

(HKSFC CE No. AGO928)

News Headlines

Fed on course to raise interest rates at an upcoming meeting

- The Fed will likely need to raise interest rates at an upcoming meeting
- Considerable uncertainty over economic policy under the Trump administration.
- Delaying rate increases could lead to quicker hike rates later, which could cause a recession.
(Reuters)

Oil dips over doubts that high OPEC compliance with announced cuts will last

- OPEC's compliance with announced cuts stands at 90 percent
- Analysts doubt whether high rate of compliance can be held up
- Markets remain well supplied despite output cuts
- Strong dollar, higher oil prices could trigger inflation
(Reuters)

Escondida copper mine strikers and BHP agree to meet

- Renewed talks helping to ease a copper price rally
- Expectations of an extended stoppage have helped drive copper prices to over 20-month highs since talks failed last month.
- Escondida produced about 5 percent of the world's total last year.
(Reuters)

Gold pares gains as dollar firms on Fed's Yellen testimony

- Yellen says Fed on course to raise rates at an upcoming meeting
- U.S. dollar index hits three-week highs
- SPDR Gold holdings up 0.49 percent
(Reuters)

Dollar hold gains on hawkish Yellen, investors eye US inflation data

- Dollar hovers near 3-1/2-week high after Yellen's testimony
- U.S. CPI, retail sales due later in the day
- Euro pressured by political risks in France
(Reuters)

Precious Metals	High	Low	Close*	Chg.	% Chg.
Gold Spot (\$/oz)	1234.46	1221.35	1228.20	3.14	0.26%
COMEX Gold Apr17 (\$/oz)	1236.00	1222.70	1229.20	3.10	0.25%
Silver Spot (\$/oz)	18.0740	17.7100	17.9490	0.1590	0.89%
COMEX Silver Mar17 (\$/oz)	18.0900	17.7300	17.9550	0.1400	0.79%
Platinum Spot (\$/oz)	1008.50	990.50	1001.35	2.61	0.26%
NYMEX Platinum Apr17 (\$/oz)	1011.90	998.70	1003.70	2.90	0.29%
Palladium Spot (\$/oz)	784.30	771.72	781.75	6.29	0.81%
NYMEX Palladium Mar17 (\$/oz)	784.90	773.65	781.05	5.00	0.64%

London Fixes	Gold	Silver	Platinum	Palladium
AM (\$/oz)	1229.65	17.9050	1000.00	778.00
PM (\$/oz)	1230.75		1004.00	782.00

Energy Products	High	Low	Close*	Chg.	% Chg.
NYMEX WTI Mar17 (\$/bl)	53.72	52.86	53.03	0.16	0.30%
ICE Brent Mar17 (\$/bl)	56.46	55.53	55.80	0.14	0.25%
NYMEX RBOB Gasoline Mar17 (\$/gal)	1.5759	1.5339	1.5446	-0.0001	-0.01%
NYMEX NY Harbor ULSD Mar17 (\$/gal)	1.6559	1.6238	1.6333	0.0069	0.42%
ICE Gasoil Feb17 (\$/mt)	501.00	486.75	499.75	0.00	0.00%
NYMEX Natural Gas Mar17 (\$/mmBtu)	2.953	2.887	2.934	0.005	0.17%

Currencies	High	Low	Close*	Chg.	% Chg.
EUR USD	1.0633	1.0559	1.0577	-0.0020	-0.19%
USD JPY	114.49	113.21	114.25	0.52	0.46%
AUD USD	0.7696	0.7614	0.7660	0.0022	0.29%
USD CHF	1.0084	1.0027	1.0055	0.0004	0.04%
USD CNH	6.8768	6.8457	6.8563	-0.0155	-0.23%
GBP USD	1.2548	1.2440	1.2467	-0.0059	-0.47%
DOLLAR INDEX SPOT (DXY)	101.3800	100.7000	101.2500	0.2900	0.29%

*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

- Financials pushed Wall St. higher after US Fed Chairman Yellen stated that waiting too long to raise interest rates would be “unwise”. Banks such as Goldman Sachs and Bank of America jump by 1.29% and 2.82%, respectively, as US stock indices rose 0.32%-0.45%. Hong Kong ADRs dropped lower.

