RBMC

THE BHAR REPORT

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The Week in the Markets

Week of 3 June 2020 – Number 25

Weekly price change	S&P 500	Shanghai	US 10-YR	DXY	$/CNY	WTI	Gold	LMEX	LME Cu	LME Al	LME Ni	LME Zn	LME Pb	LME Sn
Last	3,135	3,153	0.67%	97.3	7.07	$40.1	$1,775	2,699	$6,034	$1,621	$12,892	$2,045	$1,767	**$16,830**
Change w-o-w	**1.6%**	**5.8%**	**-0.01**	**-0.1**	**-0.3**	**2.8%**	**0.7%**	**2.5%**	**2.7%**	**1.8%**	**1.4%**	**-1.8%**	**-0.1%**	**-0.3%**

Macro Themes

As of 3 July, about 10.9mn **Covid-19** cases have been confirmed worldwide, and the death toll has surpassed 521k, according to Johns Hopkins University data. The **US** is seeing a second wave of the pandemic and it is affecting reopening, while there are clusters requiring local containment measures in Australia, South Korea, Japan, UK, and Switzerland. Nevertheless, the situation remains precarious (see **Chart 1**). US **employers** added 4.8mn jobs in June and the **unemployment rate** dropped to 11.1% from 13.3% in May, beating forecasts.

Continued gains in financial markets, including commodities, seem to be coming on hopes of a V-shaped recovery. There is some evidence of such a recovery in Chinese and global manufacturing Purchasing Managers Indexes (**PMIs**). China's **official PMI** picked up to a three-month high of 50.9 in June, while the private **Caixin/Markit** PMI reached a six-month high of 51.2, both measures comfortably above the 50-level that separates growth from contraction, but new export orders contracted. Whereas the NBS numbers sample the industrial SOE's the Caixin figure is derived by a sample of 430 privately owned industrial companies. China's two manufacturing PMIs for June support our view that **GDP** growth likely turned positive in y-o-y terms in Q2, and we continue to anticipate a stronger recovery in the coming quarters than the analyst consensus, according to *Capital Economics*. Both were better than expected and pointed to a faster improvement in conditions. However, despite signs of recovery in China's manufacturing and services sectors in the wake of the Covid-19 pandemic, government-led, debt-fuelled infrastructure spending continues to drive the economy. This is reflected in our proxies of industrial activity, which suggest heavy industry is at or even above 2019 levels while light manufacturing lags. The **ISM** PMI for the US returned to growth in June, reaching 52.6, and the **Eurozone** PMI got closer to growth, hitting 47.4 in June, up sharply from May's 39.4.

Fed June minutes revealed more debate on capping bond yields which would be supportive for gold. The minutes showed officials were still debating the benefits of so-called **yield curve control**. There is a growing likelihood that the Fed would follow the BoJ and RBA and set upper limits for certain Treasury yields. The central bank then buys or sells as many government bonds as needed to maintain those levels, in an effort to keep a firm lid on the cost of borrowing. The minutes indicated Fed officials were undecided on the policy, which was last used in the US during WWII. However, officials did say Australia's approach of targeting three-year government yields was seen as "most relevant" to the current backdrop in the US, and that "all participants" wanted to see further analysis of yield curve control.

It is estimated that the **central banks** of the G4 countries - US, Japan, Europe, and the UK - will collectively expand their balance sheets by 28% of GDP over this cycle. The equivalent number during the 2008 financial crisis was 7%. **Fiscal deficits** are soaring too: across the G4 and China, it is estimated they will hit 17% of GDP in 2020. More than two-thirds of governments across the world have scaled up their fiscal support since April to mitigate the economic fallout from the pandemic and the stringent lockdowns as growth is revised further down. According to the **IMF**, announced fiscal measures are now estimated at near $11tn globally, up from $8tn estimated in the April 2020 Fiscal Monitor (see **Chart 2**). The $11tn of fiscal measures is around 12% of global GDP and potentially lines us up for a big boost in 2H20 and going into 2021. Economists usually talk about the **multiplier** effect and at very low interest rates there is some evidence to suggest the multiplier is between 1-2, so $11tn could end up being $15tn.

