



MKS PAMP GROUP

Daily Asia Wrap

9th October 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1188.30/70	14.38/40	819/21	1075/77
HIGH	1192.00/40	14.41/43	826/28	1081/83
LOW	1188.00/40	14.34/36	818/20	1074/76
LAST	1190.40/80	14.38/40	821/23	1078/80

MARKETS/MACRO

With US out celebrating Columbus day, risk assets had a relatively quieter day yesterday. The greenback had a minor rally with DXY up +0.15% as Euro traded softer on the back of Italian budget woes, trading just below 1.15 levels this morning in Asia. The EU Commission noted significant deviation of Italy's budget plans from EU targets, which weighed on European equities as well. The EuroFirst 300 Index tumbled -16.81 points (-1.14%) to 1,461.60 and the EuroStoxx 600 retreated -4.2 points (-1.12%) to 372.21. Regionally the picture was the same the DAX diving -1.36%, FTSE100 off -1.16%, the FTSE MIB index losing -2.4% and the CAC40 gave up -1.1%. In the US, liquidity across equities was muted due to the holiday, the Dow up +39.73 points (+0.15%) to 26,486.78, the S&P500 inched lower by -1.14 points (-0.04%) to 2,884.43 and the NASDAQ Composite backed off -52.498 points (-0.67%) to 7,735.949. In FX, USDJPY fell -0.4% to 113.20 as the risk-off sentiment compounded, while AUDUSD managed to find a bid, holding above the 0.70 level and closing +0.4% higher around 0.7080. Oil prices have been rising, due to concerns about a severe shortage from looming Iranian sanctions and reduced supply from Libya and Venezuela. However, Saudi Arabia has said that it will fill the void of the lost barrels from Iran. Despite lessening worries about a supply crunch, oil prices edged higher late in trading with both WTI and Brent rising by 0.6%, suggesting that the effects of the US sanctions have been already priced in. The base metals complex declined, with falls recorded across most industrials including aluminium, nickel, zinc and lead. Aluminium was the worst hit, falling by -3.0% to USD2,067/t. This was driven by Norsk Hydro ASA's decision to restart production at the world's biggest alumina refinery in Brazil, reversing concerns about tightening supply of the key raw material. This news arrived just days after the company said the Alunorte facility was to be closed as the only area it can use for waste processing is close to capacity. The flip-flop came as the company said it had gained approval from authorities to use a new technology for waste management.

US Secretary of State Mike Pompeo and Chinese Foreign Minister and State Councillor Wang Yi aired their grievances in the open on Monday during a brief visit to Beijing by Washington's top diplomat, amid worsening relations. While the exchange included typical diplomatic pleasantries, and the two officials emphasised the need for cooperation, their remarks before journalists at the start of their meeting at Beijing's Diaoyutai State Guest House were unusually pointed. "Recently, as the US side has been constantly escalating trade friction toward China, it has also adopted a series of actions on the Taiwan issue that harm China's rights and interests, and has made groundless criticism of China's domestic and foreign policies," Wang said at a joint appearance. "We believe this has been a direct attack on our mutual trust, and has cast a shadow on China-US relations," he added. "We demand that the US side stop this kind of mistaken action". This ongoing friction of course does not bode well with risk assets across Asia and most expect the region to experience some pain going forward.

Italian government debt sold off on Monday, pushing the yield on 10-year paper to its highest closing level since 2014, after European Union officials criticised the government's fiscal plans, reinforcing expectations for a budget



clash with Brussels. Investors are also weighing the prospect of near-term downgrades to Italy's credit rating. With Italy's key government figures making it clear over the weekend that they are in no mood to compromise with the Commission over their reckless fiscal plans, BTPs are again underperforming.

The only data out overnight was German Industrial production which fell -0.3% MoM in August after falling -1.1% MoM in July to be down -0.1% YoY. The monthly decline in August was led by a significant -1.8% MoM drop in construction. Excluding energy and construction, the fall was a more modest, off -0.1% MoM. Consumer goods output rose +1.4% MoM, intermediate goods production was flat (+0.1%) and capital goods output fell -0.7%.

PRECIOUS

Gold underwent a fairly strong downside move overnight, making its way to the low end of the recent range and failing to recover to any meaningful degree. With the news of the 1% RRR on Chinese banks over the weekend, the USDCNH rose over the course of the morning in Asia. Despite this, gold managed to hold in quite well around \$1203-1204 in lead up to the Shanghai open. Once they kicked off their session - the first in a week - as generally expected there was some heavy liquidation. The premium on the SGE after opening around \$6-7 over spot, was hammered sharply down to towards \$3.00-4.00, which resulted in the spot price sharply shooting through the \$1200 level. The move in spot gold continued down to \$1196 before any sign of demand was seen. At this time the SGE premium had recovered to around \$6-7 over the loco London price, which did ease up the selling on the exchange, helping gold to maintain a range between \$1195.50-1197.50 leading into the European morning, despite good volume churning through on both COMEX and SGE. London based traders were on the offer early and forced the metal through the morning lows to trade just beneath \$1195 until NY came in. There was another dramatic sell-off at the NY open, the metal collapsing \$10 over the space of an hour to below \$1185. Some intra-day profit taking saw the gold quickly trade back to \$1190 but straight back off to the days low at \$1183.40 before settling at \$1188. Gold vols were a touch higher on the day, with downside options in demand - 1m 10.35, 3m 9.85, 6m 10.4, 1yr 10.9. There was also some good volume go through in the COMEX 1130 puts on the buy side. Elsewhere, China's gold reserve's fell to \$70.327 billion at the end of September down from \$71.228 billion at the end of August. In India, gold imports are on the rise into the Diwali-wedding season imports sitting at 92t and 93.8t for August and September respectively, doubling from the same time last year. Imports however are still down -17% on a YoY basis from January through to September.

Gold was firmer today, gradually meandering its way higher with some good volume trading through COMEX and the SGE. We opened at \$1188.50, a touch higher from where we closed with the metal trading sideways over the first hour of the day. Japan, who were on holiday yesterday, were on the bid after the TOCOM open marching spot up through \$1190 prior to the SGE open. Similar to yesterday there was a burst of activity on the SGE open, with the premium dropping around \$1 to \$7.00-7.50 in the opening minutes and recovering quite quickly again. Price action in the spot market however was more limited, drifting either side of \$1190 over the course of the morning. The dollar was a little softer throughout the session, EURUSD initially dropping through 1.15 although is trading back around that level as I write. AUDUSD has moved back towards 0.7100 after opening at 0.7070. SGE is just about to re-open so it will be interesting to see what China have in store for the afternoon. In other markets equities are mixed, Nikkei currently -1.2%, Shanghai composite +0.6%, Hang Seng +0.6% and ASX200 -0.97%, crude is up about \$0.30-0.40 and the majors are slightly higher vs. USD. Have a good day ahead.

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