MKS PAMP GROUP

Daily Asia Wrap - 17th September 2020

Range Asian Hours (from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1959.80/20	27.14/17	970/80	2379/19
HIGH	1960.50/00	27.19/22	970/80	2380/20
LOW	1937.90/40	26.70/73	935/45	2337/77
LAST	1944.80/30	26.86/89	944/54	2355/95

MARKETS/MACRO

As broadly expected, the Fed reinforced that policy will remain super accommodative, with updated forward guidance saying it would keep rates at close to zero until maximum sustainable employment is achieved and inflation has reached 2% and is on track for a moderate overshoot. Based on the Fed's forecasts, that suggests no rate rises for at least three years, consistent with the updated dot plots. The language on inflation has changed to reflect the new average inflation target: "The Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent". Interestingly, there were two dissents that is arguably hawkish: Kaplan did not want to make forward guidance as conditional, preferring more flexibility. Kashkari preferred to condition forward guidance on 2% core inflation "on a sustained basis," which seems to push back against the inflation overshoot paradigm. Guidance on QE remained unchanged – with Citi research predicting that "In December the Fed may slow MBS purchases and increase Treasury purchases or extend their average duration".

Following the FOMC, equities were mixed, the USD was a little softer initially and US long-end yields increased modestly while the short end dipped. For equities the S&P500 closed the session out down

-0.46% to 3,385.49, the Nasdaq back-peddled -1.25% to 11,050.47, while the Dow clung to positive territory up +0.13% on the day to 28,032.38. In Europe it was a similar situation, the DAX climbing +0.29% to 13,255.37, the CAC40 gaining +013% to 5,074.42, the Euro Stoxx 600 advancing +0.58% to 373.13, while the FTSE100 fell -0.44% to 6,078.48. The dollar, after a brief dip following the FOMC, ultimately has strengthened against the majority of its G10 peers and has continued that trend into Asia, with EURUSD breaking through uptrend support and trading down to 1.1765 (as I write). USDJPY has pushed up through 105.00 and GBPUSD has fallen toward 1.2915. Treasuries yields were mixed the front end slightly softer down -0.2 bps to 0.137%, while the 10y yield firmed +2.5 bps to 0.697%.

Elsewhere on the data front, August US retail sales disappointed rising +0.6% m/m (+1.0% expected), with a material downward revision to the previous month. The control group (which feeds into GDP) fell -0.1% m/m, adding to concerns that the economy may be losing momentum into Q4. It suggests consumption has been affected by the end of the supplementary USD $600 weekly unemployment support and the rise in COVID-19 cases. On the whole, the data argues for additional fiscal support and signifies risks to the recovery as H2 progresses, especially given that employment has been slowing. By contrast, homebuilder confidence rose to a record high, supported by low interest rates.

PRECIOUS

Gold inched higher after the Fed signalled rates would remain near zero for at least three years. The FOMC expects to maintain an accommodative stance of monetary policy until it achieves inflation moderately above 2% over some time. However, the vagueness of the terms “moderate” and “some time” disappointed investors, who were looking for more definite targets, despite being comforted by the knowledge that rates will stay at zero for the foreseeable future. Some of lustre for gold has dulled in recent days as forecasters revise up economic growth numbers. The latest was the OECD, which said the economic slump won’t be as sharp as previously feared. It revised its forecast fall in global economic growth to 4.5% this year, down from 6% it made in June. The yellow metal slowly meandered higher throughout the Asia and European sessions yesterday, capping out at around $1972-73 for a second consecutive day before NYK traders took it lower. There was a bit of knee-jerk following the FOMC, ultimately though the yellow metal could not hold above $1960, closing at $1959. Silver traded similarly, testing $27.40 on 4 occasions throughout the day yet running out of steam on each occasion. There was a brief stop loss run below $27.00 in the hour after the FOMC, yet the metal managed to claw back to $27.17 at the close.

The metals opened reasonably quietly in Asia this morning, with light flows seen through both gold and silver. Both metals trading sideways for the opening few hours around $1960 and $27.17 respectively. As the morning wore on and Tokyo and China traders manned their desks, the dollar began to rise sharply. EURUSD broke through key uptrend support and saw some heavy stops go through falling down toward 1.1750 and it was a similar story for GBPUSD and AUDUSD. Gold and silver quickly capitulated also, gold falling sharply from $1959 down to $1942.50 over the course of 30 minutes. The yellow metal held its ground then between $1945-49 for a period, but a second wave of selling prompted stops on the break of $1940 down to a daily low of $1938.40. It was a similar scenario for silver, which crashed through $26.95 and traded sharply down to $26.80. The second wave of the sell-off the metal touched a low of $27.73. Both metals have recovered slightly from the lows as I write. Have a good day ahead.