CPM Group
SWP Strategic Wealth Preservation

Precious Metals Quarterly

Special report for Strategic Wealth Preservation and its clients.

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Seasonality and Trade Wars

While the medium to long term prospects for precious metals remain constructive, in the short term these markets are expected to be hurt by the seasonal weakness in prices during the summer months (in the northern hemisphere). As can be seen in the seasonality charts, seasonal weakness exists across the precious metals sector, getting deepest either during July or August. Weakness in fabrication demand and investment demand during these months typically tends to contribute to the weakness in prices during this period. The start of the seasonally weak period typically is May or June and runs through August.

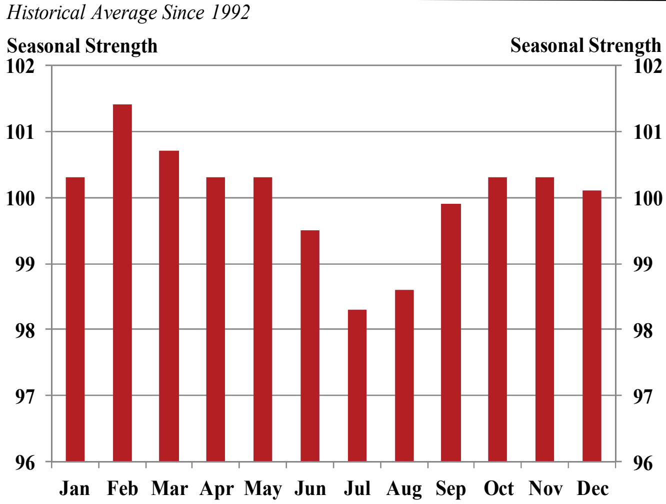
The price weakness observed over the course of June and the first half of July this year was precipitated by a strengthening of the U.S. dollar and a decline across the metals sector as fears of a trade war escalated. The price weakness was compounded by seasonal weakness in fabrication demand, investment demand and prices, and the breaking of prices below critical technical support levels.

While in the medium to long term a trade war should be negative for the dollar, in the shorter term the dollar is expected to strengthen due to the worsening global economic conditions exacerbated by a gathering trade war. The long-term implications for the U.S. dollar and the future of international currency regimes is that the trade wars will contribute to and accelerate the deterioration of respect for the U.S. government, and consequently the dollar. There already was a move away from the dollar and Treasuries around the world, which will weigh on the longer term value of the dollar. The potential for trade wars has added fuel to these impulses.

Shorter term, there should be expected to be a perverse strengthening of the dollar's exchange rate. The economic dislocations of bad U.S. foreign trade policy will shake financial markets' confidence around the world. The U.S. economy may survive its government's bad behavior better than its trade partners and allies will. As in past financial, economic, and political times of troubles, investors will turn to the dollar for protection. As a result the dollar may strengthen some in the months ahead and keep a lid on precious metals price appreciation.

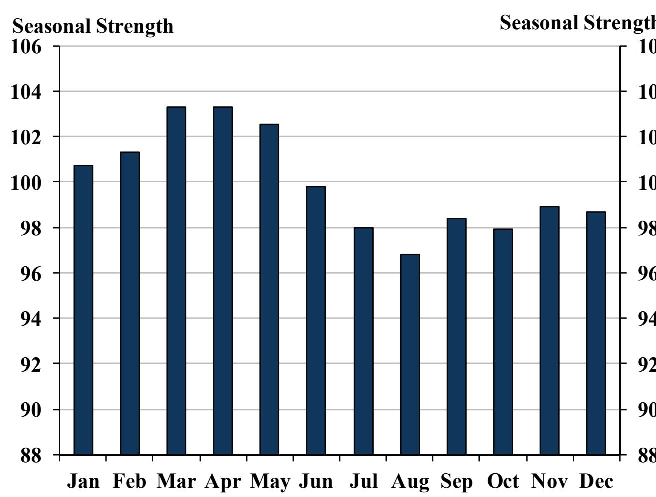
The potential for a trade war has also hurt the metals sector (precious and base metals) based on concerns regarding demand, which is likely to be driven lower by slower economic growth and higher inflation. While this think-

Monthly Gold Price Seasonality
Historical Average Since 1992



Note: data is adjusted to give greater weighteing to more recent data.

