

(HKSFC CE No. AGO928)

News Headlines

Asia stocks, euro, dollar subdued as economic, political uncertainty hits

- Asia ex-Japan flat; Nikkei slides on stronger yen
- Markets expect decline in China January forex reserves
- Euro extends slide on French election fears
- Oil recovers some of Monday's losses amid U.S. glut fears (Reuters)

PREVIEW-China Jan data to show slide in FX reserves slowing, inflation picking up

- Data expected to show continued solid growth for China economy
- Forex reserves seen falling at slower pace to \$3.0 trln
- CPI f'cast +2.4 pct, highest since May 2014 (Dec +2.1 pct)
- PPI f'cast +6.3 pct (Dec +5.5 pct)
- Exports seen +3.3 pct (Dec -6.1 pct), imports 10.0 pct (Dec +3.1)
- New Jan yuan loan f'cast 2.3 trln yuan, second highest on record (Reuters)

Fed's Harker says March 'should be considered' for next rate hike

- Does not want to 'get behind the curve' on inflation
- Dodd-Frank helped on financial stability, Harker says
- Cyber threats biggest concern among banks he surveys (Reuters)

Oil falls as U.S. supplies, speculative length counter OPEC cuts

- U.S. dollar edges higher for much of the day
- Iran-U.S. tensions rise over weekend
- OPEC and Russian oil supply cuts lend support
- Speculators boost bullish bets to record high last week -CFTC (Reuters)

Precious Metals	High	Low	Close*	Chg.	% Chg.
Gold Spot (\$/oz)	1235.73	1218.90	1235.48	15.68	1.29%
COMEX Gold Apr17 (\$/oz)	1237.50	1220.80	1237.30	15.70	1.29%
Silver Spot (\$/oz)	17.7490	17.4200	17.7300	0.2700	1.55%
COMEX Silver Mar17 (\$/oz)	17.7600	17.4600	17.7400	0.2200	1.26%
Platinum Spot (\$/oz)	1014.60	997.00	1015.00	11.10	1.11%
NYMEX Platinum Apr17 (\$/oz)	1018.60	1004.60	1017.90	11.50	1.14%
Palladium Spot (\$/oz)	774.40	743.97	773.05	24.55	3.28%
NYMEX Palladium Mar17 (\$/oz)	775.00	745.40	772.80	22.75	3.03%

London Fixes	Gold	Silver	Platinum	Palladium
AM (\$/oz)	1221.85	17.6000	1008.00	764.00
PM (\$/oz)	1226.75		1012.00	768.00

Energy Products	High	Low	Close*	Chg.	% Chg.
NYMEX WTI Mar17 (\$/bl)	54.13	52.91	53.10	-0.75	-1.39%
ICE Brent Mar17 (\$/bl)	57.13	55.65	55.89	-0.83	-1.46%
NYMEX RBOB Gasoline Mar17 (\$/gal)	1.5708	1.5051	1.5114	-0.0488	-3.13%
NYMEX NY Harbor ULSD Mar17 (\$/gal)	1.6798	1.6316	1.6381	-0.0309	-1.85%
ICE Gasoil Feb17 (\$/mt)	501.75	489.50	491.25	-7.25	-1.45%
NYMEX Natural Gas Mar17 (\$/mmBtu)	3.086	3.006	3.060	0.007	0.23%

Currencies	High	Low	Close*	Chg.	% Chg.
EUR USD	1.0800	1.0702	1.0749	-0.0032	-0.30%
USD JPY	112.77	111.60	111.71	-0.99	-0.88%
AUD USD	0.7685	0.7624	0.7657	-0.0026	-0.34%
USD CHF	0.9961	0.9896	0.9903	-0.0021	-0.21%
USD CNH	6.8134	6.7953	6.7986	-0.0017	-0.02%
GBP USD	1.2509	1.2423	1.2469	-0.0016	-0.13%
DOLLAR INDEX SPOT (DXY)	100.2500	99.6320	99.9070	0.0390	0.04%

*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

- Political uncertainties over President Trump's policies were cause for a drop in US markets, which fell 0.1%-0.2%. Telecom and energy were hit particularly hard. Profit-taking is expected to continue after indices reached new highs.

China/Hong Kong markets

- Local bourses surged yesterday as Chinese insurers lead the advance. Rumors that mainland pension funds will be able to buy Hong Kong listed shares caused the HSI/HSCEI to jump 219/157points (+0.95%/+1.62%) to 23,348/9,840points. China Life (2628.HK) and Ping An (2318.HK) spiked 7% and 4.5%, respectively. Turnover increased to HK\$69.3bn.
- A-shares rebounded, recovering most of last Friday's losses. The market seems to have priced in tighter monetary policy from the PBOC, which facilitated increased buying of defense, and insurance stocks. The SSE closed up 16points (+0.54%) to 3,156points with turnover increasing to RMB150.1bn.
- HSI Feb AT futures reverted lower closing down 32points (-0.14%) to 23,218points. Futures closed near session lows with the discount to the HSI expanding to 130points. Volume remained steady at 5,746contracts, but NOI increased by over 1,200contracts to 36,122, indicating that selling pressure has increased after the recent run-up in the HSI.
- Yesterday's surge in the HSI and HSCEI has sent both indexes above all their respective moving averages. The RSI for each index are currently at 64 and 59, respectively, which reinforces the upward momentum in the market. Although we might see a pull back today, we believe that the HSI and HSCEI should both return to their 9th Sept highs of 24,364points and 10,209points.

