Daily Asia Wrap - 14th October 2019

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1488.10/50	17.55/57	893/95	1699/03
HIGH	1488.90/30	17.59/61	894/96	1699/03
LOW	1482.80/20	17.42/44	890/92	1691/95
LAST	1485.90/30	17.53/55	890/92	1695/99

MARKETS/MACRO

Markets rejoiced on Friday as the US and China managed to strike a partial trade deal. The news allowed markets to carry the risk-on tone through to the close, with optimism around Brexit providing an additional boost. US equity markets rallied strongly, the Dow Jones climbing +319.92 pts (+1.21%) to 26,816.59, the S&P500 adding +32.14 pts (+1.09%) to 2,970.27 and the Nasdaq Composite advancing +106.26 pts (+1.34%) to 8,057.04. European stocks surged in even greater fashion, the Euro Stoxx 600 rallying +2.31% to 391.61, the DAX soaring +2.86% to 12,511.65, the CAC40 up +1.73% to 5,665.48 and the FTSE100 a little more grounded by comparison rising +0.84% to 7,247.08. On the FX scene, the big mover unsurprisingly was Sterling, jumping close to +3.5% on Friday (1.2647 close) after PM Johnson told his Cabinet that there is a way forward for an agreement ahead of the 31st October deadline – though his European counterparts clarified over the weekend, saying the current proposals were 'not good enough'. We've seen Sterling vols all over the place – unsurprisingly, they're trading thin and wide this morning. This comes after Friday's move where we saw 1w jump +8vols and 1month +3vols. Fixed income markets didn't stand a chance in the current risk setting and saw yields rise materially. The yield on the 10-year US Treasury note rose a further +6bps to 1.73%, and was roughly +20bp higher week-on-week. WTI oil prices were also buoyed, rising +2.2% to USD54.7/bbl.

The US and China mini deal reached last Friday provided a round of truce and a positive and welcome outcome which met the bare minimum expectations to avoid disappointment. President Trump himself labelled it a ‘phase one’ deal with ongoing progress required to work through the stickier issues. In essence, the deal struck has the following outcomes:

1. China will significantly increase its purchase of agricultural products from the US, from a previous peak of US$16 billion to $40-50 billion per annum within the next two years;
2. China will accelerate the opening up of its financial sector. In fact, just the day before China announced that ownership restrictions will be abolished for futures firms on January 1, mutual fund managers on April 1, and securities companies on December 1 next year;
3. There is agreement on a currency pact on a market-based and transparent CNY exchange rate regime, though no detail is provided;
4. Partial agreement on technology transfer and intellectual property practices, without providing details on China’s commitment and the incomplete part will be addressed in Phase Two negotiation;
5. An enforcement mechanism that includes consultation and escalation procedure and assigned people from both sides; and
6. The US will suspend the scheduled tariff increase on October 15 (25% to 30% tariff on $250 billion of Chinese imports).

The market should not get complacent however as there are still plenty of issues to work through and tensions could escalate again, especially into the US election period.

PRECIOUS

The precious sector suffered in the wake of the phase one trade deal being reached. The market remained very quiet throughout the Asia session on Friday, yet ticked up during Europe back through $1500. It was short lived however, the yellow metal failing again through that level and pushing lower in line with rising yields and equities. Gold fell swiftly from $1495 to $1480 as macros and private banks dumped the metal across the board when the deal was announced. We hit a low of $1474.60 not too long after that and managed to find a base. The details of the agreement (or lack-thereof) unfurled later in the day, which assisted gold to climb back towards $1490, closing just below there. The stance for silver was much the same with $18.00 looking more and more distant. Tightness in the palladium market has kept the spot price firm with the metal still holding around $1700, while the wild ride for platinum has continued, although improved trade conditions between China and the US could bolster the industrial outlook and reinvigorate investors to Pt.

Today marks the first day of the LBMA conference in Shenzen and it seems that a decent portion of Asian dealers are out of the market, with things being rather quiet. We opened this morning and the yellow metal drifted lower initially, although perhaps not as low as many predicted given the news of the trade deal over the weekend and Trump tweets coming through right on the CME open. We pushed down toward $1483 on modest volumes, bottoming out there prior to Japan and China opening. Not long after China opened for business their trade data was released positing a bigger than expected surplus of USD $39.65 bln ($34.75 bln expected, $34.83 bln prior). This was primarily due to a steeper than expected fall in imports -8.5% YoY (-6.0% expected, -5.6% prior) relative to exports which fell -3.2% YoY (-2.8% expected, -1.0% prior). USDCNH fell as a result and gold caught a bid back towards the opening levels before settling into a $1485-87 range for the afternoon. There is not a great deal of data out today, the only thing of note Eurozone Industrial Production. Have a good day ahead.

Although the information in this report has been obtained from and is based upon sources MKS believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute MKS' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as investment advice, offer or solicitation for the purchase or sale of an investment. This report does not consider or take into account the investment objectives or financial situation of a particular party.