MKS PAMP GROUP
Daily Asia Wrap
27th June 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1258.20/60	16.28/30	868/70	960/62
HIGH	1259.30/70	16.30/32	868/70	963/65
LOW	1253.40/80	16.17/19	861/63	955/57
LAST	1257.40/80	16.22/24	863/65	955/57

MARKETS/MACRO

Despite trade tension continuing to simmer yesterday, risk sentiment in general managed to improve. U.S. stocks closed slightly higher as energy shares rebounded from steep losses in the previous session. The Dow Jones Industrial Average tacked on +30.31 points (+0.12%) to 24,283.11, the S&P500 advanced +5.99 points (+0.22%) to 2,723.06 and the NASDAQ Composite closed up +29.26 points (+0.39%) at 7,561.627. Energy stocks were the leading sector intra-day (+1.40%), while the worst performing sector was Consumer Staples (-0.45%). European equities managed to stabilise after selling off the past few sessions on trade war concerns. The EuroFirst 300 index edged up +1.29 points (+0.09%) to 1,474.48 and the EuroStoxx 600 was fairly flat up +0.08 of a point (+0.02%) to 377.25. Crude oil prices surged yesterday on reports that the U.S was pressuring allies to halt purchases of Iranian oil, WTI rallying +$2.60 (+3.8%) to $70.68 - the highest level in a month. After the U.S pulled out of the Iran nuclear deal, there had been much speculation as to whether this would actually mean less Iranian oil hitting the market. However, the U.S is now putting political pressure on consumers to end purchases, while also warning that it doesn't want to offer any extensions or waivers to any sanctions. This comes at a time when other supply disruptions are emerging. Uncertainty about Libya intensified after a militia leader handed over control of certain ports to a rival of the state oil company. Yesterday's news about operations at Syncryde, Canada's oil sands complex in Alberta, is also weighing on the market. This has seen the Brent premium to WTI shrink from ~USD 10.00/bbl last week to only ~USD 6.00/bbl currently. In FX, much attention continues to be focused on $China which continues to push towards the key 6.60 handle (both CNH and CNY pushing through this morning). Both pairs have already rallied more than 20 big figures just in the last few weeks and look set to continue. According to Commerzbank they are starting to see equity funds put on forward hedges against further RMB weakness while recent inbound equity inflows look increasingly at risk of turning negative. Elsewhere, the U.S 10y yield decreased -0.37bps to 2.876% and the 2y yield fell -0.42bps to 2.529%.

The back and forth between the U.S and other trading partners continued overnight. President Trump took to Twitter taking aim at one of the country's beacons of American manufacturing, Harley-Davidson. This quote sums it up: "A Harley-Davidson should never be built in another country-never! Their employees and customers are already very angry at them. If they move, watch, it will be the beginning of the end – they surrendered, they quit! The Aura will be gone and they will be taxed like never before!". While it certainly plays to those in the U.S manufacturing sector, rural communities dependent on agriculture are starting to hurt with a number of soft commodity prices tumbling, especially those where there is an existing oversupply situation. The escalating situation has prompted more than 60 companies and organisations representing American dairy farmers and processors to urge the administration to reconsider its imposition of new tariffs on Mexico, as it is their largest and most reliable export market. In retaliation for US actions on steel and aluminium imports, Mexico recently added new tariffs – some of which will reach as high as 25% next month – on some American-made edible goods, amongst other products. Time will tell of the outcome, but such shifting alliances will be important for dairy and other commodity markets. China also mentioned yesterday it will remove import tariffs on animal feed ingredients including soybeans, soymeal and rapeseed from five Asian countries, a sign Beijing is seeking alternative supplies of the commodities as opposed to the U.S. China will drop tariffs on soybeans, soymeal, soybean cake, rapeseed and fishmeal originating from Bangladesh, India, Laos, South Korea and Sri Lanka from July 1. Even though the government had planned the tariff cuts since March, the cuts indicate that China is taking steps to reduce its dependence on U.S. agricultural products amid the mounting trade dispute between the two countries. Soybeans are China's biggest agricultural import from the United States by value.

PRECIOUS

Gold extended its leg lower yesterday on the back of a rising USD and continued tech selling following last weeks 'death cross' on the daily chart. The yellow metal opened in Asia yesterday and remained fairly flat, rallying in fact to the daily highs just after the Shanghai open. The stronger USDCNH and USDCNY dented the premium on the SGE some $4 however, which drew out some sizeable selling clips from Chinese names. The move lower for spot gold during Asia was fairly steady, falling to $1263 and then hovering around that level up until European traders walked in. The buying in the dollar remained robust, and gold which has shown good negative correlation to the USD was sold off further. Initially it was swept lower to $1258 and then back up to $1260. Decent liquidation was seen on the bounce however and the metal continued onto the lows of the day ($1255.20) as NY opened for trade. The leaping broader commodities base (particularly crude and base metals), allowed some respite in the sell-off, gold managing to scramble back toward $1262. It did not last though, with hedge funds and leveraged supply taking us back to $1257 and eventually closing around $1258.50. Next support sits around $1245-50 area and we see resistance at around $1270-75 in the short term. What is of slight concern is that last time we saw a 'death cross' on a daily chart for gold (Nov 2016), the metal subsequently dropped ~12%. Further we are seeing continued selling in ETF's and we are heading for the weakest month in a year in terms of outflows, as market players cover their losses. The (possible) shining light in the near term is that the trade war will completely erupt, which should be bullish for gold. It so-far has failed to ignite any safe-haven demand, however if tariffs and protectionism continues to mount, one would think it would have to bolster gold's appeal.

It was another weak session today, with USDCNH and USDCNY breaking through tech resistance at 6.60 and trading strongly throughout the day. Gold kicked off the session around $1258.50 and traded between $1257-1259 leading into the China open. In what was a similar set-up to yesterday, as soon as USDCNY fixed it shot some 3 big figures higher, pressuring the spot gold price. The SGE premium was also lower again ($3.50-4.50 over LL), which drew out further selling from Chinese participants and whacked spot gold in the aftermath of the CNY fix. We traded swiftly down to the o/n lows at $1255.20 and eventually pushing through. There was some bids seen on Ecomex ($1253-55 cash equivalent), which steadied the decline however. Some Chinese demand also chimed in when the USD showed signs of easing and stabilising. That being said, it was still a soft session and it will be interesting to see where we head today. Gold has fallen some -3.3% since the start of the month, and once we see quarter end push through we may see a little more demand surface, particularly if the USD slows. Best of luck and good day ahead.