics and headlines, where sentiment and prices are too complacent as it overlooks the potential power of upward cost pressures and policy certainties to both aluminum and alumina, that could deepen deficits

ZINCS visible inventories has reached critical levels (on historical and a relative basis to its peers), making zinc vulnerable to any further production setbacks; Chinas recent production numbers for September was extremely weak, down 10% and if they maintain September’s production pace of ~460kt, there wont be enough zinc in China to meet Chinese demand, and global refined stocks would fall close to zero; an unprecedented situation.

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Graph of the Week: Is there any correlation between Trumps disapproval rating and Gold? Short Politics / Long Gold has been an investable theme in the past; does it return?

Trumps disapproval rating was tested this week with the midterm election, and the smoothest period (despite the consistent chaotic headlines, administration changes and polarizing policies) of his presidency is now over. US Politics can only get more contentious from here given a divided Congress, a gridlocked DC.

Currently, Trumps disapproval is sitting at a lofty >50. There was a better correlation in 2017 between a higher disapproval rating & gold price (via a weaker $). While a presidents approval rating may not be affected by whether Congress is divided or not (although the thinking is that presidents become less accountable for any government failures during periods of divided governments because the public has a plausible scapegoat—Congress); the graph merely attempts to showcase the Gold / Politics theme.

Can Gold pivot from being a low yielding fleeting safe haven asset and internalize politics?

Source: FiveThirtyEight, Scotiabank Commodity Strategy, Bloomberg

*An updated calculation of the president’s approval rating from FiveThirtyEight accounting for each poll’s quality, recency, sample size and partisan lean.
Precious Metals

Gold:

- Gold has remained rangebound in its $1210-1240 range, attempting to break the $1235-1240 region 7x the past 10 days. That is somewhat constructive given the fact that the $ (DXY) broke above YUTD highs and US equities (SPX) rebounded strongly, up 8% since the October lows after the midterm results.

- Recent WGC Q3 highlights show that Gold bar and coin demand climbed 29%, Central Bank was up 22%, and Jewelry demand was up 6%. Therefore physical/OTC demand remains solid around $1200, but at incrementally higher prices, these traditional price sensitive industries fall back and if Gold has any shot of finding a new higher range above $1250, investor (ETF & COT) interest needs to subscribe at a larger pace than what's recently emerged.

- Historically, it's generally been accepted that US stocks rally following a midterm, especially if the expected (in this case a Dem House and Republican Senate) plays out. However, an historical analysis since 1928 shows that annual SPX returns with specifically a Republican president and a split Congress is 12%. If that's the start of this case heading into yearend, Gold will struggle to redefine a new higher range given the propensity for investor flows to re-allocate into higher yielding assets.

- ETFs added a 1.6m oz thr past month largely during “red October” during the global equities. Interestingly, there has not been a symmetrical response to the recent rebound in US Equities as (ie: strong ETF outflows), hinting that perhaps the recent investor subscription is less tactical than was anticipated.

- Unless a new catalyst emerges to jumpstart further investor inflows or DM equities remain under pressure, expectations for Gold repricing higher above $1250 into yearend faces the following headwinds— positive short-term real rates & a resilient $, a return of tabled risk after midterms and typical yearend inventory deleveraging or lending (as $ availability and financial liquidity remains tight).

- Todays FOMC was largely a nonevent, with an expected Fed hike in December largely a given and the market pricing in 50bps of hikes for 2019. Structurally, the Feds hiking path and equilibrium rate (and thus the Gold outlook) is dependent on the extent that this business cycle can continue to extend. The minutes (of this FOMC) and the December meet will provide better clues.
Precious Metals Continued

Silver:

- **Silver** still remains undervalued versus most metals, in a structurally contango market where short-term prices have failed several times < $15.

- Plenty of participants are long, but prices haven’t quiet responded —COT speculative longs own 550m oz (above 5yr average), ETFs own 530m oz and Comex warehouses are holding almost 300m oz. That’s a decent amount of lending potential.

- However, there’s still tactical upside risk if participation rates can restart and Gold can break out above $1240 — daily Silver volumes have averaged 43% of Aggregate Open Interest the last 3 months vs almost 60% in Gold, highlighting a lack of investor interest.

- Gold/Silver ratio remains in the toppy 80-85 zone, but that alone isn’t a catalyst.

PGMs:

- Platinum has been the this months metals outperformer posting gains of ~4%, for once. The move happened rather quickly in the beginning of November with many caught off-guard, but gains have largely held with (which is rather unusual for the historical underperformer) with Platinum around $875.

