MKS PAMP GROUP

# Daily Asia Wrap - 3rd August 2020

**Range Asian Hours (from Globex open)**

| | GOLD | SILVER | PLATINUM | PALLADIUM |
|---|---|---|---|---|
| OPEN | 1981.50/00 | 24.74/77 | 910/15 | 2080/10 |
| HIGH | 1984.80/30 | 24.94/97 | 912/17 | 2085/15 |
| LOW | 1970.10/60 | 24.04/07 | 901/06 | 2050/80 |
| LAST | 1972.70/20 | 24.33/36 | 901/06 | 2051/81 |

**MARKETS/MACRO**

Markets are in for a shaky start to the month, as already witnessed first-hand this morning, after the Trump administration made preparations over the weekend to announce a series of measures against a 'broad array' of Chinese-owned software deemed to pose national security risks. While the list has yet to be released, it does look to extend beyond Tiktok, the music and video sharing app. It's a move that will no doubt trigger some sort of response from Beijing just when there seemed to be somewhat of a lull in the ongoing scuffle. This news flow of course comes at a time when markets are wary of the August seasonality effect, traditionally a month that has seen risk sentiment sour with the dollar getting bid and risk assets trading on the back foot. On Friday, despite plenty of bad news, US equities surged late in the session as tech stocks rose (+2.5%) on better-than-expected results from Apple. The S&P500 closed up 0.77% at 3,271.12, the Dow gained 0.44% to 26,428.32 and the NASDAQ composite advanced +10,745.27. Equities on the other side of the Atlantic traded heavily following some awful - though not unexpected - GDP results. The FTSE100 shrugged off -1.54% to 5,897.76, the DAX slid -0.54% to 12,313.36, the CAC40 plunged -1.43% to 4,783.69 and the Euro Stoxx 600 dialled back -0.89% to 356.33. Elsewhere, after looking soft throughout the Asia session the USD turned a corner, seeing the EUR drop from cycle highs above 1.19 to close sub 1.18 and USDJPY rallying back through 105.00 to 105.99. US treasury yields were mixed, the 2y yield slipping -0.6 bps to 0.105% and the 10y yield inching up +0.5 bps to 0.528%.

On the data front, some poor results out of Europe forced investors to question risk. EU Q2 GDP fell -12.1% q/q, and dived -15% y/y, in line with expectations. Broad-based weakness across private consumption, exports and investment drove the decline, as manufacturing and services slumped under lockdown. Spain was the worst-affected economy, with Q2 GDP slumping -18.5% q/q. French GDP fell -13.8% q/q and Italian GDP fell -12.4% q/q, while German GDP was down -10.1% q/q. The US outturn of -9.5% q/q is hardly an outlier, but with COVID-19 cases rising in many countries the focus has turned to the strength of the rebound out of lockdown. Elsewhere, core inflation pressures were weak in both the US and EU reads on Friday, the former core PCE inflation figure rising +0.2% in June and +0.9% y/y. Wage pressures were also seen as easing.

**PRECIOUS**

Gold extended its gains on Friday amid ongoing concerns about the global economy and an easing of the Greenback. Gold commenced the Asia session and was immediately on the front foot, with strong buying seen from S/E Asian names and private banks. After opening around $1955, the yellow metal quickly jumped through $1960 and consolidated around there for the opening few hours. About half an hour after the SGE open the metal picked up top-side pace and pushed all the way to $1975 by the early-afternoon. We hit a high of $1983.40 very briefly in Europe following the soft GDP release, but it was exceptionally short lived. The USD began to strengthen into the NYK open and the metals began to slide lower, gold trading down to $1960.50, before some whippy trade for the remainder of the day, ultimately closing around $1974 and up +4% on the week. Gold has rallied an impressive +30% YTD, with a number of bank/financial institution strat teams still believing there is a strong case for further upside. The backdrop obviously remains highly conducive; with unwavering support from central banks likely to see monetary easing remain in place for the foreseeable future. This will keep bond yields low, raise inflation expectations and potentially keep the USD suppressed. We agree with this in the medium-longer term, yet believe it will be a bumpy ride higher given a real lack of physical demand to underpin the metals and the fact that being long is becoming a more crowded trade. We feel we will continue to see aggressive pullbacks like we witnessed last Tuesday/Wednesday in the near term with an underlying upward bias.

For silver, there was not a great deal of flow on Friday, however this did not prevent the metal from covering a great deal of distance price-wise. Following Wednesday's aggressive sell-off the white metal rebounded with gold on Friday after looking very soft early on (~$23.25-30 levels). Silver rallied as high as $24.48 late in the NYK session and closed just off that. PGM's ran out of steam by the end of the week, with industrial buyers reluctant to chase platinum and palladium higher.

Another wild start to the week this morning with gold and silver rushing higher on the open (Gold as high as $1984.80 and silver $24.94 in the minutes following). Both metals quickly retreated however and began to push well below the opening levels and failed to really recover throughout the remainder of the session. Volumes have been moderate across both gold and silver, consolidating over the afternoon between $1971-75 and $24.30-40 respectively. Ahead today there is a bit of data to be released including US ISM manufacturing, Markit manufacturing PMI, construction spending and motor vehicle sales. Have a good day ahead.