BONDS COMMENTARY
07/26/17

The bias is down but Yellen inflation views to dominate today

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
BONDS +50

While Treasury bonds are showing some higher action today they did forge a fresh lower low for the move initially and the gains early today might be short covering in nature. With global equity market sentiment overnight positive again, a series of favorable earnings reports released overnight and the looming threat of the Fed later today it is difficult to take control away from the bear camp. In fact somewhat positive international economic data flows overnight should add to the upbeat psychology into what is expected to be another wave of positive US earnings this morning. It is possible that a very active flow of favorable corporate earnings results this week has taken the place of classic scheduled data information. Another issue expected to impact Treasury prices today is the auction of $30 billion in five-year notes and the sale of 15 billion in two-year floating rate notes. News that might be lending some additional support to US Treasuries is the fact that the GOP failed to get the 60 votes needed for approval of the effort to replace Obamacare. In fact only 43 votes were posted for the new package and that clearly tempers the idea that a passage is imminent. Early today the market will see MBA mortgage applications and mortgage market index figures from the US. The North American trading session will also bring US new home sales which are expected to show a minimal improvement. Canada will also release its budget balance and most importantly the trade will be presented with the US Fed policy decision, the Fed funds target rate, inflation status and the Fed’s view of the overall direction of the US economy. To a certain degree prices have already factored in the standard Fed claims of ongoing growth and low inflation with the potential swing point today coming from the timing of the removal of some of the Fed’s excessively large balance sheet.
**TODAY’S MARKET IDEAS:**
While it seems as if a major psychological improvement in sentiment has taken place already a continuation of the risk on/selling of Treasuries clearly requires getting beyond the healthcare reform barrier quickly and towards pro-growth legislation. Unfortunately the scheduled US data today early on does not look to be a catalyst for major swings in prices but the overall bias does look to remain down. Initial support to start today is seen at 152-15 in September Bonds and 125-16 in September Notes. However we can’t help but think this afternoon will be a major watershed junction for the Treasury markets. In order to avert a September bonds slide down to 151-18 in the coming sessions probably requires evidence of ongoing deflation concerns from the Fed as that would mean the Fed might be less inclined to think deflation was a transitory situation.

**NEW RECOMMENDATIONS:**
None.

**PREVIOUS RECOMMENDATIONS:**
Long Dec Bond 149 put from 1-15. Risk the option to a close below 40 and use an objective on the position of 3-11.

**BONDS TECHNICAL OUTLOOK:**
Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

**BONDS (SEP) 07/26/2017:** The close under the 60-day moving average indicates the longer-term trend could be turning down. Momentum studies are rising from mid-range, which could accelerate a move higher if resistance levels are penetrated. The close below the 18-day moving average is an indication the intermediate-term trend has turned down. The market is in a bearish position with the close below the 2nd swing support number. The next upside target is 154-260. The next area of resistance is around 153-170 and 154-260, while 1st support hits today at 151-250 and below there at 151-090.

**10 YR TREASURY NOTES (SEP) 07/26/2017:** The close below the 60-day moving average is an indication the longer-term trend has turned down. Momentum studies are trending higher from mid-range, which should support a move higher if resistance levels are penetrated. The market back below the 18-day moving average suggests the intermediate-term trend could be turning down. The close below the 2nd swing support number puts the market on the defensive. The next upside objective is 126-125. The next area of resistance is around 125-290 and 126-125, while 1st support hits today at 125-075 and below there at 125-010.

