RBMC

THE BHAR REPORT

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The Week in the Markets

Week of 7 August 2020 – Number 30

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	3,351	3,354	0.56%	93.4	6.96	$41.2	$2,035	2,884	$6,308	$1,735	$14,339	$2,392	$1,896	**$17,751**
Change w-o-w	**2.4%**	**3.2%**	**0.02**	**0.2**	**-0.4**	**2.3%**	**3.0%**	**0.4%**	**0.4%**	**1.5%**	**4.4%**	**3.3%**	**1.8%**	**-0.4%**

Macro Themes

As of 7 August, about 19.1mn **Covid-19** cases have been confirmed worldwide, and the death toll has surpassed 715k, according to Johns Hopkins University data. **US** 'hotspots' are moderating but there are local **European** concerns while no sign of abating in likes of **Brazil**/**India**. **Congress** is still debating a new stimulus package before the summer recess, while there are growing signs that the **Fed** may adopt an inflation bias and move to average inflation targeting (see **Chart 1**). Governments globally have announced $20tn worth of **stimulus** to combat the impact of Covid-19, a little over 20% of global GDP. However, sentiment continues to be supported by reports of **vaccine** development - trials of Novavax's experimental vaccine were positive, with minimal side effects. Covid-19 has shown the fragility and vulnerability of business, society, and the global economic system. With mass unemployment, social unrest, digital acceleration, and threats to democratic process.

The global **manufacturing** sector has moved back into the expansion territory in July, courtesy of a revival in output and new orders. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month. The *JP Morgan* Global Manufacturing purchasing managers index (**PMI**) rose to a six-month high of 50.3 in July, up from 47.9 in June (see **Chart 2**). The index is back above the neutral 50 mark for the first time since January. Of the 27 nations for which July data were available, 13 had PMI readings above the crucial 50-mark, said the survey report. All major regions were growing with the exception of Japan. Somewhat worrying is China's official manufacturing PMI released by the country's *National Bureau of Statistics* (actual 51.1 previous 50.9, forecast 51). This covers the SOEs and other large enterprises and is plateauing. However, based on a survey of 430 private industrial companies, the *Caixin* manufacturing PMI rose to an unexpected 52.8 (previous 51.2, forecast 51.3), the fastest expansion of output and new orders since January 2011. However, the global **employment** PMI has not recovered suggesting labor markets will take longer to improve. Global manufacturing employment fell for the eighth month running in July, albeit at the slowest rate since March. Job losses were registered across the consumer, intermediate and investment goods sectors. Loss of employment would keep a lid on incomes and consequently consumption demand. Although the pace of job cutting is slowing in many countries, the outlook on employment remains bleak given the uncertainty on the duration of the pandemic. Regional outbreaks and stricter restrictions pose a risk to this **rebound** in global manufacturing activities.

The **BoE** has tempered its previous optimism over the **UK's** recovery from the Covid-19 crisis, with new forecasts showing a faster initial rebound in **GDP** but a slower return to its pre-pandemic peak. A strong recovery in some areas of consumer spending is expected to drive a rapid rebound over the coming months, with GDP falling 9.5% over the year as a whole, compared with the 14% contraction the BoE had projected in May. However, it believes the recovery will slow dramatically after Q320, reflecting consumers' continued concerns about health risks and fears over job security. Its central forecast shows GDP more than 5% below its pre-pandemic peak at the end of 2020, and only regaining its pre-crisis level at the end of 2021.

