RBMC

THE BHAR REPORT

robinbhar@outlook.com https://www.rbmc.world

The Week in the Markets

Week of 1 May 2020 – Number 16

Weekly price change	S&P 500	Shanghai	US 10-YR	DXY	WTI	Gold	LMEX	LME Cu	LME Al	LME Ni	LME Zn	LME Pb	LME Sn
Last	2,859	2,860	0.61%	98.9	$18.5	$1,676	2,393	$5,085	$1,495	$12,124	$1,940	$1,610	$15,197
Change w-o-w	1.9%	1.8%	0.00	-1.7	12%	-3.1%	0.4%	0.0%	-1.0%	0.1%	3.6%	-1.0%	1.3%

Macro Themes

As of 1 May, about 3.7mn **Covid-19** cases have been confirmed worldwide, and the death toll has surpassed 233k, according to Johns Hopkins University data. **US** GDP shrank at an 4.8% annualised rate in Q120, its fastest rate since the 2008 financial crisis (when GDP fell 8.4%), ending the longest expansion on record as lockdowns aimed at curbing the coronavirus pandemic choked off economic activity (see **Chart 1**). **Fed** Chair Powell said he sees medium term risks, which should keep interest rates at zero and would offer more support.

Markets are assuming a **V-shaped** recession, but a **U-shaped** one – which is characterized by a very slow return to growth – is more likely. Stock markets are rallying sharply as investors looked beyond grim economic figures from the US and cheered an update on a potential Covid-19 treatment (*Gilead Sciences*). Investors point to governments that have unleashed unprecedented waves of stimulus to support economic growth (see **Chart 2**). Another argument is that the number of deaths from Covid-19 is beginning to plateau and economies are starting to re-open. The belief is this will propel a V-shaped recovery. However, continued stress in the **oil** sector calls into question the recent rallies in equities. A contracting global economy directly translates into falling industrial commodity prices. So, the renewed dive in oil prices might be a leading indicator for other risk assets. Both usually slump in deep recessions just like this one.

The pandemic has triggered trillions of dollars in **emergency spending**. The combination of extended bond-buying programmes and greater fiscal spending has helped limit the market shockwaves from the virus's hit to the global economy. The end result is a likely surge of 10-15 percentage points in the **ratio of debt to economic output** for many countries as they finance extra spending. *Moody's* estimated that the US government's announced stimulus efforts (along with materially weaker revenues and growth) will propel the federal fiscal deficit from 4.6% of GDP last year to more than 15% this year. The legacy costs of fighting the virus, coupled with the biggest global economic contraction since the 1930s, will shape financial markets for much of the 2020s. Investors are on guard against **debt monetization**, where central banks enable unsustainable fiscal spending – expect **gold** to benefit and **currencies** to suffer.

What of the future? A world of more **debt** (>$90tn denominated in USD), less **globalization** and greater **digitalization** seems a likely outcome. All economies will exit this crisis with much higher levels of debt, which is likely to lead to a period of financial repression and higher taxation. A move to reduce the reliance on global **supply chains** following the crisis will also entail higher business costs, though some of those extra overheads may be offset by the greater use of automation. This suggests just modest growth and therefore limited upside for **inflation**. The hope is that an eventual and sustained recovery in economic activity will ease the debt burden over time. As seen after the financial crisis, creating a sustained and robust recovery that includes rising consumer prices is tough when debt loads, and demographics are already challenging.

Global trade volume dropped 2.6% YoY in February, according to the **world trade monitor** published by the *Netherlands Bureau for Economic Policy Analysis (CPB)*. YoY trade volume declined 1.1% in February at the fastest pace since the GFC (see **Chart 3**).

