



MKS PAMP GROUP

Daily Asia Wrap

6th September 2017

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1339.30/70	17.88/91	1007/10	960/62
HIGH	1342.20/60	17.93/96	1009/12	967/69
LOW	1337.30/70	17.85/88	1003/06	960/62
LAST	1337.30/70	17.88/91	1006/09	965/67

MARKETS/MACRO

U.S. stocks closed firmly lower on Tuesday, with the S&P 500 snapping a six-day rise, as investors focused on heightened tensions between the West and North Korea and worries about a lack of progress on President Donald Trump's policy agenda. Low trading volume, particularly as investors returned from a the Labour Day long weekend, added to the downbeat tone. The Dow Jones Industrial Average had its largest single day decline since August 17, falling -234.25 points, or -1.07%, to 21,753.31, the S&P500 sold off -18.7 points, or -0.76%, to 2,457.85 and the NASDAQ slumped -59.757 points, or -0.93%, to 6,375.574. The best performing sector was Energy (+0.56%) and the worst performing sector was Financials (-2.20%). It was a similar scenario in Europe, stocks erasing morning gains and turning lower as ongoing concerns about North Korea weighed on investors. The FTSE EuroFirst 300 index dipped -1.83 points, or -0.12% to 1,468.30 and the Euro Stoxx 600 came off -0.47 of a point, or -0.13% to 373.71. Crude oil prices rallied strongly as restarts at Texas refineries raised hopes of better demand in the US. Reports from various refineries suggest the damage hasn't been structural and with many now making tentative steps to get back online, the outlook for crude oil demand in the region is looking better. However, with another hurricane threatening to hit the US coast, traders still remain cautious. WTI Crude rallied +\$1.26, or +2.66%, to \$48.55 a barrel. In treasuries, yields were hit as risk suffered, the US 10y yield decreased -9.92bps to 2.0665% and the 2y yield fell -5.2bps to 1.2900%.

July US factory orders were softer -3.3% MoM, with final durable goods orders down -6.8%. The headline drop in durables looks much worse than the underlying would suggest, capital goods orders excluding aircraft were up +1.0% MoM. The Euro zone final composite PMI dipped slightly in August to 55.7 from 55.8. While still at healthy levels it does question if momentum in the euro area upswing may be peaking.

The Fed's Brainard described inflation undershooting the Fed target for a number of years and weak underlying inflationary trends. She said "my own view is that we should be cautious about tightening policy further until we are confident inflation is on track to achieve our target". In a similar vein, the dovish Kashkari said that there is still slack in the labour market and inflation has been low. He also noted that rate hikes may have done "real harm to the economy" and premature rate hikes are "not free".

North Korea continued to provoke the U.S. overnight. Han Tae Song, ambassador to the United Nations in Geneva, confirmed that North Korea had successfully conducted its sixth and largest nuclear bomb test on Sunday. "The recent self defence measures by my country, DPRK, are a gift package addressed to none other than the U.S.", Han told a disarmament conference. "The U.S. will receive more 'gift packages' from my country as long as it relies on reckless provocations and futile attempts to put pressure on the DPRK," he added without elaborating. Trump on the other hand tweeted "I am allowing Japan & South Korea to buy a substantially increased amount of highly



sophisticated military equipment from the United States". This followed on from news that Trump agreed to remove the limit on allowed payloads for South Korean missiles.

PRECIOUS

After shrugging off some weak longs and trading below \$1330 in the NYK session, gold continued its march higher, posting a fresh cycle high of \$1344.25 before closing around \$1340. In Asia the day was a bit of a grind with some moderate to good volume flowing through Ecomex with mainly selling seen. We traded a few dollars lower pre-SGE down towards \$1332 but some North Korean headlines hitting the wires put a quick halt to the selling interest. Bloomberg headlines mentioned that South Korea had detected North Korean missile launch preparation and gold ran a sharp \$5 higher. This was right after the SGE open, which started proceedings with a healthy \$6 premium over the loco London price, already drawing out buyers. After trying towards \$1339 very briefly, the market then cruised into consolidation mode hovering around \$1335-36 into the European open. Their first reaction was to sell into the higher prices and the metal dipped back towards \$1330, but there were some underlying bids around. Just before the NY open a breach of the previous lows just under \$1330 prompted a stop loss sweep with 5,000 lots (GCZ7) trading in less than a minute down to the days lows of \$1326.50. Once U.S. equities opened they were hit hard and gold mounted a recovery in line with softening yields. It was a measured climb that continued for much of the NYK day, aided by some comments from Brainard promoting caution about raising rates too fast and the N Korean diplomat to the disarmament conference in Geneva further taunting the U.S. The yellow metal peaked at \$1344.25 before subsiding slightly into the close at \$1340. Silver was more stubborn, rallying only modestly when comparing to gold and palladium had a real roller-coaster, pushing highing in NYK then being flattened some \$35. Volume was tiny on the move so no real substance there.

With USDJPY and equity markets remaining under pressure there is good scope for gold to move higher in the coming sessions. Initial support comes in at \$1338 for gold followed by the \$1326-28 area. Topside resistance sits at the overnight highs \$1344.25 and \$1350.

It was a fairly slow day in Asia today with some initial follow through buying from macro and retail names, but we ultimately traded lower with China on the offer. We opened just beneath \$1340 and there was some bids around early on which pushed the price up a few dollars. The metal traded fairly quietly in the lead up to SGE open with gold sitting around \$1342. Once Shanghai opened the premium on the exchange was a few dollars lower than yesterday (~\$4.00-4.50) for onshore traders and prompted some liquidation. Spot gold edged lower in sympathy and traded back through \$1340 with light volume going through between \$1338-1340 for the afternoon. In other markets equities are currently lower, WTI crude is up smalls (+0.14%) or \$0.10 to \$48.70 and the USD is narrowly mixed vs the majors. On the data front look out for U.S. trade balance, services and composite PMI's, ISM non-manufacturing and the beige book. We also have BoC rate decision. All the best.

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