MKS PAMP GROUP

Daily Asia Wrap

8th October 2018

Range Asian Hours (from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1203.20/60	14.63/65	822/24	1068/70
HIGH	1204.00/40	14.65/67	823/25	1073/75
LOW	1195.40/80	14.45/47	816/18	1066/68
LAST	1196.60/00	14.48/50	817/19	1068/70

MARKETS/MACRO

A sea of red remains across markets as the Fed continues to tout a strong economy and normalisation of rates. U.S equity markets were universally lower with the Dow falling -180.43 points (-0.68%) to 26,447.05, the S&P500 retraced -16.04 points (-0.55%) to 2,885.57 and the NASDAQ Composite was hit hardest down -91.063 points (-1.16%) to 7,788.447. It was a similar scenario across the Atlantic, with equity bellwethers in the EuroFirst 300 Index (-12.75 points, -0.86%) and EuroStoxx (-3.27 points, -0.86%) both falling strongly to 1,478.41 and 376.41 points respectively. Meanwhile, regionally the DAX shed -1.08%, FTSE100 slipped -0.83% and CAC40 relinquished -0.95%. The Dollar Index eased back slightly by -0.1% to 95.62 but gained for the 2nd consecutive week, up +0.5%. EURUSD edged up +0.1% last Friday to 1.1520 after a choppy reaction to the employment report, gyrating between 1.1480-1.1550 and ultimately falling -0.7% over the week. The bond market remains a key point of focus for investors. The US 10Y bond yield gained further ground Friday by nearly +5bp to 3.23% and up over +17bp for the week. The 2Y yield gained +2bp last Friday to 2.89% and nearly +7bp for the week. NYMEX crude oil prices closed flat at $74.34 and up +1.5% for the week, marking a 4th consecutive weekly gain. Base metals were again in the grip of the macro risks, with prices ending lower both on the day and week. Copper and aluminium lost the most, while nickel managed to settle higher. Rising US interest rates and the slowing Chinese economy continued to dominate sentiment. Aluminium price strength has fizzled out after rallying to a four-month high as the market raised questions on the complete closure of the Alunorte plant, the world's largest alumina refinery. A narrowing discount of cash vs three-month prices along with falling inventories suggest a tightening market balance.

China's central bank on Sunday announced a steep cut in the level of cash that banks must hold as reserves, stepping up moves to lower financing costs and stoking growth amid concerns over the economic drag from the escalating trade dispute with the United States. The reserve requirement cut, the fourth by the People's Bank of China (PBOC) this year, comes as Beijing has pledged to expedite plans to invest billions of dollars in infrastructure projects as the economy shows signs of cooling further, with investment growth slowing to a record low. Reserve requirement ratios (RRRs) - currently 15.5% for large commercial lenders and 13.5% for smaller banks - would be cut by 100 basis points effective Oct. 15, the PBOC said, matching a similar-sized move in April. Economists predict further cuts ahead. Beijing has stepped up liquidity support across the financial system this year as policymakers have focused on calming fears of capital outflows and sought to soothe battered markets even as anxiety grows that a heated trade war with the United States could deal a damaging blow to the broader economy.

On the data front, non-farm payrolls in the United States increased by +134k in September of 2018, following an upwardly revised +270k in August and well below market expectations of +185k. It is the lowest reading in a year after Hurricane Florence hit the Carolina's in mid-September which likely weighed on the final figure. Job gains occurred in professional and business services, in health care, and in transportation and warehousing. The unemployment rate in the US declined to 3.7% in September from 3.9% in each of the previous two months and below market expectations of 3.8%, marking the lowest jobless rate since 1969. The number of unemployed persons decreased by 270,000 to 6.0 million. Finally, The US trade deficit increased to a six-month high of USD 53.2 billion in August as exports dropped further amid declining soybean shipments and imports hit a record high amid stronger demand for cars, industrial supplies and petroleum. Specifically, China's trade surplus with the United States widened to a record in August even as the country's export growth slowed slightly, an outcome that could push President Donald Trump to turn up the heat even further on Beijing.

PRECIOUS

Gold remained range-bound on Friday and despite some choppy price action around the NFP miss, the metal held in rather well given the significant rise in treasury yields. We opened right on $1200 in Asia Friday and traded sideways for most of the morning, in what was the final day of China's golden week celebration. The market remained contained to a $1198-1200 range into the Asia afternoon in what was a typical pre-NFP session, with investors happy to hold tight ahead of the data. We gradually rose during the European session pushing back toward $1204 area, where we awaited the release. The figures were initially worse than expected (134k vs 185k exp), but the large upward revision to the earlier month and unemployment falling to 3.7% (3.8% exp), markets snapped back fairly sharply. Gold was very volatile between $1200-1206 for the hour and a half after the release, settling around $1202 then climbing to $1203-1204 where we closed. Again it was modest producer supply on the topside capping an advance and Asian buyers supporting against downside moves. All the precious with the exception of platinum closed higher on the day.

Focus today in the markets was squarely on China and how they would react on their first day back in over a week. For the metals, general consensus was that they would be on the offer given the higher USDCNH and higher XAU price from where they last saw it. Also with the news of the softening RRR rate USDCNH had moved higher in early trade, bearish again for gold. Despite this however, it remained fairly stable early on, treading water around $1203-1204. As soon as China entered however they quickly jumped on the offer with SGE premium trading around $6 from the start - about $2 lower than a week earlier. Spot gold traded heavily on the back of the supply and sharply pushed through $1200 enroute to a low of $1195.80. The premium continued to ease on the decline, although the USDCNH and USDCNY began to turn a little into the session which pushed the premium back toward $6 for local traders. Spot gold never really recovered over the morning, hovering around $1196-1197 and is still there as I write during the lunch break. Silver was sold aggressively on the SGE open falling some -$0.20 as were the PGM's, albeit falling to a lesser extent. We expect more pressure during the PM session. Ahead today a slow day in terms of data with German industrial production the only thing of note. It is both a Japanese and US holiday today, so we expect liquidity to be less than usual during the NY session. All the best.