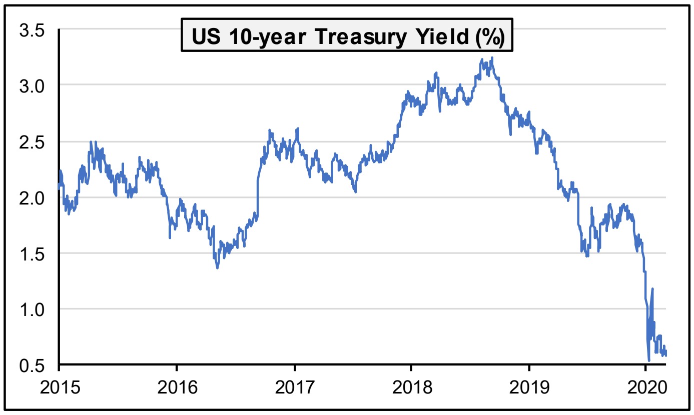
Precious Metals

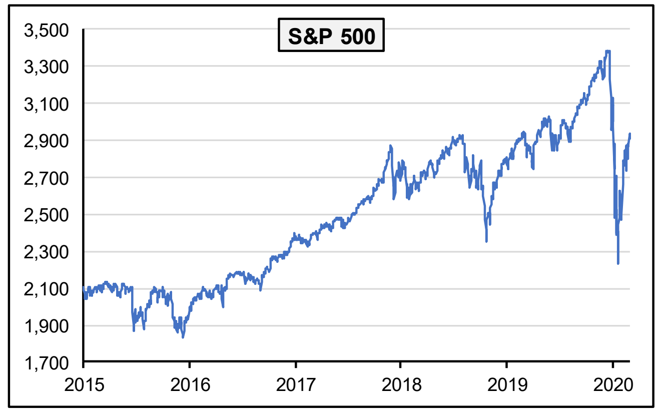
Gold, up 8.5% in April, is heading for its biggest monthly gain since 2016 as central banks ramp up stimulus and create tens of trillions of fiat currencies to bail-out corporations, financial institutions, banks & governments. **Debt deflation** and **currency debasement** fears should ensure that pullbacks in gold prices are shallow and short-lived. The global Covid-19 pandemic fuelled safe-haven investment demand for gold in Q1, offsetting marked weakness in consumer-focused sectors of the market, according to the *World Gold Council (WGC)*. Total Q1 demand grew marginally to 1,083.8t (+1% YoY). **Gold ETFs** attracted huge inflows (+298t), which pushed global holdings to a new record high of 3,185t. Total **bar and coin** investment fell to 241.6t (-6% YoY) as a 19% drop in bar demand (to 150.4t) overpowered a sharp jump in demand for gold coins, up 36% to 76.9t, due to safe-haven buying by Western retail investors. **Jewellery** demand, unsurprisingly, was particularly hard hit by the effects of the outbreak; quarterly demand dropped 39% YoY to a record low of 325.8t. **Technology** demand also fell to a new low of 73.4t (-8% YoY). **Central banks** continued to buy gold in significant quantities, although at a lower rate than in Q119: net purchases amounted to 145t (-8% YoY). The virus also caused disruption to gold **supply**: mine production fell to a five-year low of 795.8t (-3% YoY) while **recycling** ground to a near standstill as consumers were confined to their homes. Historically, there has been a strong correlation between the oil price, GDP growth and **PGM** prices. The past 12 months have seen a clear divergence in this trend, but as the global economy grinds to a halt, the oil price could well be a warning of what is in store for PGMs (*Heraeus*). Forecasts for **global car sales** have been revised down by as much as 20% this year (source: *LMC Automotive*).