- On an RV basis, the Platinum-Gold Spread has narrowed to ~$350 (from under -$400 the end of October) while the PLPA ratio has stabilized around +0.77 throughout November. Platinum priced in ZAR is actually down MTD (at ~R12200), highlighting that Platinum internalized the ZAR strength (as USDZAR fell below the pivotal 14 handle). Overall price action indicates Platinum, for once, is beginning to distinguish itself away from Gold (which has dictated prices for years now) and is perhaps attracting some PGM-specific inflows; its still too early though to get to excited as a toppy ZAR Basket remains attractive for producers into yearend

- The substitution story/belief (that the potential effect Palladium deficits, and Palladium price spikes have on Platinum demand especially given Platinum’s relative discount) has been cited as another reason for Platinum’s underperformance. While that was a ‘hot topic’ at the recent LBMA, it was made very clear that the process takes years (GM advocating 2 years at the very minimum). Nonetheless, its becoming increasingly clear that commodity markets are too-oo forward looking (prime example was Nickel speculative flows around EV expectations that are only due to play out in the following decade…)

- PGM ETF flows throughout November have been relatively very quiet (unlike in Gold, Platinum ETF inflows wasn’t responsible for driving performance). Palladium ETFs saw large drawdowns in October but holdings have stabilized around 763K oz, while Platinum ETF are at year lows around 2.36m oz.

- Palladium forwards remain tight and well borrowed as we enter yearend and an the Z9/H9 switch, which is beginning to show up in flatprice trading very erratically on an intraday basis.

- US auto sales fears were somewhat put to rest with October’s auto sales showing monthly annualized US auto sales reaching their highest point in close to a year at 17.5m units sold, up from 17.4 mn vehicles in September.

- Technically, Palladium has run into strong resistance around $1150, unable to close above here after 6 attempts recently.
Precious Metals Flow Update *(covering the most recent data, period Oct 23 – 30th 2018)*

- **GOLD** prices were only down <$10 during this flow week, where COT outflows of 1.5m oz were offset somewhat by ETF inflows of 381K oz (over the same Tue-Tue period). COT longs—and there aren’t many of them—cut bullish bets more than shorts decreased in the week before the LBMA. Gross managed money longs now own ~9m oz; a cyclical floor. Gross managed money shorts “own” 13.5m oz. Shorts have only covered ~40% of the original position built up since the beginning of June.

- **Silver** prices were down almost 2%, and this was largely driven by speculative flows (gross short are re-engaging AND ETFs are liquidating). ETFs liquidated ~7m oz over the COT period, off a lofty peak of around 535m oz. There just doesn’t seem to be much commitment from investment community to add to any holdings closer to $15.

- **Platinum** COT and ETFs together added >180K oz which was enough to keep prices above $830. Shorts added ~2m oz starting in April, and have bought back more than half (1.1m oz) since then, so this weeks price action could’ve simply been the remaining reduction in paper shorts, especially given the large rebound in European auto shares.

- **Palladium** was the most interesting, given it was down almost 6% during the COT week, but note it was simple correcting from the peak posted on Oct 23rd. ETFs liquidated almost 40K oz (but this has been an indication of physical tightness, re-enforcing the Pall bull story); 103K oz were sold by specs, almost all from gross managed money longs, who well-timed it. They currently own 1.5m oz having accumulated the last leg of 835k oz the past month starting when Pall was <$1000; they are clearly well ITM and this is the first early indication they’ll take profit at / around peaks.

- **HG copper** was down 3.4% into month end; largely driven by CME liquidation of almost 200mn lbs. This is mostly due to fresh shorts (not longs reducing).

<table>
<thead>
<tr>
<th>Precious, HG</th>
<th>ETF Flow (Precious - oz)</th>
<th>COT Flow (Precious - oz, HG - lbs)</th>
<th>ETF + COT Flow</th>
<th>Notional worth</th>
<th>Associated Price change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>380,776</td>
<td>(1,531,500)</td>
<td>(1,150,724)</td>
<td>$ (1,410,810,279)</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Silver</td>
<td>(7,132,856)</td>
<td>(17,510,000)</td>
<td>(24,642,856)</td>
<td>$ (359,068,733)</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Platinum</td>
<td>16,894</td>
<td>164,050</td>
<td>180,944</td>
<td>$ 168,065,630</td>
<td>0.4%</td>
</tr>
<tr>
<td>Palladium</td>
<td>(37,624)</td>
<td>(102,800)</td>
<td>(140,424)</td>
<td>$ (159,429,671)</td>
<td>-5.8%</td>
</tr>
<tr>
<td>HG Copper</td>
<td>-</td>
<td>(192,225,000)</td>
<td>(192,225,000)</td>
<td>$ (527,961,513)</td>
<td>-3.4%</td>
</tr>
</tbody>
</table>
Copper:

- Besides a brief stint below $6000 last week, which some bulls argue is the new “$5800” floor (triple bottom put in there in Q3), Copper price action remains contained in a $300 range. 3m prices largely didn’t succumb to the global rout in equities in October but yielded to news that Chinese PMIs fell again in September (and to their lowest level since mid 2016).