Monthly Silver Price Seasonality
Historical Average Since 1992



ing is true for industrial commodities, it is somewhat less relevant for gold, and to some degree silver, which are more financial assets than industrial commodities.

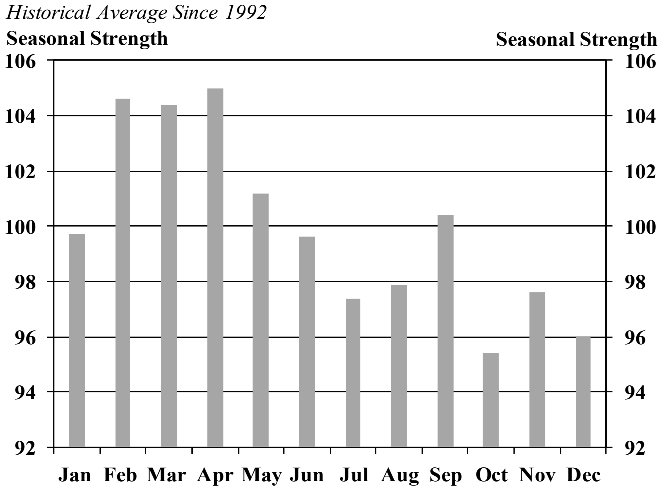
Over the next couple of months precious metals prices should be expected to remain weighed down by the various negative factors working against them ranging from seasonal weakness, strength in the dollar, and a broad decline in metals markets.

There clearly are a growing number of financial market participants who are increasingly concerned about a major world recession and the potential for a massive, i.e. 30% - 50%, drop in U.S. equity markets as the debt bombs begin to go off. However, very few investors at present are willing to leave the stock and bond market parties. No one wants to leave too early, especially in light of the fact that various mis-spoken Cassandras have inaccurately warned about such a financial implosion for most of the past eight years. However, more and more investors see such a crisis as inevitable, and growing closer in time. So, they are ready to run from equities when they see that it is time, but for now are not shifting from equities to gold, silver, and other portfolio diversifiers and wealth preservation media.

Beyond August the entire precious metals complex is likely to recover. Seasonal weakness typically ends in August with prices rising in September. The strength in the U.S. dollar, which is presently being driven by the potential for trade wars, should also be expected to ease as markets fully factor in this concern.

Monthly Platinum Price Seasonality

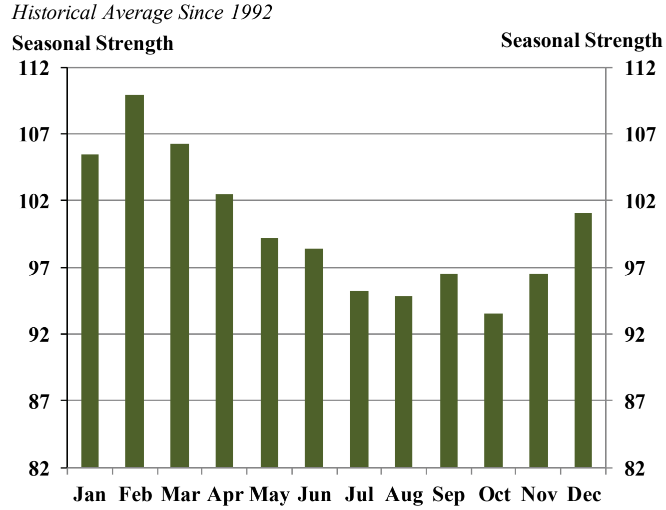
Historical Average Since 1992



Note: data is adjusted to give greater weighteing to more recent data.

