

(HKSFC CE No. AGO928)

## News Headlines

### Asian stocks tread water on U.S. cues, Europe concerns

- Asian stocks looked set to consolidate around four-month highs on Thursday as a cautious Wall Street close and growing political risks in Europe force investors to the sidelines.  
(Reuters)

### Japan machinery orders rebound, trade protectionism poses risk

- Dec core orders +6.7 pct m/m vs forecast +3.1 pct
- Core orders +6.7 pct yr/yr vs forecast +4.6 pct
- Q4 core orders -0.2 pct, seen +3.3 pct in Q1
- Capex seen crucial for sustainable economic growth  
(Reuters)

### S&P 500 ekes out gain while banks drag on Dow

- Nasdaq closes at record high for 2nd straight day
- Allergan gains after results; Gilead tumbles on forecast
- Financials lag, while real estate, utilities shine
- Dow down 0.18 pct, S&P up 0.07 pct, Nasdaq up 0.15 pct  
(Reuters)

### Britons face smaller pay rises, buttressing central bank's slowdown forecast

- firms see pay up 2.2 pct in 2017 vs 2.7 pct in 2016
- Recruiters report fastest pay rises in nine months
- BoE expects consumer spending to soften as inflation up
- BoE survey shows stronger exports, lacklustre investment  
(Reuters)

### Oil prices edge up on short covering; gasoline jumps

- U.S. crude oil stocks rose last week-EIA
- U.S. gasoline inventories drop after 5 weeks of increases-EIA
- China's oil demand growth falters
- Market can accommodate rising shale output-Qatar minister  
(Reuters)

| Precious Metals               | High    | Low     | Close*  | Chg.   | % Chg. |
|-------------------------------|---------|---------|---------|--------|--------|
| Gold Spot (\$/oz)             | 1244.67 | 1229.90 | 1241.61 | 7.97   | 0.65%  |
| COMEX Gold Apr17 (\$/oz)      | 1246.60 | 1231.30 | 1243.10 | 7.60   | 0.62%  |
| Silver Spot (\$/oz)           | 17.8690 | 17.5850 | 17.7800 | 0.0750 | 0.42%  |
| COMEX Silver Mar17 (\$/oz)    | 17.8750 | 17.6200 | 17.7800 | 0.0800 | 0.45%  |
| Platinum Spot (\$/oz)         | 1019.20 | 998.00  | 1017.25 | 11.50  | 1.14%  |
| NYMEX Platinum Apr17 (\$/oz)  | 1022.30 | 1005.50 | 1020.60 | 12.40  | 1.23%  |
| Palladium Spot (\$/oz)        | 772.80  | 756.00  | 771.25  | 7.70   | 1.01%  |
| NYMEX Palladium Mar17 (\$/oz) | 773.65  | 758.95  | 771.15  | 6.80   | 0.89%  |

| London Fixes | Gold    | Silver  | Platinum | Palladium |
|--------------|---------|---------|----------|-----------|
| AM (\$/oz)   | 1235.60 | 17.7400 | 1011.00  | 770.00    |
| PM (\$/oz)   | 1242.10 |         | 1016.00  | 769.00    |

| Energy Products                     | High   | Low    | Close* | Chg.   | % Chg. |
|-------------------------------------|--------|--------|--------|--------|--------|
| NYMEX WTI Mar17 (\$/bl)             | 52.67  | 51.22  | 52.38  | 0.68   | 1.32%  |
| ICE Brent Mar17 (\$/bl)             | 55.68  | 54.44  | 55.16  | 0.50   | 0.91%  |
| NYMEX RBOB Gasoline Mar17 (\$/gal)  | 1.5594 | 1.4650 | 1.5535 | 0.0804 | 5.46%  |
| NYMEX NY Harbor ULSD Mar17 (\$/gal) | 1.6500 | 1.6028 | 1.6368 | 0.0220 | 1.36%  |
| ICE Gasoil Feb17 (\$/mt)            | 493.00 | 482.50 | 490.25 | 6.25   | 1.29%  |
| NYMEX Natural Gas Mar17 (\$/mmBtu)  | 3.164  | 3.060  | 3.141  | -0.003 | -0.10% |

| Currencies              | High     | Low      | Close*   | Chg.    | % Chg. |
|-------------------------|----------|----------|----------|---------|--------|
| EUR   USD               | 1.0713   | 1.0638   | 1.0697   | 0.0017  | 0.16%  |
| USD   JPY               | 112.54   | 111.61   | 111.93   | -0.44   | -0.39% |
| AUD   USD               | 0.7665   | 0.7606   | 0.7645   | 0.0021  | 0.28%  |
| USD   CHF               | 0.9999   | 0.9927   | 0.9943   | -0.0027 | -0.27% |
| USD   CNH               | 6.8568   | 6.8314   | 6.8414   | 0.0072  | 0.11%  |
| GBP   USD               | 1.2549   | 1.2472   | 1.2537   | 0.0027  | 0.22%  |
| DOLLAR INDEX SPOT (DXY) | 100.6400 | 100.0600 | 100.2800 | 0.0200  | 0.02%  |

\*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

- Financial stocks saw profit-taking, while energy stocks fell on choppy oil prices, dragging down the DJIA by 0.2%. However, tech stocks fared well, helping the S&P500 and NASDAQ book a 0.1% gain each. Hong Kong ADRs higher.

