

(HKSFC CE No. AGO928)

News Headlines

Stocks, dollar up on U.S. rate hike bets, Trump relief

- Dow tops 21K for first time, S&P and Nasdaq hit records
- Dollar index hits seven-week high, drags down gold
- 2-year Treasury yields highest since December
- Rate hike bets help financial stocks
- Investors relieved by Trump's tone in speech (Reuters)

China opens bond market a little more, but concerns linger

- Bond investors can trade derivatives to hedge FX exposure
- Offshore investors remain cautious over market access
- Derivatives market still small with low trading liquidity
- New foreign investor rules likely to have limited market impact (Reuters)

Fed tees up March rate hike as key policymaker shifts tone

- The Federal Reserve is setting the stage for a U.S. interest-rate increase later this month, with the central bank's leading voice on international economics saying the global economy seems to have turned a corner, clearing the way for a hike "soon." (Reuters)

U.S. commander downplays chance of big Iraq, Syria troop hike

- Large U.S. deployment against Islamic State unlikely
- Priority is working with local partners on the ground
- Turkey worried by potential Kurdish militia role in Raqqa (Reuters)

U.S. consumer spending slows; inflation pressures firming

- Consumer spending increases 0.2 percent in January
- PCE price index rises 0.4 percent; core PCE up 0.3 percent
- Inflation-adjusted consumer spending falls 0.3 percent
- Manufacturing activity surges to 2-1/2-year high in February (Reuters)

| Precious Metals | High | Low | Close* | Chg. | % Chg. |
|-------------------------------|---------|---------|---------|--------|--------|
| Gold Spot (\$/oz) | 1250.60 | 1236.45 | 1248.86 | 0.34 | 0.03% |
| COMEX Gold Apr17 (\$/oz) | 1251.40 | 1237.20 | 1250.00 | 1.20 | 0.10% |
| Silver Spot (\$/oz) | 18.4590 | 18.1900 | 18.4100 | 0.1040 | 0.57% |
| COMEX Silver May17 (\$/oz) | 18.5100 | 18.2700 | 18.4600 | 0.1000 | 0.54% |
| Platinum Spot (\$/oz) | 1027.30 | 1007.35 | 1015.70 | -8.15 | -0.80% |
| NYMEX Platinum Apr17 (\$/oz) | 1030.20 | 1014.60 | 1019.00 | -7.80 | -0.76% |
| Palladium Spot (\$/oz) | 780.40 | 766.97 | 777.75 | 6.01 | 0.78% |
| NYMEX Palladium Jun17 (\$/oz) | 783.90 | 769.05 | 776.35 | 5.05 | 0.65% |

| London Fixes | Gold | Silver | Platinum | Palladium |
|--------------|---------|---------|----------|-----------|
| AM (\$/oz) | 1246.05 | 18.3300 | 1027.00 | 778.00 |
| PM (\$/oz) | 1240.40 | | 1015.00 | 775.00 |

| Energy Products | High | Low | Close* | Chg. | % Chg. |
|-------------------------------------|--------|--------|--------|---------|--------|
| NYMEX WTI Apr17 (\$/bl) | 54.44 | 53.63 | 53.67 | -0.33 | -0.61% |
| ICE Brent May17 (\$/bl) | 57.05 | 56.24 | 56.28 | -0.17 | -0.30% |
| NYMEX RBOB Gasoline Apr17 (\$/gal) | 1.7257 | 1.6650 | 1.6666 | -0.0496 | -2.89% |
| NYMEX NY Harbor ULSD Apr17 (\$/gal) | 1.6595 | 1.6221 | 1.6240 | -0.0160 | -0.98% |
| ICE Gasoil Mar17 (\$/mt) | 501.25 | 492.50 | 493.25 | -1.50 | -0.30% |
| NYMEX Natural Gas Apr17 (\$/mmBtu) | 2.828 | 2.743 | 2.797 | 0.028 | 1.01% |

| Currencies | High | Low | Close* | Chg. | % Chg. |
|-------------------------|----------|----------|----------|---------|--------|
| EUR USD | 1.0588 | 1.0513 | 1.0546 | -0.0029 | -0.27% |
| USD JPY | 114.04 | 112.71 | 113.71 | 0.96 | 0.85% |
| AUD USD | 0.7699 | 0.7633 | 0.7674 | 0.0017 | 0.22% |
| USD CHF | 1.0129 | 1.0049 | 1.0084 | 0.0028 | 0.28% |
| USD CNH | 6.8770 | 6.8533 | 6.8677 | 0.0128 | 0.19% |
| GBP USD | 1.2404 | 1.2277 | 1.2293 | -0.0087 | -0.70% |
| DOLLAR INDEX SPOT (DXY) | 101.9700 | 101.2300 | 101.7800 | 0.6600 | 0.65% |