Monthly Palladium Price Seasonality

Historical Average Since 1992



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CPM Group

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The other factor that could drive up the dollar is a fourth interest rate hike this year. The market is presently anticipating a third rate hike in September, with a less than 50% chance of a fourth hike in December. If the potential for trade wars rises, it will complicate the decision of the Fed which will have to balance the impact on rising inflation and slowing economic growth due to a trade war.

The intensity and duration of trade wars is unknown at this time and it is very likely that after a lot of noise prior to the midterm US elections, in November 2018, the push for trade wars will die out. The threat could potentially die out before the elections too, given that some of the trade related policies promise to hurt both Republican donors as well as Republican voters.

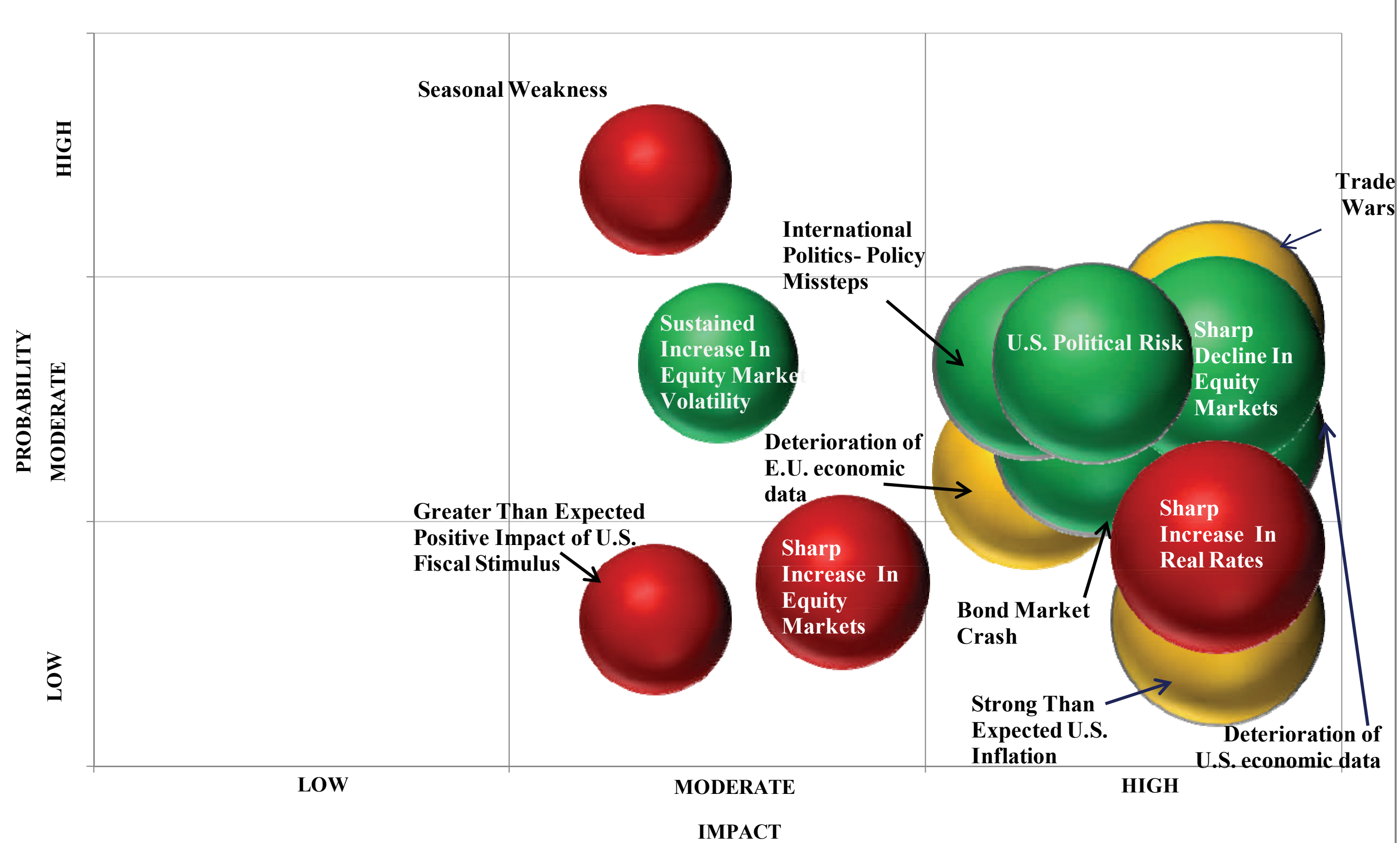
In addition to the seasonal and dollar related factors, gold should break away from the broad sell off in metals markets in response to the potential for global trade wars. If risks related to these threats persist, it should continue to weigh on metals heavily depended on industrial demand, but gold, and to some extent silver, will eventually benefit from the threat especially after the dollar stabilizes.

