MKS PAMP GROUP
Daily Asia Wrap
23rd August 2018

Range Asian Hours (from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1195.90/30	14.75/77	794/96	925/27
HIGH	1196.50/90	14.75/77	795/97	926/28
LOW	1190.20/60	14.61/63	785/87	918/20
LAST	1192.00/40	14.64/66	787/89	920/22

MARKETS/MACRO

The USD continued its sell-off on news of the conviction of President Trump's advisers and the calmer tone in emerging markets. The dollar fell for the sixth straight day as the Dollar Index eased -0.1% overnight, with USDJPY gaining +0.2% to 110.56 and EURUSD up +0.2% to 1.1597, unwinding almost all of its Turkey-related weakness. U.S equities slipped slightly yesterday, halting four consecutive sessions of advances as weakness in industrials (-0.95%) and Teleco's (-2.0%) overshadowed gains in tech (+0.48%) and energy (+1.2%). The S&P500 dipped -1.14 points (-0.04%) to 2,861.82, the DJIA retreated -88.69 points (-0.34%) to 25,733.60 and the tech-heavy NASDAQ Composite rose +29.924 points (+0.38%) to 7,889.097. JP Morgan in a piece noted that U.S equities have entered their longest bull-run in history, notching up 3,453 days on Wednesday, beating the previous record between October 1990 to March 2000. Post GFC the S&P500 has rallied an impressive 300%+. European stocks ended generally unchanged Wednesday, with an early rally fading in the afternoon. Banking shares rose broadly, yet investors held off on making big bets ahead of the FOMC minutes. The EuroFirst 300 index was up +0.02 of a point to 1,502.31 while the EuroStoxx 600 inched down -0.13 of a point (-0.03%) to 384. WTI crude prices surged +$2.27 (+3.45%) to $68.11 and Brent shot up +$2.26 (+3.10%) to $74.88 after a government report showed a large fall in inventories. The EIA reported that U.S crude oil stockpiles fell by 5.84m barrels last week, much greater than the market's expectations of around 2m barrels. The fall was driven by a fall in imports, which slid the most in six weeks to 7.52m bbl/d. The market viewed this as a strong sign that the market, both in the US and globally remains tight. This helped to diffuse any concerns that the release of crude oil from the U.S strategic reserve would soften the market. This was reinforced by Iran, which said the fact that the U.S is planning to release oil shows that other producers can't raise enough output. U.S yields continued to cool slightly on the day, the 10y yield down -1.1 bps to 2.819% and the 2y yield inching down -0.4 of a bp to 2.591%.

Federal Reserve policy makers said they continued to expect the U.S. economy to expand at an above-trend pace, prompting the need for further rate hikes, according to the minutes of the Fed's July meeting. "Fed staff continued to project that the economy would expand at an above-trend pace", the minutes showed. "Members expected that further gradual increases in the target range for the federal funds rate would be consistent with sustained expansion of economic activity, strong labour market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term. In a sign of confidence on the strength of the U.S. economy, Fed policy makers raised their outlook on U.S. economy growth, citing stronger household spending. "Relative to the forecast prepared for the June meeting, the projection for real GDP growth was revised up a little, primarily in response to stronger incoming data on household spending", the minutes said. The Fed modestly downgraded its outlook on inflation, which was hurt by falling oil prices, but policy makers remained adamant that inflation would remain near the central bank's 2% objective. Another hike next month is 92% priced (90% yesterday). So far, there is little evidence that the tighter policy is slowing the fiscal fuelled juggernaut that is the US economy, but the cooling in the

housing market is arguably a notable exception. Full minutes can be found here:
https://www.federalreserve.gov/monetarypolicy/fomcminutes20180801.htm

On the data front, sales of previously owned houses in the U.S declined -0.7% MoM to a seasonally adjusted annual rate of 5.34 million in July of 2018. It compares with market expectations of a +0.6% rise to 5.4 million. It is the fourth straight fall and the lowest rate since February of 2016. The median house price fell to $269,600 from $273,800 in June and the months-worth of supply was flat at 4.3. In addition, the number of houses available in the market declined to 1.92 million from 1.93 million in June. YoY, existing home sales fell -1.5%.

PRECIOUS

Gold tested through $1200 during NY yesterday, although was unable to hold the gains closing the day much where we started (~$1196). Gold opened in Asia yesterday at $1196 and unlike the previous days this week flows were not as skewed to the buy side. Nonetheless there was enough interest to quickly push the metal up just shy of $1198 pre-SGE open, although we eased back rather quickly. The SGE premium traded at $6.00 and the spot gold held fairly constant around $1195-1196 throughout the AM and lunch, although as we ticked into the afternoon, some early European selling began to emerge and we dipped off to the lows of the day ($1193.00). Later in Europe the EURUSD began to turn higher and gold pushed back towards the earlier Asia high, following a headline that President Trump's former lawyer has knowledge of the Russian conspiracy. Some COMEX bids at the U.S open helped the yellow metal through $1200 to a peak of $1201.25, but there was no follow through and stops were tripped on the way back through $1199-1200 area. The FOMC minutes were released and mentioned that current accommodative monetary policy would at some point "fairly soon" be "no longer appropriate" and caused a pop to $1199. Just as quickly as it went up though we traded back towards $1195, ultimately closing at $1196. The best performing metal overnight was palladium, which after testing toward $910 late in Asia/early Europe, caught a bid throughout the NY session and kept angling higher throughout - closing at $926. Net shorts remain at extremely elevated levels and have assisted with the pull-back from $1160. With a changing political climate and particularly with Trump's inner circle coming under further pressure regarding various fraud and campaign crimes, gold may find a bit of support in the near-mid term.

Gold opened where it left off in NY and was under pressure early as the USD started to claw back some of yesterdays losses. The USD strength persisted throughout the morning and all the precious complex continued to sell-off unabated leading into the SGE open. Right on the open the gold shot down to $1191.50 although some physical demand did present itself down there and we gradually recovered to $1194.The USD remained strong particularly vs the AUD over the course of the morning and despite some decent Chinese demand, the gold continued to sell-off toward $1190. There has been no sign of the USD retreating and the metals remain close to the lows of the day, with China just back in for the PM session. Market attention will now shift to the preliminary August PMI data and FOMC Chairman Powell's speech at Jackson Hole this Friday. Have a good day ahead.