- LME inventories have continued to slide in October (and hit their lowest level since 2008) but were somewhat “offset” by a rebuild in SHFE stocks (which is due to the surge in imports replacing material that was drawn down due to fabricator restocking ahead of Golden Week, a favorable arb and elevated premia). The September surge in Copper imports (in all forms) was somewhat ambitious as requirements were frontloaded ahead of their October Golden week; macro economic indicators outline a loss of strong momentum but still steady (smaller, low single digit growth) growth.

- Chinas blanket 25% tariff on copper scrap and other recycled metals from the US, effective the end of August, has led to tighter scrap supply & lower imports (which induces higher cathode consumption in 2018/9). Copper cathode premiums (delivered to the US Midwest) is at a 4year high and its expected to increase in this current round of contract negotiations due to uncertainty around US-China trade relationships, higher rates and logistics costs

- Contrary to the markets expectations of a moderation in Chinas export growth (after Septembers robust numbers and given the data covers a full month following the US’ largest tranche of import tariffs imposed the end of September), data today showed October numbers surprisingly strong. Export growth was up 15.6% YoY in October (up from 14.4% in September) and well above forecast. Its certainly possible that both exporters and importers brought forward orders before higher tariffs take effect in January (Electric motors, mechanical and electrical products – just some heavily targeted by the new tariffs posted robust growth). Or the trade war is not having less of an expected immediate effect on Chinas numbers since any US “loss” is the ROW “gain” as China looks to simply redirect flows, trading relationships and exports.

<table>
<thead>
<tr>
<th>China macro demand indicators, YoY% (last Sept '18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Vehicles</td>
</tr>
<tr>
<td>Energy Infrastructure/Power Grid Basic Investment</td>
</tr>
<tr>
<td>Household Freezers</td>
</tr>
<tr>
<td>Electrical Equipment, Micro-Computer Equipments</td>
</tr>
<tr>
<td>Basic Metals &amp; Fabricated Metal Products</td>
</tr>
<tr>
<td>Household Refrigerators,</td>
</tr>
<tr>
<td>Machinery, AC Motors</td>
</tr>
<tr>
<td>Room Air Conditioners, Change</td>
</tr>
</tbody>
</table>

-12.5 | -7.5 | -2.5 | 2.5 | 7.5 | -11.7 | -1.85 | 0.8 | 2.5 | 4.6 | 6 | 6.8 | 9.3

China National Bureau of Statistics (NBS), China Association of Automobile Manufacturers, China National Energy Ad...
Copper (and other base metals) continue to cautiously adhere to US-Sino trade relations and now with the mid-terms behind us, the focus will turn to the G-20 summit in Buenos Aires later this month as Trumps foreign policy is the most obvious area he can largely operate in without Congressional support. While its still early to expect a formal Trump / Xi trade agreement, its reasonable to assume they attempt to reach some common understanding (an ‘agreement in principle’, and ‘agreement to begin formal talks’ while perhaps suspending tariffs in the interim). The recent appetite for upside calls across all base metals (but especially in Ali and Copper) highlights sentiment is optimistic and the market is acknowledging that Copper has not put a deep and retracted new lower floor even after the most stringent of tariffs were imposed the end of September.

Structurally, continued US–China trade war risks discouraging project investment from producers, which is required by mid 2020s given demand growth profile. In the medium term (2019-2020), there is mine supply growth from Katanga, Mopani Deeps, the Cobre Panama project, Toquepal and Buenavista del Cobre expansion, which is expected to add 4% to supply, but still not enough to drive expected 2019 balances into surplus (estimate 250-300kt deficit).
Base Metals

Aluminum: Ali has shifted gears completely, becoming less sensitive to politics and headlines, continuing to overlook the potential power of upward cost pressures and policy certainties to both aluminum and alumina, that could deepen deficits

- Ali 3m prices grinded slowly below the 'consensus' $2000 floor in late October, but has largely found a foundation in the $1950-2000 range.
- 3m market pricing and sentiment remains dangerously complacent given ongoing risks including 1) news this week that Alunorte, Norsks alumina refinery in Brazil, has been forced by court decision to continue operating at 50% capacity, 2) continued Rusal sanctions, 3) the beginning of environmental cuts in China, 4) ongoing trade tariffs and the threat of higher China tariffs in January 2019
- This is against a backdrop of falling LME inventories to below 1Mt for the first time since 2008, and an increase in forecasted deficits to 1.7 Mt in 2018 (CRU); the market will soon require additional supply, BUT capital for new investments is limited, particularly as 40% of smelters are losing money due to high operating costs
- However, while nearterm catalysts (the Alunorte news this week that resulted in a meager $20 rally in flatprice) have been overlooked (perhaps due to the pain inventors felt during the earlier volatile periods this year), the option market seems to be pricing in the above risks. Ali call skew is at all-time highs as participants overreach for calls in anticipation of a late Q4, or early '19 rally. Downside risks remain limited and the market is not wrong.