Risk Probabilities and Impact

CPM Group has developed a schematic (see below) to study the various risks pertinent to the gold market and to assess both their probabilities of occurring and their potential impact on gold prices. Risks that are positive for gold prices are shown in green while risks that are gold

Risks, Probabilities, and Impact Of Factors Affecting *U.S. Dollar Gold Price*

Time Frame: ***Next Six Months***



Note: Green bubbles depict factors that have a positive impact on gold prices. Red bubbles depict factors that have a negative impact on prices. Yellow bubbles depict factors that can have a negative followed by a positive, or vice versa, impact on prices.
The size of impact is based on the typical response of gold prices to the specific risk but also to the degree that the risk has already been factored into prices.

- U.S. political risk has been seperated from global political risk to emphasize the importance of U.S. mid-term elections in November 2018 and the ongoing Mueller investigation.
- CPM Group expects inflation (core PCE) to rise over the next two years averaging 2.0% in 2018 and 2.1% in 2019. This compares with an average of 1.5% in 2017. The yellow inflation bubble above is for inflation levels significantly higher than these expectations.

price negative are illustrated in red. Yellow bubbles depict factors that can have a negative followed by a positive, or vice versa, impact on prices. The size of impact is based on the typical historical response of gold prices to the specific risk but also to the degree that the risk has already been factored into prices. It should be noted that the positive or negative impact is based on U.S. dollar denominated gold prices and is forecast for a period of six months.

The key take-away from this graphic is that there are numerous gold price positive risks which are likely to have a strong impact on gold prices but which have a moderate to low probability of materializing over the course of the next six months. This should help gold prices recover post the current seasonally weak period, but should also prevent any meaningful breakout from the highs reached earlier this year. For gold prices to breakout forcefully these risks, at least some of them, need to move into the top right corner of the chart. The risks closest to this corner and with potential to move there over the next six months are risks associated with U.S. political risks, trade wards, and a sharp decline in global equity markets.

U.S. political risk is primarily focused on the U.S. midterm elections in November and the Muller investigation which could intensify if the Democrats take over the House. These issues should help drive up safe haven demand for gold and silver during the process.

Meanwhile, the U.S. equity markets continue to look stretched. Their lackluster response to the relatively healthy results for first quarter 2018 continue to strengthen the case of weakness in the medium term. If a similar pattern is seen during the release of the second quarter results, assuming results will be healthy, it will fortify the risks that the equity markets are nearing a sharp correction. For now, however, this remains a moderate probability risk.

Another risk which could quickly move into the high probability high impact section is the emergence of global trade wars. At this time it is the highest probability high impact risk. Its impact on gold is expected to be from negative to positive, primarily driven by the discussion in the previous section of this report.

Among the gold price negative risks, the highest probability risk is of a seasonal slowdown which is presently influencing prices. The largest price negative risk is a sharp increase in real rates. The probability of this risk is relatively low, however, as central banks appear to be trying to stay behind the inflation curve this time instead of try to get in front of it and risking derailing fragile economic growth.

