MKS PAMP GROUP
Daily Asia Wrap
11th January 2018

Range Asian Hours (from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1316.70/10	16.96/98	970/72	1085/87
HIGH	1320.70/10	17.04/06	976/78	1092/94
LOW	1316.20/60	16.96/98	970/72	1085/87
LAST	1319.20/60	17.00/02	974/76	1090/92

MARKETS/MACRO

The main theme overnight was for caution amidst a number of simmering risk factors including rising concerns of President Trump ousting the U.S from the NAFTA and reports that China may slow or halt purchases of U.S treasuries. U.S equity markets opened lower yesterday and then consolidated due to the more cautious tone, after what has been a stellar so far this year. The Dow Jones Industrial Average eased -16.67 points, or -0.07% to 25,369.13, the S&P500 inched back -3.06 points, or -0.11% to 2,748.23 and the NASDAQ composite declined -10.01 points, or -0.14% to 7,153.572. European equities were also weaker on the day, the Euro First 300 Index losing -5.01 points, or -0.32% to 1,568.16 and the Euro Stoxx 600 down -1.51 points, or -0.38% to 398.60. Regionally the DAX lost -0.78%, FTSE100 -0.05% and CAC40 -0.35%. Crude oil pushed higher yesterday with the WTI closing up +0.78% to $63.45 a barrel after the EIA announced a dip in inventories. The EIA oil stockpiles declined by -4.94 million barrels, when traders were expecting a drop of only -3.75 million barrels. U.S Treasury yields initially moved higher and $ moved lower after Bloomberg reported that China officials recommended slowing or halting U.S government debt purchases. However, yields ultimately reversed and $ recovered on suspicion any positioning has already been done, the US 10y yield up slightly on the day from 2.55% to 2.56%. In FX, the yen continued to outperform with a continued unwind of short yen positions with concerns over the BOJ's policy intentions. USDJPY has broken the daily cloud (112.39) as well as the 200d MA (111.72) and focus now turns to support at 110.84, the low from late November. EURUSD eased back from the day's high of just below 1.2020 to a touch higher around 1.1950 and AUDUSD closed up +0.2% following losses over the past two sessions.

Chicago Fed President Charles Evans said Wednesday he would prefer the central bank to hold off on its next rate rise until the summer while taking stock of what happens with inflation. "I don't really see inflation taking off, and so I don't think the cost of waiting on rate rises is very big right now", Evans told reporters after a speech in Lake Forest. "Midyear is about the right time" to think again about boosting the cost of short-term borrowing. "If in fact things are worked out and inflation is clearly rising, we could resume a nice gradual pace at that point and still get the funds rate up to its more neutral level before too long". St. Louis Fed President James Bullard also hit the wires, saying the Fed's inability to get inflation to its target over the past five years has allowed a 4.6% gap to emerge in where the economy - measured in nominal terms before adjusting for price increases - would have been otherwise. That amounts to more than $820 billion in an $18 trillion economy according to BBG. The inflation shortfall since 2012 "has opened up a substantial gap between the actual and desired price level", he said.

Canadian government officials are worried that Trump is planning to finally follow through on his repeated threats to leave NAFTA and will make a move later this month ahead of the start of the sixth round of negotiations in Montreal. Earlier this week Mr Trump said in a speech to the American Farm Bureau that he was "working very hard to get a better deal for our country and for our farmers and for our manufacturers. It's under negotiation as we speak". A

White House official said on Wednesday: “There has been no change in the president’s position on NAFTA”. Mexico’s peso and Canada’s dollar dropped after the news has been released.

PRECIOUS

What began as a vulnerable looking day for gold, quickly reversed in Europe following the headlines that senior government officials in Beijing had recommended the slowing or halting of purchases of U.S treasuries. Gold opened in Asia yesterday around $1312 and gradually made its way lower into the Chinese open dipping below $1310, just before the SGE kicked off. It was fairly widely expected that the USDCNY may trade higher after the overnight headline of regarding stopping of the non-cyclical factors for the CNY FIX. However, once the USDCNY market opened, it turned out the pair was heavy above 6.53. SGE’s premium opened around $7.5 and remained there. Interestingly the physical gold premium was higher (~+$9), proving that there are some signs physical demand is beginning to ramp up ahead of Chinese New Year. This helped to absorb the Comex offers that were present throughout the morning and early afternoon and assisted spot gold back towards $1313. There was another dip below $1310 prior to the Europeans manning their desks, however, decent Chinese physical demand again propped up the market. The dollar turned lower early in the London day (USDJPY nose-diving to 112) and gold popped toward $1315. This then accelerated even further when the China U.S treasury headlines did the rounds. The U.S 10y yield shot up to 2.60% and gold skyrocketed to a new yearly high of $1327.50. NY came in shortly after the rally and EUR and AUD began to pullback which weighed on the yellow metal. It came all the way back off to $1315 and then traded in a choppy fashion into the close between $1315-1320, closing right in the middle. Our view from here is that gold needs to undergo some constructive consolidation. We have risen some $80 since mid December and given the increase in Comex positioning since then we feel that there will be sellers on rallies. That being said, as Chinese seasonal buying picks up, the down-side should remain supported into February. We feel that a $1300-1335 range should hold or the short term.

It was a reasonably slow session in terms of price action in Asia today, although volumes through both Globex and the SGE continue to step up as we move toward Chinese NY. The metal opened the day at the lows and traded sideways into the Tocom open. Some light buying was seen from Japanese participants which helped propel spot gold a few dollars higher to $1319. China then came in and again were net buyers although the demand was less than what we saw yesterday given the higher prices. The premium remained the same ($7-8) as what we saw yesterday, although the physical contract was lower from the previous day. Spot gold pushed and pulled between $1317.50-$1319.00 and eventually shot through $1320 but was met with some decent selling above that level. Silver managed to pop through $17.00 early on and hovered fairly closely to that level, while both platinum and palladium slowly and steadily gained ground over the morning and into the afternoon.

On the data front, Australian retail sales for November came in very strong at 1.2% (+0.4% expected). Sales were boosted by the release of the iPhone X and the increased popularity of Black Friday sales in Australia. It is a very welcome result following on from a robust print in October and is in line with the strong read from the NAB online sales index for November. AUDUSD jumped 40 pips to a high of 0.7882, and posting a fresh YTD high. On the data calendar later today look out for EuroZone retail sales, ECB minutes and U.S PPI and jobless claims. Have a good day ahead.