



MKS PAMP GROUP

Daily Asia Wrap

2nd October 2017

Range Asian Hours
(from Globex open)

	GOLD	SILVER	PLATINUM	PALLADIUM
OPEN	1279.00/40	16.62/65	910/13	938/40
HIGH	1279.50/90	16.65/68	912/15	940/42
LOW	1273.30/70	16.57/60	908/11	935/37
LAST	1273.60/00	16.58/61	910/13	936/38

MARKETS/MACRO

U.S equities had another positive week to round out the third quarter, with the S&P closing at another record high on Friday, boosted by tech stocks in particular. The S&P500 rallied +9.30 points, or +0.37%, to 2,519.36 on the day, while the Dow Jones Industrial Average gained +23.89 points, or +0.11%, to 22,405.09 and the NASDAQ added +42.509 points, or +0.66%, to 6,495.959. Technology stocks performed best up +0.75%, with utilities (-0.1%) lagging. In Europe it was an equally impressive performance with most of the major indices locking in their best monthly performance of the year. A string of upbeat data and a rally in bank stocks pushed the rise with the FTSE Euro First 300 gaining +6.73 points, or +0.44% to 1,524.79 and the Stoxx 600 index up +1.8 points, or +0.47% to 388.16. Regionally the DAX advanced +0.98%, FTSE100 +0.68% and CAC40 +0.68%. Crude oil nudged higher, with WTI up +0.3% to \$51.67 a barrel, concluding the strongest quarter for oil prices in more than a year. Further strength was limited by OPEC production rising through September, led by Nigeria and Libya. The dollar enjoyed a good week on incipient hopes for US tax cuts to add to the support from a self-confident Fed. Friday however the USD did retreat marginally, the dollar index selling off -0.01% to 93.076, as the U.S PCE inflation data underwhelmed. The front end of the treasury curve shot up after the Wall Street Journal reported Kevin Warsh was interviewed for the Fed Chair post. He has been an inflation hawk and openly against QE when he was a Fed President. U.S. 2y yields rose +4 bps as a result to 1.483% while 10y's rose +2 bps to 2.333%.

On the data front, the Fed's preferred price gauge, the PCE price index, rose +0.2% in August from a year earlier according to the U.S Commerce Department and just missing expectations of +0.3%. Core PCE also rose a modest +0.1% on the month, less than economists expectations of +0.2%. The miss will keep Fed doves cautious about inflation dynamics. Despite the soft annual picture there has been an increasing trend since May, driven by a pick-up in goods prices and steady services price gains. The consumer sentiment index, a survey of consumers by The University of Michigan, hit 95.1 in September in a final reading Friday, which was lower than an expected 95.3 (95.3 prior). The sub-indices were mixed: current conditions fell to 111.7 while expectations rose to 84.4. In Europe, core inflation eased back to +1.1% YoY in September (1.2% expected, +1.2% prior). Services inflation, which is 45% of the HICP, eased a tenth to +1.5% YoY (+1.6% expected, +1.5% prior). The core inflation data confirms how difficult it is to get inflation up despite growth currently running above trend. It reflects a demand deficiency and fits with the ECB's view that very accommodative monetary policy is still required, even if it intends to start dialling back QE. The ECB is actually expecting headline inflation to fall to around +0.9% YoY in Q1 2018.

PRECIOUS

Gold continued its downward path on Friday trading through \$1280 and ultimately closing on a soft note to round out the quarter. During September the yellow metal has relinquished -3.2% after hitting a high of \$1357, the worst monthly slide of the year amidst a backdrop of a rising USD and looming Fed rate hikes. Trade last Friday started out fairly neutral in Asia, with some light two way interest seen ahead of China's week long holiday this week. The



market opened around \$1287 and traded sideways into the SGE open. Gold sold off a few dollars leading into the SGE open, with some widely fluctuating premiums seen on the Chinese exchange (\$5-9) for onshore traders. Some buying was seen into the Asia afternoon/ European morning but producer offers were seen ahead of \$1290 capping things throughout their day. There was a brief push higher at the NY open, the yellow metal briefly hitting an intraday high of \$1290.60 before producers came in and sold the market aggressively. The metal continued to slide throughout the remainder of the low, positing a fresh monthly low beneath \$1280. Some large stops went through around that level and the market quickly sank to a low of \$1277.50 but managed to hold just beneath \$1280 into the close. Palladium is still trading at a premium to its stablemate platinum, with the metal in short supply and demand from auto's and speculators remaining strong. Palladium, in contrast to gold, silver and platinum, rose an impressive 11% during September, taking the total yearly gains to a whopping +38% thus far. Elsewhere, according to the World Gold Council, the Bank of Russia has more than doubled its pace of gold purchases in recent months. Since 2007, the central banks holdings have quadrupled to 1716 tonnes (end June), putting it just behind China. Of Russia's total \$427 billion worth of reserves gold now makes up a significant ~17% of this.

Today marked the first day of the week long Chinese holiday, with liquidity noticeably down. Given the absence of China today (who are usually buyers on dips) there was little in the way of support for gold. The metal opened at \$1279 and was under immediate pressure from SE Asian traders pushing the price down a few dollars towards the Friday lows. This level was eventually breached and the selling volume increased, pushing the price down to a fresh cycle low \$1274.50. The metal failed to recover from these levels trading fairly flat into the afternoon either side of \$1275 on moderate volumes. Technically the next support zone for gold sits at \$1272.40 (100 dma) and then \$1268.10 (61.8% retracement of the July-September rally), while resistance resides at \$1280-82 (50% retracement of the July-Sep rally). On the data calendar today look out for a host of European manufacturing PMI's, Euro Zone employment data and U.S manufacturing PMI, ISM manufacturing and construction spending. Have a good day ahead.

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