MKS PAMP GROUP

Daily Asia Wrap - 11th March 2020

Range Asian Hours (from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1649.50/90	16.88/90	872/75	2409/19
HIGH	1659.80/20	17.10/12	878/81	2433/43
LOW	1649.40/80	16.87/89	870/73	2403/13
LAST	1656.80/20	17.08/10	877/79	2406/16

MARKETS/MACRO

European markets weakened overnight on concerns about the ongoing spread of COVID-19. Italy now has 10,149 confirmed cases and is in a nationwide lockdown, with a recession in the wider EU economy now looking probable. China has now closed the 14 hospitals it opened to cope with COVID-19 and President Xi's visit to Wuhan is viewed as a sign that containment measures are working. Meanwhile, US markets responded positively to an expected announcement from the White House on fiscal stimulus. The Dow rallied back +4.89% (+1,167.14 pts) yesterday, recouping half the losses from the previous sessions bloodbath. The S&P500 advanced +4.94% (+135.67 pts) to 2,882.23 and the NASDAQ Composite rallied +4.95% (+393.58 pts) to 8,344.254. European equities continued to wane with the DAX shedding -1.41%, the CAC40 down -1.51%, the FTSE100 flattish at -0.09% and the Euro Stoxx 600 sliding -1.14%. The crude oil price rebounded, recouping some of the losses of Monday, following the breakdown of the OPEC+ alliance. Investors were somewhat buoyed by the news that US tax cuts may shield the commodity markets from loss of demand which saw the crude jump from $30.37 to $34.85 a barrel (+14.7%). The rally remains on shaky ground however, Saudi Arabia and Russia setting the scene for a lengthy battle for market share. Saudi Arabia warned that it would boost output by 25%, saying it can reach 12.3mb/d next month. This was quickly followed by Russia, who said it can increase production by 500kb/d to a record 11.8mb/d. Elsewhere, US treasury yields pushed higher after a dramatic fall to all time lows over the past few sessions, running up to 0.8% u from Monday's close of 0.54%.

Expectations of a co-ordinated fiscal response to an economic slowdown conducted at a national level in the US and Europe are rising. Post-GFC, the EU implemented an economic recovery plan which cost EUR200bn or 1.5% of GDP and markets were speculating yesterday a similar plan may have been discussed on an emergency call between leaders. The US has advised it is considering cutting payroll taxes for 90 days as well as looking at ways to support businesses, such as loan packages. Italy is planning on suspending debt repayments to assist families and businesses and previously announced a EUR $7.5bn package. Spain has created a EUR $20bn special line of credit for small businesses. Germany is reported to be considering removing the banking sector's capital buffer to boost liquidity and available credit. The UK is expected to announce a range of measures in its budget announcement later this week and the BoE may cut rates at the same time. In Australia, the federal government is set to announce an estimated AUD $2.4bn health package today as part of a broader stimulus package to support the economy.

On the data front, US NFIB small business confidence index surprised by increasing to 104.5 in February, up slightly from January, and well above expectations. However, nearly all survey responses were received before the recent Fed cut and before the escalation of US coronavirus cases. Meanwhile, GDP in the euro area grew by +0.1% q/q in Q4, which was aligned with previous estimations. Consumer and government spending eased and a recession occurring in the EU this year now looks likely.

PRECIOUS

The risk on across markets saw the precious metals sector suffer yesterday. Gold opened around $1679 in Asia and immediately touched $1680 before equity gains across Asia, higher US E-Mini futures and USD strength crimped demand. Gold fell steadily before Shanghai opened for business trading as low as $1662 before recovering. Metals remained volatile throughout the Asia day, gold tracking a $1665-70 range throughout the afternoon, with the onshore SGE premium going into deep discount at around -$10.00 to -$15.00/oz through lack of physical demand and inability to ship. The gold was sold aggressively when Europeans began to man their desks, dropping ~$10 to just shy of $1650 but holding there for the time being. We moved higher throughout London with real money and spec accounts on the bid and pushing us back through $1660. The dollar surged once NY opened and gold was whacked again bottoming out just above $1650 for a second time. Later in the session however, $1650 broke and stops were triggered down to a low of $1642.10 – then closing at $1649.50. What was interesting is that ETF's continue to accumulate gold on this dip, jumping 47 tons on Friday and Monday, the largest 2-day accruel since July 2016. We expect this to continue given the current economic outlook, CB easing and panic surrounding COVID-19, with investors looking to park money in 'safe' assets. Silver after initially falling yesterday, strengthened following the Chinese open and tracked higher into the NY open ($17.20 peak). As US equities rallied and the dollar strengthened silver fell in line with gold to $16.81 and closing at $16.89. Platinum looked to be making headwind steadily throughout the day although was thumped by NYK traders and closed up marginally on the day at $873 (+1.0%).

Nervous markets persisted this morning with risk on the back foot. Asian equity markets were quick to do an about face after the open, which kicked gold and silver higher from the on-set. Metals markets have seem a little quieter today however in terms of flows when compared to Monday/Tuesday, with gold and silver both in the positive at $1657 and $17.08 as I write. The SGE remains in steep discount, with onshore gold tracking at -$15 to -$12 per oz under the loco London price, with Chinese physical demand in disarray. Even silver has taken a hit the premium slipping back to +$1.11-1.15 over spot, with some traders still looking to buy dips. Palladium continues to trade around its 200 dma ($2418), with analysts no doubt looking for a break from here one way or the other. Pd remains incredibly volatile and very brutal to trade, with wide spreads and sharp moves on miniscule volumes. Best of luck.