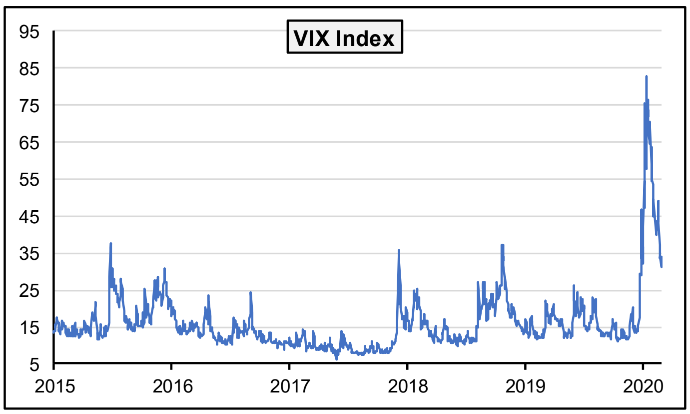
Base Metals

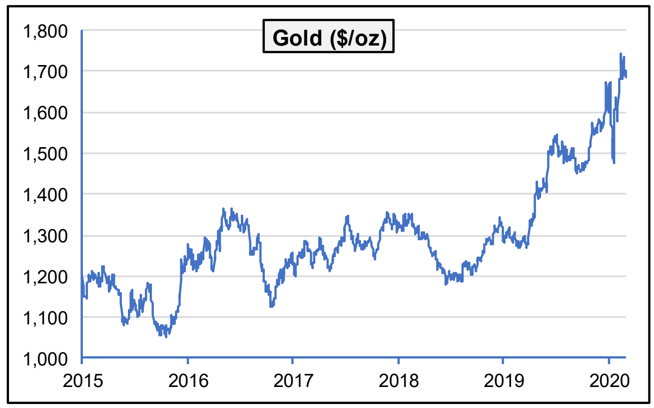
Plummeting **global trade volumes** provide a negative backdrop for industrial metals. Moreover, there is a positive correlation between growth in global industrial production and metals prices, as shown in **Chart 4**. Negative growth in industrial production is likely to mean that base metals remain weak. However, **base metals** are trading modestly above recent lows supported from ongoing supply disruptions due to lockdowns, potential infrastructure stimulus in China and stockpiling plans by Chinese provincial governments. First Quantum was the latest to report such disruptions. It reduced its guidance on **copper** output after the temporary closure of its Cobre Panama mine. The Philippines, a major supply of **nickel** ore to China, is struggling to contain the pandemic, with producers forced to close operations. *S&P Global Market Intelligence* have identified disruptions to 260 mine sites in 33 countries, mainly in Africa, Latin America and North America. New mine closures have slowed significantly over the past two weeks, and many countries are declaring mining essential activity in the midst of national lockdowns. Mining operations have resumed across South Africa and Canada, and in parts of many other countries. In addition, many companies are able to ramp up operations after receiving lockdown exemptions from their governments, without mining being officially designated as essential. Some countries, such as Peru, are extending their lockdowns, with mines continuing to be impacted. Miners are making additional announcements daily, companies continue to withdraw 2020 guidance in light of the uncertainties, extensions to many suspensions are likely and limited disruptions at certain mines may not even impact full-year production. Charts with moving averages are shown on **The Backpage**.