**STOCKS COMMENTARY**
**07/26/17**

The trend remains up but the Fed might cause a temporary knee-jerk reaction

**OVERNIGHT CHANGES THROUGH 6:05 AM (CT):**
S&P 500 +220

Global equity markets were higher overnight with the exception the CSI 300. US markets start the Wednesday trading session just under the prior highs and in some cases just below the latest all-time highs. In looking at the corporate earnings wire over the last 24 hours there are a number of positive readings that should serve to underpin investor sentiment going forward. Even a major health insurer showed a profit beat while the largest US homebuilder also beat analyst expectations on strong home sales. Even the travel sector weighed in with positive results as Hilton had and earnings beat and Alaska air saw its profits rise by almost 14%. While the Fed decision and statement later today will dominate the trade in the second half of the session today the earnings bias clearly favors the bull camp. Corporate earnings of note later today include Anheuser-Busch in Bev, Coca-Cola, BASF, Baxter international, Corning, and Federal signal before the opening. Suncor energy, Norfolk Southern Corp, and
Gilead sciences Inc. will report after the NYSE close.

**S&P 500:** Uptrend channel support in the September E-mini S&P today comes in at 2468.00 and logical resistance is seen early on at 2478.75 which is the old high. However seeing generally positive action in the early going today is impressive considering that the initial vote on a new healthcare package failed to pass as that issue seemed to be a primary driving force on Monday and Tuesday. While one can't rule out a corrective setback in the E-mini S&P through the Fed window today we doubt the Fed will have a lasting negative impact on stock prices.

**Other US Indexes:** Uptrend channel support in the September mini Dow this morning comes in at 21,492 and resistance is the high from the prior trading session at 21,640. As in other sectors of the market a brisk flow of earnings beats and favorable sales evidence should leave the bullish July bias in place through the morning trade. However one would be remiss in thinking the markets will avoid some temporary volatility right into the Fed decision and statement this afternoon. Our pick for a temporary spike down is 21,444 before the market manages to right the ship. While the NASDAQ has been presented with periodic negative tech-sector concerns this week, the pattern on the Mini-NASDAQ charts remains positive into the action this morning. Uptrend channel support in the September E-mini NASDAQ is seen at 5902.20 and resistance sits at the July 24th high of 5954.75.

**TODAY’S MARKET IDEAS:**
There would seem to be no reason to take control away from the bull camp this morning as the pattern of corporate earnings has been very positive and that flow will be active again before the opening. US scheduled data it doesn't look to be a major impact on stock prices but some longs might decide to tighten profit stops and or simply take profits ahead of this afternoon's potential volatility window.

**NEW RECOMMENDATIONS:**
None.

**PREVIOUS RECOMMENDATIONS:**
None.

**STOCKS TECHNICAL OUTLOOK:**
Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

**S&P E-MINI (SEP) 07/26/2017:** A new contract high was made on the rally. Momentum studies are trending higher but have entered overbought levels. The market's close above the 9-day moving average suggests the short-term trend remains positive. The market has a bullish tilt coming into today's trade with the close above the 2nd swing resistance. The near-term upside objective is at 2486.00. The 9-day RSI over 70 indicates the market is approaching overbought levels. The next area of resistance is around 2486.00 and below there at 2461.00.

**MINI-DOW (SEP) 07/26/2017:** The market made a new contract high on the rally. Rising stochastics at overbought levels is a bearish indicator and would tend to reinforce lower price action. A positive signal for trend short-term was given on a close over the 9-bar moving average. With the close over the 1st swing resistance number, the market is in a moderately positive position. The next downside target is now at 21402. The next area of resistance is around 21638 and 21718, while 1st support hits today at 21480 and below there at 21402.

**E-MINI NASDAQ (SEP) 07/26/2017:** Daily stochastics have risen into overbought territory which will tend to support reversal action if it occurs. The close above the 9-day moving average is a positive short-term indicator for trend. With the close higher than the pivot swing number, the market is in a slightly bullish posture. The near-term upside objective is at 5962.87. The market is becoming somewhat overbought now that the RSI is over 70. The next area of resistance is around 5949.00 and 5962.87, while 1st support hits today at 5918.50 and below there at 5901.88.