China/Hong Kong markets

- Signs of sector rotation emerged as the HSI/HSCEI closed 7/3points (-0.03%/-0.03%) lower at 23,703/10,254points. Index weight-weights HKEX (388.HK) and China Mobile (941.HK) saw selling while Macau gaming stocks surged 3%-6%. Turnover at HK\$85.5bn with blue-chips comprising 30.6%.
- The SSE continued higher, booking 5-consecutive up-candles. The index initially fell to 3,205point but ended the day up by 1point (+0.03%) at 3,217points. Steel manufactures, construction, and coal performed strongly.
- HSI Feb AT futures plunged as US markets opened due to uncertainty on Yellen’s interest rate view. Turnover rose to 5,413contracts as long positions were closed with NOI falling to 33,847. The prompt month contract ended 58points (-0.25%) lower at 23,596points with a 107point discount to the HSI.
- Yesterday’s drop brought a 4-day winning streak to an end, but any correction should be minimal as capital is still entering the market as indicated with an OBV of +324.7bn for the year. The HSI will find support at its 10-day MA (c.23,470points) before heading higher towards the 24,000points mark.

Trading Idea – “Short DXY as March interest rate hike still unlikely”

- Yellen’s hawkish comments resulted in a 0.29% increase in the DXY, pushing the index higher to 101.25points. Although this has technically breached the 23.6% retracement level, we believe that the index will head lower as chances for an interest rate hike during the next month still remains subdued.
- The market’s probability for a Mar/May/Jun interest rate hike stands at 34%/53%/74% after Yellen’s speech.
- With a March interest rate hike unlikely, we believe that the DXY will turn lower, back towards its 50% retracement (c.97.87points). Short ICE DXY futures.

	Hang Seng Index (HSI)	Hang Seng China Enterprise Index (HSCEI)	Shanghai Comp (SSEC)
Open	23695.29	10258.57	3216.14
High	23735.11	10283.39	3219.40
Low	23614.47	10193.69	3205.29
Close	23703.01	10254.44	3217.93
Change	-7.97	-3.40	1.09

(Reuters)



Dollar Index (DXY) daily chart [Source: Reuters]

Precious Metals

The U.S Fed's chairwoman Janet Yellen once again took the center stage yesterday as her hawkish comment on the pace of rate hike pushed the greenback higher and that **gold**, after spending most part of the day pointing higher, took a nosedive from \$1236 all the way down to \$1223 Apr. shortly after the comment hit the newswire. Selling was also evidenced in **silver**, which grinded its way up through \$18 around NY noontime, fell back down to previous support at \$17.75 Mar. before concluding the day at \$17.86. April **platinum** edged up \$12, to \$1011 and March **palladium** rose \$8, to \$784.

Technically speaking, we are still remaining friendly with gold and expect the yellow metal to take out the stubborn resistance at \$1240 rather soon, if not this week. Scale down buys from low \$1220s with stops at \$1212 while aiming for the bigger upside target at \$1250. Silver sat comfortably around \$17.75 and last trading at \$17.93 as of this piece is written. First support emerges from \$17.75 then \$17.55 and initial resistance comes in at \$18.10 with \$18.25 being the next hurdle.



Gold spot daily chart [Source: Reuters]

Energy Products

Crude

Crude oil prices rebounded after dropping by over 1.5% the previous day. However, API's most recent report shows another strong build-up in inventories. For the week ending on 10th Feb, US crude oil inventories surge by another 9.94million barrels, according to the institution. Consensus estimates was for a 3.5million barrel increase. Crude oil prices will continue to remain range bound but warmer weather and the seasonal lull in demand around March could exasperate the inventory situation. Furthermore, cracks in OPEC's compliance could increase as members such as Iraq, UAE, Venezuela, Algeria and those that are not bound by the agreement (Libya, Nigeria) produce more than expected.

Distillates

Asian regrade prices remained negative on Tuesday as jet fuel demand starts to wane at the end of peak winter season. Jet fuel supply was plentiful with India's Essar Oil and Mangalore Refinery and Petrochemicals Ltd (MRPL) offering up to 100,000 tonnes of the fuel for loading in March. Diesel supply from India, however, was tight with many refineries preparing to shift production towards lower sulphur diesel ahead of a country-wide shift in April. Indian Oil offered a high sulphur gasoil cargo for loading in Kandla in March, likely due to refinery maintenance. Spot demand for diesel also appeared from South Africa with Engen Petroleum seeking a cargo for March, which could help to absorb some of the excess ultra low sulphur diesel supply. China's state planner will raise diesel retail prices by 50 yuan (\$7.28) per tonne from Wednesday, the National Development and Reform Commission (NDRC) said in a statement on its website on Tuesday. The price increase is the second upward adjustment since January this year.

