



MKS PAMP  
GROUP

## Daily Asia Wrap - 3rd July 2019



Range Asian Hours  
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1421.00/40	15.32/34	830/32	1561/64
HIGH	1437.40/80	15.44/46	834/36	1566/70
LOW	1418.40/80	15.29/31	828/30	1560/64
LAST	1427.50/90	15.32/34	830/32	1561/64

### MARKETS/MACRO

Another fairly risk on tone last night as markets continue to bask in this post G20 / easy monetary policy environment. US equities advanced +0.3% to within arm's reach of the 3000 level last night despite safe haven assets getting simultaneously well bid again – USTs back below 2% while Gold advanced close to 3%. European equities were firmer, crude was weaker and base metals were weaker.

Elsewhere, the RBA board reduced the cash rate by 25bp, yesterday, taking the cash rate to a historic low of 1.00%. In a speech following the decision, Governor Lowe cited the downside risks to global growth from the US-China trade tension. He highlighted that strong commodity prices, reduced borrowing costs and rising household incomes were still reasons to remain optimistic in Australia. While the RBA has not been as explicit (in terms of forward guidance) as they were in June, Lowe has left the door open to further easing. He noted that the RBA remains “prepared to adjust interest rates again if needed” to get the economy closer to full employment and meet its inflation target. This suggests the RBA still has an easing bias and further cuts are likely. Most of the cut was already priced in before yesterday's decision so AUDUSD and it ended the session higher around 0.6995. Most institutions are calling for one to two more rate cuts in 2019.

In England we had BOE's Carney speaking from Bournemouth where he acknowledged that the BOE's 'No Deal' Brexit scenario was not very rosy and that the BOE may be basing some of their assumptions on a more market friendly Brexit outcome. Carney stated that tariffs had knocked -0.5% off GDP growth and that the BOE may need to change their forecasts at the August QIR. Cable sold off from 1.2640 to 1.2584 amid light volume as a result.

In other news, IMF Chair, Christine Lagarde has been earmarked to replace Draghi at the helm of the ECB in October. Though not a career Economist, Lagarde has been praised on her political credentials as the most likely steward to build consensus and to navigate fractured interests across the Eurozone member countries.

### **PRECIOUS**

Gold had an impressive rally yesterday (\$30+, +2.4%) in line with softer US treasury yields, which dipped back below 2.0% to close at 1.974% for the day. There were 2 primary factors for the strong rise during NYK: The first of these was when news was released about VP Pence cancelling a scheduled meeting in New Hampshire and return to DC for an emergency meeting. At the same time, news emerged that Putin had to also attend an emergency meeting. The market surmised that there was a potential conflict around the Russian submarine 'accident' overnight and risk began to sell-off, boosting gold. The second primary reason for the strong rally in gold were reports that President Trump is to nominate two economists to fill vacancies on the Fed board, one of whom, July Shelton, is a known hawk as well as an advocate for a return to the gold standard. There were pockets of scale up selling from macro traders during the rally yesterday, but it was not sufficient enough to curb the rally which persisted through most of NYK. In the end gold closed just off the highs at \$1419. We feel this upward trend looks set to continue as long as global monetary policy remains dovish. In the options space, XAUUSD vols were much higher overnight due to the spot rallying. There were buyers across the curve and skew was very firm. XAUUSD 1m opened around 13.3 vol and is now at 14.8, with 3m at 13.6, 6m at 13.0, 1y at 13.0, and the 1m 25-delta risk reversal 2.9 for calls. There was huge volume in both the August 1450 and 1500 strikes overnight on Comex, and this morning in the August 1475 calls.

Things remained well bid into the Asia session today. We opened north of \$1420 and after a brief round of profit taking in the opening minutes, gold surged higher on the back of news that President Trump had nominated Christopher Waller to the Fed board (a known dove). Gold sharply traversed through \$1425 with some chunky stops being tripped with limited upside liquidity in the early Asia hours. We shot up to \$1429 unhindered and then again to \$1435 moments later. A large order on Comex around that level (\$1435 cash equivalent) capped proceedings and the metal quickly retraced back to \$1423.75 over the next 15 minutes. It was exceptionally volatile for the remainder of the day hitting the highs right on the SGE open, then slumping back towards \$1421 thereafter. We are currently sitting at \$1427.50 as I write, yet Comex remains whippy. Silver has tracked gold throughout the day, just with a lower amplitude and the PGM's have been quiet. Ahead today on the data calendar look out for China Caixin composite and services PMI, a host of European Markit composite and services PMI's and US ADP employment, jobless claims, trade balance, factory orders, durable goods orders and ISM non-manufacturing. Have a good day ahead.

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