**MINI-RUSSELL 2000 (SEP) 07/26/2017:** The market rallied to a new contract high. Rising stochastics at
overbought levels warrant some caution for bulls. The market's close above the 9-day moving average suggests the short-term trend remains positive. Since the close was above the 2nd swing resistance number, the market's posture is bullish and could see more upside follow-through early in the session. The next upside target is 1463.8. The next area of resistance is around 1458.7 and 1463.8, while 1st support hits today at 1442.1 and below there at 1430.6.

**DAILY TECHNICAL STATISTICS**

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<th></th>
<th>9 DAY RSI</th>
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<th>14 DAY SLOW STOCH D</th>
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Calculations based on previous session. Data collected 07/25/2017
Data sources can & do produce bad ticks. Verify before use.

**DAILY SWING STATISTICS**

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**CURRENCIES COMMENTARY**

*07/26/17*

Expect two sided volatility today but no trend changes

**OVERNIGHT CHANGES THROUGH 6:05 AM (CT):**

US DOLLAR +35, YEN +95, SWISS -76, CA DOLLAR +30

**Upcoming International Reports (all times CT)**

- *07/26* 2-Yr note Auction
- *07/26* 5-Yr note Auction
- *07/26* FOMC Meeting
- *07/26* France Consumer Confidence 1:45 AM
- *07/26* Swiss ZEW Investor Sentiment 3:00 AM
- *07/26* New Home Sales 9:00 AM
- *07/26* EIA Energy Stocks 9:30 AM
- *07/27* 7-Yr note Auction
- *07/27* German GfK Consumer Confidence 1:00 AM
- *07/27* Adv Durable Goods 7:30 AM
- *07/27* Initial Jobless Claims 7:30 AM
**DOLLAR:** While the dollar posted a fresh three day high overnight and remains in positive territory to start today there would appear to be some measure of a hawkish Fed result factored into prices. However given the aggressive short and long term oversold condition of the dollar traders should not underestimate the potential magnitude of a short covering reaction to hawkish Fed mumblings. In our opinion the market will see the Fed talk out of both sides of its mouth suggesting that the economy continues to recover and that rates will eventually have to rise further but they might also dredge up the concern over soft inflation condition. Therefore the major swing focus of the Fed meeting today might be the Fed's handling of its concern or lack of concern over inflation. In our opinion it will only take a mere reference toward ongoing inflation concerns for the downtrend in the dollar to resume straightaway. However short covering into the meeting might allow for a bounce to the first retracement point of the July slide up at 94.52. Another key recovery targeting potential is seen at 94.60 which is the top of the downtrend channel pattern in place since mid-June.

**EURO:** Fortunately for the bull camp in the euro Italian manufacturing business confidence and Italian consumer confidence improved overnight as the market has recently settled into a mild corrective pattern. We suspect that the euro will see ongoing pressure ahead of the US Fed window and that a major pivot point will be seen today in the wake of the statement release. While we doubt the euro will see a full corrective dip to uptrend channel support of 1.1595 the market is short-term overbought because of the prior four days action. At least for the coming six hours of trade the bias in the euro currency looks to remain down. Traders might consider going with a breakout system today defined as 1.1715 on the upside and 1.1600 on the downside.

**YEN:** As in other non-dollar currencies recently the Yen was technically and perhaps fundamentally overbought into this week's highs. With a general risk-on mentality back in the headlines periodically this week further safe haven selling of the Yen is likely. However to extend the current slide straightaway probably requires upbeat Fed economic expectations and or renewed hope for a passage of US healthcare reform. The initial bias in the Yen is down but healthcare might be the ultimate deciding factor for the Yen trend.

**SWISS:** While the Swiss is obviously under liquidation pressure as a result of the recent recovery in the dollar and ongoing strong sentiment toward the euro, the magnitude of the damage on the charts should not be discounted. Cushioning the Swiss against a return to downtrend channel support of 1.0415 is the fact that Swiss investor psychology jumped higher and reached the highest level in three years overnight.