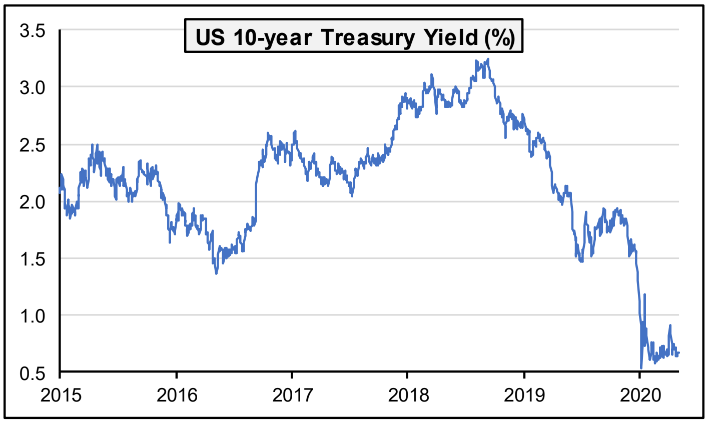
Precious Metals

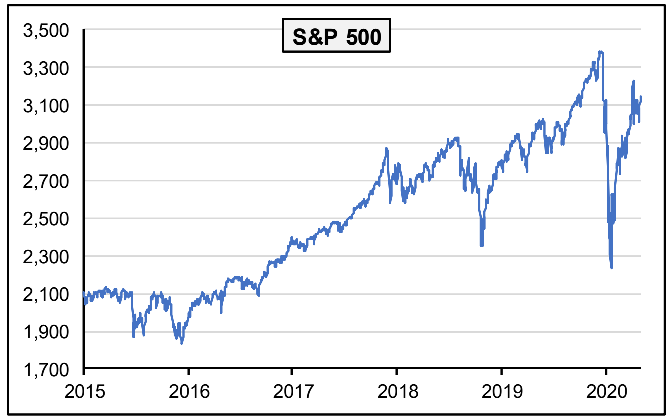
Gold extended recent gains as safe haven demand continues to rise. August futures pushed above USD1,800/oz, while spot prices traded marginally lower. Gold is the top performing asset in 1H20, outperforming all stock markets including the S&P 500 and the Nasdaq, as well as outperforming safe haven US government bonds (see **Chart 3**). Gold gained 18% in USD terms, while in EUR terms, gold gained by 18.6%, and 25% in GBP terms. The expansion of central bank liquidity and public debt resulting from this continues to argue for a robust demand for gold as a safe haven and store of value. US **real interest rates**, a significant driver of gold's valuation, continue to push into negative territory. There are increasing suggestions that the recent rally in gold reflects more than the usual drivers. This includes a gradual structural shift in how some long-term investors - especially those revisiting their **asset allocation** models - see the role of the precious metal in the context of the very low government bond yields associated with central banks' market interventions. Investors also continue to diversify into gold **bullion coins** and **bars** in vaults globally and into gold-backed **ETFs**, with holdings at a record. ETFs are on track for their 14th week of net inflows, according to Bloomberg data. More upside for gold appears likely as Covid-19 prompts reactionary measures including massive and unprecedented stimulus, fiscal spending, and bailouts of corporations globally. Governments and central banks are doing whatever it takes to minimize the damage lockdowns are having on an already massively indebted (to the tune of ~$300tn) global economy. **Silver** is being capped under $18/oz for now which is an area of resistance, but it needs to break up through $18.50/oz to confirm the next leg higher is underway. **Platinum** was flat w-o-w, while some gains were seen in **palladium, as** China's **vehicle sales** increased for the third straight month.