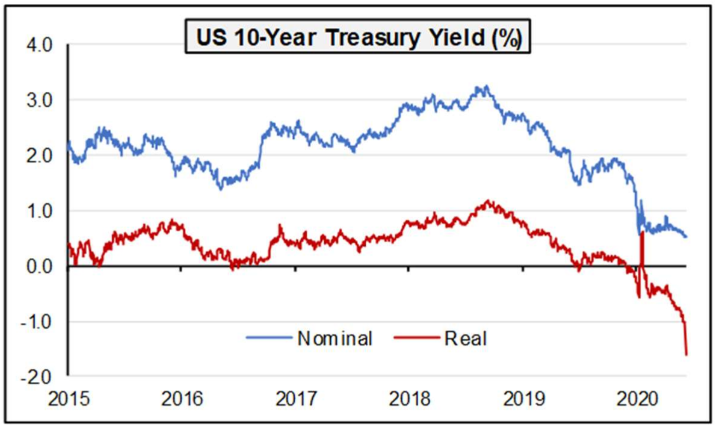
Precious Metals

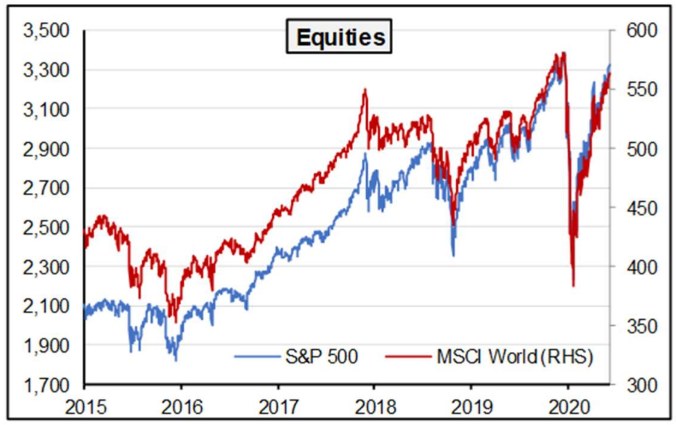
Who would have thought **gold** would be 2020 in 2020! Gold prices soared above the $2,000/oz mark to hit a new nominal high of $2,075/oz after Democrats and the White House appeared closer to agreement on new stimulus measures to help the Covid-19 impacted economy. However, markets have lost confidence that **Congress** will approve enough benefits in a stimulus bill, which will lead the **Fed** to expand its balance sheet. Gold has soared 33% so far this year, supported by lower interest rates and safe-haven buying on concerns Fed monetary policy and government stimulus are debasing the **USD**, the global reserve currency. **Real US Yields** has been the key driver of gold heading to new all-time highs, a persuasive argument (see **Chart 3**). Real US Treasury Yields hit an all-time low at the start of the week's trading, coinciding with gold at an all-time high. Some are questioning the potential for real yields to fall further - are we in a bigger mess than during the GFC? It certainly looks like it. Increased bond purchases through the Fed's **QE** program, and the increase in money supply will ultimately lower the value of the USD - in effect pushing gold higher and yields lower at the same time. Gold is outperforming, Treasuries are outperforming, all leading to the **debasement** of the USD. While equity markets gain on stimulus the bond market remains skeptical about the rebound in economic growth. Increased cyclical and structural allocations to gold are likely, which will support its price, Mohamed El-Erian, chief economic adviser at *Allianz*, said. *"The rally is understandable given that investors are looking for a broader range of risk-mitigating assets now that yields on government bonds are so low,"* El-Erian said. Nearly $15tn of **debt** globally trades at a sub-zero yield but the US Treasury market is now dogged by negative real yields once inflation is considered. The vanishing returns on offer from debt markets are one reason why the price of gold is at record highs. A **gold:silver** ratio of 74 indicates that **silver** is out-performing gold, as investors hedge their bets with the more industrial focused of the two. Retail investors are maintaining their interest as silver **ETFs** continue to climb – global holdings are a record 1,014mnoz (+41% YTD). The **PGMs** made more modest gains but these are inconsistent with weak fundamentals.