Fuel Oil

The refining margin for 380-cst fuel oil to Brent crude for March was weighed on Tuesday down by the rebound in crude prices as well as some selling pressure on the Intercontinental Exchange. Meanwhile, ICE-traded 380-cst time spreads were little changed amid limited trading activity. While the prompt fuel oil market structure has improved over the past week, flipping from a contango into backwardation during that time, most industry participants doubted further upside potential given the high volumes of arbitrage flows into Singapore throughout February. Premiums for 380-cst March/April spreads on ICE were at 65 cents a tonne by 1700 Singapore time (0900 GMT), up 10 cents a tonne from the previous session, after trading only 15,000 tonnes worth of contracts. In the physical markets, aggressive bids and higher deal values helped narrow cash discounts of 380-cst fuel oil despite the recent weakness in cash differentials of the fuel as a result of rising inventories and limited demand.

Inventories of Crude and Products
In the week ending 03rd Feb, 2017
 (million barrels)

	Stocks	Weekly Change
Crude	508.6	+13.8
Gasoline	256.2	-0.9
Distillates	170.7	--
Aggregated	2,044.0	+1.5

(EIA: Data released on 08 Feb, 2017)

(Next Release Date: 15 Feb, 2017)

Base Metals

Base Metals	High	Low	Close	Chg.	% Chg.
LME Aluminum (\$/tonne)	1,900.50	1,887.00	1,887.00	16.00	0.86%
LME Copper (\$/tonne)	6,155.00	6,017.00	6,021.00	-85.00	-1.39%
LME Lead (\$/tonne)	2,460.00	2,355.00	2,355.50	-64.50	-2.67%
LME Nickel (\$/tonne)	10,850.00	10,700.00	10,770.00	40.00	0.37%
LME Tin (\$/tonne)	19,900.00	19,725.00	19,925.00	-70.00	-0.35%
LME Zinc (\$/tonne)	2,972.00	2,874.00	2,903.00	-13.00	-0.45%

Overnight Base metals had a strong bid as fresh Far Eastern longs entered the market. Chinese Inflation data rose more than expected, CPI at 2.5% year on year (the highest level since May 2014) and PPI up 6.9%. Some rumours floating round about Chinese fixed asset investment, mostly railway construction no doubt supporting the buying. In addition Freeport announced that it would stop production at Grasberg because they were unable to store material.

Producer selling was noted in Copper and Aluminium at the top end of today's ranges and there have been good scale up offers in Nickel out of China. News from Escondida that the unions had accepted an offer to restart talks sent the markets into a tail spin. Copper sold off rapidly from its highs as algos sold aggressively. It seems that the markets were a bit long and overbought. The stronger USD encouraged liquidation in Nickel and Zinc. While today's price action will take some time to digest, and we might move a little lower, it is our belief that dips will be supported. Aluminium remains steady.

LME daily stock (in tonnes):

Base Metals	Total stock	Net change	Stock on warrant
LME Aluminum	2,220,775	-5,075	1,630,950
LME Copper	243,350	-4,475	138,325
LME Lead	189,175	600	118,700
LME Nickel	381,546	-1,494	275,130
LME Tin	5,880	0	5,275
LME Zinc	381,300	-2,350	274,800



LME Copper 3M chart [Source: Bloomberg]

What to Watch

Economic Data – Week of Feb 13 – Feb 19

Country/Region	Date	Time	Event	Period	Prior	Forecast	Source
Japan	13-Feb-2017	7:50	GDP QQ	Q4 2016	0.50%	0.30%	Reuters Poll
China	13-Feb-2017	10:00	FDI (YTD)	Jan. 2017	-0.20%	--	--
China	14-Feb-2017	9:30	PPI YY	Jan. 2017	5.50%	6.30%	Reuters Poll
China	14-Feb-2017	9:30	CPI YY	Jan. 2017	2.10%	2.40%	Reuters Poll
Germany	14-Feb-2017	15:00	GDP Flash QQ SA	Q4 2016	0.20%	0.50%	Reuters Poll
Germany	14-Feb-2017	15:00	CPI Final MM	Jan. 2017	0.70%	-0.60%	Reuters Poll
GB	14-Feb-2017	17:30	Core CPI MM	Jan. 2017	0.50%	--	--
Euro zone	14-Feb-2017	18:00	GDP Flash Estimate QQ	Q4 2016	0.30%	0.50%	Reuters Poll
US	14-Feb-2017	21:30	PPI Final Demand MM	Jan. 2017	0.30%	0.20%	Reuters Poll
US	15-Feb-2017	5:30	API weekly crude stocks	w/o Feb. 6, 2017	14,227.00M	--	--
US	15-Feb-2017	21:30	CPI MM, SA	Jan. 2017	0.3%	0.3%	Reuters Poll
US	15-Feb-2017	21:30	NY Fed Manufacturing	Feb. 2017	6.5	6.75	Reuters Poll
US	15-Feb-2017	23:30	EIA Weekly Crude Stocks	w/o Feb. 6, 2017	13.83M	--	--
US	16-Feb-2017	21:30	Initial Jobless Claims	w/o Feb. 6, 2017	234K	--	--
US	16-Feb-2017	21:30	Philly Fed Business Indx	Feb. 2017	23.6	19	Reuters Poll