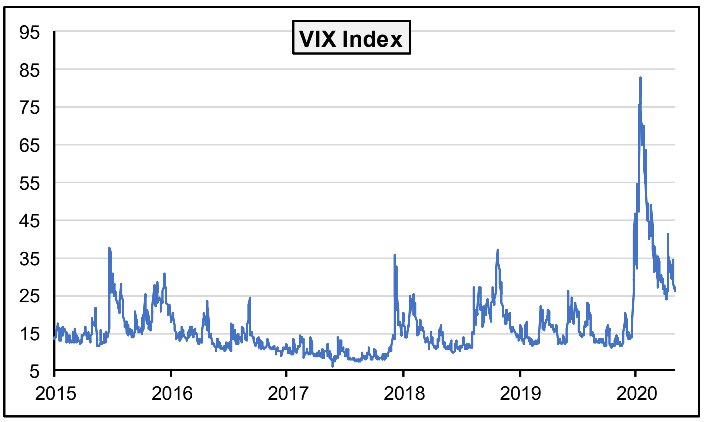
Base Metals

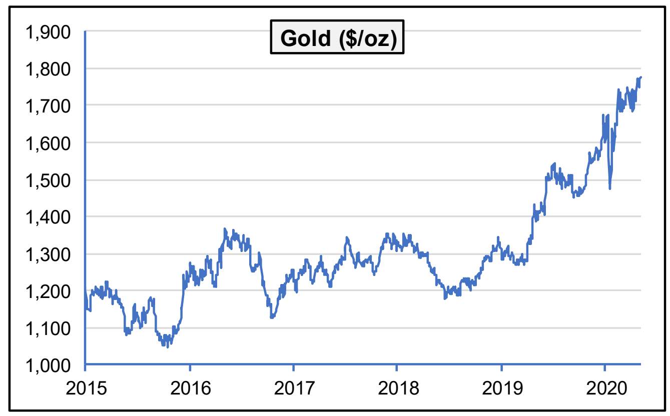
Base metals ended June and 1H20 recovering nearly most of their lost ground due to the impact of Covid-19. **LMEX**, the LME's metals index, is just 6% off its starting levels at the beginning of the year, having mounted a robust 17% rally from the 23 March lows (see **Chart 4**). Massive fiscal and monetary stimulus has been the primary driver of the price recovery, aided by rebounding economic activity in China and supply disruptions at mines and refined production facilities affected by the lockdowns. Whilst metals demand has been pretty much negatively affected across the board - **copper** being the exception as infrastructure spending in China has been beneficial - with most metals seeing sharp falls in usage amid the sudden stop in economic activity in March and April, the clear differentiator between metals has been ongoing supply disruptions and dislocations which has mainly affected **copper** and **tin** primarily. Copper mines and smelters/refineries are disrupted due to lockdowns, with supply fears driven by Covid-19 spreading in major copper producing countries such as Chile and Peru (number one and two largest mine producers in the world), both countries combined account for around 40% of global mined copper supply. Chile's *Codelco* halted smelting operations at its massive Chuquicamata copper mine earlier this week as its workforce suffers rising infection and death rates. Outside of China four of the world's five largest tin producers have reduced output or, in the case of Indonesia's PT Timah, sales. Governments are emerging from this phase of the pandemic with plans for significant spending that boosts R&D in areas such as clean energy. This marks a shift from governments' traditional response to economic downturns, which is to favour infrastructure projects. Industrial **metals** look set to benefit from a reset of economic growth post Covid-19. Metals have an important role to play in addressing issues critical to society including, contributions to food supply, infrastructure, CO_2 reduction and sustainable development amid a focus increasingly on ESG factors. Charts with moving averages are shown on **The Backpage**.