Stronger than expected U.S. inflation has been assigned a yellow bubble. This risk has a low probability of occurring. That said, if it were to occur it would initially have a positive impact (as an inflation hedge) but would be followed by a negative impact as stronger than expected inflation would attract a rapid increase in interest rates.

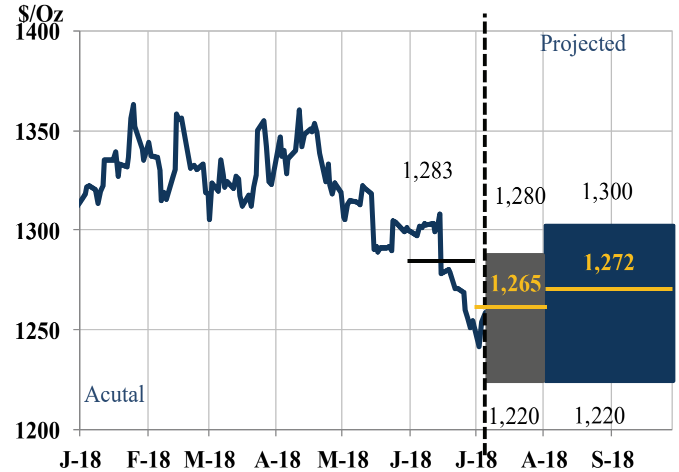
Gold Price Outlook

Gold prices should be expected to remain weak in the near term. While significant declines from present levels should not be expected, a test of $1,220 over the next two months cannot be ruled out now that prices have broken below $1,250 and market sentiments have grown more quixotic.

Prices should be expected to stay below $1,300 during the next two months, unless economic and political developments turn more overtly hostile to the dollar and U.S. stock market sooner than anticipated. It will take a return of seasonal demand and a shift in investor attitudes toward the economy, which may emerge over the final four months of 2018.

Recent gold price declines have shaken investor confidence giving back all of their gains for the year and to levels last seen in December 2017. A significant chunk of the value decline was lost during the second half of June. There continue to be numerous reasons to hold and add to one's gold positions. However, investors are unlikely to enter the gold market until they see gold prices being able to recover and sustain their gains. When they do gold prices may reasonably be expected to rise above $1,300. Further moves to much higher levels will only emerge as a broader base of investors resume aggressive buying.

Three-Month Gold Price Projections

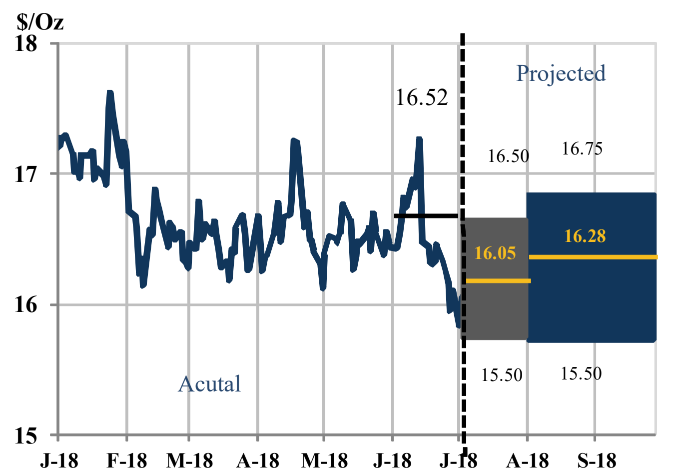


Silver Price Outlook

Silver prices are likely to remain soft in the near future. The downside for prices seems limited, however, with strong support for silver prices at the $15.70 level. Prices have recovered from this low level on several occasions in recent years. Silver would need to convincingly break below this support level for prices to continue declining.