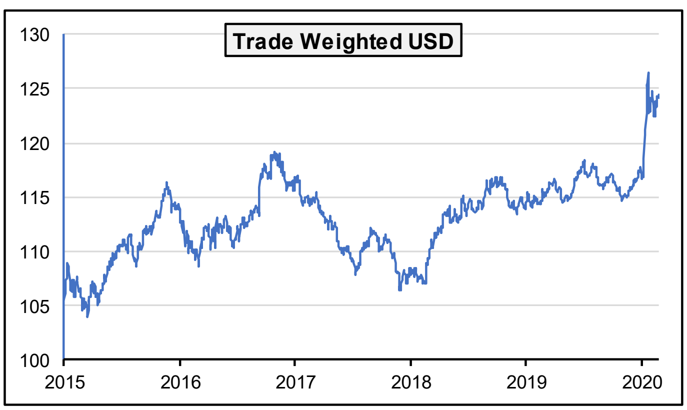
Dashboard – What You Need to Know

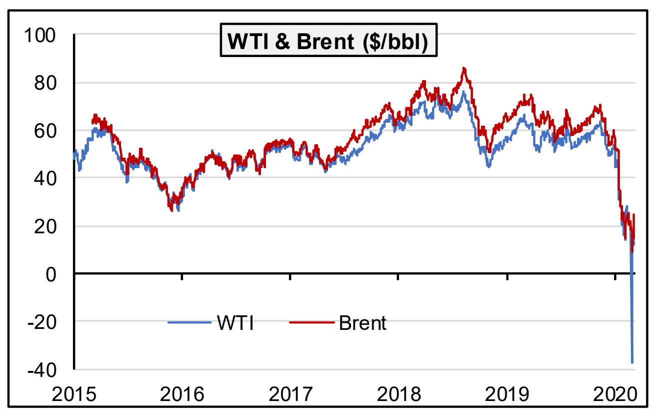


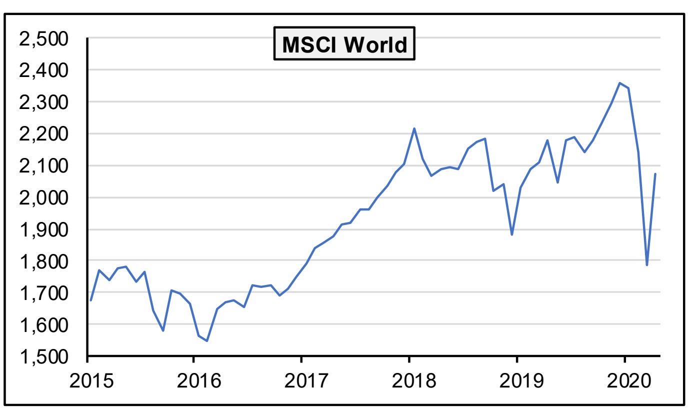


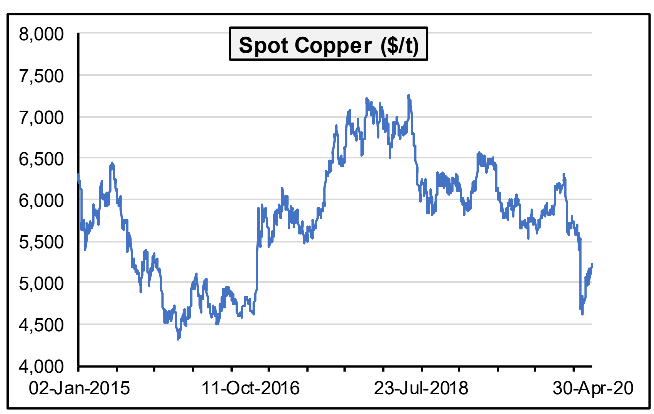








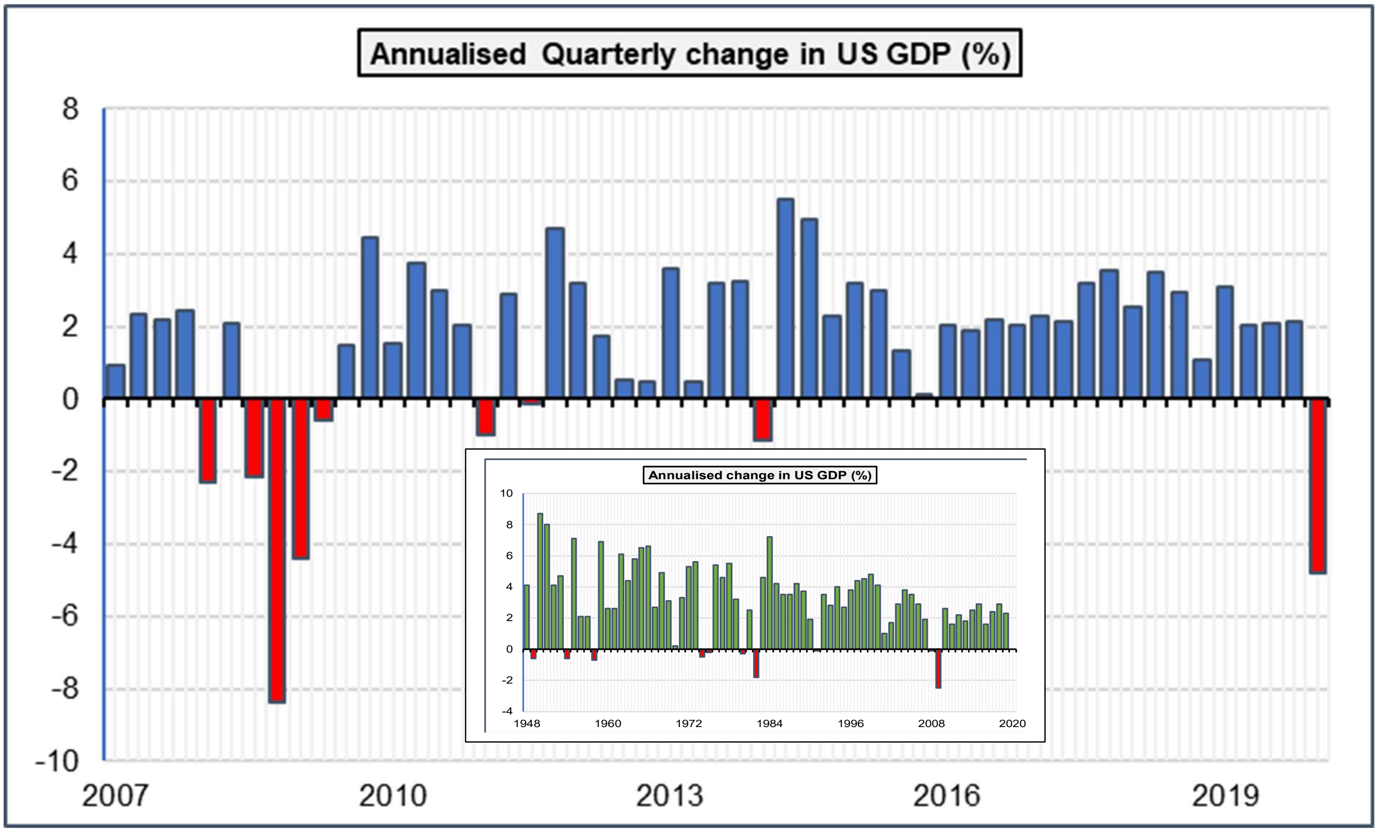