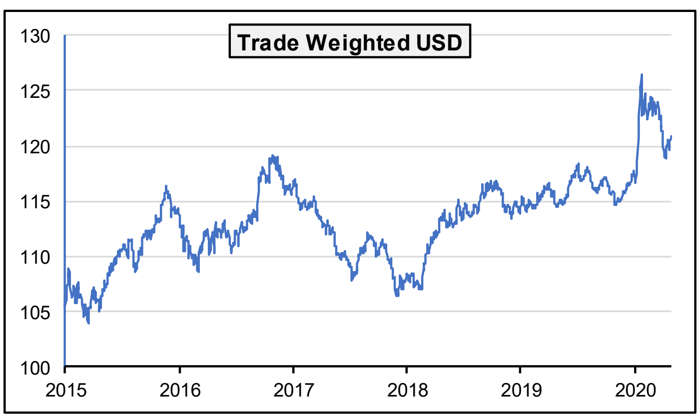
Dashboard – What You Need to Know

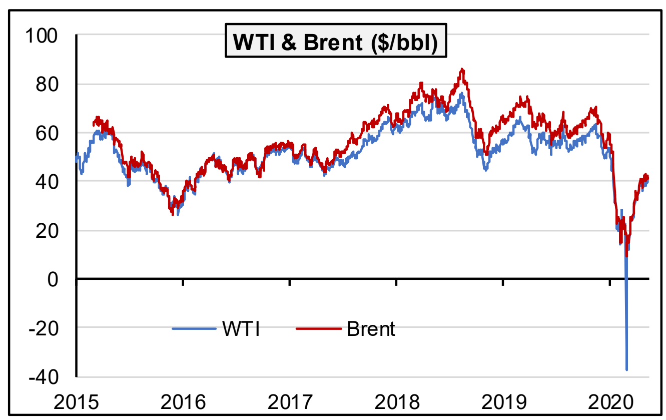


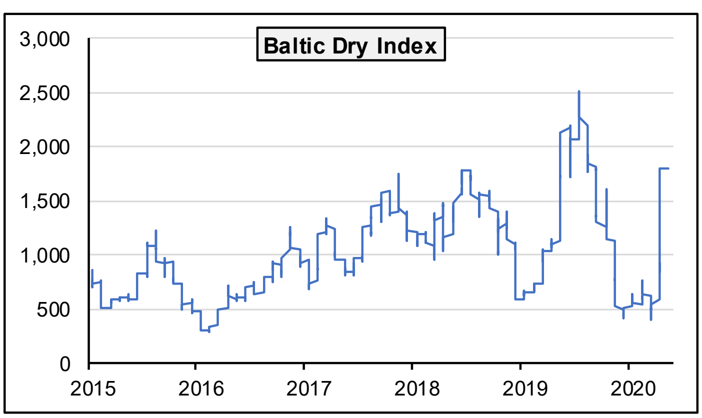


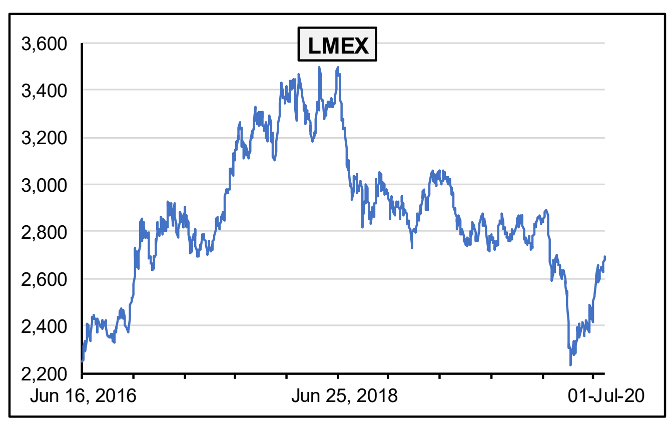












Source: Federal Reserve Bank of St. Louis, Trading Economics

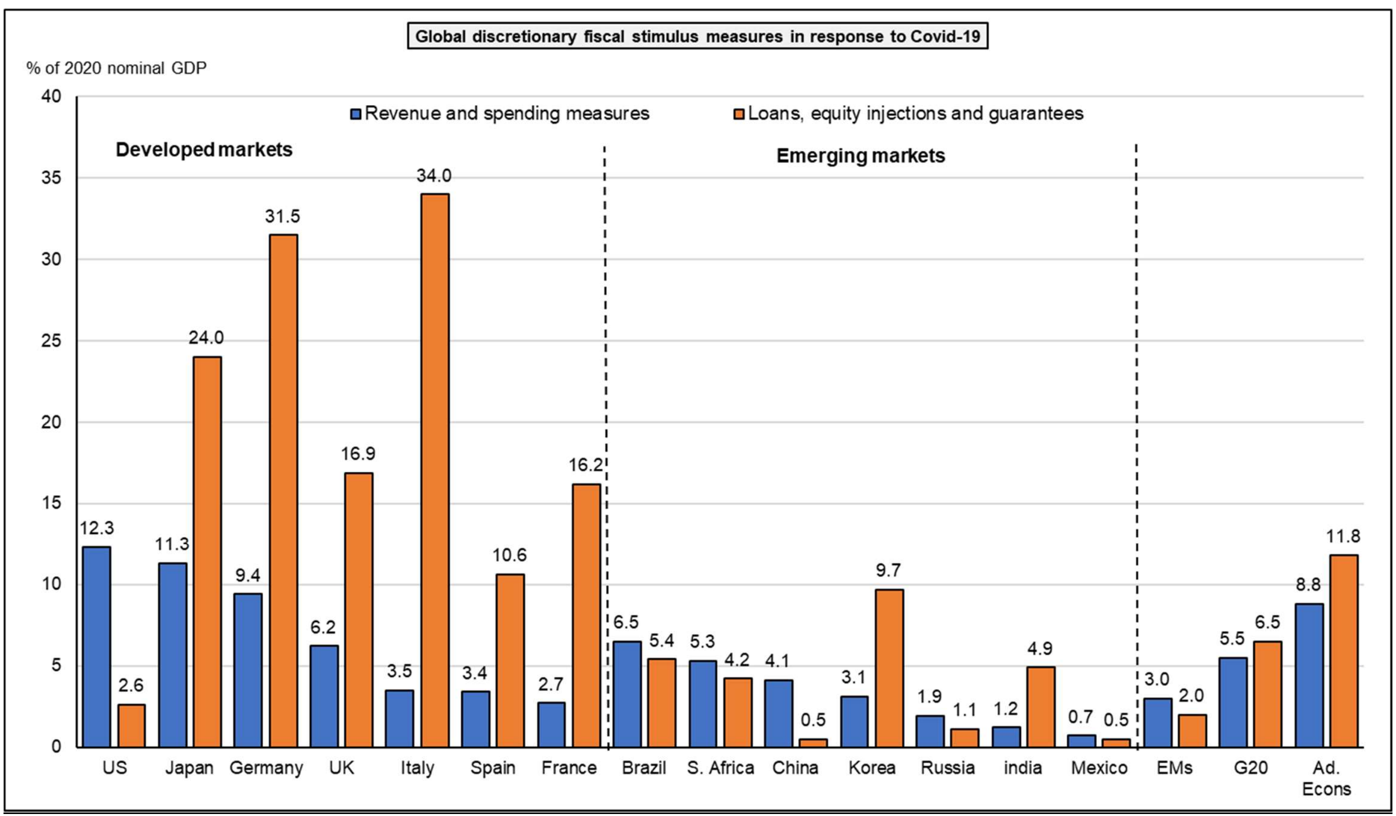
Charts of the Week

Chart 1. A precarious situation

Factors needed for quick and robust recovery	Recent news	Looking ahead
Infection contained (travel restrictions can be eased)	US is seeing second wave and it is affecting reopening Clusters requiring local containment measures in Australia, South Korea, Japan, UK, Switzerland	Will the US situation escalate? How does EM gain control? How will this feedback to DM growth? How do ongoing clusters affect ability to open service economy?