Trading Idea – “Lock in recent RMB strength”

- Both onshore CNY and offshore CNH have strengthened as the USD drops and the PBOC slightly tightens monetary policy.
- However, the fixing of the CNY has reversed from its strengthening trend falling to 6.8604 per USD today versus a fix of 6.8556 per USD on 3rd Feb.
- We believe that the recent tightening by the PBOC is only a temporary stance to reduce financial leverage. Eventually, weaker economic growth will put downward pressure on the RMB. Recommend Shorting CME/HKE CNY futures.

	Hang Seng Index (HSI)	Hang Seng China Enterprise Index (HSCEI)	Shanghai Comp (SSEC)
Open	23239.29	9732.36	3143.09
High	23348.24	9864.59	3158.84
Low	23149.70	9716.49	3135.39
Close	23348.24	9840.26	3156.98
Change	219.03	157.03	16.81

(Reuters)



CNH/USD spot daily chart [Source: Reuters]

Precious Metals

Precious metals posted gains amid political risks and economic uncertainty. Gold prices reached the highest level since November overnight. Gold Apr peaked at \$1237.50 before settling at \$1237, up \$16. Silver Mar finished at \$17.74, gained 22 cents. Platinum also followed gold to raise \$12 going out at \$1018. Palladium jumped \$23 closing at \$773.

French far-right presidential candidate Marine Le Pen unveiled a manifesto pledge to take her country out of the euro over the weekend. Market is also interpreting how the latest U.S. jobs report will affect the pace of Fed hiking interest rates this year. The yellow metal is likely to face some selling pressure at current level with downside support at \$1220.



Gold spot daily chart [Source: Reuters]

Energy Products

Crude

Crude oil futures dropped 1.39% (WTI) and 1.46% (Brent) to US\$53.10/bbl and US\$55.89/bbl, respectively, even after Platt's data showed that OPEC production cuts have been implemented with 91% compliance. This would equate to a 1.14million barrel per day (bpd) decline in output by the cartel, with production at 32.89million bpd in January versus the post-cut target of 32.5million bpd. However, market participants still must worry about rising production in the US and even from exempted OPEC nations like Nigeria, Iran, and Libya. Furthermore, US inventories of crude oil and refined products continue to grow with another 2.38million barrel increase in crude oil expected to be reported this week. Risks are also high as the number of long to short positions is 9 to 1, which would facilitate a stampede if things turned for the worse such as a drop in compliance by OPEC.

Inventories of Crude and Products In the week ending 27th Jan, 2017 (million barrels)

	Stocks	Weekly Change
Crude	494.8	+6.5
Gasoline	257.1	+4.1
Distillates	170.7	+1.6
Aggregated	2,042.5	+5.2

(EIA: Data released on 01 Feb, 2017)

(Next Release Date: 08 Feb, 2017)

Distillates

Asia's gasoil cash differentials were stable on Monday in a thinly traded cash market but supplies were expected to stay tight with maintenance coming up next month in Taiwan and Japan. Discounts on jet fuel cash differentials narrowed slightly to about 21 cents a barrel, supported by demand due to colder than expected weather. The outlook on air travel was also optimistic, further boosting sentiment among sellers of jet fuel. Global demand for air travel finished 2016 on a high note, with double-digit growth in the Middle East, Asia Pacific and Europe, the International Air Transport Association (IATA) said. It added that demand for air travel was still expanding.

Fuel Oil

Asian fuel oil differentials and time spreads narrowed slightly on Monday, although more positive mood could be short-lived as more volumes arrive from the West in the coming weeks. The Feb/March time spread contract for 380-cst fuel oil narrowed to zero on Monday from minus 75 cents a tonne on Friday. There was just one trade reported in the Platts window after PetroChina bought 20,000 tonnes of 380-cst high sulphur fuel oil from Shell at zero discount to Singapore prices. The time spread for 180-cst narrowed to minus \$4.15 per tonne from minus \$4.82 the previous session. Differentials for 180-cst fuel oil narrowed to minus 17 cents a tonne below Singapore quotes, a 66 percent increase on Friday. Those for 380-cst heavy fuel oil were virtually unchanged. Meanwhile bunker prices fell, despite the gain in other prices on Monday. Bunker prices could come under further pressure later this month with the arrival of more arbitrage supplies from the West. Lower freight rates for supertankers had opened the arbitrage trade for fuel oil shipments to Asia. Charter rates for Very Large Crude Carriers (VLCCs) from the Middle East to Asia, which have more than halved to around \$30,500 per day on Friday from \$69,468 per day on Dec. 20, freight data on the Reuters Eikon terminal showed. Fuel oil inflows to east Asia are expected to be around 5 million tonnes in February, compared with 7 million tonnes in January.

