

PIA First - Daily market report November 14th

Market highlight

There was a sharp slide in commodity prices on Friday as gold attracting the most attention with heavy losses to five-month lows near \$1,220 per ounce, a striking decline from highs above \$1,325 seen in the immediate aftermath of Trump's US election victory. Silver was also subjected to heavy selling as it traded close to October lows with crude prices under pressure with a test of the lowest level since mid-September for WTI.

A stronger dollar and higher US yields had an important impact in dragging commodity prices lower. Very low global interest rates had previously boosted capital flows into commodities, but speculation over higher US yields had a significant impact in reversing these flows, especially with expectations of a faster pace of Fed tightening following Trump's election victory.

The firm tone in risk appetite also curbed any potential demand for defensive assets, although markets will be wary of high volatility given that there is a very substantial degree of uncertainty over both political and economic trends. A fresh surge in US bond yields pushed the 10-year rate to highs above 2.20%. Precious metals moved lower again on Monday, although gold found support below \$1,220 while industrial commodity prices were stronger on growth hopes.

EUR/USD

The Euro continued to test support levels on Friday with eight-month lows at 1.0830 and only a marginal recovery. The Euro was undermined by further political concerns while the dollar continued to gain net support from expectations of stronger growth and inflation which would increase pressure for the Fed to tighten at a faster pace.

The US University of Michigan consumer confidence was stronger than expected with a five-month high of 91.6 from 87.2 the previous month. There was also an increase in inflation expectations in the data with the 1-year rate rising to 2.7% from 2.4%.

Fed Vice-Chair Fischer maintained his call for a gradual increase in interest rates as markets continuing to price in a December rate hike and the potential for a faster rate of increases in 2017. Yield trends dominated on Monday with the Euro declining to below 1.0800 for the first time since January.

USD/JPY

USD/JPY dipped to test support towards the 106.00 level in early Europe on Friday, but profit taking was limited by underlying yield trends and there was a close above the 106.50 level.

Yield considerations were the dominant influence with US 10-year yields holding above the 2.10% level. There was further support from the US data which reinforced expectations of a Fed tightening with rising expectations that higher inflation would trigger a faster pace of tightening during 2017.

The Japanese GDP data was stronger than expected with a 0.5% third-quarter advance and the second-quarter revised higher, although inflation data was lower than expected.

Chinese industrial production data was in line with expectations with a weaker than retail sales release. Market considerations dominated by a fresh surge in US yields which pushed USD/JPY to 107.60, the highest level since early June, as stops were triggered on a break of 107.00.

Sterling

Sterling maintained a firmer tone on Friday with further evidence of short covering as aggressive bets on the currency were pared to some extent. GBP/USD broke above the 1.2600 level for the first time in five weeks with EUR/GBP dipping below 0.8600 for the first time since late September.

There were further expectations that the UK political and economic bargaining position had been strengthened by the US Presidential election result. In particular, there were hopes of a favourable trade deal while expectations of Euro-zone political tensions also supported the UK currency. Wider US gains pushed Sterling below 1.2550 on Monday.

Swiss franc

The Euro found support on approach to the 1.0700 area against the franc on Friday, maintaining speculation that the National Bank was intervening to curb further franc gains. The dollar again hit resistance on approach to the 0.9900 area with the franc gaining some support from apprehension surrounding the Euro-zone political outlook, especially with a sharp move higher in Italian yields.

AUD/USD + USD/CAD

Downward pressure on commodity prices, allied with a robust US currency, maintained downward pressure on the Australian dollar during Friday with lows in the 0.7530 area and the lowest level for four weeks. AUD/USD stabilised on Monday with higher industrial commodity prices providing net support to the Australian currency.

The Canadian dollar was also undermined by a generally weak tone in commodity prices with the sharp slide in gold and oil prices having an important negative impact. USD/CAD rallied to 8-month highs near 1.3550 and continued to move higher on Monday with higher US yields also an important negative factor.

Equities

Overall risk appetite held firm on Friday with the Dax posting gains of 0.36% with a weaker Euro supportive. In contrast, the FTSE index was subjected to significant selling pressure as a stronger tone in Sterling and downward pressure on key commodity prices had an important negative impact on the UK index with a daily decline of 1.43%.

US indices were also vulnerable to a correction, although the decline in S&P 500 index was limited to 0.14% on the day. Equities overall were unsettled to some extent by concerns over higher interest rates and tighter financial conditions, especially in Asia. The Nikkei index advanced over 1.6% on stronger than expected GDP data and further yen losses.

Commodities

WTI was subjected to renewed selling pressure on Friday with underlying negative sentiment amplified by the latest OPEC data with October output at a record high of 33.64mn from 33.49mn the previous month. Brent declined to lows near \$44.20 p/b as WTI declined to re-test September lows near \$43.00 before a slight recovery on Monday.

Silver was hit by heavy selling and a dip below \$18.00 per ounce triggered aggressive stops while industrial commodities also retreated sharply on the day. There was divergence on Monday as silver remain under pressure while copper regained ground on growth hopes.

Calendar

Major events for the day ahead: (times in GMT): 07.00 (Tues) Germany Q3 GDP