Policy response - Fiscal stimulus of sufficient size and nature - Central bank backstop - Absence of 'nationalism' and political scapegoating	Macron's 'green' shift	Fed minutes (YCC?) UK fiscal statement US and China tensions/ US political risk (including politics of fiscal extension)
Economic resilience - proof of 'suspended animation'	PMIs signal improvement, more in manufacturing than services Robust US home sales after retail sales	US Non-farm payrolls 2nd quarter earnings season (less about Q2, more guidance)

Source: J.P. Morgan Asset Management

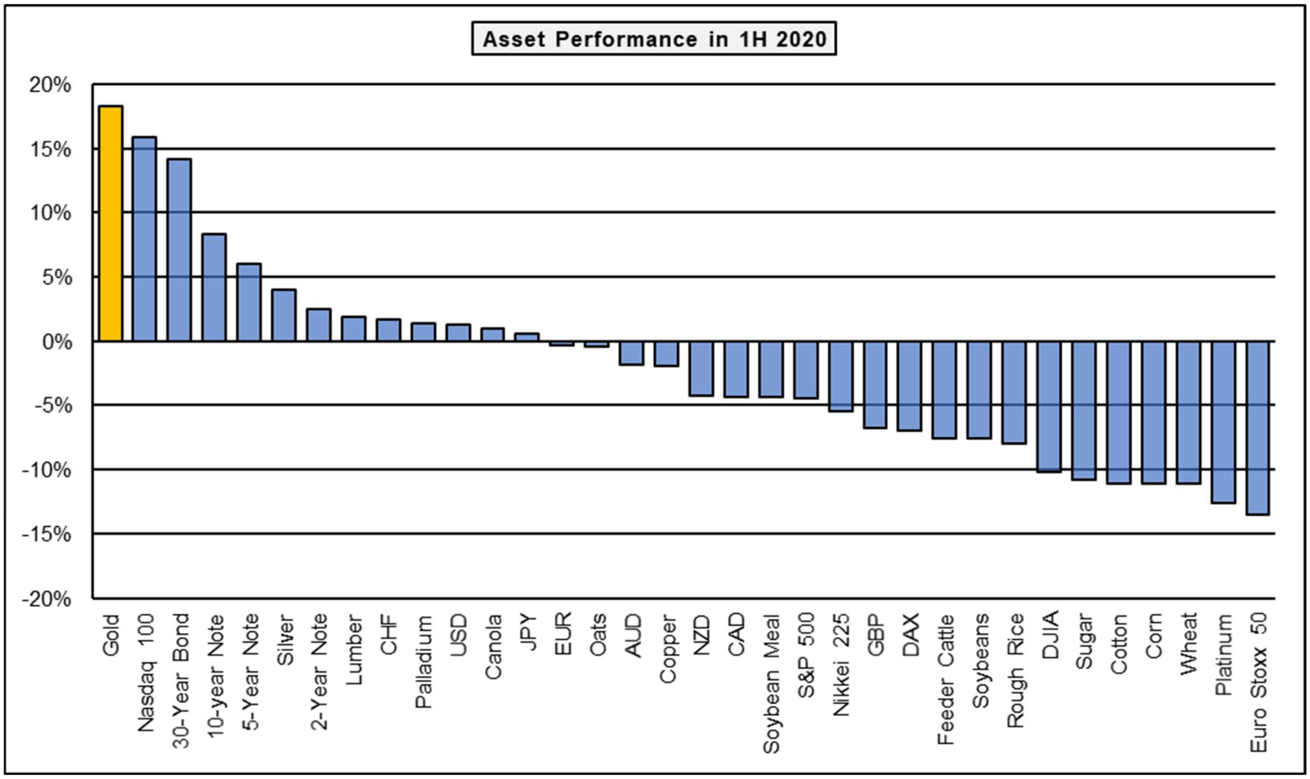
Chart 2. Assessing the global fiscal response



