



MKS PAMP
GROUP

Daily Asia Wrap - 28th August 2020



Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1928.60/9.60	26.98/02	921/31	2165/85
HIGH	1948.40/9.40	27.42/46	931/41	2191/11
LOW	1923.00/4.00	26.82/86	915/25	2156/76
LAST	1944.10/5.10	27.29/33	930/40	2179/99

MARKETS/MACRO

As anticipated, the Fed moved to an average 2% inflation target, stating that “following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.” The new guidance also implies that it will deliberately undershoot following a period of ‘too-high’ inflation. Long-run inflation expectations, as captured by TIPS break-evens, lifted slightly on the news, continuing the trend of the last two months. That’s exactly what the Fed is trying to achieve and, in such a weak economic environment, getting inflation sustainably up to target won’t be easy. There was nothing in Powell’s statement that was decisively dovish. Instead the reference to “The revisions to our statement add up to a robust updating of our monetary policy framework. To an extent, these revisions reflect the way we have been conducting policy in recent years” – suggests that the framework change is just formally codifying how the Fed has already been exercising monetary policy. The market reaction was fairly whippy - we saw dollars sell off aggressively and rates get bid immediately following the release of the speech though the retracement was just as fierce – with the 10yr trading up to 78bps this

morning from 65 at the lows last night. Similarly we saw a decent round trip in FX with Euro trading up to 1.19 on the initial dollar weakness before falling back to the weekly consolidation area of ~1.1770. US equity's were mixed following the Jackson Hole address the Dow up +0.57% to 28,492.27, the S&P500 creeping higher +0.17% to 3,484.55, while the Nasdaq which has been on fire for the past few weeks cooled, down -0.34% on the day to 11,625.34.

On the data front, US Initial claims fell to 1,006k from 1,104k last week. Falling COVID-19 case numbers and the end of the USD600 supplementary weekly benefit may be drivers, but it was still a high number of new claimants. Continuing claims were 14.5m, which was under 2m a year ago. Still in the US, Real GDP growth in Q2 was revised higher on the second release, from -32.9% (QoQ SAAR) initially to -31.7%. Consumption was revised to -34.1% from -34.6% while business investment was revised to -26% from -27%. We continue to expect a strong rebound in growth in Q3 of close-to-30%, reflecting a pick-up in activity in May and June that continued into the second half of the year. Consumption will be the largest boost to growth, with retail sales having already returned to pre-COVID levels. In Europe, Euro area M3 for July rose +10.2% y/y, its highest since May 2008. It confirms the ECB's liquidity enhancement operations and TLTRO facility are proving successful in providing liquidity beyond the money base to the corporate sector. Lending to non-financial corporates rose 7.0% y/y.

PRECIOUS

Gold prices swung sharply Thursday as investors assessed Powell's comments on monetary policy. Gold initially spiked above USD1,975/oz (from \$1940/oz pre-speech), after Powell's dovish comments that the central bank would aim for inflation that averages 2% over time, implying it will allow periods of overshoot. This would suggest policy makers will keep interest rates low. Dallas Fed President, Robert Kaplan, later said that while there is no formulae, the new policy would allow inflation to run above target to around 2.25–2.50%. Nevertheless, the market appeared to be spooked by further comments from Powell suggesting the Fed would act if inflation rose considerably above the 2% average. This saw gold come under extreme pressure, with prices falling more than USD60/oz in the space of an hour and falling back towards \$1910. Macro names were waiting around that level to scoop up the bargains and gold ended up moving back towards \$1930 where it hovered for the remainder of the session. The rest of the complex was also weaker, with silver and platinum down sharply after the initial Jackson Hole pop – silver testing \$28.00 shortly after Powell started talking and then slumped sharply back towards \$26.50.

Metals ground their way steadily higher throughout the Asia session today, in much more subdued trade than what was seen over the past 24 hours. Gold opened just under \$1930 this morning and slowly faded off to the days lows after the opening few hours. Decent support was seen sub \$1925 and the yellow metal began to angle higher pre-SGE open. Throughout the rest of the day the metal has slowly climbed topping out around \$1945, where we currently sit. Silver had a similar day to gold inching lower initially then bounding back through \$27.00 to trade around \$27.33. We expect the metals to remain choppy in the near term, with pull backs towards \$1900-10 likely to draw out buyers in gold. Have a great weekend.

Although the information in this report has been obtained from and is based upon sources MKS believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute MKS' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as investment advice, offer or solicitation for the purchase or sale of an investment. This report does not consider or take into account the investment objectives or financial situation of a particular party.