Source: Federal Reserve Bank of St. Louis, Trading Economics

Charts of the Week

Chart 1. US GDP Growth



Source: US Bureau of Economic Analysis

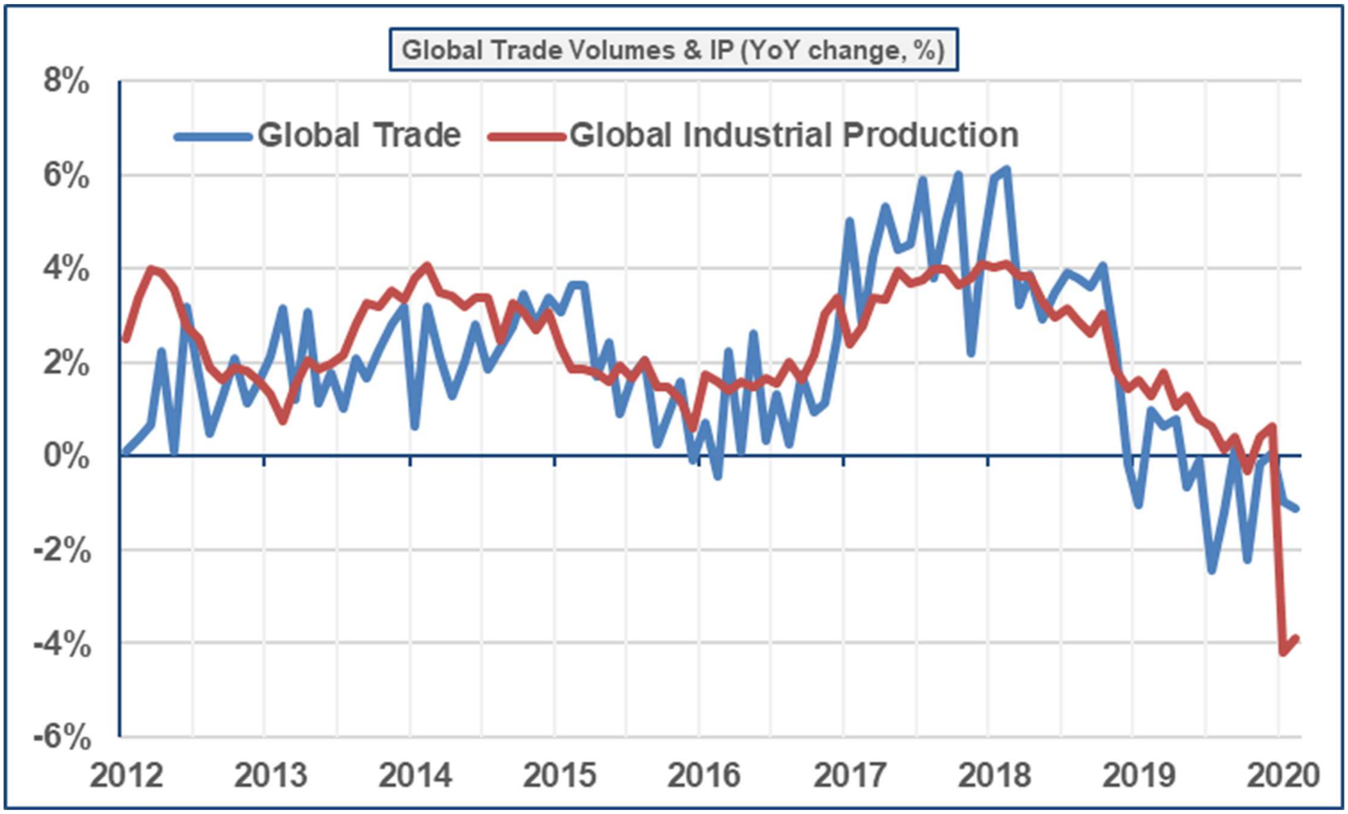
Chart 2. Are we ready to re-open?

