MKS PAMP GROUP

Asia Market Update

4th December 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1231.30/70	14.39/41	806/08	1202/05
HIGH	1236.60/00	14.48/50	806/08	1216/19
LOW	1230.30/70	14.37/39	803/05	1201/04
LAST	1236.60/00	14.48/50	803/05	1216/19

MARKETS/MACRO

US equities breathed a sigh of relief overnight following the weekend's trade truce between the US and China. The major indices all opened higher on the day and steadily drifted lower throughout the session, yet still managed to collectively close in the black. The Dow Jones Industrial Average advanced +304.99 points (+1.19%) to 25,826.43, the S&P500 rallied +24.13 points (+0.87%) to 2,790.37 and the NASDAQ Composite led the charge up +103.456 points (+1.41%) to 7,441.512. European Stocks were also higher on the more positive outlook on global trade – the EuroFirst 300 climbed +15.05 points (+1.07%) to 1,424.65, the EuroStoxx 600 extended +3.69 points (+1.03%) to 361.18, the DAX rallied +208.22 points (+1.85%) to 11,465.46 and the FTSE100 added +82.17 points (+1.18%) to 7,062.41. Crude prices rebounded on headlines over Saudi-Russian commitment to rebalance the market by extending the OPEC+ deal. This sets the tone of the upcoming OPEC meeting this week in Vienna that group members are taking the production curb seriously. Further, Canada also joined the oil production cut drive, with Alberta (the largest oil producing province) announcing output curbs to mitigate the supply glut. Qatar's decision to leave the cartel was a surprise to the market; the impact is likely to affect politics rather than price given that the production share is not significant (2% of total OPEC's oil production). In the end WTI closed +4.28% to $53.11 a barrel and Brent traded through $62 a barrel, ultimately closing up +5.38% at $61.87 a barrel. Elsewhere, it was an interesting session for US rates as yields fell and part of the curve inverted for the first time in a decade – the 3s/5s curve dipping below 0 bps. The US benchmark 10y ultimately closed down 2bps at 2.97%.

The Fed's Clarida and Quarles spoke overnight. Clarida said that the "Powell Put" is not a useful way to describe what the Fed is doing. However, his comment that "We are in a world where central banks, including the Fed, are focused on keeping inflation away from disinflation," could be taken as suggesting a softer guide path for rates. Quarles stated that the market seems pretty clear about what the Fed intends to do, suggesting he is perhaps content with the recent repricing of the Fed curve. He added that they are coming up to the bottom of the Fed neutral rate range.

On the data front overnight, US headline manufacturing ISM rose to 59.3 (57.5 expected) from a read of 57.7 a month earlier in October. The New Orders component did the bulk of the heavy lifting coming in at 62.1 vs 57.4 expectation, with employment and production also accelerating. Prices Paid collapsed to 60.7 (70.0 expected, 71.6 prior), with the October/November plummeting oil prices already feeding through. Elsewhere, U.S. construction spending fell -0.1% from a month earlier to a seasonally adjusted annual rate of USD $1.31 trillion in October 2018, the same as September's revised figure and below market expectations of a +0.4% rise. Spending on private residential and non-residential declined over the period, while public investment across local, state and federal government reversed a decrease in September.

PRECIOUS

The G20 announcement that a temporary truce had been reached between the US and China over the weekend sparked a rally across the precious complex Monday. An erratic sweep right on the Asia Ecomex open saw the gold leap a few dollars higher in the opening seconds of trade, although with no follow through, just as quickly returned to the opening level of $1222. It was a firm session overall for gold with bids from leveraged, macro and physical accounts helping to angle the metal higher throughout much of Asia. When China opened for business they came in as buyers assisted by a lower CNY and much higher Shanghai Stock Exchange. After climbing consistently throughout the morning, the yellow metal spiked sharply from $1227.50 to $1232.50 in the final 30 minutes of SGE trade before easing back on profit taking during European hours. Gold continued to rally at the NY open hitting the daily high of $1234.50 before some jittery trade took hold in a narrow range for the proceeding few hours ($1222.00-1224.50). Gold eased back slightly into the close, following silver and palladium, although managed to hold onto the 30.00 handle at the closing bell – a feat that hasn't been achieved since late October and has proved a big hurdle over the past month. The risk-on vibe inspired palladium bulls to continue to push the metal through $1200 and onto a peak of $1217, before sharply reversing $15 late in NY. Tightness in this market continues to play a factor with March EFP's anyone's guess somewhere between -55 and -35 and spot spreads blowing out significantly. That said there doesn't appear to be any sign of slowing down for Pd, the XAU/XPD ratio also zeroing in on parity.

The metals continued their bid tone during the Asia session today, most of the complex recovering from the late sell-off in NY and pushing back towards yesterday's highs – with the exception of platinum. Gold opened around $1231.50 and after some initial speculative profit taking going through, pushing the prices to the intra-day lows, the metal began to gradually recover as Shanghai opened. Over the AM session the gold gradually ticked higher, with demand generated via a much lower USDCNY (6.8840 to 6.86) and USDCNH (6.8780 to 6.8550). The SGE premium ground about ~$1.50 higher as a result, with persistent bids evident on the exchange. Spot gold gradually moved toward $1236.50 by the AM close, and so far has held that level quite well despite China currently out for lunch. Palladium after initially shooting lower this morning ($1204) has risen back towards the mid $1215's and continues to look technically strong.

Australia's RBA left its benchmark rate on hold today at 1.50% as expected, with the language in the statement remaining broadly unchanged. One addition to the statement was "some lenders having a reduced appetite to lend", which is slightly dovish, although has been flagged previously by the bank. They also noted "..some signs of a slowdown in global trade, partly stemming from ongoing trade tensions", which is slightly less upbeat. Ahead today, very little on the data front with Eurozone PPI being the only thing of note. All the best and have a great day ahead!