

## Mid-Week Market Report

June 14<sup>th</sup>, 2017



### Staggering Surprise in Chinese Imports Numbers Catches Everyone Completely by Surprise.

**Copper Price Jumps on Chinese Imports Surprise/Mining.com:** While the US stimulus now appears further in the distance, Chinese support for the sector has stayed surprisingly strong with imports of the red metal, widely used in the construction, manufacturing transportation and power industries, surging in May.

Official customs data from China, responsible for some 45% of global copper consumption, show the country's refined copper imports in May increasing by 30% to 390,000 tonnes compared to the previous month. Year-on-year import volumes were down 9% however. For the whole of 2016 imports were at record levels of 4.95 million tonnes.

The copper imports rebound in May is more than market expectations, especially in the off season for copper, (suggesting) markets had overestimated the slowdown in China's economic growth and sluggish domestic demand," Helen Lau, an analyst at Argonaut Securities in Hong Kong told Reuters.

In a sign that disruptions at some of the world's biggest mines including BHP's Escondida mine in Chile and Freeport's Grasberg operations in Indonesia is having an impact on mine supply concentrate imports declined by more than 15% in May compared to April. Cargoes were down 20% compared to a year ago reaching the lowest levels since October 2015. 2016 was a banner year with volumes gaining 28% over 2015 hitting an all-time high of 16.96 million tonnes for the full year.

**Mid-Week Trivia Question:** Copper deficiency in infants causes what ailment?



**Analysts Say India Tax Plan Will Boost Gold Demand In Long Run / Peter Schiff – Schiffgold:** Analysts at the World Gold Council say they believe a new tax plan set to go into effect in India will ultimately boost demand for gold in the world's second-largest market for the yellow metal.

On July 1, India's current labyrinth of taxes will be replaced by a nationwide Goods & Services Tax (GST). The World Gold Council called it the "biggest fiscal reform since India's liberalization in the early 1990s." The government set the tax rate for gold under the GST at 3%, lower than the 5% expected. This has already sent a wave of optimism through the country's gold and jewelry dealers.

**Gold Non-Commercial Positions/Investing.com:** Large speculators boosted their bullish net positions in the gold futures markets last week for a third consecutive week, according to the latest Commitment of Traders (COT) data released by the Commodity Futures Trading Commission (CFTC) on Friday.

The non-commercial futures contracts of Comex gold futures, traded by large speculators and hedge funds, totaled a net position of 204,465 contracts in the data reported through June 6th. This was a weekly rise of 37,375 contracts from the previous week which had a total of 167,090 net contracts.

The strong gains (+77,741 contracts total) of the past three weeks has put the overall net position above the +200,000 level for the first time since April 25th when net positions totaled 200,677 contracts.



## Palladium Surges 7 Percent to Highest in 16 Years as Gold Retreats/Thomson-Reuters:

Gold prices fell about 1 percent on Friday as the dollar strengthened while palladium leapt more than 7 percent as a surge in speculative demand forced industrial users to close out short positions, traders said.

Palladium hit the highest level in 16 years as the short-covering rally pushed the metal through long-term chart resistance.

The backwardation in the market - a formation in the forward curve in which the price of metal for future delivery is below the spot price - can suggest a near-term shortage of metal.

Pete: A week ago I thought Palladium might just be running out of steam and I said just that in an interview for Bloomberg, it seems I was wrong but remember I represent Hedgers that sell metals from recycled products and when we get to these levels it's time to hedge to preserve the bottom line.

## Pete's Corner:



a failure rate above 50%.

**North Korea May Be the Biggest Black Swan of All/MarketWatch:** Meanwhile, in nearly six years as ruler, Kim Jong-un has tested 78 missiles; his father Kim Jong-Il tested only 17 in a 16-year reign. And they've improved markedly: Recent tests of solid-fuel missiles, which "would give the United States little warning of an attack ... were clearly successful," The New York Times reported, while the U.S.'s own \$330 billion system to intercept incoming missiles has had

North Korea is believed to have enough radioactive material for up to 25 nuclear weapons now, but "by 2020, [it] could have a nuclear stockpile of 100 warheads that can be mounted on long-



range ballistic missiles capable of reaching the United States," Robert S. Litwak of the Woodrow Wilson International Center for Scholars wrote in USA Today. "North Korea is essentially a failed state on the verge of a nuclear breakout."

