



MKS PAMP GROUP

Daily Asia Wrap

16th May 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1290.20/60	16.26/28	896/98	982/84
HIGH	1294.70/10	16.29/31	899/01	983/85
LOW	1290.20/60	16.24/26	895/97	978/80
LAST	1294.00/40	16.29/31	899/01	983/85

MARKETS/MACRO

Global markets traded more cautiously overnight as the dollar resumed its upwards climb, helped in part by a resurgent 10y treasury yield, which saw the benchmark rate touch 3.09% - the highest level in seven years. The dollar index hit a year to date high of 93.4, assisted by strong supply of EURUSD in the NY session and a firmer U.S retail sales print. The strength in the dollar was fairly broad based across the G10 space, though the moves were led by the Euro, Aussie and Kiwi, with the latter two continuing to trade fairly heavily. U.S. stocks fell firmly with a lengthy winning streak for the Dow coming to an end as the higher bond yield challenged appetite for equities compared with climbing rates for risk-free bonds. The Dow Jones Industrial Average fell -193.00 points, or -0.78%, to 24,706.41, the S&P500 retreated -18.68 points, or -0.68%, to 2,711.45 and the NASDAQ Composite slumped -75.84 points, or -1.09%, to 6,888.54. The best performing sector was Energy (+0.01%) which just kept its head above water, while the worst performing sector was REITs (-1.70%). Major European indices bounced around wildly throughout the day, managing to close slightly higher, as investors digested a host of economic data and corporate news. The EuroFirst 300 rose +2.20 points, or +0.14% to 1,540.52 and the Euro Stoxx 600 crept up +0.18 of a point (+0.05%) to 392.37. Crude oil prices trod water (WTI +0.06% at \$71.00), with rising geopolitical risks and ongoing supply-side issues negating the impact of the stronger USD. Ongoing instability in the Middle East, particularly Gaza, continues to add to the geopolitical risks that have pushed oil higher in recent months. Further, data supplied to OPEC by the Latin American producers showed output sank to 1.50 million b/d, down ~31% YoY. There were also reports that Venezuela has been forced to purchase crude oil on the open market to support key allies, such as Cuba. Adding to these woes, ConocoPhillips is asking the courts to help it recover about USD 2bn of its assets owed by Venezuela's state-owned oil giant.

U.S data releases were fairly solid yesterday, implying the economy is accelerating in the early stages of Q2. U.S retail trade rose by +0.3% MoM in April 2018, following an upwardly revised +0.8% surge in March and matching market expectations. The increase was mainly driven by higher purchases at gasoline stations, gardening and building material stores, and clothing stores. Ex Auto's, retail sales declined marginally to +0.3% for April, down from an upwardly revised +0.4% and missing expectations of a +0.5% gain. Retail sales Ex auto's and gas was also a touch lower than previous at +0.3% (+0.4% expected, +0.4% prior). Across the Atlantic the data was more mixed. Germany's GDP expanded at +0.3% QoQ (+0.4% expected, +0.6% prior), the slowest pace of expansion since the third quarter of 2016, due to weaker trade and a fall in government spending. The Eurozone's gross domestic product grew by +0.4% on quarter in the three months to March 2018, unrevised from the preliminary estimate and below the +0.7% for the previous period. Among the bloc's largest economies, GDP growth slowed in Germany and France, and was unchanged in Italy and Spain. Compared with the same quarter of the previous year, the Eurozone economy expanded +2.5% (+2.5% expected, +2.5% prior).



PRECIOUS

Gold broke down through the important \$1300-1305 support zone overnight, with some huge volumes trading through Ecomex (~470k lots GCM8). The market started out very quietly around \$1313, with the expectation that Asia would be buyers given the softer price action from the night before. There was some support seen from Asian names throughout the morning, although it was not enough to counter the thick band of offers sitting around \$1314-15, which happily absorbed the Asian buying throughout the morning in Asia. The days high was hit during the SGE AM session, although once the lunch break commenced spot gold started to sell-off gradually. The sell-off picked up steam as the USD began to push higher on comments that Turkish President Erodogan was looking at taking more 'responsibilities in FX'. USDTRY in particular took off, although there was a lot of carry over to the G10. Palladium was the first to be impacted dropping through \$990 and plunging some \$25 in a matter of moments to \$964 as stops cascaded. Some 500 lots went through on the initial sweep and then about another 200 or so lots traded as it shot back towards \$980. Gold and silver came under pressure around the same time and despite not being as aggressive a move as seen in Pd, the metals continued to slump even though Asian demand picked up. During late London, EURUSD broke down through 1.1900 and the 10y UST rallied from 3.02% to 3.055%, which gave gold the impetus to finally break the \$1300 support. Huge volumes were seen churning through the market at this point, as technical selling took hold and stops were triggered. The metal shot below \$1295 and never recovered, trading as low as \$1288.90 around the same time the 10y hit 3.09%, then holding a \$1290-93 range into the close. There is scope for this sell-off to extend lower now, targeting \$1386 (61.8% retracement of the Dec 17-Apr 18 rally), while the old support should become immediate resistance around \$1298-1302. Silver traded softly again overnight trading as low as \$16.205 and we are now within striking distance of a very important support line which has held a number of times since December 2015 (cuts in around \$16.04). Elsewhere, ETF's have been modestly increasing holdings over the past week or so, so it will be interesting to see what happens below the key \$1300....

Good volumes were seen today in Asia, although price action remained fairly contained for the yellow metal - spec and real money sellers countering Asian physical buying. Gold gradually ticked higher as Asian investors arrived at their desks this morning. It inched up a few dollars prior to the SGE open, although it was clear there was still decent selling across Comex. The SGE opened and the premium on the exchange had not changed too dramatically, up a little at around \$8-9 over the loco London price for onshore buyers. Demand on the exchange was good throughout the morning, which helped the spot gold test up as high as \$1294.70, but it ran into some solid resting offers there and failed to break through. At time of writing we have kept pushing up against \$1295 but have held for now and Chinese demand remains persistent. There has also been strong turnover on ECOMEX with GCM8 currently sitting at 40k lots after 7 hours trade. It will certainly be interesting to see what develops over the next 24 hours for the metals complex. Have a great day ahead.

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