



MKS PAMP GROUP

Daily Asia Wrap

6th August 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1214.00/40	15.40/42	830/32	913/15
HIGH	1217.80/20	15.48/50	836/38	918/20
LOW	1213.40/80	15.40/42	830/32	913/15
LAST	1215.00/40	15.43/45	832/34	916/18

MARKETS/MACRO

China delivered a couple of surprises on Friday as markets awaited U.S jobs data. The PBoC reintroduced a 20% reserve requirement for FX forwards (giving risk a sudden boost) followed shortly after by an announcement of retaliatory tariffs on U.S imports (which saw the market turn more cautious). U.S equities traded well through the news though the Dow Jones Industrial Average rising +136.42 points (+0.54%) to 25,462.58, the S&P500 climbing +13.13 points (+0.46%) to 2,840.35 and the NASDAQ Composite advancing +9.33 points (+0.12%) to 7,812.015. European equities were equally robust the EuroFirst 300 rallying +10.13 points (+0.67%) to 1,523.93 and EuroStoxx 600 advancing +2.52 points (+0.65%) to 389.16. Regionally the FTSE100 leapt +1.1%, the DAX tacked on +0.55% and CAC40 rose +0.33%. Global yields finished a busy week with a modest trend higher as curves steepened, UST's generally lower across the curve Friday as lingering trade concerns led to a slight lift in safe-haven demand. In FX, much attention remained on USDCNH last week, with the pair consolidating around the 6.85 level at the start of the week before resuming its rise late in the week on the back of Euro weakness and a renewed flare up in trade tensions with the Trump mulling an increase in tariffs from 10% to 25% on \$200bn of Chinese imports. We saw the pair shoot up to 6.89 late Friday with the market largely one sided before the PBoC announced the re-introduction of the reserve requirement rule on onshore FX Forwards, which has subsequently bought USDCNY (and USDCNH) back below 6.85. The move by the PBoC is akin to that back on 1 September 2015 to help stem CNY declines after the August devaluation. In effect, 20% of notional is locked up for a year with no interest, making it more expensive to short CNY.

Early U.S data for Q3 is pointing to a slowdown in growth momentum from a very strong Q2. The July ISM non-manufacturing composite came in below market at 55.7 (last: 59.1, estimate: 58.6), with weakness evident across a range of sub components. New orders, backlogged orders, supplier deliveries, export orders, and business activity all dipped. Separately, July non-farm payrolls of +157k suggests U.S labour market strength may have found a ceiling (last: +248k, estimate: +193k). However, June was revised up +35k leaving total NFPs in line with expectations, and with 32k workers getting laid off after Toys R Us' insolvency, underlying momentum is probably stronger than the headline suggests. Other labour market data was stable, with average hourly earnings growth unchanged at 2.7% YoY, unemployment down -0.1% to 3.9% and participation flat at 62.9%. Overall, there is nothing here to deter the FOMC from its anticipated tightening path.

China's state media said on Saturday the government's retaliatory tariffs on \$60 billion of U.S. goods showed rational restraint and they accused the United States of blackmail. Late on Friday, China's finance ministry unveiled new sets of additional tariffs on 5,207 goods imported from the United States, with the extra levies ranging from 5% to 25% on a total value of goods less than half of that proposed by U.S. President Donald Trump's administration. The response follows the Trump administration's proposal of a 25-percent tariff on \$200 billion worth of Chinese imports.



PRECIOUS

After hitting fresh lows during the European session on Friday, gold managed to bounce back fairly strongly post the softer than expected NFP number. The yellow metal opened during Asia on the back foot with ongoing selling seen from Japanese and Chinese banks and trading houses. The SGE premium was once again fairly stable throughout the morning session (~\$4.00 for onshore traders), although with the USDCNH relentlessly pushing higher (6.9127 high) spot gold was under constant pressure. During the AM session we managed to hold above \$1207, although with the surging USDCNH, the metal never looked like recovering back through \$1210. We hit the intra-day low during the London hours of just over \$1205, bouncing well off the \$1204.60 support (July 2017 low pivot). China released the 20% reserve requirement news and not long after both CNH/CNY rallied strongly (6-7 big figures). Gold and silver recouped the Asia/European losses quite quickly to trade back above \$1210 and \$15.30 and the miss in the NFP's also assisted sentiment - with a number media outlets acknowledging that the U.S is beginning to slow down. Gold hit a peak of \$1220 during NY, before some intra-day profit taking and producer selling took us lower into the close. It still feels like a test of the psychological \$1200 level may be on the cards in the near future, but given how short specs are on COMEX, we wonder whether a fall through that level will have legs or just be a good buying opportunity. Elsewhere, CME Group reported that metals volume rose 17% YoY in July to average 642,000 contracts per day and Gold futures and options saw a +16% YoY increase in average daily volume to 397,000 contracts.

It was a reasonably quiet day for the metals today, once again being pushed around via moves in the USD, particularly USDCNH and USDCNY. The gold happily jobbed around \$1213-15 this morning in the lead up to the SGE open, on moderate volume. By the time the SGE opened for business USDCNH had come off -1.5 big figures and was very choppy, with wide spreads. This gave the gold some upward momentum to start the day, only increasing when the USDCNY fixed and was slammed 2 big figures lower to 6.8010. The yellow metal hit a peak of \$1217.80, before some light producer supply began to emerge and hold things in place. USDCNH and CNY backtracked from there and the gold could not maintain its momentum, pushing back towards \$1215-16 and trading quietly. The SGE is currently closed for lunch and the market remains quiet. Asian equities are generally higher, the Hang Seng +0.7%, Nikkei +0.1%, ASX200 +0.49%, while the Shanghai Composite is bucking the trend down -0.75%. The dollar is generally a little firmer across the majors and flat vs. CNY and CNH. Crude and Brent are currently higher up +\$0.20-0.30 from the open. Have a good day ahead.

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