Source: IMF, RBMC

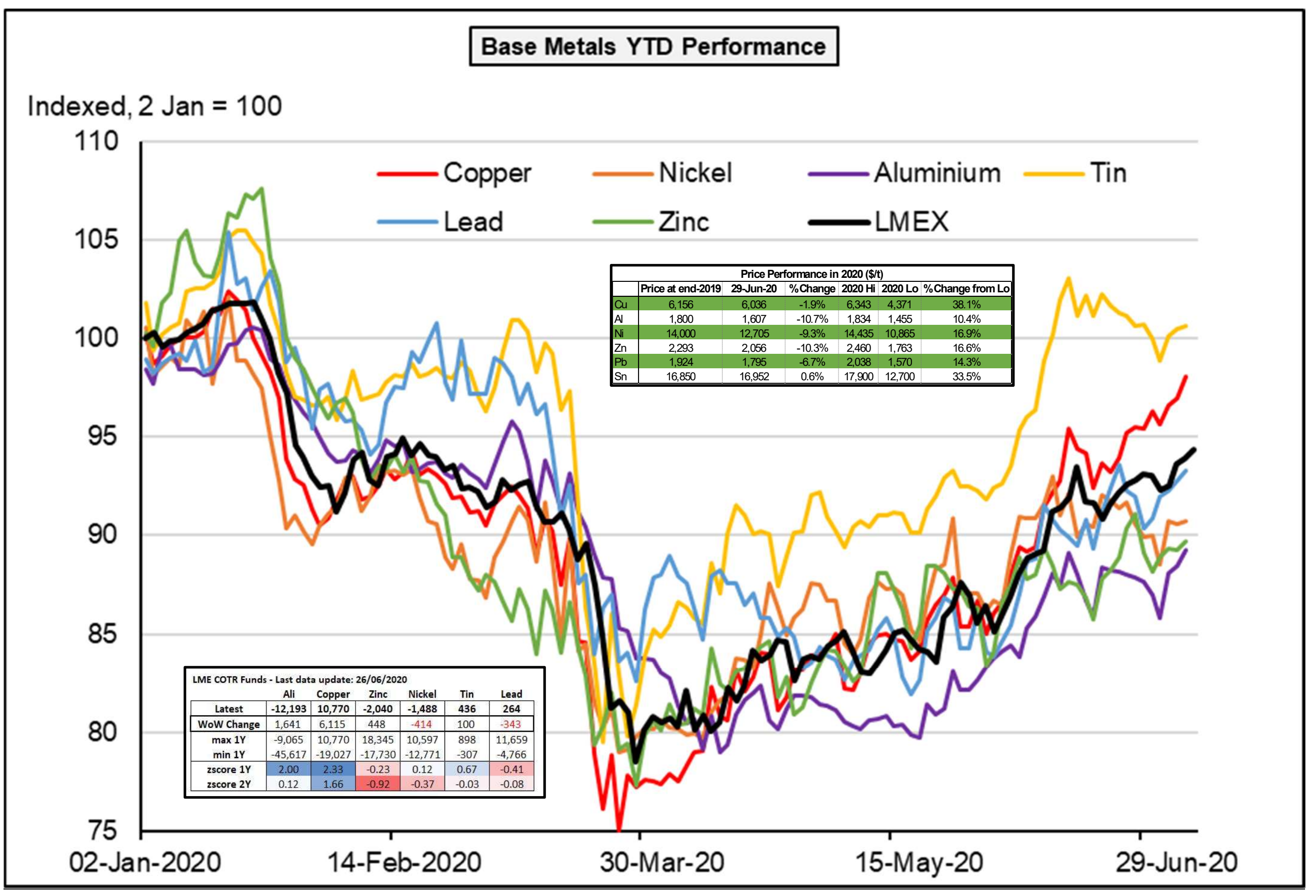
Charts of the Week

Chart 3. Gold is top performing asset in 1H2020



Source: Finiz.com, RBMC

Chart 4. Copper and tin leading the way higher



Price Performance in 2020 ($/t)

