Daily Asia Wrap - 5th May 2021

Range Asian Hours (from Globex open)

5-May-21	GOLD		SILVER		PLATINUM		PALLADIUM	
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
OPEN	1778.30	1778.90	26.4750	26.5050	1237.00	1240.00	2977.00	2992.00
HIGH	1783.00	1783.60	26.6050	26.6350	1240.50	1243.50	2997.50	3012.50
LOW	1776.70	1777.30	26.4150	26.4450	1232.00	1235.00	2976.50	2991.50
LAST	1780.40	1781.00	26.4850	26.5150	1238.00	1241.00	2994.00	3009.00

MARKETS/MACRO

The main theme overnight was risk-off as Treasury Secretary Janet Yellen warned that interest rates may have to rise to prevent overheating of the economy. The sell off was led by tech stocks which declined their most since March (close to -3% at one stage), although managed to pare back some of the losses late in the day as Yellen walked back some of her earlier comments. In the end the Nasdaq slid -1.88% intra-day to 13,633.50, the S&P500 declined -0.67% to 4,164.66 and the Dow Jones inched into positive territory up +0.06% to 34,133.03. European equities were hit early on the back of profit taking with the selling escalating late in the day. The Euro Stoxx 600 retreated -1.43% to 433.65, the FTSE100 lost -0.63% to 6,923.17, the CAC40 swooned -0.89% to 6,251.75 and the DAX plunged -2.49% to 14,856.48. US treasuries ended the session mixed, the 2y yield lifting 0.2 bps to 0.161% and the 10y easing -0.9 bps to 1.589%. Crude prices rose despite the risk-off session on the back of stronger demand growth amid easing restrictions in Europe and the US. Brent rose +2.7% to $69.34 as a result and WTI accelerated +2.6% to close at $66.12. The dollar index (DXY) firmed +0.3% to 91.24, with decent selling in EURUSD seen from model and CTA names (down ~50 pips), while the AUDUSD was sold off toward 0.7680, but saw decent bids from macro/spec traders on the dip.

At an online event organized by The Atlantic magazine, Yellen said "..it may be that interest rates will have to rise somewhat to make sure that our economy doesn't overheat, even though the additional spending is relatively small relative to the size of the economy. So, it could cause some very modest increases in interest rates to get that reallocation. But these are investments our economy needs to be competitive and to be productive." She clarified her comments at a later event at The Wall Street Journal's CEO Council, saying that higher rates were "not something I'm predicting or recommending" and said she did not think there was "going to be an inflationary problem. If anybody appreciates the independence of the Fed. I think that person is me." She also reiterated that "those investments will be phased in gradually over time. The proposals we have are for eight to 10 years, and involve more modest increases in spending, and tax increases to largely pay for them."

On the data front, the US March trade deficit rose to a record USD $74.4bn vs USD $70.5bn in February. Exports rose 6.6% to USD $200bn and imports were up 6.3% at USD $278.5bn. The deficit widened across the board, including with China and the European Union. The deterioration in the deficit is a function of robust domestic demand underpinned by fiscal stimulus. It's widening reflects the benefits of US fiscal expansion for the global economy. In Australia, the RBA Board's May statement contained two surprises and an important change to the forward guidance around the cash rate. The surprises were a forecast of 2% inflation by mid-2023 and the announcement that decisions around the fate of the 3y yield target and quantitative easing will be made in July. On forward guidance, the RBA now thinks it "unlikely" that the conditions required for a change in the cash rate will happen before 2024 "at the earliest." The change in language seems less certain than the former wording.

PRECIOUS

Gold faltered after Yellen's comments, pushing up toward $1800 in early NY trade, then quickly reversing nearly $30 after the Yellen headlines hit. The yellow metal continues to struggle to regain the $1800 handle with mostly retail names seen on the offer in NYK and so far this morning. Throughout Asia yesterday, gold drifted ever-so-slowly lower and continued that trend throughout Europe, with one pop higher quickly sold into. We were quickly bid up to $1799 in early NY trade, but the metal collapsed from there following Yellen's comments – down to $1771. It recovered somewhat to close around $1779, but the failure yet again at $1800 warrants caution for bulls. Silver traded in a similar fashion, briefly pushing through $27.00 to a $27.10 peak, before retreating $1.00 and disappointing again. The action was similar for the PGM's, palladium posting a new record high then retreating some $55 and palladium hitting $1270 and falling $50 from there. So across all the metals – with perhaps the exception of palladium - we still remain rangebound.

It was another slow grind in Asia today with China still out on holidays (returning tomorrow). Gold opened at $1778.50 and traded just below $1780 for most of the morning. During the early afternoon the metal started to gain a little momentum, pushing through $1780 and moving a few dollars through there. It was slow going however with very light turnover and minimal price action. Silver has ticked up about $0.15 from the low to trade to $26.60, but has run out of steam and currently trickling lower. PGM's remain quiet and have made small gains on the day thus far. Ahead today, look out for Eurozone and US Services and composite PMI's as well as US ADP employment data, building permits and ISM services data. All the best and good luck.