Contacts

CMF (HK) Precious Metals		Email: PreciousMetalsHKTeam@cmschina.com.hk
WILLIAM CHAN	CE No. AGM443	williamchan@cmschina.com.hk
SIMON WONG	CE No. BBX031	simonwong@cmschina.com.hk
STEPHEN YEK	CE No. BCU327	stephenyek@cmschina.com.hk
CMF (HK) Energy Products		Email: EnergyHKTeam@cmschina.com.hk
JOE YAM	CE No. AMK311	joeyam@cmschina.com.hk
CMF (HK) Base Metals		Email: BaseMetalsHKTeam@cmschina.com.hk
VICTOR CHEW	CE No. AMY782	victorchew@cmschina.com.hk
CMF (HK) Iron Ore		Email: BulkHKTeam@cmschina.com.hk
YVONNE TANG	CE No. BGM839	yvonnatang@cmschina.com.hk
CMF (HK) Global Futures		Email: GlobalCommoditiesFuturesTeam@cmschina.com.hk
SEOW HOCK HIN	CE No. ALI542	seowhockhin@cmschina.com.hk

Disclaimer

This material is neither an official investment research nor a market analysis. It is produced by China Merchants Futures (HK) Co. Limited for information purposes only and only intended for the general information of institutional and market professional clients of China Merchants Futures (HK) Co. Limited and its affiliates only and must not be reproduced, distributed or transmitted (whether in whole or in part) to any other person except for the purpose of obtaining independent professional advice. This material does not constitute a request, offer or invitation by China Merchants Futures (HK) Co. Limited to any person to buy or sell any securities or futures contracts or to participate in any other transactions, nor does this material constitute any investment advice from China Merchants Futures (HK) Co. Limited. Any reference to past performance is not necessarily a guide to the future. The information contained in this material has been compiled from sources believed to be reliable by China Merchants Futures (HK) Co. Limited but China Merchants Futures (HK) Co. Limited makes no representation as to its accuracy or completeness and does not accept any liability for any direct, indirect or consequential loss or damage arising from the use of, or reliance of, the information contained in this material. Any forward looking statement or information in this material speaks only as of the date the statement was made. China Merchants Futures (HK) Co. Limited and its affiliates or its employees may from time to time have long or short positions in securities, warrants, futures, options, derivatives or other financial instruments independent of the information in this material. Neither this material nor any copy thereof may be distributed in any jurisdiction except as in compliance with the applicable laws thereof. If you are in doubt about the contents of this material, you should obtain independent professional advice.

Any person resident in the PRC are responsible for obtaining all relevant approvals from the PRC government authorities, including but not limited to the State Administration of Foreign Exchange, and compliance with all applicable laws and regulations, including but not limited to those of the PRC, before carrying out investment activities in relation to any securities or futures contracts, or financial assets described or referred to in this material.

This Disclaimer has been translated into Chinese. If there is any inconsistency or ambiguity between the English version and Chinese version, the English version shall prevail.

Hong Kong

China Merchants Futures (HK) Co., Limited (HKSFC CE No. AGO928)

Address: 48/F, One Exchange Square, Central, Hong Kong

Tel: +852 3189 6888

Fax: +852 2530 9168

Precious Metals

Tel: +852 3189 6228

Fax: +852 2530 9168

Energy Products

Tel: +852 3189 6226

Fax: +852 2530 9168

Base Metals

Tel: +852 3189 6330

Fax: +852 2530 9168

Iron Ore

Tel: +852 3189 6372

Fax: +852 2530 9168

Global Futures

Tel: +852 3189 6246

Fax: +852 2530 9168