MKS PAMP GROUP

Daily Asia Wrap

2nd August 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1215.80/20	15.38/40	816/18	917/19
HIGH	1221.00/40	15.44/46	822/24	922/24
LOW	1215.80/20	15.36/38	816/18	913/15
LAST	1219.50/90	15.40/42	819/21	917/19

MARKETS/MACRO

We continued to see fairly mixed sentiment across global markets yesterday evening with the market digesting both the Fed outcome while assessing the implications of a potential escalation in global trade tensions. The dollar was fairly choppy across the board, though particularly noticeable in USDCNH where we saw the pair hit 6.84 before retracing two big figures lower as Trump reiterated that he was open to further dialogue. U.S. stocks closed mostly lower after the Federal Reserve left interest rates unchanged but signalled another imminent rate increase. Fresh worries over U.S. / China trade friction dampened sentiment although positive results from Apple Inc. buoyed the tech sector and helped the NASDAQ buck the weak trend. The Dow Jones Industrial Average fell -81.37 points (-0.32%) to 25,333.82, the S&P500 retreated -2.93 points (-0.10%) to 2,813.36 and the NASDAQ Composite added +35.498 points (+0.46%) to 7,707.286. The best performing sector intra-day was IT (+ 0.97%), while the worst performing sector was Energy (-1.33%). European stocks closed lower, as bolstering trade tensions unnerved investors. The Eurofirst 300 index slid -7.38 points (-0.48%) to 1,526.83 and the Euro Stoxx 600 cooled -1.77 points (-0.45%) to 389.84, while regionally the FTSE100 sank -1.24%, CAC40 -0.23% and DAX lost -0.53%. Crude oil prices fell sharply after an unexpected gain in US inventories - WTI down -$1.10 (-1.6%) to $67.65 a barrel. Crude oil stockpiles rose by 3.8m barrels last week, according to the EIA, which was against expectations of fall of 3m barrels. The only bright spot for the market was a decline in US crude production, which fell to 10.9m barrels a day last week, the first decline since February this year.

The Federal Reserve held its benchmark interest rate unchanged Wednesday and reaffirmed its plans to continue raising borrowing costs at a gradual pace. The decision to hold rates had been widely expected and came after a two-day meeting of the Federal Open Market Committee. Traders now expect the Fed to raise borrowing costs twice more this year, with bets showing a 92% probability that it will raise the fed funds rate to a range of 2% to 2.25% in September, according to Bloomberg. "Economic activity has been rising at a strong rate," the Fed's statement said, thanks to strong household spending and business investment. An advance estimate of second-quarter GDP released Friday showed that the economy grew at an annualised rate of +4.1%, the fastest in nearly four years. During his semiannual congressional testimony in mid-July, Fed Chairman Jerome Powell said that, with appropriate monetary policy, the job market would remain strong and inflation would stay around the 2% target for several years. He said that it was difficult to predict the outcome of the ongoing trade disputes, but that a prolonged trade war would certainly hurt the economy.

The Trump administration said it is weighing up whether to increase the proposed tariff on $200 billion of Chinese goods to 25% from 10%, stepping up pressure on Beijing to change its trade practices. President Donald Trump has asked U.S. Trade Representative Robert Lighthizer to consider hiking the duties, which could be implemented as early as next month. The proposed higher tariff "is intended to provide the administration with additional options to encourage China to change its harmful policies and behaviour and adopt policies that will lead to fairer markets," according to Lighthizer. Bloomberg then reported on Tuesday that the administration was considering boosting tariffs by 15%. The U.S. is open to renewing formal negotiations with China, though Beijing must agree to open its markets to more competition and stop retaliating against U.S. trade measures, according to two senior administration officials who briefed reporters on the condition of anonymity. China shot back Wednesday saying that "blackmail" wouldn't work and that it would hit back once again if the United States takes further steps to hindering trade.

PRECIOUS

Gold underwent a steady move lower yesterday as the USD pushed higher following the FOMC and ongoing trade tensions. The yellow metal opened at $1224 yesterday and right off the bat the headline 'USTR is planning to impose 25% tariffs instead of 10% tariffs for $200 billion USD goods imported from China' did the rounds. Immediately this pushed the USDCNH from 6.80 to 6.84 and with ongoing correlation remaining very strong between CNH and the metals, gold and silver quickly shot lower. Right on the SGE open the gold fell, although there were bids ahead of $1220 spot. An hour later we were trading up towards the opening levels, as the USDCNY fixed, yet COMEX offers remained plentiful pushing the metals back lower in a choppy fashion. USDCNH/CNY see-sawed throughout the European day and the metals were equally choppy into NY. The increased ADP job figures were released early in the morning local time showing an increase of +219k vs +186k expected, which weighed on gold, trading to a fresh intra day low of $1216.75. There was a brief bit of respite leading into the FOMC, gold climbing back to $1222 before tumbling to the days lows ($1216.50) and closing there. Heading further into the August Summer doldrums, there is a distinct lack of liquidity, evidenced by the short, sharp whippy moves of the past few days. We expect this to continue over the next month with a slight bullish bias. Historically, August is the second most bullish month of the year (after January), so despite the persistent selling on rallies, we do not see it running away to the down-side by any means.

A somewhat robust day for gold today, the metal managed to climb back through $1220 despite a soft close in NY. We opened this morning around $1216 and the gold traded in a quiet sideways fashion leading into the Shanghai open. After pushing higher throughout the morning USDCNH began to sell-off around SGE open which drew out some buying from both Chinese and Japanese traders. We also saw some light physical demand from SE Asian names who were happy to take advantage of a sub $1220 price. Gold ticked up to the days high of $1221 and silver, after some liquidation at the Tocom open, rose back some 7-8 cents towards $16.45. As I write China is just about to reopen for the PM session, with the metals slowly drifting off from the lows. Looking ahead, much focus will be on the BoE later today, where they are expected to raise the base rate by 25bps. The market is over 90% priced for a hike, so absent a major surprise, the focus will be on the central bank's forward expectations particularly around inflation. We also have Eurozone PPI and U.S factory orders, durable goods orders and jobless claims. Have a good day ahead.