In an address to a security conference in Singapore, the retired Marine Corps general who headed Central Command from 2010 to 2013 called North Korea's burgeoning nuclear program a "clear and present danger" and an "urgent military threat."

### **Gold Could Withstand Rising Interest Rates, Unwinding of Fed Assets/TD Securities:**

Rising short-term interest rates and the unwinding of securities held by the US Federal Reserve may not necessarily weigh on gold prices, analyst Bart Melek of TD Securities said Sunday. Gold may instead attract investor support from low interest rates adjusted for inflation and a flat bond yields, Melek said in a presentation at the International Precious Metals Institute conference.

"We think the biggest driver of gold and precious metals is not inflation broadly; it's really the combination of monetary policy and inflation rather than inflation alone," he said. Since real interest rates are likely to remain relatively low globally due to the loose monetary policies being pursued by central banks to support economic activity, the financing costs of holding gold and precious metals will also remain low, Melek said.

**Germany Continues to Bring its Gold Home/SchiffGold:** In early 2013, the Bundesbank announced a plan to repatriate massive amounts of its physical gold reserves back into Germany. The goal is to have half of its gold back within the country's borders by 2020. At nearly 3,400 tons, Germany's gold reserves currently rank as the second-largest in the world.

According to Handelsblatt Global, a scare in 2012 led to the decision to bring the gold home. The sovereign debt crisis in the eurozone that year led many analysts to question the safety of the country's reserves. In fact, financial controllers said they weren't even sure all of Germany's overseas gold holdings existed. The Federal Audit Office demanded the central bank make regular spot checks to ensure its gold reserves abroad were "physically counted and their authenticity and weight" confirmed.

Germany began aggressively ramping up its repatriation program in 2014. The German central bank brought home 120 tons of gold that year. In 2015, Germany's Bundesbank transferred more than 210 tons of gold back into the country from vaults in Paris and New York. According to the Financial Times, with the 2015 transfers, Frankfurt became the largest storage location for the country's reserves after New York. The repatriation continued in 2016, with more than 100 additional tons of gold coming back into the country.

The Bundesbank plans to continue its repatriation project this year, removing all of its gold from neighboring France. It plans to transfer all 91 tons back into Germany by the end of the year.

**HSBC Partners with AI Startup to Combat Money Laundering/Reuters:** HSBC Holdings Plc has partnered with Silicon Valley-based artificial intelligence startup Ayasdi Inc to automate some of its compliance processes in a bid to become more efficient.

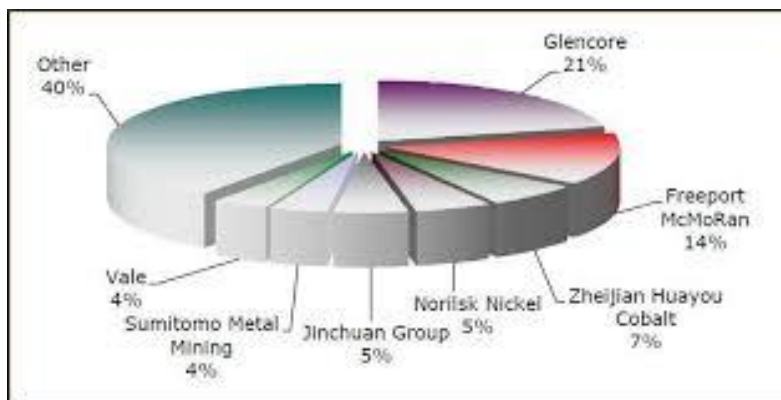
The banking group is implementing the company's AI technology to automate anti money-laundering investigations that have traditionally been conducted by thousands of humans, the bank's Chief Operating Officer Andy Maguire said in an interview last week. At Zaner Precious Metals uses an automated check system on our shopping carts. This is a new system that I'll keep an eye on and pass along any progress I see in the future.