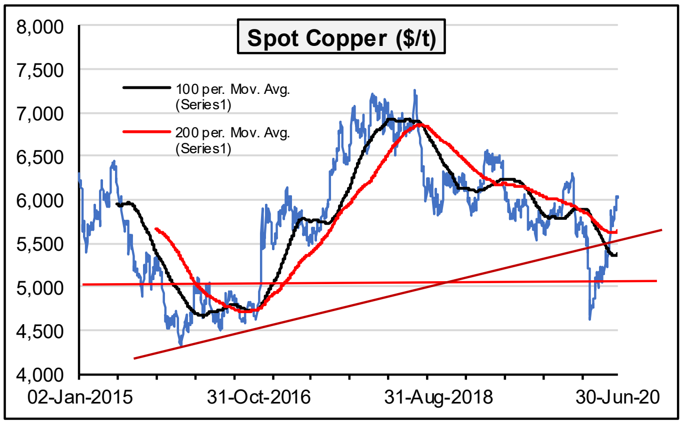
	Price at end-2019	29-Jun-20	%Change	2020 Hi	2020 Lo	%Change from Lo
Cu	6,156	6,036	-1.9%	6,343	4,371	38.1%
Al	1,800	1,607	-10.7%	1,834	1,455	10.4%
Ni	14,000	12,705	-9.3%	14,435	10,865	16.9%
Zn	2,293	2,056	-10.3%	2,460	1,763	16.6%
Pb	1,924	1,795	-6.7%	2,038	1,570	14.3%
Sn	16,850	16,952	0.6%	17,900	12,700	33.5%

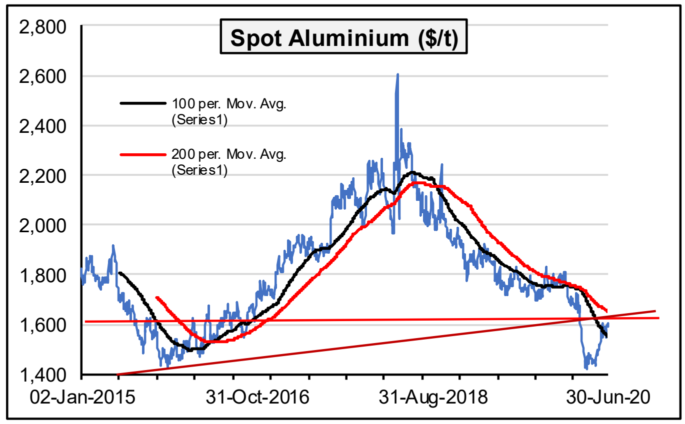
LME COTR Funds - Last data update: 26/06/2020

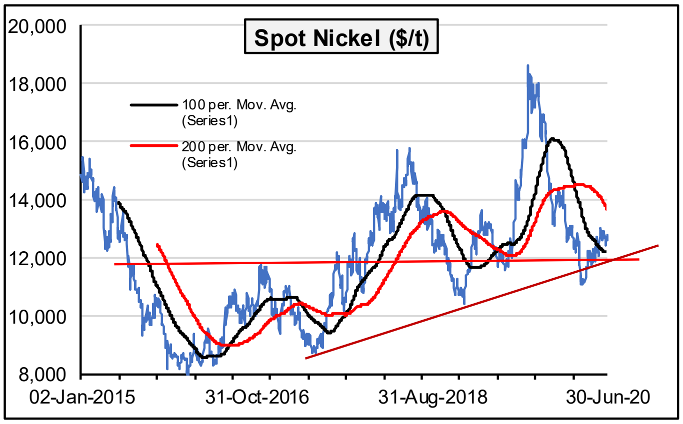
	Ali	Copper	Zinc	Nickel	Tin	Lead
Latest	**-12,193**	**10,770**	**-2,040**	**-1,488**	**436**	**264**
WoW Change	1,641	6,115	448	-414	100	-343
max 1Y	-9,065	10,770	18,345	10,597	898	11,659
min 1Y	-45,617	-19,027	-17,730	-12,771	-307	-4,766
zscore 1Y	2.00	2.33	-0.23	0.12	0.67	-0.41
zscore 2Y	0.12	1.66	-0.92	-0.37	-0.03	-0.08

