



MKS PAMP GROUP

Daily Asia Wrap

15th October 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1216.60/00	14.58/60	837/39	1066/68
HIGH	1222.90/30	14.64/66	841/43	1071/73
LOW	1216.60/00	14.58/60	837/39	1066/68
LAST	1221.40/80	14.61/63	840/42	1071/73

MARKETS/MACRO

It was a tumultuous few sessions for the global macro scene last week with US equities seeing the first major correction lower since the start of the year, sparking a bout of panic selling across stocks globally. Despite this, we saw the typical risk on/risk off correlation between equities and treasuries hold relatively well unlike the sell-off we saw earlier in the year and it does feel as though the selling was confined to just equities, with other asset classes holding up fairly well – particularly in the FX space. Friday was a see-saw session, with the major indices managing to close higher to round out the week (-3.5% WoW). The DJIA rallied Friday +287.16 points (+1.15%) to 25,339.99, the S&P500 advanced +38.76 points (+1.42%) to 2,767.13 and the tech heavy NASDAQ Composite, which was savaged throughout the week, rebounded the farthest, recouping +167.833 points (+2.29%) to 7,496.894. European markets settled lower on the day the EuroFirst 300 index sliding -3.55 points (-0.25%) to 1,410.10 and the EuroStoxx 600 inching down -0.70 points (-0.19%) to 358.95. Elsewhere, we saw the dollar take a bit of a step back against its peers last week, led largely by broader EUR and Cable strength – a slight miss on US CPI calming nerves around a potentially steeper rate trajectory next year. In Asia, we also saw big moves in the CNH curve throughout the week as spot drifted towards the mid 6.90 region, causing quite a bit of a squeeze in the front end.

U.S. Treasury Secretary Steven Mnuchin said on Friday that he told China's central bank chief that currency issues need to be part of any further US-China trade talks and expressed his concerns about the yuan's recent weakness. Mnuchin also told Reuters in an interview that China needs to identify concrete "action items" to rebalance the two countries trade relationship before talks to resolve their disputes can resume. "I expressed my concern about the weakness in the (yuan) currency and that as part of any trade discussions, currency has to be part of the discussion," Mnuchin said of the meeting. Yi told an investment audience on Thursday that China's monetary policy was on an opposite cycle to that of the Federal Reserve, which has been raising rates amid a strong economy, people who attended the closed-door session said. Mnuchin's comments on China's currency come ahead of next week's scheduled release of a hotly anticipated Treasury report on currency manipulation, the first since a significant weakening of yuan began this spring as trade tensions between the world's two largest economies escalated. The yuan weakened on Friday to 6.912 to the dollar as China reported a record September trade surplus with the United States, fanning fears of an escalation of the two countries trade war.

On the data front, Consumer Price Index in Germany increased +0.40% in September over the previous month as expected. Elsewhere, Industrial production in the Euro Area jumped 1.0% MoM in August, following a downwardly revised -0.7% fall in July and beating market expectations of a +0.4% rise. It is the first increase in industrial output in three months, as production rose faster for energy and capital goods and rebounded for intermediate goods,



durables and non-durables. YoY, industrial production rose +0.9%, following a +0.3% gain in July. Finally, the University of Michigan's consumer sentiment for the US fell to 99.0 in October from 100.1 in September and below market expectations of 100.4, preliminary estimates showed. The decline was due to less favourable assessments by consumers of their personal finances as upward revisions in the expected inflation rate weakened real income expectations.

PRECIOUS:

It was a quieter session for precious on Friday, with gold consolidating following its \$30+ rally on Thursday, ultimately giving back a few dollars over the day in line with the rebounding equities. The yellow metal opened in Asia on the highs of the day (\$1224), with initial Japanese selling seen prior to and on the Tocom open, weighing on the market and pushing us back toward \$1220. Chinese banks joined the sell-off on the SGE open, prompting spot gold to slip further to \$1218 before any support was found. USDCNY and USDCNH plateaued after an hour or so of SGE trade, which began to attract some bids for gold and it recovered back through \$1220, although it was short lived, with London on the offer when they chimed in taking us to the daily lows (\$1216.35). It was mainly two way action during the NY session, with weak shorts squaring up on dips and producer offers prevalent when we pushed above \$1220. Technically the market is still looking fairly positive, gold still trading above a sequence of highs dating back 2 months (\$1210-1216). Next target to the topside is the 100d moving average which cuts in currently at \$1228.20, while support sits around \$1214-16. Looking at the COTR figures released last Tuesday, non-commercial net shorts on COMEX are still very elevated at 2.5 million oz. With the market having rallied some \$40 off last weeks lows, those that did not cover on the move higher are looking vulnerable. With a number of risk events still lingering in trader's minds – US/China trade dispute, Brexit deal, upcoming US mid-terms, yield jitters – we see gold remaining reasonably well supported in the short term.

Gold opened on the lows today, moderate demand over the morning session angling the metal slowly northward. It was small spec and physical traders on the bid prior to the SGE open which drove the price back through \$1220, with only moderate demand seen from Chinese traders on the open. Volumes were more subdued than what we saw last week also, with SGE premium fairly stable throughout the morning session around \$5-6 over LL. It is currently on Chinese lunch break and the yellow metal is sitting close to the daily highs (\$1122). In other markets, Asian equities are currently soft (major indices down -0.75% to -1.5%), crude is currently stronger (WTI +1.1% @ \$72.10, Brent +1.25% @ \$81.45) and the USD is mixed vs. the majors. Ahead on the data calendar today look out for US retail sales and Empire manufacturing. All the best.

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.