



MKS PAMP GROUP
Asia Market Update
2nd January 2019

Range Asian Hours
(from Globex open)

| | GOLD | SILVER | PLATINUM | PALLADIUM |
|-------------|-------------|---------------|-----------------|------------------|
| OPEN | 1281.90/30 | 15.46/48 | 793/96 | 1262/67 |
| HIGH | 1285.30/70 | 15.47/49 | 794/97 | 1267/72 |
| LOW | 1278.80/20 | 15.33/35 | 791/93 | 1257/62 |
| LAST | 1285.00/40 | 15.40/42 | 793/96 | 1257/62 |

MARKETS/MACRO

Happy New Year! US equities ended the year on a positive note Monday after enduring the worst full year since the 2008 global financial crisis (DJIA -5.6%, S&P500 -6.2%, NASDAQ -4.0%). Investors were enthused by positive trade headlines during Friday's session. The Dow Jones Industrial Average advanced +265.06 points (+1.15%) intra-day to 23,327.46, the S&P500 gained +21.11 points (+0.85%) to 2,506.85 and the Nasdaq Composite rallied +50.755 points (+0.77%) to close out the year at 6,635.277. European stocks were also higher on the whole, the Stoxx 600 up +1.42 points (+0.42%) to 337.65 and the EuroFirst 300 ticking up +4.74 points (+0.36%) to 1,331.38. It was a terrible year however for these indices, the Stoxx 600 wiping off -13.0% and EuroFirst 300 down -13.1%, both posting their worst performances in a decade. In other markets the DAX dropped -18.3% in 2018 and the Shanghai Composite a whopping -24.6% as alarm bells on trade boomed for these export driven economies. Elsewhere, the USD continued to drift lower, the DXY softening -0.2% on Friday although rose +4.4% for the year. EURUSD fell -4.5% for 2018 to close around 1.1470 Monday, the USDJPY fell -3.4% in December alone to close out the year down -2.7% and GBPUSD traded down -5.9% annually as a hard Brexit continues to loom. The US 10Y bond yield eased back another 3bp on Monday to 2.68% but was up 28bp for 2018. The short-end 2Y yield fell nearly 3bp on Monday to 2.49% but was up 61bp for 2018 on top of the near 70bp gain in 2017. WTI crude oil prices fell -11% in December to close the year around \$45.40 a barrel, slumping -38% in Q4 2018 and -25% for the full year.

Over the weekend there was more positive rhetoric on the trade front with President Trump tweeting that he held a long and productive call with President Xi on the topic and that 'big progress' was possible on a trade deal. These comments were also echoed by the Chinese Foreign Ministry although no details are yet released. On the government shutdown in the US – no progress appears to have been made as yet which does not bode well for the risk relief rally seen over the past week.

PRECIOUS

The final trading session of 2018 saw a rather resilient gold print a high of \$1283.80 and despite the market falling off during the NY session, a softening 10y yield late in the day helped the metal to close firmer at \$1282.50. This managed to take the December gain for gold to +4.9%, although over the course of the year the metal still managed to decline -1.6%. The rise over the past few weeks has been impressive, especially given the bounce in equities over the final week of the year. There are still a number of political headwinds (Brexit / US government shutdown / trade), fundamental and seasonal factors that lend support to gold, although we do note that in the past few weeks there are some aspects that could pose a threat to a continued extension in the short term. CFTC non-commercial shorts have



been continually growing in December and sit at 6 month highs, with a number of fresh longs established around \$1265-75 in the past weeks. These could certainly fuel a sell-off if the current rally begins to show signs of fading. We also note that XAUCNH is currently at its highest levels since early 2017. January is usually a period of strong demand from Chinese investors in the lead up to Chinese NY. The exceptionally high prices for them now though may temper some of that demand over the next few months. In other currencies gold is at very strong levels too – XAUAUD currently trading at \$1830, rallying some \$180 since the December lows (+10.9%) with local producer offering still ongoing.

Palladium has certainly been the most stellar (and volatile) performer in the precious complex for 2018, turning around a -21.8% loss up until the middle of August (~\$840), to close the year up +18.2% (~\$1265). The rise has been the product of tight supply, increased user demand, increased speculative demand and a forward market in huge backwardation. Conditions remain very tight which feeds into the backwardation so it will be very important to see whether users and speculators are prepared to continue to chase this market, given the massive rally seen since August. Regardless of whether this is the case, it will be very interesting to observe this metal over the next quarters/year and we expect volatility to remain extreme. Spot prices for now seem to have been capped in December around \$1280ish.

Gold opened this morning around \$1282 and hovered around that level for the opening hour, eventually dipping off as the SGE open loomed. As expected the Chinese were on the offer initially given the higher prices across both gold and silver. The former fell through \$1280 toward \$1279, while the latter was more aggressive, silver falling from \$15.45 spot down to \$15.35 in the opening few minutes. Gold steadied just underneath \$1280 over the morning and clawed back the losses throughout the Chinese AM session towards the opening levels. As I write, China are at lunch and the metal has continued to extend the rally through \$1285, as the dollar softens and Asian equities dip. We are however seeing decent producer and physical selling above \$1285 at this stage, so it will be interesting to see whether we can push higher after the China re-open. It certainly feels like it wants to. Have a good day ahead.

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