*The close price of a future contract represents the last trade price before the electronic session close yesterday
In the case of spot, the close price is as of 5pm NY Time

Market Highlights

Overseas markets

- Wall St. surged after President Trump promised a US\$1tn national infrastructure plan, increases in defense spending, and tax cuts for the middle class during his address to Congress. The DJIA surged by 303points (+1.5%), as the S&P500 and NASDAQ rose by 1.4% and 1.3%, respectively. Hong Kong ADRs higher.

China/Hong Kong markets

- Hong Kong stocks rebounded as China PMI numbers showed that manufacturing continues to strengthen. Furthermore, Trump's remarks provided some enthusiasm, which boosted shares of HSBC (5.HK), local property developers and Macau gaming stocks. The HSI, hence rose 35points (+0.15%) to 23,776points. However, Chinese financial stocks saw selling, dragging down the HSCEI by 9points (-0.10%) to 10,287points. Turnover remained low at HK\$76.2bn.
- Mainland markets performed well lead by cement and resource stocks. Financials did put a drag on markets, but the SSE still managed to close 5points (+0.16%) higher at 3,246points. Turnover at RMB225.9bn.
- HSI Mar AT futures opened 10points higher but surged as US markets opened. Volume increased to 9,809contracts, pushing the futures to close near session highs, up 149points (+0.63%), at 23,942points with a 166point premium to the HSI.
- The recent downturn in the HSI is still not over despite yesterday's rebound. However, the index is supported by its 20-day MA (c.23,791points) and should benefit from the surge in US markets overnight. Resistance should be seen at the upper bound of its Bollinger Band (c.24,383points).

Trading Idea – “US infrastructure spending adds wind to copper’s rise”

- Trump's proposed US\$1tn infrastructure plan has given the metals market a significant boost and has especially benefited copper prices.
- As we previously mentioned, copper's “higher-highs and higher-lows” pattern facilitates the buying of copper on dips.
- The physical market also remains tight as demand continues to solidify on rebounding manufacturing worldwide. We see prices reaching US\$6,500/tonne during the year. Long LME/CME copper futures.

| | Hang Seng Index (HSI) | Hang Seng China Enterprise Index (HSCEI) | Shanghai Comp (SSEC) |
|--------|-----------------------|--|----------------------|
| Open | 23849.22 | 10330.40 | 3240.07 |
| High | 23857.28 | 10339.80 | 3259.98 |
| Low | 23730.05 | 10265.24 | 3237.87 |
| Close | 23776.49 | 10287.98 | 3246.93 |
| Change | 35.76 | -9.98 | 5.20 |

(Reuters)



LME Copper 3M daily chart [Source: Reuters]

Precious Metals

Gold and silver prices dipped at New York open but recoup all the losses overnight despite stronger dollar as Dallas Federal Reserve Bank President Robert Kaplan reiterated his view on Wednesday that the Fed should raise rates sooner rather than later. Gold Apr eventually closed at \$1250, up \$1. Silver May price increased 10 cents to \$18.46. Platinum Apr only recovered part of early losses to settle at \$1019, down \$8. Palladium Jun spent most of the day hovering between \$770 and \$780 and gained \$5 finishing at \$776.

Meanwhile there is no clear direction for the metals while market continues to look closely to indications for interest rate hike which may take place as early as in March. Gold is likely to continue fluctuating around \$1250 level this week.



Gold spot daily chart [Source: Reuters]

Energy Products

Crude

Crude oil prices continued lower as the US EIA released its inventory report for the week ending 24th Feb. NYMEX/Brent crude oil prompt month futures fell by 0.6%/0.3% to US\$53.67/bbl/US\$56.28/bbl as data showed a 1.5million barrel increase in crude oil inventories (versus expectations of 3.0million bbl). However, US domestic crude oil production has once again reached over 9million barrels per day (bpd) as OPEC's cuts have resulted in stable prices above US\$50/bbl, which is fuelling resurgence in shale oil production. Pessimism is growing within the markets that the production cuts are insufficient to solve the global oil glut. Meanwhile, Nigeria who was exempted from the cuts has continues to ramp up production to 2.1million bpd, while targeting a 2.2million bpd production level by the end of 2017.