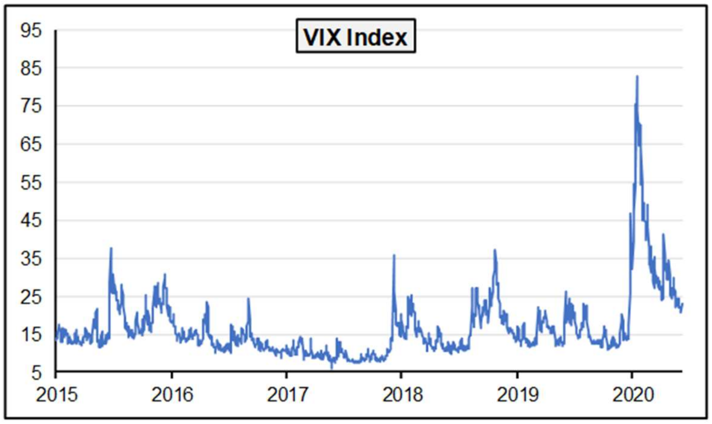
Base Metals

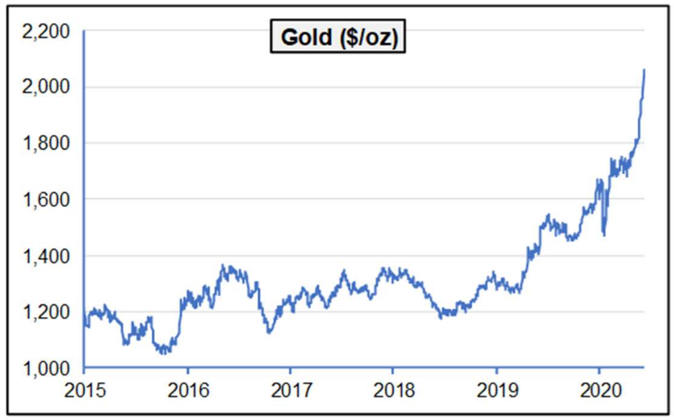
While **copper** and **tin** consolidated their gains, the other metals played catch-up, particularly **aluminium**, **nickel** and **zinc**. Metals prices have rebounded sharply from their late-March lows tracing out a V-shaped recovery, as evidenced by the LMEX index (see **Dashboard**), and in-line with the rebound in global manufacturing (see **Chart 2**). Should the rebound in manufacturing PMIs be sustained, and this is not a given, then this would be bullish for metals prices. That said, at the very least, this positive data should see metals consolidating their recent gains and any setbacks are likely to be both shallow and short-lived. Buying dips should be the preferred strategy going forward. The *World Bureau of Metal Statistics* (*WBMS*) released preliminary data on global demand, production, stocks, and **market balances** for the first five months of 2020 (see **Chart 4**). The WBMS noted the following: *the impact of the Covid-19 pandemic has had a dramatic effect on both the supply and demand for metals worldwide. The true impact of the lockdown in many countries will emerge over the next few months. Demand for most countries is calculated on an apparent basis. Metal shipments are in transit for some weeks and stock levels are under reported and so it is likely that the demand for all metals will be overstated for the next few months.* Copper, lead, and tin were in **deficit**, the other metals were in **surplus**. Do the market balances (surplus or deficit) align with price performance? Copper, tin, and lead markets were in deficit during this period; prices rose 4.7%, 6.1% and fell 4.2%, respectively, since the start of the year. Aluminium, nickel and zinc were in surplus; prices fell 6.3%, 1.7% and rose 0.7%, respectively in the same period. Massive fiscal and monetary stimulus lifted all metals to a greater extent, but out-performance by copper and tin was clearly tied to superior fundamentals and both metals in deficit. Fundamentals do matter, thankfully, to the relief of many analysts! Even though the lead market remained in deficit prices were undermined in Q220 by weaker demand following peak seasonal demand in Q419 and Q120. Metals markets **data** is shown on **The Backpage.**

