



MKS PAMP GROUP

Daily Asia Wrap

13th August 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1211.10/50	15.29/31	827/29	911/13
HIGH	1213.80/20	15.33/35	830/32	911/13
LOW	1207.10/50	15.22/24	815/17	901/03
LAST	1208.20/60	15.26/28	818/20	904/06

MARKETS/MACRO

Turkey contagion risks were elevated Friday and there was a strong risk-off move in global markets as President Erdogan's speech failed to calm nerves and President Trump pledged to double the steel and aluminium tariffs against the country. The USD strengthened, treasury yields fell, stocks were sold and commodities were mixed. The Turkish lira fell -15% on Friday, bringing YTD declines to ~42% in a country with considerable foreign denominated debt. U.S equity markets unwound on the day, the S&P500 notching up its worst daily drop since June. In the end the S&P500 retreated -20.30 points (-0.71%) to 2,833.28, the DJIA lost -196.09 points (-0.77%) to 25,313.14 and the NASDAQ Composite declined -52.672 points (-0.67%) to 7,839.11. Materials fared the worst (-1.4%), while Energy out-performed (+0.3%). European stocks closed sharply lower Friday as worries that problems in Turkey could infect other Euro-zone countries unsettled investors. Banking stocks led the decline: BBVA (-5.2%), BNP Paribas (-3%) and UniCredit (-6%) all slumped and are amongst the biggest lenders to Turkey. The EuroFirst 300 Index plunged -16.69 points (-1.09%) to 1,510.50 and the EuroStoxx 600 relinquished -4.19 points (-1.07%) to 385.86, while regionally the DAX was hammered -1.99%, CAC40 -1.59% and FTSE100 dropped -0.97%. Crude oil prices rose sharply as concerns over supply disruptions intensified - WTI up +1.23% to \$67.63 and Brent rose +0.75% to \$72.81. With U.S sanctions on Iran back in place last week following the U.S pulling out of the Iran nuclear deal, all eyes have been on the impact on crude oil exports from that country. The IEA warned the sanctions could threaten global oil supply and that maintaining global supply might be very challenging. The U.S is doing its bit to increase production however, with data showing drilling activity is continuing to rise with the number of drill rigs operating rising by 10 to 869, the highest since March 2015.

The Turkish lira extended losses, tumbling nearly -15% to a fresh historic low, on Friday as U.S. President Donald Trump announced that he would double tariffs on steel and aluminium for Ankara. "I have just authorised a doubling of tariffs on steel and aluminium with respect to Turkey as their currency, the Turkish lira, slides rapidly downward against our very strong dollar!" Trump proclaimed via his Twitter account, noting that the tariff on aluminium would now be 20% while the levy on steel would rise to 50%. "Our relations with Turkey are not good at this time!" he mentioned. The European Central Bank is also increasingly concerned about Euro-zone banks' exposure to Turkey, the Financial Times reported on Friday, sending bank shares lower as the Lira languished. The ECB, which declined to comment on the FT report, is said to be chiefly concerned about BBVA, UniCredit and BNP Paribas. They have among the largest operations in Turkey, although their local subsidiaries' contribution to the overall balance sheet of the respective company's as a whole is relatively modest. The Turkish lira has resumed its prolonged slide as a rift between Turkey and the United States widens and concerns grow about President Erdogan's grip on monetary policy under a powerful new executive presidency.



The headline U.S CPI for July printed in-line with the street at +2.9% YoY (+0.2% MoM) while the core ex-food/energy number ran a bit firmer at +2.4% YoY (+2.3% expected). Real Average Hourly earnings declined 0.2% y/y following a flat June figure.

PRECIOUS

Gold showed some signs of life Friday, tumbling during Asia towards \$1206, although running as high as \$1217 as the currency crisis in Turkey continued, breathing a little 'safe-haven life' into the metal. We opened in Asia Friday around \$1213 and as usual the market was focusing on moves in USDCNH to gauge direction in early trade. The pair remained fairly stable - as did USDCNY when it fixed - which kept the spot metal in a tight \$2 range between \$1211.50-1213.50 throughout the AM. TRY began to come under pressure around the opening of the PM session with USDTRY pushing through 6.00, and the dollar remaining well bid vs. CNH and CNY. The metal shot sharply below \$1210 and some weak intra-day longs quickly closed positions dragging the spot gold down to a low of \$1206.10. We managed to hold that \$1204-07 level once again, with some bargain hunting steadying proceedings throughout the European day. By the time NY came in the yellow metal was trading back through \$1210, which continued to gain more safe-haven momentum following Trump's tweeting about extending tariffs on metals from Turkey. Later in the session the EURUSD began to descend which drew out some profit taking and prompted the metal to give up some of the gains and close the day largely unchanged around \$1211.50. All in all, we are viewing Friday's session as reasonably positive, as it was good to see the USD strengthen significantly with gold managing to hold its ground - a scenario seldom seen over the past few months. ETF liquidation remains steady at present and the CFTC report still shows an abundance of non-commercial shorts.

Gold today was heavy as the USDCNH and USDCNY continued to advance. The yellow metal remained flat over the first hour of trade, even drifting to the days highs of \$1213.80 prior to the Shanghai open. Once China came in for the day, the USDCNH was swiftly bid from 6.8740 to 6.89 which prompted gold to angle lower and push back through \$1210. USDCNY fixed some 3 big figures higher which also continued to apply pressure on the metal down below \$1208. We did see a bit of Chinese demand surface toward the end of the AM session, although it wasn't enough to push the metal back through \$1210. As I write the USDCNH has edged a little lower and gold is trickling higher, so it will be interesting to see what direction we take on the SGE re-open. In other markets Asian equities are getting hammered, the Nikkei currently -1.95%, Hang Seng -1.85%, ASX200 -0.45% and Shanghai Composite -1.8%. Crude is lower on the day and dollar is mixed. There is no major data releases scheduled for today. All the best.

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