Base Metals

Base Metals	High	Low	Close	Chg.	% Chg.
LME Aluminum (\$/tonne)	1,841.00	1,835.00	1,834.50	0.00	0.00%
LME Copper (\$/tonne)	5,845.00	5,831.00	5,846.00	74.00	1.28%
LME Lead (\$/tonne)	2,350.00	2,332.00	2,348.00	23.00	0.99%
LME Nickel (\$/tonne)	10,445.00	10,420.00	10,450.00	225.00	2.20%
LME Tin (\$/tonne)	19,325.00	19,225.00	19,220.00	-550.00	-2.78%
LME Zinc (\$/tonne)	2,792.00	2,778.00	2,793.00	-3.00	-0.11%

Copper is holding short term support at the 50 DMA as supply concerns at Escondida and Grasberg remain in the background and a speculative bid emerges after Friday's sell off. The market is long however and CTA's have been sellers. Despite a pull back this morning Aluminium has once again rallied well. Consumer and CTA buying is evident, although it appears that SHFE is beginning to develop a short. We are still friendly. Nickel has recovered well from the sell off on Friday, and looks so far to have rejected the 200 DMA at \$10111. Although the Philippines Environment Secretary has stated that the mine closures will not be effective immediately, there is continued short covering and Spec buying. Zinc triggered sell stops this morning, and although it has bounced towards the close, it is still possible we could see further downside price action.

LME daily stock (in tonnes):

Base Metals	Total stock	Net change	Stock on warrant
LME Aluminum	2,249,125	-6,875	1,643,175
LME Copper	253,725	-3,425	147,350
LME Lead	189,325	100	122,350
LME Nickel	382,176	102	266,892
LME Tin	5,805	0	5,495
LME Zinc	389,475	-3,150	273,075



LME Copper 3M chart [Source: Bloomberg]

What to Watch

Economic Data – Week of Feb 06 – Feb 12

Country/Region	Date	Time	Event	Period	Prior	Forecast	Source
China	06-Feb-2017	9:00	FX Reserves	Jan. 2017	3.01TIn	--	--
China	06-Feb-2017	9:45	Caixin Services PMI	Jan. 2017	53.40	--	--
Germany	06-Feb-2017	15:00	Industrial Orders MM	Dec. 2016	-2.50%	0.50%	Reuters Poll
Euro zone	06-Feb-2017	17:30	Sentix Index	Feb. 2017	18.20	17.00	Reuters Poll
US	07-Feb-2017	21:30	International Trade MM \$	Dec. 2016	-45.24B	-45.20B	Reuters Poll
US	07-Feb-2017	23:00	JOLTS Job Openings	Dec. 2016	5.52M	--	--
US	08-Feb-2017	4:00	Consumer Credit	Dec. 2016	24.53B	20.00B	Reuters Poll
US	08-Feb-2017	5:30	API weekly crude stocks	w/o Jan. 30, 2017	5,828.00M	--	--
US	08-Feb-2017	23:30	EIA Weekly Crude Stocks	w/o Jan. 30, 2017	6.47M	--	--
Japan	09-Feb-2017	7:50	Machinery Orders MM	Dec. 2016	-5.10%	3.10%	Reuters Poll
Germany	09-Feb-2017	15:00	Exports MM SA	Dec. 2016	3.8%	-0.85%	Reuters Poll
Germany	09-Feb-2017	15:00	Imports MM SA	Dec. 2016	3.5%	-0.4%	Reuters Poll
US	09-Feb-2017	21:30	Initial Jobless Claims	w/o Jan. 30, 2017	246K	--	--
US	09-Feb-2017	23:00	EIA- Nat Gas, Change Bcf	w/o Jan. 30, 2017	-87B	--	--
China	10-Feb-2017	10:00	Exports YY	Jan. 2017	-6.1%	--	--
China	10-Feb-2017	10:00	Imports YY	Jan. 2017	3.1%	--	--
China	10-Feb-2017	10:00	Trade Balance	Jan. 2017	40.82B	--	--
US	10-Feb-2017	21:30	Import Prices MM	Jan. 2017	0.4%	0.2%	Reuters Poll
US	10-Feb-2017	21:30	Export Prices MM	Jan. 2017	0.3%	--	--
US	10-Feb-2017	23:00	U Mich Sentiment Prelim	Feb. 2017	98.1	97.8	Reuters Poll

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