**POUND:** While the Pound is showing minimal positive action to start today UK preliminary GDP readings for the second quarter were somewhat disappointing. The quarter over quarter UK GDP reading was unchanged while the year-over-year reading was weaker. Furthermore UK mortgage approvals contracted slightly and therefore the Pound bulls will have to rely on further weakness in the dollar to claw back toward the top of the last two week's trading range. As in other currencies traders might employ an afternoon breakout system with a buy in the event of a rally above 1.1310 and a sell signal with a slide below 1.2975.

**CANADIAN DOLLAR:** Technically the September Canadian dollar managed a fresh upside breakout yesterday (by one tick) but the currency still maintains a very uniform uptrend pattern on its charts. While the trade might temporarily take direction from the Canadian budget balance and from the year to date budget information, the Canadian will probably mark time ahead of the Fed result. Uptrend channel support in September Canadian comes in at 79.72 and initial resistance is at the prior high of 80.18.

**TODAY'S MARKET IDEAS:**
We can't rule out a short covering extension in the Dollar before another top unfolds. However, given the oversold nature of the Dollar one should not underestimate the magnitude of the short covering bounce

**NEW RECOMMENDATIONS:**
None.
PREVIOUS RECOMMENDATIONS:
1) Long September Dollar 95.00 calls at 54. Look for an objective of 165 and risk the trade to 29.

CURRENCIES TECHNICAL OUTLOOK:
Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

US DOLLAR (SEP) 07/26/2017: The sell-off took the market to a new contract low. A bullish signal was given with an upside crossover of the daily stochastics. Daily stochastics are showing positive momentum from oversold levels, which should reinforce a move higher if near term resistance is taken out. The market's short-term trend is negative as the close remains below the 9-day moving average. The upside daily closing price reversal gives the market a bullish tilt. It is a mildly bullish indicator that the market closed over the pivot swing number. The near-term upside target is at 94.28. Some caution in pressing the downside is warranted with the RSI under 30. The next area of resistance is around 94.16 and 94.28, while 1st support hits today at 93.69 and below there at 93.34.

EURO (SEP) 07/26/2017: The daily stochastics have crossed over down which is a bearish indication. Momentum studies are trending lower from high levels which should accelerate a move lower on a break below the 1st swing support. The market's close above the 9-day moving average suggests the short-term trend remains positive. The market's close below the pivot swing number is a mildly negative setup. The next downside objective is 116.1038. The market is approaching overbought levels with an RSI over 70. The next area of resistance is around 117.1925 and 117.7337, while 1st support hits today at 116.3775 and below there at 116.1038.

JAPANESE YEN (SEP) 07/26/2017: The close under the 60-day moving average indicates the longer-term trend could be turning down. Daily stochastics have risen into overbought territory which will tend to support reversal action if it occurs. The close above the 9-day moving average is a positive short-term indicator for trend. The defensive setup, with the close under the 2nd swing support, could cause some early weakness. The next upside objective is 90.68. The next area of resistance is around 90.03 and 90.68, while 1st support hits today at 89.13 and below there at 88.89.

SWISS (SEP) 07/26/2017: Studies are showing positive momentum but are now in overbought territory, so some caution is warranted. The market's close above the 9-day moving average suggests the short-term trend remains positive. The close below the 2nd swing support number puts the market on the defensive. The next upside target is 106.32. The next area of resistance is around 105.76 and 106.32, while 1st support hits today at 105.00 and below there at 104.81.

DAILY TECHNICAL STATISTICS

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The bears camp resumes control in gold and silver

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
GOLD  -5.10, SILVER  -15.70, PLATINUM  -5.10

