



MKS PAMP GROUP

Daily Asia Wrap

24th October 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1230.30/70	14.74/76	833/35	1142/44
HIGH	1233.40/80	14.79/81	833/35	1142/44
LOW	1230.20/60	14.74/76	830/32	1138/40
LAST	1233.00/40	14.79/81	831/33	1141/43

MARKETS/MACRO

The equity sell-off continued overnight with major indices under early pressure (Dow -2.2% at one stage) due to some worrying earnings prospects (Caterpillar/3M), although they did manage to claw back ground prior to the close. The Dow Jones Industrial Average rounded out the day down -125.98 points (-0.50%) at 25,191.43, the S&P500 retreated -15.19 points (-0.55%) and the NASDAQ Composite relinquished -31.09 points (-0.42%) to 7,437.539. Equities in Europe were hit even harder as the impasse between the Italian government and the EU commission escalated with the latter rejecting Italy's draft 2019 budget, stoking uncertainty jitters. The EuroFirst 300 plunged -22.37 points (-1.58%) to 1,392.96 and the EuroStoxx 600 retraced -5.68 points (-1.58%) to 354.06. Regionally the DAX tumbled -2.17%, FTSE100 relaxed -1.24% and CAC40 gave up -1.69%. Crude oil prices collapsed (WTI -4.45% to \$66.09/bbl) as Saudi Arabia warned it could meet any shortfall in Iranian crude. Energy Minister Khalid Al-Falih said it and its allies are in a "produce as much as you can mode". This quashed any concerns that the kingdom would revive its oil embargo strategy of the 1970s in retaliation to any punishment over the death of WSJ journalist Khashoggi. It also suggested it could increase output by 1-2mb/d in coming years as it looks to increase investment in the sector. Prices were also weighed down by investor's expectations of another strong build in inventories in the US. The US 10y bond yield clipped to a low of 3.11% on the equity sell-off but recovered to close only -3bp lower around 3.17%, while the 2y yield also subsided -3bp to 2.88%. EURUSD managed to weather the storm whipped up from volatile equities and rates, closing unchanged around 1.1470.

The European Commission rejected Italy's draft 2019 budget on Tuesday, saying it brazenly broke EU rules on public spending, and asked Rome to submit a new one within three weeks or face disciplinary action. Italian bond yields jumped on the unprecedented move by the EU executive which was exerting for the first time a power obtained in 2013 after a sovereign debt crisis to send back a budget of a euro zone country that violates the rulebook. Having recently emerged from the Greek debt debacle that nearly destroyed the single currency, the EU is concerned about another possible crisis if debt-laden Italy were to lose market trust. Markets will be very sensitive to how Deputy Prime Ministers Salvini and di Maio respond over the coming days – especially given how defiant they have been over past weeks. Italian yields lifted between 8-11bps across the curve as a result.

On the data front the October Richmond manufacturing index came in below expectations, dropping -14pts to +15. New orders eased and the orders backlog fell with hurricane impacts still weighing. In the Eurozone consumer confidence rose to -2.7 in October from -2.9 in the previous month, compared with market expectations of -3.2, according to a preliminary estimate.



PRECIOUS:

The investor sell-off in the equity market overnight saw investors around the globe seek haven assets such as gold, the metal ultimately pushing through and closing above some key resistance levels. During Asia yesterday gold remained fairly subdued during the am session, the USD-strength narrative keeping the yellow metal contained to a fairly tight \$1221-25 range. With Asian equities under extensive pressure throughout the afternoon and news that the European Commission had rejected Italy's draft budget, some safe haven demand flowed in and gold didn't really look back. We broke through \$1230 and triggered stops sharply up to \$1232.50. After doing some work around that level the metal had another leg higher to \$1237 before a round of profit taking and strategic short taking lowered us back beneath \$1235. Once the US opened for business there was a push higher on the back of a soggy Dow/S&P which took us to the highs of the day at \$1239.55 (3 month high). There was some decent producer selling up around \$1240 and in some of the crosses such as XAU/AUD, which rallied strongly through \$1754, and saw good selling in the \$1745-\$1755 zone. The stock market selling eased later in the day and we started to see some profit taking emerge across the precious complex, prompting gold to drop off back to \$1230. We held above this level for the remainder of the session, although it did remain fairly volatile through to the close (\$1230.50). Importantly, the metal has now decisively closed above the 100 dma (\$1223.50), which was proving a sticky level. Palladium continued its run of recent form hitting all-time highs of \$1149.30 overnight. A mixture of geopolitical risk, fundamental shortages (deficit assessed at 400k+ oz until 2020 – UBS), a tight forward market and large physical consumers hoovering the market have seen the metal rally an astonishing ~\$300 (+38%) since mid-August. At this stage the metal is still looking strong. Platinum, on the other hand continues to languish, struggling to move through the \$840-850 area.

The gold opened on the lows of the day this morning and despite being above \$1230, it was mainly bids seen from early Asian investors. Volume was modest in the lead up to the SGE open though and the spot price continued to slowly tick higher. The SGE premium for onshore traders opened around \$7.00-8.00, which was quite healthy and prompted some demand from Chinese banks and investors. We ticked up the daily high in the opening 25 minutes and remained around \$1233 for the majority of the morning session, edging lower into the am close. With China currently at lunch, the metal has been trading quietly between \$1231-1232 and the turnover through the course of the day has been fairly light at 26k lots GCZ8 (7.5 hours of trade). Silver is higher on the day, while the PGM's have remained flat. All the best and good day ahead.

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