Zinc: visible inventories have reached critical levels (on historical and a relative basis to its peers), making zinc vulnerable to any further production setbacks

- Zinc managed to put in another top at $2700 in October, but succumbed to macro and Chinese growth concerns (September's auto sales were drastically down >11% YoY) in early November.
- Chinese zinc production numbers for September was extremely weak, down 10% YoY (down 2.6% YTD) as they continue to be constrained by an environmental crackdown and low margins (low TCs). The fall in smelter production has created a deficit in China and zinc smelters cannot continue to underperform the next few months because if they maintain September's production pace of ~460kt (instead of increasing production to the forecast monthly average of ~530kt for 2019), there won't be enough zinc in China to meet Chinese demand, and global refined stocks would fall close to zero, a rather scary and unprecedented situation.
- Overall, open interest is quite low and participation rate is down as investors are largely sidelines due to macro uncertainty and a lack of a price direction, or are very wary of the concentrate supply that can materialize faster than expected.

Nickel: Softer as fundamentals look mixed and Tsingshans HPAL plant creating uncertainty but leans bearish

- LME Week was dominated by Tsingshans grand plans to bring a large 50ktpa HPAL plant into production as soon as 2019 (and at an ambitious cost of only $700mn). That was enough to ensure $12,000 is the new $13,000 ceiling in subsequent weeks, despite the general view from specialists that their ambitions are too lofty, the market doesn't want to bet against the largest (and growing) player.
- Nickel stocks continue to fall, and Q4 Chinese stainless steel demand is expected to be strong (due to the 300 series; Woodmac sees a 14% increase in output QoQ) which deepens the short-term deficit but that's largely gone unnoticed, for now.
Base Metals Flow Update: COT data for the week ended Friday November 2nd were associated with rather mixed price 'reactions'. Copper was up 2% while Zinc felt the brunt of the softer Chinese PMI and stock markets selloff, closing the Oct 26th—Nov2 (COT) week down almost 4%. However, there was broad-based positioning inflows across all 5 metals

• Ali and Zinc put in price declines of −1.3% and −3.7% respectively, but attracted inflows
• Zinc investors added 164k mt to positioning, clearly not nearly enough as there seemed to be a dearth of support/consumer activity around $2500 at that time. Since the middle of September, net COT zinc positioning has added ~500k mt which provided the necessary tailwinds for 3m to test the key $2700 ceiling (3 times). Net positioning has already bought back almost 50% of what was lost since June 18 (due to the inflows of CTA shorts).
• Ali convincingly dipped below the $2000 “hard floor” during the COT week, despite seeing the strongest inflows (on notional basis). Net investor length jumped >850k mt (its 3rd largest weekly inflow since the new data categorization began in January). Despite the weekly data being pretty messy (last weeks inflows were the previous weeks outflows), the trend has remained within spec owning between 3.5 and 4.5m mt. Currently overall net length is toppy on this (1year) historical scale.
• Copper saw the 2nd largest inflows with 210K mt added to positioning. Prices managed an early November rebound of 2% (as its peers were flat or lower on the week) as $6000 proved a sticky floor, hinting that fresh (and unconvinced) shorts entered and were wrong-footed on the reversal back toward $6300. More than 50% of the original drawdown in positioning since June 18 been bought back
• Nickel added ~50k mt, with price performance flat.

<table>
<thead>
<tr>
<th>LME BASE METALS</th>
<th>Weekly change in COT Flow, mt</th>
<th>Total COT Holdings, mt</th>
<th>$ Notional worth</th>
<th>Associated Price change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nickel</td>
<td>48,552</td>
<td>3,726</td>
<td>$ 573,887,682</td>
<td>0.3%</td>
</tr>
<tr>
<td>Ali</td>
<td>855,854</td>
<td>4,497,560</td>
<td>$ 1,698,870,200</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Zinc</td>
<td>163,933</td>
<td>1,200,791</td>
<td>$ 402,455,171</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Copper</td>
<td>210,173</td>
<td>1,163,648</td>
<td>$ 1,293,192,946</td>
<td>2.0%</td>
</tr>
<tr>
<td>Lead</td>
<td>69,409</td>
<td>353,235</td>
<td>$ 133,785,534</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Tin</td>
<td>1,845</td>
<td>10,780</td>
<td>$ 35,147,250</td>
<td>-1.0%</td>
</tr>
</tbody>
</table>

Base Metals COT = post Mifid categories of net "investment firms,credit insti" + "investment funds" + "Other Financial Firms" + "Directive 2003/87/EC" Length
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