OUTSIDE MARKET DEVELOPMENTS: Global equity markets were higher overnight with the exception the CSI 300. The Asian session today saw industrial production and manufacturing results from Singapore that came in stronger than expected and that fits with the broad based risk-on mentality in place to start the Wednesday US trade. Overnight the markets were also presented with soft French business confidence readings, Italian manufacturing business confidence results that improved slightly and Italian consumer confidence readings that also improved slightly. The markets also saw second quarter preliminary GDP readings from the UK that showed slightly weaker results. The UK also presented mortgage approvals for the month of June which came in a touch weaker than the prior month. Early today the market will see MBA mortgage applications and mortgage market index figures from the US. The North American trading session will also bring US new home sales which are expected to show a minimal improvement. Canada will also release its budget balance and most importantly the trade will be presented with the US Fed policy decision, Fed funds target rate, inflation status and the Fed's view of the status of the US economy. Corporate earnings of note later today include Anheuser-Busch in Bev, Coca-Cola, BASF, Baxter international, Corning, and federal signal before the opening. Suncor energy, Norfolk Southern Corp, and Gilead sciences Inc. will report after the NYSE close.

GOLD / SILVER
Early this week the gold market seemed to have a number of bullish forces operating in its favor but those forces have been countervailed by a definitive return to a risk-on environment. In fact with a recovery in the dollar extending today, noted improvement in global economic psychology and weakness in other safe haven instruments it is clear that the paradigm in gold has shifted away from the bullish environment that has dominated the metal for the last three weeks. Furthermore the bull camp in gold should understand that a number of bullish items in gold are effectively chained together and progression on US healthcare reform could mean a shift in one, two or all of the bullish factors at the same time. In fact the last 24 hours has clearly presented less economic uncertainty ahead and a firming dollar which has already turned up the liquidation heat. Other elements serving to reverse sentiment toward gold is news of an increase in Newmont gold production yesterday and a lengthening of daily declines in gold derivative holdings. Another major issue that gold bulls will have to encounter today is the decision and statement from the US Federal Reserve with respect to rates, timing of the removal of balance sheet assets and the Fed economic forecast. If the Fed hints at ongoing growth and the eventual need to hike rates that could give the dollar an added lift and increase outside market selling pressure on gold even further. Given the divergent action between gold and the rest of the metals complex yesterday it is clear that gold is tracking negative safe haven themes but the rest of the metals markets have not benefited from better demand views as might have been possible. It should be noted that the net spec and fund long in silver was relatively smaller than gold and therefore silver might face less long liquidation pressure than the gold market today. Those that want to get long silver futures should consider the purchase of October gold $1,235 puts as a way to protect the silver position and to play for the possible eventual divergence between the two markets ahead. We also think the purchase of gold puts outright is warranted.
PLATINUM
With palladium significantly outperforming platinum in the prior trading session and a widespread improvement in macroeconomic psychology it would appear as if the long palladium short platinum spread play is back in vogue. In other words when traders are upbeat toward classic physical demand money pours into palladium and is hedged through the sale of platinum. However it is possible that platinum is being held back by news of increased production from Anglo-American platinum in their second quarter but it also appears as if strength in the Dollar and overt weakness in gold is serving to undermine the entire PGM complex. At least in the short term the PGM complex could see its fortunes tied to the action in the gold markets and therefore we also detect a slight corrective bias to start as sentiment toward all precious metals deteriorates.

TODAY’S MARKET IDEAS:
As indicated already we expect to see ongoing divergence between gold and silver in the coming days but we also expect prices to work lower today. In fact we expect gold to remain under a liquidation threat with the silver market attempting to attach itself to positive physical commodity market fundamentals. With the added threat of hawkish US Federal Reserve dialogue later today traders should be aware of the potential for a noted washout in both gold and silver prices into the early afternoon action. A normal retracement of the July low to high rally could give a gold target of $1237.90 or more likely an even deeper correction down to $1231.50. With the September silver contract rejecting a huge range down washout and closing higher in the prior trading session it might be able to stand up somewhat to strength in the Dollar and spillover selling from gold but the bull camp probably doesn't have the capacity to come away from the next two sessions without some damage on its charts.

NEW RECOMMENDATIONS:
Buy October gold $1,235 puts for 1450 or better. Use an objective of 2700. Risk the position to 1100.

PREVIOUS RECOMMENDATIONS:
None.