**How GOP Bill Would Dismantle Many Dodd-Frank Restrictions/WP Business/Associated Press:** Rep. Jeb Hensarling, the Texas Republican who leads the Financial Services Committee, would repeal about 40 of Dodd-Frank's provisions. The 2010 Dodd-Frank law imposed the stiffest restrictions on big financial companies since the Great Depression. President Donald Trump launched his attack on Dodd-Frank after taking office, ordering a

Treasury Department review of the complex rules that have put the legislation into practice. Trump called the law a "disaster" whose restrictions have crimped lending, hiring and the overall economy.

*Pete:* A special recognition award goes out to The Honorable Jeb Hensarling from all of us here at the Metals Desk for his steadfast stance at the helm to pull down 2,300 pages of laws that has crippled the gold industry.



**My friend Stephanie Yang from the WSJ writes:**

Why Are Investors Amassing Cobalt? It's the Easiest Way to Play This Year's Hottest Commodity  
Silvery metal is up 70% year-to-date as use in electric-car batteries soars, but buying cobalt on financial markets isn't easy

Slightly more than half of all cobalt bought or sold last year went toward rechargeable batteries, up from 20% in 2006, according to Benchmark Mineral Intelligence. Battery manufacturers' soaring demand for the hard, silvery metal has propelled cobalt's value to its highest level since 2008. Prices are up 70% this year through Wednesday to \$56,500 a metric ton, making it the top-performing commodity traded on a major futures exchange. Physical trading activity still exceeds that of the seven-year-old futures market. While volume in cobalt futures on the London Metal Exchange quintupled during the first five months of 2017 over the same period last year, the lack of participants keeps prices vulnerable to sudden swings.

On May 4, for instance, prices dropped by more than \$3,000 a ton in one day, driven down by one seller before recovering, traders said. Instead, some money managers have purchased shares of companies that produce cobalt. But since cobalt is a byproduct of copper and nickel mines, the big producers come with a lot of exposure to other metals. Copper is up 1.6% so far, this year, but nickel has dropped by nearly 12%.

Battery makers are also purchasing more cobalt themselves, analysts and traders said, to stock up on cobalt before prices rise further. Cobalt faces other issues that threaten to make it scarcer. A lack of mine investment due to years of low nickel and copper prices could spark a shortage in cobalt supply in the next few years, analysts said. But some suggest the opposite is more likely: Morgan Stanley analysts warn that the material's prospects may dim as battery makers buy cheaper metals instead of cobalt, and the restart of major copper mines adds to market supply.



**Tesla Solar Roof is Not a Serious Product/EnerTuition at SeekingAlpha:** A few weeks back, Tesla announced that it will be taking orders on its Solar Roof product. This PR event, the second major one about the Solar Roof, revealed surprisingly little about the technology itself. This is a two-part series that covers the technical and economic aspects of the Solar Roof product.

Before getting into why we believe Solar Roof is yet another failed product from Tesla, let us say that Solar Roof is a concept that we would like to see succeed. Building Integrated Photovoltaics, or BIPV, is certainly the wave of the future. However, it is a challenging problem that has yet to be solved.

Solving the problem has the potential to increase solar penetration. However, as we go on to show, we do not believe Tesla's solution is the right one and we do not believe it will result in mass deployments for the foreseeable future. This product is likely to die on the vine before it ever reaches critical mass.

Pete: As you know I have been following this new solar product to get projections on its silver consumption statistics. Right now, it doesn't look that good in the press but there are a lot of broke people around that faded Mr. Musk that are waiting tables.

**Mid-Week Trivia Answer:** Copper anemia in infants results from infants with a poor diet and can cause heart disease.

Sincerely,

## **Peter Thomas**

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*Peter Thomas is a Senior Vice President at the Zaner Precious Metal Division, and he is considered one of the leading gold authorities in the world today. As a licensed floor broker, he was a filling broker in the silver pit when silver ran to \$55 an ounce. He currently manages a global cash desk which handles Refiners, Recyclers, Mining Operations and Coin & Bullion companies. He is constantly in demand for his insightful opinions drawn from his 35 years of metals trade to such news enterprises and magazines publishers as EconoTimes, Bloomberg News, WSJ, The Guardian, US News and World Review, Hard Assets, Kitco, and Modern Trader magazine. Contact him at [@Goldbug111](https://twitter.com/Goldbug111), [@MetalZaner](https://twitter.com/MetalZaner), (312) 277-0140 or [pthomas@zaner.com](mailto:pthomas@zaner.com).*

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