### China/Hong Kong markets

- With turnover surging to HK\$89.2bn, the HSI and HSCEI rocketed, closing up 0.66% and 1.11%, respectively, at 23,485points (+153points) and 9,955points (+109points). Chinese insurers, property developers, banks and brokers all saw significant buying.
- Mainland A-shares also showed a rebound with the SSE closing near day-highs, up 13points (+0.44%) at 3,166points. Market focus was placed on SOE reform and semi-new stocks. The SSE closed above its 50-day MA (c.3,160points) with turnover increasing to RMB170.9bn.
- However, HSI Feb AT futures fell by 63points (-0.27%) to 23,363points after US markets opened, leading to a 122point discount to the HSI. Trading also increased to 9,255contracts, but NOI dropped to 33,160 (or -3,272contracts), suggesting that investors have begun locking-in profits after the HSI's recent run-up.
- New liquidity continues to be poured into Chinese shares, which have propelled the HSI and HSCEI higher. HSCEI constituents saw a net increase of HK\$2.5bn with turnover increasing to HK\$23.6bn. We believe that any dips provides a buying opportunity with the 9<sup>th</sup> Sept high as a target (HSI: 24,364points; HSCEI: 10,209points).

### Trading Idea – “Time to take profit from Gold’s surge”

- Gold price have rebounded by over 10% since touching a low of US\$1,121/oz. during the last weeks of 2016. Recent angst over geopolitical turmoil and a weaker USD have been the predominant reasons for the price surge.
- However, the metal is now less than 1% away from our target price of US\$1,250/oz., based on its Fibonacci retracement, which we believe is a significant resistant level.
- With markets factoring a 24% and 64% possibility of a US interest hike in March and June, gold prices will eventually face selling pressure. We recommend closing out long positions and locking-in profits by Shorting Gold futures.

|        | Hang Seng Index (HSI) | Hang Seng China Enterprise Index (HSCEI) | Shanghai Comp (SSEC) |
|--------|-----------------------|--|----------------------|
| Open   | 23284.76              | 9828.07                                  | 3148.09              |
| High   | 23520.77              | 9991.46                                  | 3167.45              |
| Low    | 23160.99              | 9740.67                                  | 3132.03              |
| Close  | 23485.13              | 9955.34                                  | 3166.98              |
| Change | 153.56                | 109.28                                   | 13.89                |

(Reuters)



Gold spot price daily chart [Source: Reuters]

## Precious Metals

Precious metals extended gains on Wednesday. Gold Apr refreshed 3-month highs of \$1246.60 before settling at \$1243, up \$8. Silver Mar settled at \$17.78, rose 8 cents. Platinum Apr was the best performer to gain over 1% finishing at \$1021. Palladium Mar spent most of the time fluctuating between \$765 and \$775, eventually ended the day at \$771, up \$7.

Market is eyeing on political risks in the U.S. with President Donald Trump's administration over its immigration and other policies. Meanwhile the French politics are also in focus. On the other hand stronger dollar may pressure gold prices. The yellow metal is likely to find some support at \$1225, with upside resistance remains at \$1250.



Gold spot daily chart [Source: Reuters]

Thursday, February 09, 2017

## Energy Products

### Crude

Crude oil futures initially dropped to session lows of US\$51.22/bbl (WTI) and US\$54.44/bbl (Brent) after the EIA confirmed a massive 13.8million barrel increase in US crude oil inventories for the week ending 3rd Feb. However, prices rebounded as the market choose to focus more on the “surprise” 869,000barrel drop in gasoline stocks. Hence, prompt month NYMEX WTI and ICE Brent futures eventually rebounded, closing at US\$52.38/bbl and US\$55.16/bbl, respectively. The massive increase in inventory is more significant, in our view, as it indicates that OPEC’s production cuts have not resulted in the inventory drops that were expected to occur as supply-and-demand rebalanced after implementing production cuts. In fact, US crude oil inventories have now risen for 5-consecutive weeks. Net imports of crude oil has also surged to 8.8million barrels per day (bpd) the highest since Sept 2012 as offshore inventory is brought onshore due to the flattening futures curve. All these factors point to a bearish scenario for crude oil during the first-half of 2017 especially with the seasonal lull in demand that’s coming within the next 4-6weeks.