**Inventories of Crude and Products
In the week ending 24th Feb, 2017
(million barrels)**

| | Stocks | Weekly Change |
|--------------------|----------------|---------------|
| Crude | 520.2 | +1.5 |
| Gasoline | 255.9 | -0.5 |
| Distillates | 164.2 | -0.9 |
| Aggregated | 2,044.3 | +0.3 |

(EIA: Data released on 01 Mar, 2017)

(Next Release Date: 08 Mar, 2017)

Distillates

Growing supplies of low-sulphur gasoil brought the cash differential for 10ppm gasoil to a 10 cents a barrel premium to Singapore quotes on Wednesday, the lowest since Reuters started tracking its value in 2011. The tide has changed for what was once a prized fuel because of limited supplies. Jet fuel has fared better with brisk deals in the Singapore cash window recently, though trades ground to a halt on Wednesday. In Japan, kerosene stocks fell by 240,000 barrels to 8.92 million barrels in the week to Feb. 25, the lowest since last May, official data showed.

Fuel Oil

A surge in physical deals in the S&P Global Platts price assessment window kicked off an anticipated fuel oil trading play, although falling prompt month time spread premiums sparked doubts over whether it would maintain momentum. Despite a near record number of physical trades in the window on Wednesday, industry participants said the so-called 'bull-play' failed to fully materialize as premiums of the near-dated time spreads came off. Expectations of a bullish trading strategy peaked among industry participants by mid-February after trading volumes of the 380-cst front-month time spreads jumped and open interest (OI) levels of the 380-cst March swaps contract soared. Twenty-two deals were reported in the window on Wednesday, the highest in at least a year, totaling 440,000 tonnes of the 380-cst along with 60,000 tonnes of the lower viscosity 180-cst fuel. Cash premiums of the 380-cst fuel rose to \$1.70 a tonne to Singapore quotes, their highest since Jan. 23, up 25 cents a tonne from the previous session. By contrast, some aggressive selling weighed on time spreads in the paper market. Premiums for the balance-of-March/April time spread of the 380-cst fuel oil fell to a one-week low of \$1.75 a tonne, down \$1.25 a tonne from Tuesday's settlement. Despite the mixed start to the trading play, traders said it was still too early to establish which direction the market would take over the coming days.

Base Metals

| Base Metals | High | Low | Close | Chg. | % Chg. |
|-------------------------|-----------|-----------|-----------|--------|--------|
| LME Aluminum (\$/tonne) | 1,950.00 | 1,939.00 | 1,949.00 | 25.00 | 1.30% |
| LME Copper (\$/tonne) | 6,050.00 | 6,013.00 | 6,016.00 | 43.00 | 0.72% |
| LME Lead (\$/tonne) | 2,306.00 | 2,290.00 | 2,305.00 | 48.00 | 2.13% |
| LME Nickel (\$/tonne) | 11,075.00 | 11,030.00 | 11,030.00 | 50.00 | 0.46% |
| LME Tin (\$/tonne) | 19,525.00 | 19,350.00 | 19,525.00 | 300.00 | 1.56% |
| LME Zinc (\$/tonne) | 2,878.00 | 2,863.00 | 2,862.00 | 37.00 | 1.31% |

Better volumes across the board as metals make positive gains.

Chinese PMI figures released last night were stronger than expected with the Caxin Index rising from 51 to 51.7. Perhaps more importantly President Trump gave his first address to Congress in which he reaffirmed his pledge for a \$1 trillion spending plackage. Financial markets liked this and Metals were no exception. Copper broke its trend line resistance and rallied strongly as CTA and real money buying was seen, but faltered in the afternoon with some producer selling and short term profit taking. Aluminium takes out its recent highs as the macro buying continues. More news from China about production cuts to help tackle pollution help under pin the price, with the CEO of Alcoa calling this a "game changer". \$1988 and \$2000 are the next targets. Nickel is challenging is previous highs of 11165 and a downtrend line at 11090. It is our view that this will break.

