Daily Asia Wrap - 8th August 2019

Range Asian Hours (from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1500.10/50	17.07/09	863/65	1416/20
HIGH	1506.50/90	17.15/17	866/68	1422/26
LOW	1491.60/00	17.04/06	860/62	1415/19
LAST	1500.40/80	17.15/17	864/66	1422/26

MARKETS/MACRO

US equities opened softer Wednesday and proceeded lower initially (~-2%), then reversed mid-morning to spend the rest of the day in recovery mode and ultimately closing flat. The Dow Jones in the end slid -0.09% to 26,007.07, the S&P500 ticked up +0.08% to 2,883.98 and the Nasdaq Composite advanced +0.38% to 7,862.824. European equities also managed to find their feet with most major indices closing in the green for the first time this week. The FTSE100 rose +0.38% to 7,198.70, the DAX recovered +0.71% to 11,650.15, CAC40 jumped +0.61% to 5,266.51 and the EuroStoxx 600 rose +0.24% to 368.60. The yield on the US 10-year Treasury note fell below 1.6% overnight, its lowest level since October 2016, amid concerns about the outlook for global economic growth. Since the beginning of the month, the yield on the 10-year Treasury note has slumped a staggering -35bps. At the same time, the 30-year Treasury note yield declined to 2.12% yesterday, near a record-low reached in 2016. The German 10y bund yield also fell to a new low of -0.6% as the flight to safety continued. Oil prices tumbled more than -4.5% on Wednesday to a 7 month low, extending recent heavy losses following a surprise build in U.S. crude stockpiles and fears that demand will shrink due to Washington's escalating trade war with Beijing. Brent crude futures settled down $2.71, or -4.6%, at -$56.23 a barrel, the lowest close since early January. Prices have lost -24.5% since their 2019 peak in April. U.S. West Texas Intermediate (WTI) crude futures finished -$2.54, or -4.7%, lower at $51.09. Oil prices fell early in the session on worries about the trade war, then extended losses after government data showed a build of 2.4 million barrels in U.S. crude stockpiles last week, instead of the 2.8 million-barrel draw analysts had expected.

The U.S. Federal Reserve has eased policy substantially since late last year, but sluggish inflation and concerns over the trade outlook could mean more interest rate cuts are needed, Chicago Fed President Charles Evans said on Wednesday. "You could take the view, as I have, that inflation alone would call for more accommodation than we put in place with just our last meeting," Evans told reporters in an annual interview in Chicago. But the economy, though fundamentally "good," faces more risks than just inflation that is too low, he said, including "brinkmanship" U.S. trade negotiations with China that create volatility and uncertainty for businesses. "You might take the view that things have perhaps created more headwinds against that, and it would be reasonable to do more ... I don't know," he said, adding that he'll be looking at data and business commentary to assess that.

On the data front German industrial production was weaker than expected, dropping 1.5% in June, negating positive data released earlier, and indicates that a contraction in the German economy is likely for Q2. In the UK, the Halifax House Price Index for the UK showed a 4.1% y/y lift in house prices in the three months to July 2019. This was less than the previous month (5.7%) and below market expectations (4.4%), with the market not expected to pick up until after Brexit. Mortgage application data for the US jumped last week for the first time since the end of June. However, this was driven by refinancing activity of existing home owners taking advantage of lower rates rather than new home purchases.

PRECIOUS

Gold prices continued to rally as rising economic headwinds raised the spectre of further rate cuts in the US. US President Trump stepped up his assault on the Federal Reserve, calling for the FOMC to cut rates 'bigger and faster'. The Chicago Fed governor, Charles Evans, seemed to indicate those headwinds warrant a further cut, saying inflation alone would call for more accommodation than they put in place at the last FOMC meeting. This comes amid rate cuts at various other central banks yesterday, including New Zealand, Thailand and India. Safe-haven buying remains a dominant feature of the market, as the US-China trade war festers. That makes the move by China to expand its gold reserves again all the more interesting. The PBoC raised its holdings to 62.26m oz in July, from 61.94m oz in June. And this trend is likely to continue worldwide. In a World Gold Council survey of central banks, 54% of respondents expect global holdings to climb in the next 12 months. Gold hit a high of $1510.50 overnight and managed to close above the psychological $1500 at $1501.50. Silver had a very strong day also, surging through $17.00 to hit a peak just short of $17.25 and settling at $17.10 (+4.0% on the day). Platinum closed $12 higher at $865 and palladium fell some $40 to a low of $1404 in NYK, but managed to recover about half of that by session close.

Gold quickly fell back through $1500 on the re-open this morning, with some fast-money profit taking keeping things heavy leading into the China open. Again, market participants attention was squarely focused on what action the PBoC was going to take with its daily Yuan fixing. Most of the market predicted it would cross the 7.00 level today, with a number of banks predicting a fix of between 7.0150-7.0200. The market rallied ahead of the fix just after the SGE open to trade to the daily high. The yuan fixed at 7.0039 (6.9996 yesterday), so it did cross the 7 line for the first time since 2008, although I think the market was expecting a much higher fix of which the preceding price action suggested. USDCNH fell sharply from 7.10 to 7.06, equities rose, US yields rallied and gold plunged about $12.50 to the daily low. Chinese trade data came in better than expected - exports +3.3% YoY vs -1.0% expected (-1.3% prior), imports -5.6% vs -9.0% expected (-7.3% prior) – which gave gold some reprieve, grinding its way back to $1500, then oscillating around that for the rest of the afternoon. Silver held the 17 handle well and followed gold for the most part, while PGM's are flat to a tiny bit lower. All the best and good day ahead.