Factors needed for quick and robust recovery	Progress	Further progress needed
Infection contained (travel restrictions can be eased)	Infections slowing in Continental Europe Infections plateauing in the US, UK	Vaccine ready for mass production Countries meet criteria ready for shutdown exit strategy
Policy response - Fiscal stimulus of sufficient size and nature - Central bank backstop	US stimulus increased (now USD 2.4tn) ECB and BoJ join Fed in supporting credit markets	Credible ECB backstop (Thursday) *Details* of EU joint solution Brexit negotiation extension
Economic resilience - proof of 'suspended animation'	US unemployment so far deemed 'temporary' Furlough schemes being well utilised in Europe	Earnings season doesn't prove disruptive Unemployment low/ temporary

Source: J.P. Morgan Asset Management

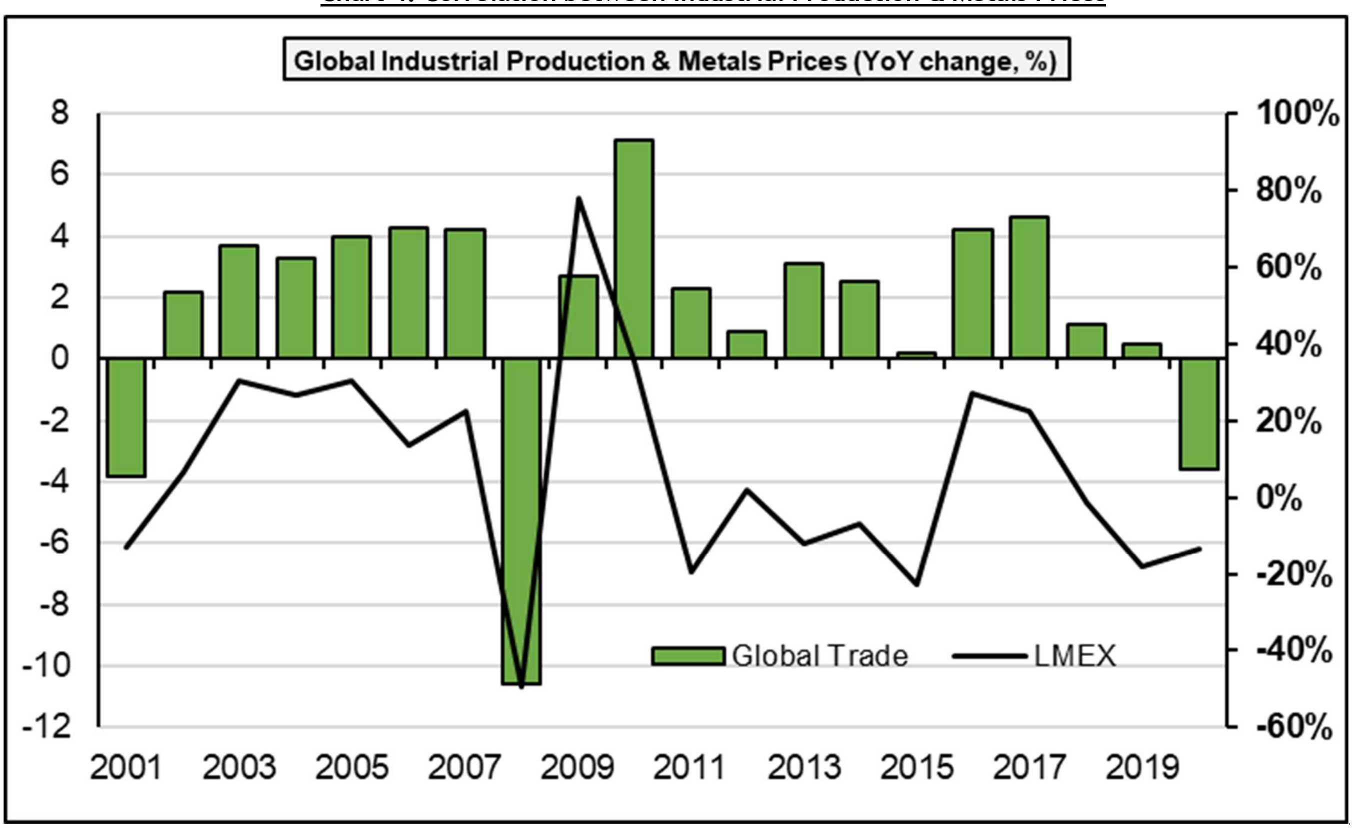
Charts of the Week

Chart 3. Global Trade & Industrial Production



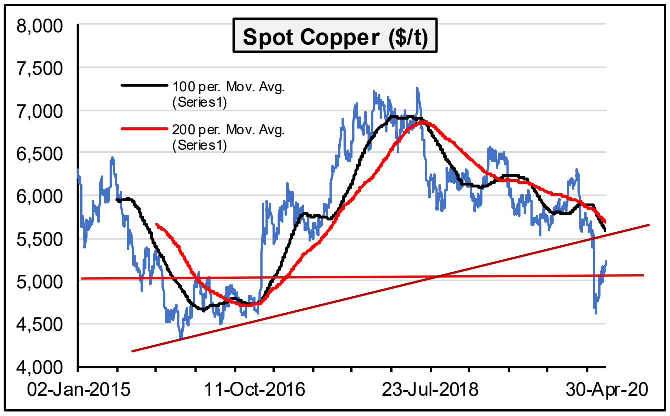
Source: Netherlands Bureau for Economic Policy Analysis (CPB) World Trade Monitor

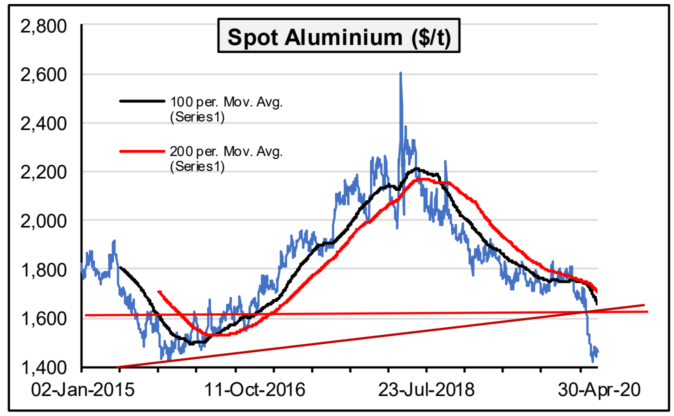
Chart 4. Correlation between Industrial Production & Metals Prices

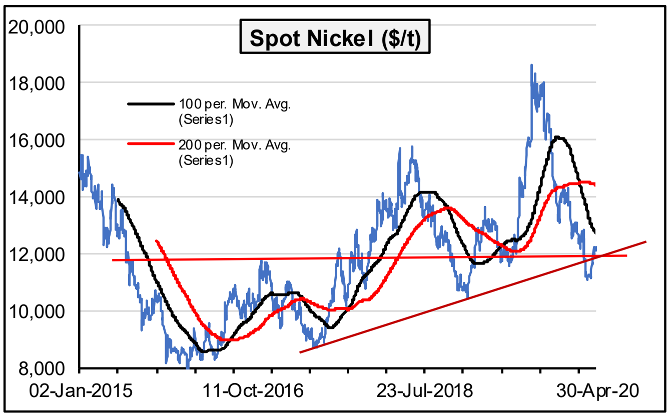


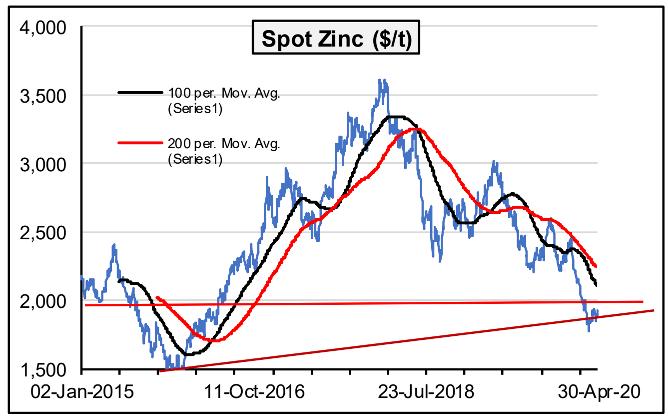
Source: Netherlands Bureau for Economic Policy Analysis (CPB) World Trade Monitor, LME

