MKS PAMP GROUP

Daily Asia Wrap

8th February 2018

Range Asian Hours (from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1318.00/40	16.37/40	979/81	988/90
HIGH	1319.20/60	16.39/42	982/84	988/90
LOW	1309.70/10	16.24/27	973/75	981/83
LAST	1311.30/70	16.30/33	977/79	983/85

MARKETS/MACRO

U.S equity markets closed modestly lower on Wednesday as volatility continued to moderate, the Dow still spanning 500 points mind, as investors still struggle to adjust to an investment environment marked by both rising bond yields and signs of inflation. In the end the DJIA softened -19.42 points (-0.08%) to 24,893.35, the S&P500 retreated -13.48 points (-0.50%) to 2,681.66 and the Nasdaq Composite was hit hardest down -63.899 points (-0.90%) to 7,051.983. Things were significantly more positive in Europe for equities, the major indices snapping a seven day losing streak and closing strongly in the black. The Euro First 300 index surged +29.51 points (+2.02%) to 1,492.15 and the Euro Stoxx 600 rallied +7.34 points (+1.97%) to 380.13. Regionally the FTSE100 advanced +1.93% to 7,279.42, the DAX leapt +1.6% to 12,590.43 and the CAC40 rose +1.82% to 5,255.90. The USD rose against the G10 with bipartisan support for a budget deal sending yields higher. The Dollar Index gained nearly +0.8% to 90.26 with EURUSD down -0.9% to 1.2260. The US 10Y bond yield gained another 3bp to 2.84% on top of the near 10bp rise on Tuesday and the 30Y yield gained another 5bp back to 3.11%. Crude oil prices collapsed after data showed a sharp rise in U.S oil production, WTI falling -$1.52 (-2.4%) to $61.87 on the day. EIA reported that last week's output rose +332k b/d from the previous week to 10.2 mio b/d. This raised concerns among investors that the rising oil prices would push U.S production to levels that could potentially wipe out the production cuts that OPEC have instigated. The report also showed that inventories jumped higher, up 1.89 million barrels to 420.25 million barrels last week. This all came on the back of revised forecasts for U.S production from the EIA. They now see domestic output hitting 11 million b/d by November.

Congressional leaders clinched a 2 year deal to lift strict budget caps on defence and domestic spending, putting an end to a series of short-term spending bills and shutdown fights that have been prevalent in Washington the past few months. The deal is expected to increase defence and domestic spending by roughly $300 billion over two years, according to administration and congressional sources, as well as lift the debt ceiling and include tens of billions in disaster aid.

New York Fed President William Dudley took part in a panel discussion on banking culture during which he said the recent drop in the stock market wasn't big enough to alter the economic outlook. While Chicago Fed President Charles Evans (non-voter who dissented last meeting), remained dovish, stating that: "With the data I see today, my policy strategy would be to keep policy on hold until mid-year or so in order to assess the incoming inflation data".

PRECIOUS

Gold was again under pressure Wednesday in what has been a wild week for the precious metals. The stronger dollar overnight weighed on the gold which tested as low as $1311.65 in volatile trade again, down an additional -0.7% on the prior day. Yesterday's session began in a reasonably positive light with steady onshore buying seen from China as the USDCNY lifted the SGE premium up towards $9-10. Spot gold as a result made a very gradual ascent towards $1332 ($1325 open), the peak hit right at the China PM session close, before giving back ground as Comex offers mounted above $1330 (cash). As the USD and yields continued to climb throughout the European and U.S sessions investors continued to liquidate longs till around midday in NY. Recovering $4-5 from the lows into the close at $1318. Long Comex net positioning continues to reduce with the April open interest already down ~15k lots between Monday and Tuesday. ETF investors have also been reducing holdings since the start of the week, with fund holdings depreciating ~7.4 tonnes on Tuesday according to BBG data - the biggest decline in nearly a year. The SPDR ETF (largest single gold ETF) had its holdings fall ~1.4 % earlier in the week, reflecting the funds worst single-day decline since 2016. Looking at the charts support for gold sits around $1312-14 (head and shoulders) and more importantly $1300-1303 (50 dma and psycholgical 1300 level), while resistance will sit between $1325-1335 for now. Elsewhere, the World Gold Council announced that global gold mine production had risen for a ninth consecutive year in 2017. Platinum and palladium fell between -1% and -2% yesterday as specs liquidated positions. This was despite PGM producers remaining subdued about their outlook. An industry conference heard companies warn that PGM production will remain flat at best, as the industry grapples with high costs of production and a lack of capital investment.

It was a choppy day today for the precious metals, gold initially firming in early trade and then succumbing to fresh cycle lows following a surging RMB during the afternoon. Gold opened at $1318 this morning initially inching its way a few dollars higher as some spec shorts were happy to lock in profits. There was consistent selling on Comex early on however and offers above the $1320 cash level were enough to prevent an advance. When China opened and due to the USDCNY rally overnight, as predicted, the buying was minimal. Spot gold slowly began to work its way lower with ongoing liquidation seen from managed money and leveraged clients - ie. those who were still buying aggressively above $1340. Gold meandered its way back toward $1313 ($1315 Apr gold) throughout the SGE AM and there was some 5000 lots (GCG8) that churned through at that level. We eventually broke lower however, spurred along by Chinese trade data which saw a much narrower surplus than what was expected ($20.34 bln vs $54.65 bln expected). This was driven by an unexpected surge in imports of +36.9% (10.6% expected, +4.5% prior), while exports only rose +11.1% (10.6% expected, +10.9% prior). USDCNY after trading down to 6.2815 ripped higher to 6.3449 and sent gold spiralling through the overnight low down to $1310.10. As I write gold is holding precariously between $1310-1313 and the USDCNY has relinquished some of the gains to 6.3214. Ahead today on the data calendar look out for the BoE rate decision and U.S jobless claims. All the best.