



MKS PAMP GROUP

Daily Asia Wrap

3rd August 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1207.30/70	15.31/33	823/25	915/17
HIGH	1210.20/60	15.32/34	824/26	917/19
LOW	1206.20/60	15.26/28	821/23	913/15
LAST	1206.20/60	15.27/29	821/23	915/17

MARKETS/MACRO

U.S. stocks ended what was a rocky session decidedly higher on the back of a record rally by Apple that took the iPhone maker to a market cap above \$1 trillion, a run-up that helped Wall Street set aside ongoing trade issues between the U.S. and China. The S&P500 rallied +13.86 points (+0.49%) to 2,827.22, the NASDAQ Composite surged +95.399 point (+1.24%) to 7,802.685, while the DJIA only managed to tread water, down -7.66 points (-0.03%) to 25,326.16. The best performing sector was Information Technology, of course led by Apple (+1.4%), while the worst performing sector was Materials (-0.70%). European equities however endured a very heavy session with investors concerned about the escalating trade rhetoric between the U.S and China, with the latter firing back and saying they will not be 'blackmailed' and would swiftly retaliate to any move by the U.S. As a result the EuroFirst 300 index retreated -13.03 points (-0.85%) and Euro Stoxx 600 slumped 3.20 points (-0.82%) to 386.64, while regionally the FTSE100 dipped -0.85%, DAX sold off -1.50% and CAC40 lost -0.68%. Fixed income was bid with U.S Treasury yields down 1.5–2.5bps across the curve, notably the 10y yield decreased -2.05 bps to 2.986% and the 2y yield fell -1.42 bps to 2.663%. Base metals were battered by the ongoing trade conflict barbs and the firmer USD, Aluminium down -0.78%, Copper -0.53%, Nickel -1.91%, while Zinc was higher +0.31%.

The BoE unanimously voted to hike the Bank Rate +25bps to 0.75% Thursday. Governor Carney said, “today, employment is at a record high, there is very limited spare capacity, real wages are picking up and external price pressures are declining”. While the MPC’s economic forecasts were little changed from May, the inflation outlook for 2019 and 2020 has increased a touch, consistent with a weaker sterling. Regarding the outlook, the BoE’s minutes note: *“Although modest by historical standards, the projected pace of GDP growth over the forecast is slightly faster than the diminished rate of supply growth, which averages around 1½% per year. The MPC continues to judge that the UK economy currently has a very limited degree of slack. Unemployment is low and is projected to fall a little further. In the MPC’s central projection, therefore, a small margin of excess demand emerges by late 2019 and builds thereafter, feeding through into higher growth in domestic costs than has been seen over recent years.”* While further moves in the policy rate will likely be very gradual against a backdrop of Brexit, Carney noted, “we can’t be handicapped or tied by the range of Brexit possibilities”. The MPC estimate the long-run neutral rate lies in the range of 2–3%, so with normalisation expected to remain gradual, monetary policy is set to remain accommodative for some time yet. Markets are not fully pricing in another hike until mid- to late-2019. The GBP initially rallied on the rate hike, but with Carney not overly optimistic during the press conference, gains were not sustained.

On the data front yesterday, U.S Initial Jobless claims inched up by 1,000 to 218,000 (220,000 expected) in the seven days from July 22 to July 28, while Continuing claims declined by 23,000 to 1.72 million (Bloomberg consensus 1.75 million). Factory orders advanced +0.7% in June as expected, led by heavy machinery, trucks and passenger planes. Factory orders excluding transport increased +0.4% over the same period.



PRECIOUS

Gold slipped to fresh lows overnight as the USD continued to rise, particularly as USDCNH broke through the 6.85 ceiling. Gold opened at \$1216 yesterday and was met with some consistent Asian buying off the bat. This only continued as the SGE opened, with the premium on the exchange remaining surprisingly stable at around \$4.00. Spot gold hit the days high of around \$1221.00 an hour into the Shanghai AM session, although some risk aversion began to creep in following China's trade retorts with Chinese equities trading down -3.0%. This sent the USDCNH and USDCNY higher and given the close correlation over the past few weeks with gold, the metal ground its way lower. USDCNH continued up to 6.88 throughout London and the gold bears jumped on this and pushed the market below \$1215, despite a steady stream of bids from Asian/Indian names on the way down. Gold continued its gradual decline throughout the NY session as the USD continued to rise, base metals dipped and equities pushed higher. We closed more or less on the lows of the day at \$1207.50, the lowest point since early July 2017. It feels like it is inevitable now that we will have a test of the psychological \$1200 level over the next few days - tonight's NFP print perhaps the catalyst? Record shorts remain in place for Comex specs which has a slight bullish lean at present, although we have not really seen any slowdown in ETF liquidation over the past weeks which does raise a little concern. Similarly the USD remains robust which continues to drive moves in gold.

The market was expecting China to come in as buyers today, which was the case, although it was somewhat alleviated by the firmer USDCNH/CNY. We opened at \$1207 and initially tracked higher via a combination of fast money spec profit taking and light physical demand. Some offers did accumulate however on Comex at \$1210 (cash) and despite a few attempts through there, managed to hold. Once the SGE opened some further demand rolled out and we briefly traded above \$1210, but as soon as the USDCNY fixed some +150 pips higher from the previous days close, gold was slapped lower. That was most of the action for the day, with the metal settling in for the afternoon session between \$1207-1208.50. Silver tracked gold over the session and is currently sitting lower intra-day, while the PGM's are slightly higher. There is a fair bit to digest on the data calendar today including a host of Eurozone Services and Composite PMI's, Eurozone retail sales and U.S employment data, trade balance and services and composite PMI. Have a great weekend.

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