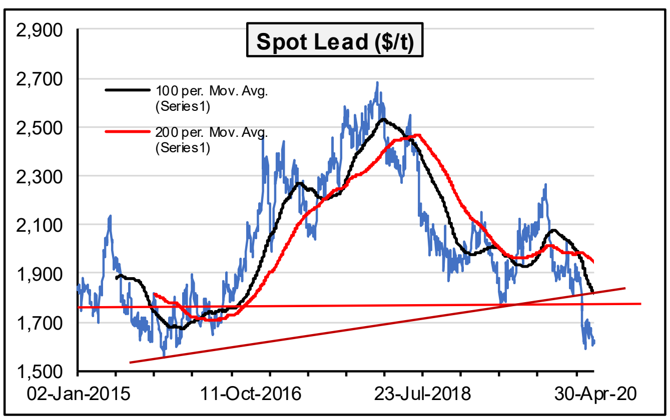
The Backpage – Industrial Metals

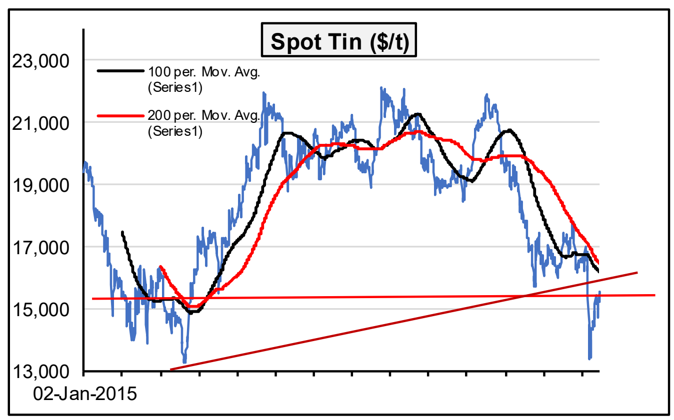


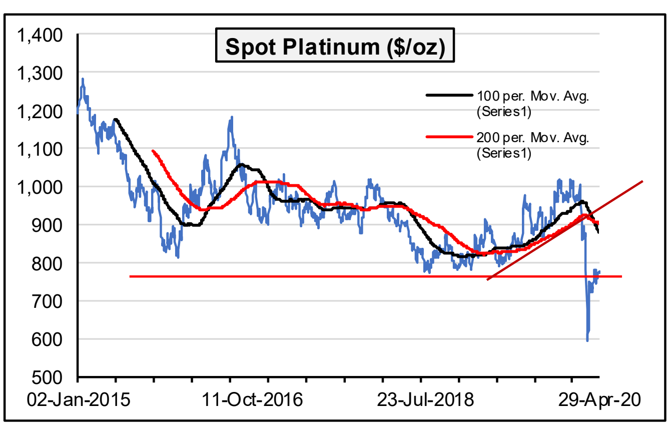


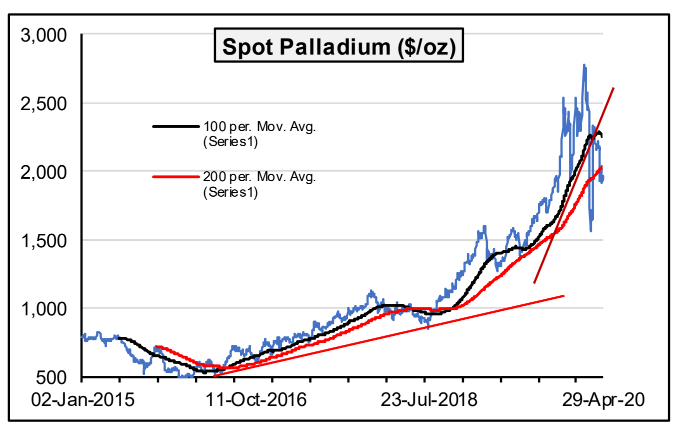












Source: LME, LBMA, LPPM

For more commentary see my blog on www.rbmc.world
Comments, suggestions, and feedback is welcomed