



MKS PAMP GROUP

Daily Asia Wrap

31st January 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1338.00/40	17.13/16	995/98	1055/58
HIGH	1342.50/90	17.18/21	1001/04	1061/64
LOW	1336.50/90	17.09/12	994/97	1055/58
LAST	1341.00/40	17.17/20	1000/03	1057/60

MARKETS/MACRO

Markets had a more risk-off feel overnight led by equities and commodity prices. A combination of profit taking into month end, higher bond yields, stretched valuations and a potential US health-care shake-up seemed the main drivers. The Dow Jones Industrial Average slumped -362.59 points, or -1.37%, to 26,076.89, the S&P500 sold off -31.10 points, or -1.09%, to 2,822.43 and the NASDAQ Composite retreated -64.025 points, or -0.86%, to 7,402.48. The best performing sector was Utilities (+0.3%) and the worst performing sector on the day was Healthcare (-2.1%). European equities mirrored losses across global markets, as investors grew increasingly concerned about a sharp rise in U.S bond yields and its impact on the cost of borrowing. The Euro First 300 Index sank -13.01 points, or -0.83% to 1,557.84 and the Euro Stoxx 600 gave back -3.68 points, or -0.92% to 396.12. Commodities were down across the board, as investors turned cautious ahead of week full of political and economic events. This saw a sell-off across most asset classes. Industrials and precious were the hardest hit, while energy was not far behind. Crude oil prices fell sharply (WTI -\$1.8% to \$64.38) as a weaker USD combined with traders increasing doubts over the continued draw-down in inventories in the US. A survey by Bloomberg showed that investors are expecting to see a 900k b/d increase in crude oil inventories in the U.S last week. Increasing US output is also starting to weigh on the minds of traders, despite OPEC continuing to work on reducing their production cuts. This was highlight by Exxon Mobil's announcement that it will triple production from the Permian Basin to around 600k b/d over the next few years. Overnight the move higher in yields continued and is starting to be a concern for risk assets with VIX on the rise. Not even a 400 point swoon in the Dow at one point could turn U.S treasuries positive on the day and is another signal that developed bond markets have entered a new (bearish) regime with global growth strong and central banks looking to normalise. The U.S 2y note rose +0.6bps to 2.124% and the 10y bond was up +2.6bps to 2.718%.

On the data front, the U.S Conference Board's measure of consumer confidence rose above expectation to 125.4 during January (123.0 expected), while the previous month was upwardly revised by +1.0 to 123.1. Lynn Franco, the Economics Director at the board noted, "Expectations improved, though consumers were somewhat ambivalent about their income prospects over the coming months, perhaps the result of some uncertainty regarding the impact of the tax plan". The up-beat sentiment suggests real consumption growth will kick-start 2018 strongly. Across the Atlantic, German HCPI undershot expectations to its lowest rate in 14 months at +1.4% YoY (+1.6% expected, +1.6% prior). This will raise down-side risks to already low expectations for the Euro Zone preliminary CPI tonight. Core measures will be important to watch, but continue to highlight ECB rate hikes are a distant prospect. Euro Zone activity remained bright, with Q4 GDP at +0.6% QoQ, or +2.7% YoY (upward revisions to Q3 also from +0.6% to +0.7% QoQ).

PRECIOUS

It was a volatile session for gold Tuesday, selling off throughout Asia and testing towards last Friday's lows, before shooting higher in Europe (\$1349.00) and then giving it all back in NY - ultimately closing down slightly on the day. In



Asia we opened yesterday around \$1341 and gold steadily declined toward \$1338.50 in the lead up to the Shanghai open. The Chinese futures market opened with a healthy \$8-10 premium, and initially propped up the spot market, the metal trading back through \$1340 briefly. Shortly after however, both gold and silver took it's cue from a rising U.S 10y rate (2.7%) and dipped back sharply to trade sub \$1335 late in the Asia am. The metals, despite moderate and persistent buying from China into the pm session, remained suppressed throughout the afternoon. During early Europe the yield turned around and the dollar was also widely sold, which prompted an influx of short covering in gold, lifting the metal fairly sharply back to \$1345. Gold rallied at the NY open to the days high (\$1349), yet quickly turned once the better than expected consumer confidence figure was released, failing to catch a bid for the majority of the rest of the session despite the soft equity markets. In the end it was a bit of a disappointing performance for gold given the wide-spread risk off move, closing down -\$2.50 on the day at \$1338.50. Coming into month end there will likely see some volatility in FX, which we expect will translate over to precious. This coupled with some important releases over the next 24 hours (Trump SOTU address, FOMC, Euro Area CPI) could mean a bumpy ride today. On the down-side for gold the Friday cycle low of \$1342.50-3.50 area will be important, while \$1350 will prove a hurdle to the topside. Elsewhere, palladium had a horror session Tuesday. After trading above \$1090 in early NY, heavy spec liquidation prevailed in a thin market and the grey metal traded one way to a low of \$1053 (-3.8% off the high). Support was found around the 50 dma (\$1054.50) closing just off that at \$1057.

Price action was more subdued across the precious metals complex today. Gold opened up around \$1338 and slowly plodded along into the SGE open confined to a \$2 range (\$1338-1340) trading modest volume. Shanghai investors and banks were again on the bid, even though the premium was a touch lower at \$7-9 over spot. Gold continued to trade the range leading up to the SOTU address from Trump. There was not a great deal that happened around this, although the dollar did come off a bit towards the end of his speech which pushed the yellow metal through \$1340. It appeared there were a few stops tripped there as the metal ran swiftly up to \$1341.50 and remains around those levels as I write. Silver and the PGM's are all exhibiting modest gains on the day so far.

On the data front, Australian Q4 CPI came in weaker than expected with Headline coming in at +0.6% QoQ (+0.7% expected), +1.9% YoY (+2.0% expected) and Core at +0.4% QoQ (+0.5% expected), +1.8% YoY (+1.8% expected). Overall the data disappointed again as ongoing headwinds for inflation gain traction. AUD initially dropped 45 pips to 0.8054 lows before recovering partially to 0.8070. China's January manufacturing PMI was released shortly after this coming in below expectation at 51.3 (51.6 expected, 51.6 prior), while Non-Manufacturing PMI was improved to 55.3 (54.9 expected, 55.0 prior). At time of writing President Trump has just finished his State of the Union address, which focused on bringing back manufacturing to US shores, working on an immigration reform bill and talking up his tax reform. Markets didn't really react to his speech, the dollar tapering off mildly towards the end of the address. Quite a bit of data expected today including - Euro Zone CPI, German employment, Canadian GDP and U.S FOMC rate decision, ADP employment, pending home sales, Chicago PMI and mortgage applications. Have a good day ahead.

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