COPPER COMMENTARY
07/26/17
The rush to factor in improving demand is out of control

GENERAL: While the sharp range up extension in the copper market in the prior trading session was surprising, seeing yet another range up spike overnight was even more surprising. Certainly demand prospects have improved with favorable data from China, broad-based risk on sentiment throughout the markets and fund related buying off big picture macroeconomic analysis, but a two day rally of 17 cents on top of a low to high monthly rally of 27 cents puts the market at an extensively overbought condition. As indicated in the coverage early Tuesday a developing battle between the Philippine President and the Philippine metals industry does interject yet another supply-side threat into the equation but one does get the feeling that improving macro-economic sentiment was the primary force prompting a definitive paradigm shift in favor of the bull camp this week. While there have been several strikes averted, several strikes have been carried out temporarily and other strikes are feared ahead and that leaves physical supply generally threatened going forward. The market it is also embracing the idea that cumulative 2017 global copper production is and will continue to run behind and will not fully catch up!

MARKET IDEAS:
While it is difficult to argue against some follow-through buying in copper in the wake of the nearly historic range up move over the last 24 hours we are a little uncomfortable with the breadth and volume of bullish sentiment swirling in the marketplace. Granted a definitive shift back into a more optimistic global economic condition is justification to revise both crude oil and copper demand projections higher but euphoria must translate into reality quickly and with copper prices already sitting $0.42 or 17% above the May lows a huge measure of bullish demand and supply has been already factored into prices. On the other hand if the US manages to get beyond healthcare reform and proceeds toward Pro-growth policy initiatives that could allow copper to extend the run up to the weekly high back in May 2015 at $2.9375.
NEW RECOMMENDATIONS:
None.

PREVIOUS RECOMMENDATIONS:
None.

METALS TECHNICAL OUTLOOK:
Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

COMEX GOLD (DEC) 07/26/2017: The major trend has turned down with the cross over back below the 40-day moving average. Rising stochastics at overbought levels warrant some caution for bulls. The market's short-term trend is positive on the close above the 9-day moving average. The swing indicator gave a moderately negative reading with the close below the 1st support number. The near-term upside target is at 1267.1. The next area of resistance is around 1260.9 and 1267.1, while 1st support hits today at 1251.9 and below there at 1249.0.

COMEX SILVER (SEP) 07/26/2017: Momentum studies are trending higher but have entered overbought levels. The market's close above the 9-day moving average suggests the short-term trend remains positive. The upside closing price reversal on the daily chart is somewhat bullish. The close over the pivot swing is a somewhat positive setup. The near-term upside objective is at 16.825. The next area of resistance is around 16.665 and 16.825, while 1st support hits today at 16.285 and below there at 16.065.

COMEX PLATINUM (OCT) 07/26/2017: The close under the 60-day moving average indicates the longer-term trend could be turning down. Momentum studies are trending higher but have entered overbought levels. A positive signal for trend short-term was given on a close over the 9-bar moving average. The market's close below the pivot swing number is a mildly negative setup. The near-term upside objective is at 944.32. The next area of resistance is around 936.55 and 944.32, while 1st support hits today at 923.25 and below there at 917.73.

COMEX COPPER (SEP) 07/26/2017: Rising stochastics at overbought levels warrant some caution for bulls. The close above the 9-day moving average is a positive short-term indicator for trend. Since the close was above the 2nd swing resistance number, the market's posture is bullish and could see more upside follow-through early in the session. The next upside target is 2.93. The 9-day RSI over 70 indicates the market is approaching overbought levels. The next area of resistance is around 2.90 and 2.93, while 1st support hits today at 2.79 and below there at 2.70.

DAILY TECHNICAL STATISTICS

DAILY SWING STATISTICS

Calculations based on previous session. Data collected 07/25/2017
Data sources can & do produce bad ticks. Verify before use.
<table>
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<th>Symbol</th>
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Calculations based on previous session. Data collected 07/25/2017
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