**Inventories of Crude and Products  
In the week ending 03<sup>rd</sup> Feb, 2017  
(million barrels)**

|                    | Stocks         | Weekly Change |
|--------------------|----------------|---------------|
| <b>Crude</b>       | <b>508.6</b>   | <b>+13.8</b>  |
| <b>Gasoline</b>    | <b>256.2</b>   | <b>-0.9</b>   |
| <b>Distillates</b> | <b>170.7</b>   | <b>--</b>     |
| <b>Aggregated</b>  | <b>2,044.0</b> | <b>+1.5</b>   |

(EIA: Data released on 08 Feb, 2017)

(Next Release Date: 15 Feb, 2017)

### Distillates

The Asian gasoil market flipped into backwardation due to tight supplies in the region. A backwardated market occurs when prompt-month prices are higher than forward prices. The February/March derivatives price spread rose to 6 cents a barrel from minus 7 cents a barrel the previous day. There were also rare 0.25 percent sulphur gasoil deals in the Platts' assessment process. Prompt demand from Sri Lanka, Indonesia and Vietnam is supporting prices for high sulphur gasoil grades as supply is scarcer. Sri Lanka ramped up its gasoil imports in January, with the country rushing to plug an energy shortfall as severe drought hit its hydropower output. The South Asian nation is suffering its worst drought in over 40 years, dragging hydro's share of Sri Lanka's power mix to below 11 percent in 2016 from an annual average of about 35 percent. Sri Lanka's diesel demand will increase by 7 percent year-on-year to 53,000 barrels per day. An improving housing market, lower interest rates and government efforts to speed up infrastructure projects will keep supporting diesel demand in the next two or three years. Indonesia's Pertamina and Vietnam's top fuel importer, Petrolimex, were also in the spot market seeking gasoil cargoes. Jet fuel demand, on the other hand, may have peaked in Japan with import volumes expected to start declining.

### Fuel Oil

Asia's front-month time spreads flipped into backwardation during the Platts trading window on Wednesday, signaling improved market sentiment. Asia's fuel oil market complex came under pressure around the start of January as concerns over rising supplies sent the market complex from multi-month highs at the start of the month to multi-month lows around the beginning of February. Despite cautiously improving sentiment, however, cash discounts of the 380-cst fuel slipped to minus 26 cents a tonne to Singapore quotes, down 21 cents from the previous session, amid more aggressive supplier offers and limited buying interest in the Platts window. Break-bulk ex-wharf market, as well as the delivered bunker fuels market, were also weighed down by aggressive supplier offers and limited buying interest. In Sri Lanka, fuel imports in January jumped to double typical monthly levels, with the country rushing to plug an energy shortfall as severe drought hits its hydropower output. Ceylon Petroleum Corp, the country's state-owned oil importer, bought about 260,750 more barrels of diesel in January than December and around 260,000 more barrels of fuel oil, said a source close to the matter. Sri Lanka typically imports 26,000 to 32,000 barrels per day (bpd) of diesel and 6,000 to 10,000 bpd of fuel oil.

## Base Metals

| Base Metals             | High      | Low       | Close     | Chg.   | % Chg. |
|-------------------------|-----------|-----------|-----------|--------|--------|
| LME Aluminum (\$/tonne) | 1,847.50  | 1,830.50  | 1,847.50  | 16.50  | 0.90%  |
| LME Copper (\$/tonne)   | 5,894.00  | 5,879.00  | 5,895.00  | 100.00 | 1.73%  |
| LME Lead (\$/tonne)     | 2,392.00  | 2,375.00  | 2,389.00  | 44.00  | 1.88%  |
| LME Nickel (\$/tonne)   | 10,495.00 | 10,450.00 | 10,495.00 | 140.00 | 1.35%  |
| LME Tin (\$/tonne)      | 19,025.00 | 18,755.00 | 19,025.00 | 95.00  | 0.50%  |
| LME Zinc (\$/tonne)     | 2,848.00  | 2,823.50  | 2,848.00  | 53.00  | 1.90%  |

Base metals bounced overnight on good volume, driven by news that Escondida is set to strike. Elsewhere other supply problems remain and analysts forecast the potential for a deficit this year. Ferrous markets also rallied overnight. It is noteworthy that the rally happened overnight and for most of the London morning prices traced sideways until the open of the US market and the reopen of SHFE's evening session. Macro buyers are evident in Zinc and Chinese buying in Aluminium with trade selling overhead, while Nickel sees offers out of the Far East. Overall we are still friendly.

### LME daily stock (in tonnes):

| Base Metals  | Total stock | Net change | Stock on warrant |
|--------------|-------------|------------|------------------|
| LME Aluminum | 2,245,400   | -9,250     | 1,655,750        |
| LME Copper   | 254,725     | 1,275      | 143,825          |
| LME Lead     | 188,900     | -425       | 122,300          |
| LME Nickel   | 383,244     | -48        | 268,134          |
| LME Tin      | 5,860       | 30         | 5,550            |
| LME Zinc     | 385,225     | -1,450     | 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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