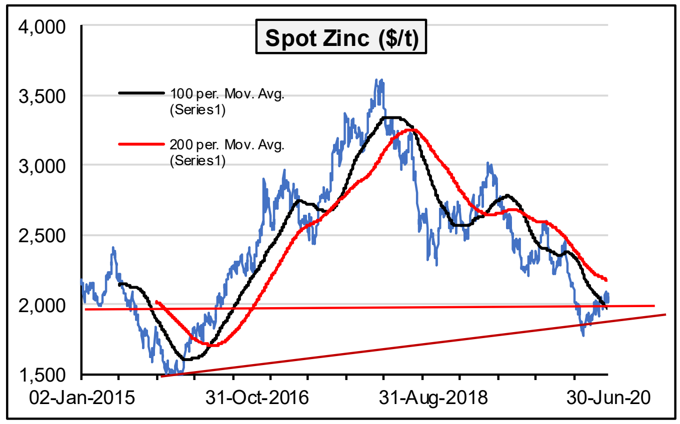
Source: LME, RBMC

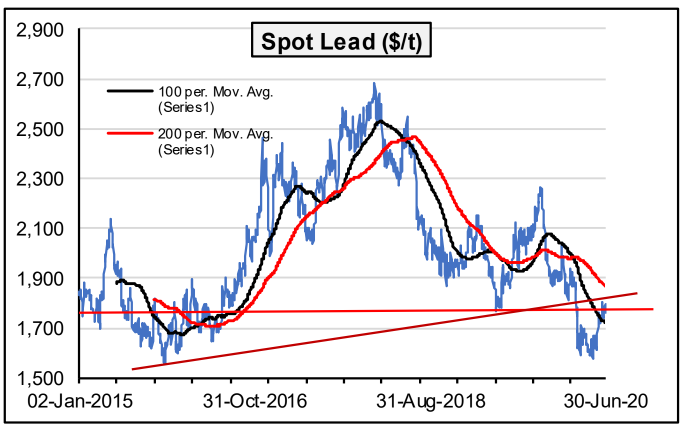
The Backpage - Industrial Metals

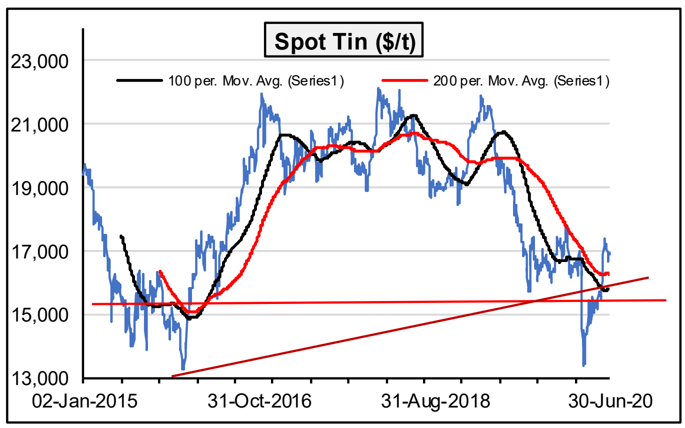


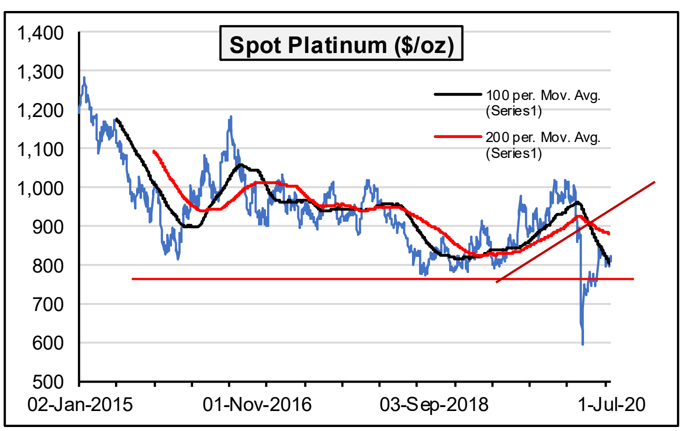


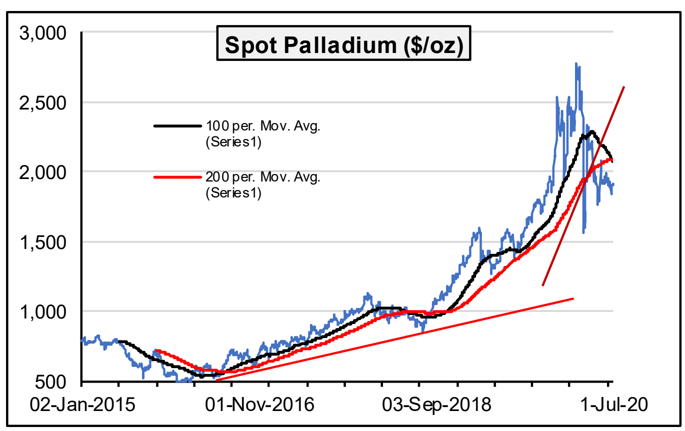












Source: LME, LBMA, LPPM, RBMC

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