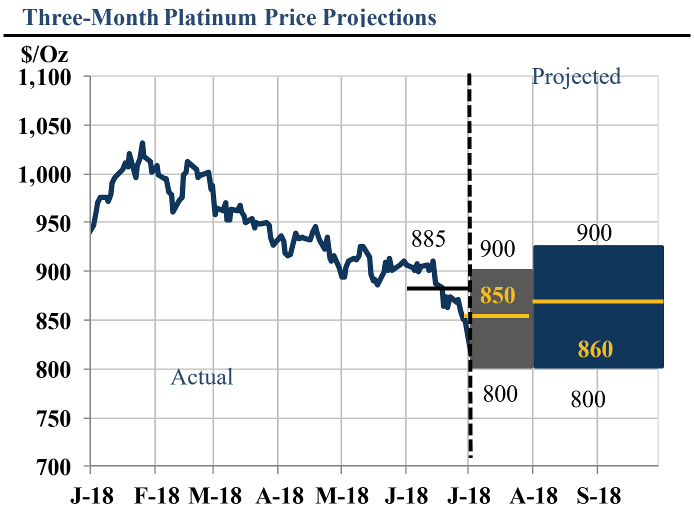
While such a scenario cannot be ruled out given the seasonal weakness in the market at this time, prices are not likely to decline significantly below this level or last for long if they do decline. The medium to longer term fundamentals of the market continue to remain supportive of stronger silver prices in the future and any break in silver prices to a multiyear low will be met by strong investor demand. The seasonal headwind to silver prices should lift by the end of August. While prices are not expected to shoot up sharply they could recover back to the $16.75 level by then.

Three-Month Silver Price Projections



Platinum Price Outlook

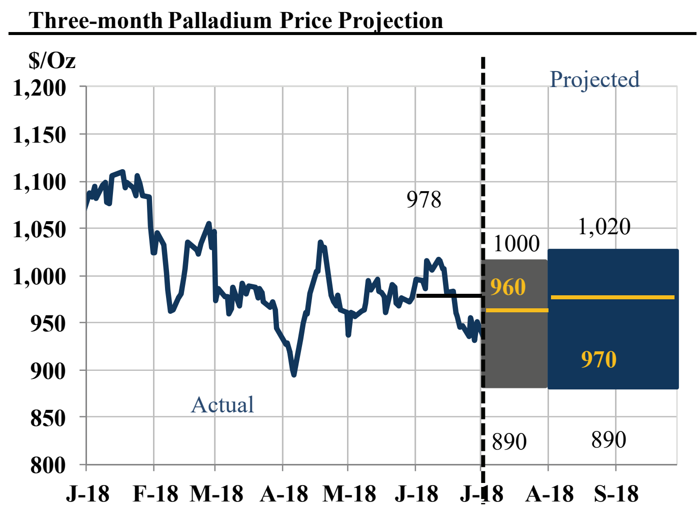
Platinum's longer term fundamentals remain supportive of higher prices, but its near-term fundamentals are weak. Coupled with seasonal headwinds these are expected to weigh on platinum prices in the near term. Prices are most likely to move sideways at current depressed levels through September. Platinum should be expected to move between $800 and $900 over the next couple of months.



The platinum market is oversold from a longer term perspective, which should limit the downside. Longer term investors may use the current weakness in prices as a buying opportunity. Prices are near their lows touched in late December 2015; on 3 July platinum touched levels last seen during the Great Recession. These prices are not sustainable and there is a higher probability of prices rising from present levels than there is for prices to decline.

Palladium Price Outlook

The presence of a backwardated market should prevent palladium prices from declining significantly from present levels. Prices could rise back toward a $1,000 if the market becomes excessively tight.



That said, fabrication demand for the metal typically tends to slow during the summer months as many factories are shut down for maintenance purposes. A reduction in fabrication demand could ease up the backwardation in the market and weigh on prices.

Furthermore, given the general weakness anticipated in the precious metals sector over the next couple of months, a decline in palladium prices toward $890 should not be ruled out. The probability of weakness in palladium prices over the next few months is higher than the likelihood of price gains. In the medium term, two factors that could weigh on palladium fabrication demand and as a result on palladium prices is a tighter than expected U.S. monetary policy and growing threat of a global trade war.