LME daily stock (in tonnes):

| Base Metals | Total stock | Net change | Stock on warrant |
|--------------|-------------|------------|------------------|
| LME Aluminum | 2,188,400 | -12,500 | 1,303,275 |
| LME Copper | 200,725 | -2,375 | 95,975 |
| LME Lead | 189,600 | -150 | 120,000 |
| LME Nickel | 377,778 | 312 | 274,548 |
| LME Tin | 5,560 | 10 | 4,250 |
| LME Zinc | 384,100 | -50 | 203,550 |



LME Copper 3M chart [Source: Bloomberg]

What to Watch

Economic Data – Week of Feb 27 – Mar 05

| Country/Region | Date | Time | Event | Period | Prior | Forecast | Source |
|----------------|-------------|-------|-----------------------------|-------------------|--------|----------|--------------|
| Euro zone | 27-Feb-2017 | 18:00 | Economic Sentiment | Feb. 2017 | 107.90 | 108.20 | Reuters Poll |
| Euro zone | 27-Feb-2017 | 18:00 | Industrial Sentiment | Feb. 2017 | 0.80 | 1.00 | Reuters Poll |
| US | 27-Feb-2017 | 21:30 | Durable Goods | Jan. 2017 | -0.40% | 1.90% | Reuters Poll |
| Japan | 28-Feb-2017 | 7:50 | Industrial output prelim mm | Jan. 2017 | 0.50% | 0.30% | Reuters Poll |
| Japan | 28-Feb-2017 | 7:50 | Retail Sales YY | Jan. 2017 | 0.70% | 0.90% | Reuters Poll |
| GB | 28-Feb-2017 | 8:01 | GfK Consumer Confidence | Feb. 2017 | -5.00 | -- | -- |
| US | 28-Feb-2017 | 21:30 | GDP 2nd Estimate | Q4 2016 | 3.20% | 2.10% | Reuters Poll |
| US | 28-Feb-2017 | 22:00 | CaseShiller 20 MM SA | Dec. 2016 | 0.90% | -- | -- |
| US | 28-Feb-2017 | 22:45 | Chicago PMI | Feb. 2017 | 50.30 | 52.30 | Reuters Poll |
| US | 28-Feb-2017 | 23:00 | Consumer Confidence | Feb. 2017 | 111.80 | 110.90 | Reuters Poll |
| US | 01-Mar-2017 | 5:30 | API weekly crude stocks | w/o Feb. 20, 2017 | -884M | -- | -- |
| China | 01-Mar-2017 | 9:00 | NBS Non-Mfg PMI | Feb. 2017 | 54.6 | -- | -- |
| China | 01-Mar-2017 | 9:00 | NBS Manufacturing PMI | Feb. 2017 | 51.3 | 51.1 | Reuters Poll |
| China | 01-Mar-2017 | 9:45 | Caixin Mfg PMI Final | Feb. 2017 | 51 | 50.8 | Reuters Poll |
| Germany | 01-Mar-2017 | 17:00 | Unemployment Chg SA | Feb. 2017 | -26K | -10K | Reuters Poll |
| Germany | 01-Mar-2017 | 21:00 | CPI Prelim MM | Feb. 2017 | -0.6% | 0.5% | Reuters Poll |
| US | 01-Mar-2017 | 21:30 | Personal Income MM | Jan. 2017 | 0.3% | 0.3% | Reuters Poll |
| US | 01-Mar-2017 | 21:30 | Consumption, Adjusted MM | Jan. 2017 | 0.5% | 0.3% | Reuters Poll |
| US | 01-Mar-2017 | 21:30 | Core PCE Price Index MM | Jan. 2017 | 0.1% | 0.2% | Reuters Poll |
| US | 01-Mar-2017 | 23:00 | Construction Spending MM | Jan. 2017 | -0.2% | 0.6% | Reuters Poll |
| US | 01-Mar-2017 | 23:00 | ISM Manufacturing PMI | Feb. 2017 | 56 | 55.7 | Reuters Poll |
| US | 01-Mar-2017 | 23:00 | ISM Mfg Prices Paid | Feb. 2017 | 69 | 68 | Reuters Poll |
| US | 01-Mar-2017 | 23:30 | EIA Weekly Crude Stocks | w/o Feb. 20, 2017 | 0.56M | -- | -- |
| Euro zone | 02-Mar-2017 | 18:00 | Inflation, Flash YY | Feb. 2017 | 1.8% | 2% | Reuters Poll |
| Euro zone | 02-Mar-2017 | 18:00 | Unemployment Rate | Jan. 2017 | 9.6% | 9.5% | Reuters Poll |
| US | 02-Mar-2017 | 21:30 | Initial Jobless Claims | w/o Feb. 20, 2017 | 244K | -- | -- |
| US | 03-Mar-2017 | 23:00 | ISM N-Mfg PMI | Feb. 2017 | 56.5 | 56.4 | Reuters Poll |

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