



MKS PAMP GROUP

Daily Asia Wrap

18th July 2018

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1227.80/20	15.55/57	817/19	914/16
HIGH	1229.00/40	15.60/62	817/19	915/17
LOW	1222.30/70	15.43/45	809/11	909/11
LAST	1223.10/50	15.44/46	809/11	909/11

MARKETS/MACRO

Powell's testimony last night in front of a Senate Banking committee was broadly positive for the dollar, strengthening against most G10 pairs, with USDJPY breaking above 113 as risk assets traded on a firmer footing. In his testimony, Powell reiterated his positive outlook for the US economy, noting that the best path forward is to keep gradually raising the Fed funds rate for now (without any firm commitment) and importantly remain flexible in the face of changing conditions. U.S equities welcomed Powell's stance extending its recent upswing, the DJIA rising +55.53 points (+0.22%) to 25,119.89, the S&P500 advancing +11.12 points (+0.40%) to 2,809.55 and the NASDAQ Composite gained +49.399 points (+0.63%) to 7,855.118. European equities advanced also as investors digested further corporate results and EUR softened against the USD. The Eurofirst 300 index advanced 3.87 points (+0.26%) to 1,506.94 and the EuroStoxx 600 climbed +0.93 of a point (+0.24%) to 384.98, while regionally the DAX rose +0.8%, FTSE100 +0.34% and CAC40 +0.24%. Crude ended the day softer, although did manage to curb some of the recent severe weakness with the WTI down -\$0.45 (-0.66%) to \$67.61 and Brent down -\$0.16 (-0.22%) to \$71.68 intra-day. Investor's focused on declining U.S stockpiles, with a BBG survey revealing that consensus is for a decline of about 4 million barrels later this week. This was offset however by several producers, namely Russia, Saudi Arabia and the U.S, reporting rising output. Elsewhere in the G10 space, cable fell close to -1% on the day to below the 1.31 handle as concerns over Brexit and the future of May's government was firmly in the spotlight again.

Federal Reserve Chairman Jerome Powell reiterated on Tuesday that it was appropriate to follow the central bank's plan to gradually increase interest rates, although he warned that uncertainty surrounding current trade tensions made analysis difficult. "With a strong job market, inflation close to our objective, and the risks to the outlook roughly balanced, the FOMC believes that, for now, the best way forward is to keep gradually raising the federal funds rate", he said in his semiannual monetary policy report to Congress. Powell indicated that he and his fellow policy-makers at the Fed believed that the job market will remain strong and inflation will stay near its 2% target over the next several years. He explained that financial conditions remained favourable to growth, that a stronger financial system was in a good position to meet the credit needs of households and businesses, tax and spending policies would likely continue to support the expansion, and the outlook for economic growth abroad remains solid despite greater uncertainties in several parts of the world. However, he admitted that "it is difficult to predict the ultimate outcome of current discussions over trade policy as well as the size and timing of the economic effects of the recent changes in fiscal policy".

On the data front U.S industrial output rose +0.6% MoM in June 2018, recovering from an upwardly revised -0.5% contraction in May and matching market expectations. The production of motor vehicles and parts rebounded last month after truck assemblies fell sharply in May because of a disruption at a parts supplier.



PRECIOUS

Gold broke through the key support at \$1236.50 yesterday (Dec 2017 low pivot) and crashed to a low of \$1226.50, as heavy macro and ETF liquidation took its toll. Gold opened on soft footing in Asia yesterday with topside Comex offers exuding pressure on the yellow metal above \$1240-42 (cash). We dipped off following the Shanghai open towards \$1237.50, although there were some bids under \$1240 and ahead of the \$1236.50 support which steadied proceedings. During early Europe there were some signs of resilience, the metal pushing back through \$1240 and pushing as high as \$1244.75, before early selling from U.S traders curbed any further advance. From there it was basically all one-way for gold, as ETF and Macro supply outweighed some very light physical demand. After holding 3 times since early July, the \$1236.50 support level gave way as the USD rallied strongly - particularly vs. the GBP, JPY and EUR. Stops were tripped and the metal sharply sank toward \$1230, recovering soon after back to \$1234.50 only to be sold heavily by technical traders to fresh lows (\$1226.50). The damage had been done prior to Powell's address and the metal sat quietly into the close either side of \$1228 spot. Technically there is not a great deal of technical support now until we hit \$1204.50 (July 2017 low), while we expect a decent amount of resistance on any move back toward \$1230-1236.50. The break lower will likely draw out further ETF selling over the coming days, so we suspect gold will remain under pressure in the near term.

Gold opened this morning at \$1228 and traded quietly sideways throughout the early morning, with bias remaining slightly skewed to the sell side. Once China stepped in, there was some light demand from them although given the premium on the SGE was little changed despite the fall this was limited. Spot gold edged up a few dollars as a result but fell short of traversing \$1230. Over the early afternoon we remained in a fairly tight range, although downside momentum began to pick up when China re-opened for their PM session and USDCNY and USDCNH began to rally. We broke through the overnight lows (\$1226.50) and continued to \$1225.00 where some two-way interest was seen. As early London traders walked in further liquidation was seen and so far we have traded to a low of \$1222.70, with the whole precious complex feeling heavy. Nothing of note in terms of data in Asia today, although ahead today look out for UK CPI and PPI, EuroZone CPI and U.S Housing Starts, Building Permits and the Beige Book. Have a good day ahead.

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