



MKS PAMP GROUP

Daily Asia Wrap

20th June 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1274.80/20	16.28/30	869/71	970/72
HIGH	1276.20/60	16.36/38	869/71	972/74
LOW	1273.00/40	16.28/30	860/62	967/69
LAST	1274.20/60	16.34/36	861/63	972/74

MARKETS/MACRO

Following the intensification of US-China tit-for-tat trade rhetoric, the risk-off tone continued through the European session. Lower equities, safe-haven demand for fixed income and USD strength dominated proceedings. The Dow Jones Industrial Average relinquished -287.26 points, or -1.15%, to 24,700.21. The steep decline marked a sixth straight drop for the blue-chip index, representing the longest string of down days in over a year and erasing all of 2018's gains thus far (-0.10% YTD). The S&P500 sold off -11.18 points, or -0.40%, to 2,762.57 and The NASDAQ Composite slumped -21.44 points, or -0.28%, to 7,725.585. The best performing sector on the day were Telco's (+1.4%), while the worst performing sector was Industrials (-2.1%). Trade-war talk affected European bourses also, investors continuing to liquidate across the board. The EuroFirst 300 Index sank -10.80 points, or -0.72% to 1,498.06 and the EuroStoxx 600 retraced -2.70 points, or -0.7% to 383.21. Regionally the DAX cratered -1.22% FTSE100 dipped -0.36% and CAC40 slid -1.10%. Elsewhere, the escalating trade war came as OPEC headed toward a fractious meeting in Vienna, sending crude oil prices lower (WTI -\$0.75, or -1.14% to \$65.10, Brent -\$0.33, or -0.44% to \$75.01). Saudi Arabia and Russia continued to push for a relaxation in production constraints, going against many other members wishes. Iran rejected a potential compromise, saying it won't support even a small increase in oil production. In fact, the Iranian oil minister said that he doesn't believe this meeting can reach an agreement. This puts Saudi Arabia in a tough position, as unanimity is needed for any accord to be reached. In FX, the dollar strengthened against a host of currencies following Trump's retaliatory barbs at China. Sterling in particular was pressured ahead of tomorrow's House of Commons vote on the Brexit bill, with the pro-European and harder Brexit factions still deeply divided. In fixed income U.S 10y yield's decreased -2.02bps to 2.897% and the 2y yield fell -0.4bps to 2.545%.

President Donald Trump late Monday proposed identifying \$200 billion in Chinese imports for additional tariffs of 10% - with a further \$200 billion after that if Beijing decided to retaliate. While the \$50 billion in tariffs already announced on Friday focused on industrial goods, this broader-reaching move would push up prices for imports such as toys, tools, t-shirts and a lot more for U.S. shoppers. China were again quick to respond with retaliation measures. "If the U.S loses its senses and publishes such a list, China will have to take comprehensive quantitative and qualitative measures", according to a statement from China's Ministry of Commerce. It labelled the move "extreme pressure and blackmail", in the statement. Trump's trade adviser Peter Navarro said yesterday that tariffs against China will be "ultimately bullish" for American businesses, as the administration tries to bring "structural change" to the U.S-China trading relationship. Navarro mentioned the U.S and China are having "a trade dispute, nothing more, nothing less". He said Trump is willing to talk to China and other nations about trade.

On the data front, U.S May housing starts rose +5.0% MoM to 1.35m starts (+1.9% and 1.311m expected), marking a new recovery high and brings housing starts closer to their ultra-long run average of 1.43m. Construction is growing



at the fastest pace in more than a decade, however, building permits fell -4.6% MoM (-1.0 expected), suggesting the longer-term outlook for builds may not be as firm.

PRECIOUS

Gold was not immune from the risk-off sentiment overnight despite its safe-haven qualities, the metal instead trading in-line a firmer dollar and dipping to fresh yearly lows just short of \$1270. Gold opened in Asia and interestingly remained firm throughout much of the morning, with China/HK and Singapore back from holiday and looking to take advantage of the lower prices. USD/CNY fixed lower on the day, which pushed up the SGE premium in early trade to around \$6.50-7.50 over the loco London price and drew out some demand. USDJPY was also higher following some of the Trump trade war comments which pushed spot gold up to the highs of the day - toward \$1284 - where there was some good supply at \$1285 (cash). When China reopened for the PM session, the SHCOMP was hit hard in the wake of the trade war headlines (-4.8%), which dragged the USDCNY higher and deflated the SGE premium back towards \$4-5, prompting some liquidation. Base metals and the PGM's were hit hardest, but gold and silver were lower into the London open. Industrial metals continued to sell off into the European morning and the precious continued to sink. When NY opened the selling continued and gold quickly dropped down to the lows of the day (\$1271.05) before finally recovering and holding between \$1273-1276 into the session close. The market attention certainly seems to be on the U.S and China at present and what comes out of these tariff for tariff blows. One would think gold should perhaps be higher given the uncertainty, instead it is trading like any other commodity at the moment and at the mercy of swings in the USD. The stronger USDCNY will continue to quell Chinese demand at these lower levels and we feel that specs could be a little reluctant to go long here given the technical set up. It will be interesting to look at ETF activity over the next few weeks given holdings still remain fairly robust, despite trading near year lows.

Not a great deal of action in Asia today with the yellow metal happily consolidating within a \$3 range. We opened at \$1275 and traded sideways up until TOCOM opened, where some light selling in thin conditions was seen nudging spot gold down to \$1273.50. As China opened for business there was some small buying seen which pushed the yellow metal up to intra-day highs, although with the SGE premium still range-bound (\$5-6) turnover was limited. In other markets, Asian equities are higher Nikkei currently up +1.25%, Hang Seng +1.1%, Shanghai Composite +0.50% and ASX200 +1.15%, while WTI crude has rebounded +\$0.35 (+0.5%) to \$65.40. The USD has generally pushed higher against the majors, with exception of the AUD which is up +20 pips at 0.7400. On the data calendar today look out for German PPI and U.S mortgage applications, current account balance and existing home sales. Have a good day ahead.

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