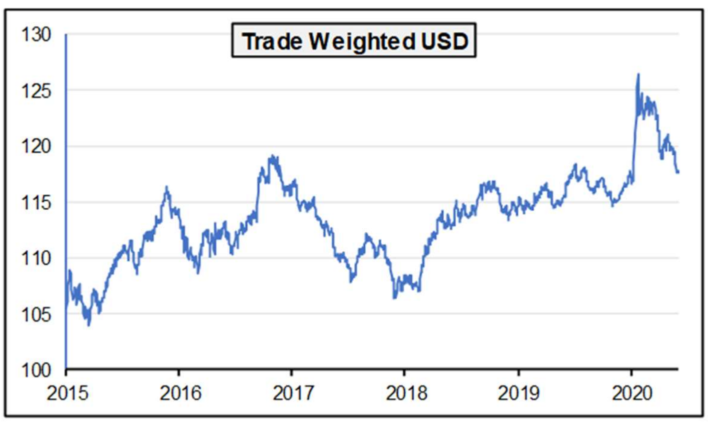
Dashboard – What You Need to Know

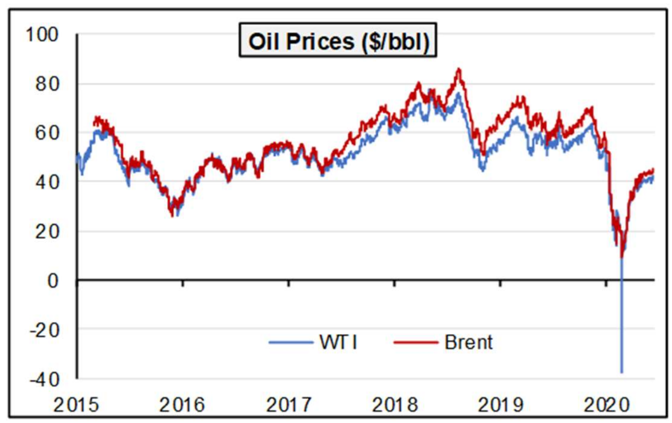


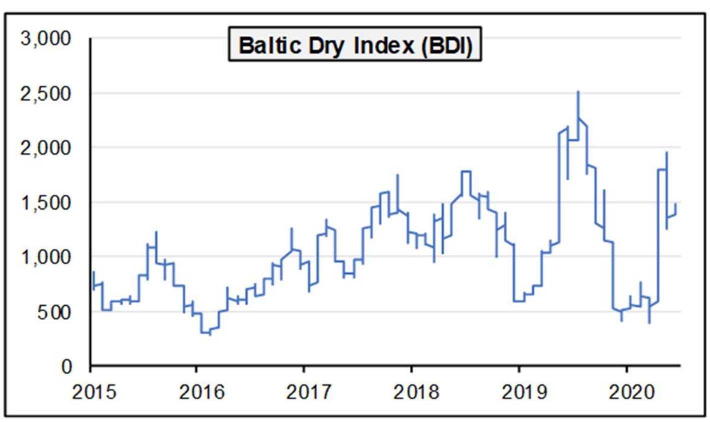


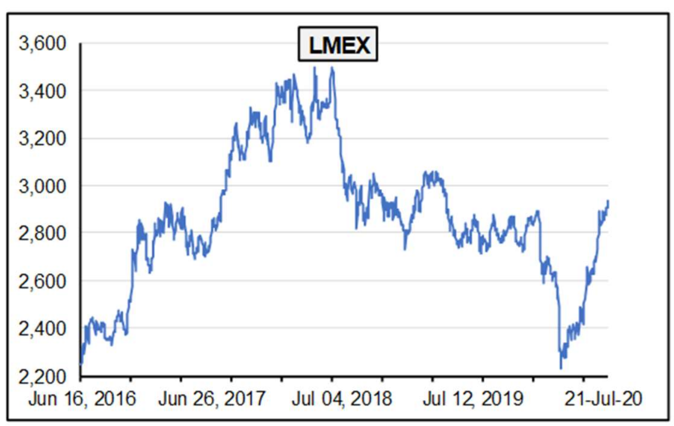












Source: Federal Reserve Bank of St. Louis, Trading Economics

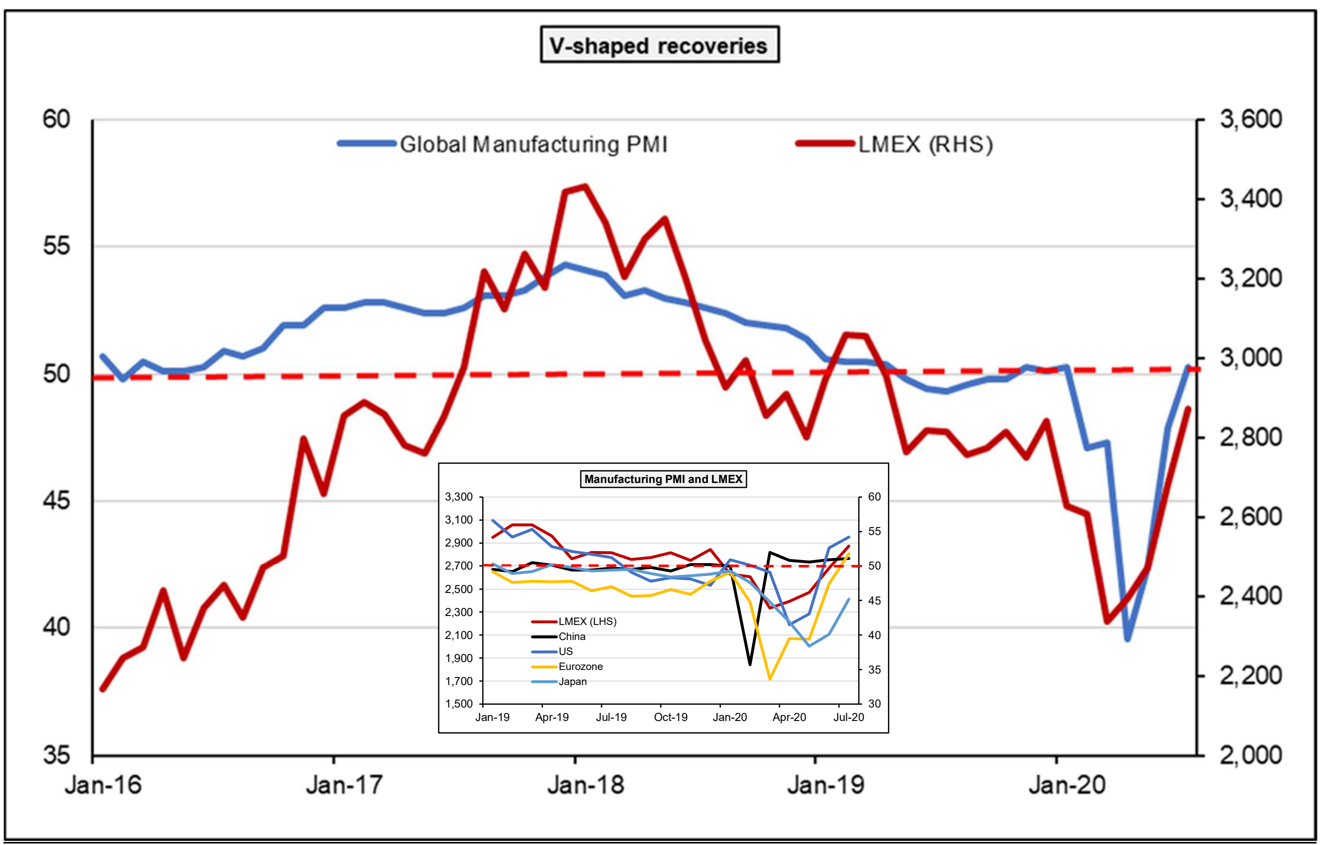
Charts of the Week

Chart 1. Fiscal cliff and stimulus in focus

Factors needed for quick and robust recovery	Recent news	Looking ahead
Infection contained (social distancing not required) (social distancing not required)	US 'hotspots' moderating Local European concerns No sign of abating in likes of Brazil/India	Does US infection data fall or plateau? Does Europe reaccelerate? Results of phase 3 vaccine trials
Policy response - Fiscal - Monetary - Foreign policy	US stimulus package Fed inflation bias US-China tensions	US fiscal cliff Fed (average inflation targeting/ yield curve control) Brexit negotiations US election
Economic data	Global manufacturing above 50	Non-farm payrolls

Source: RBMC

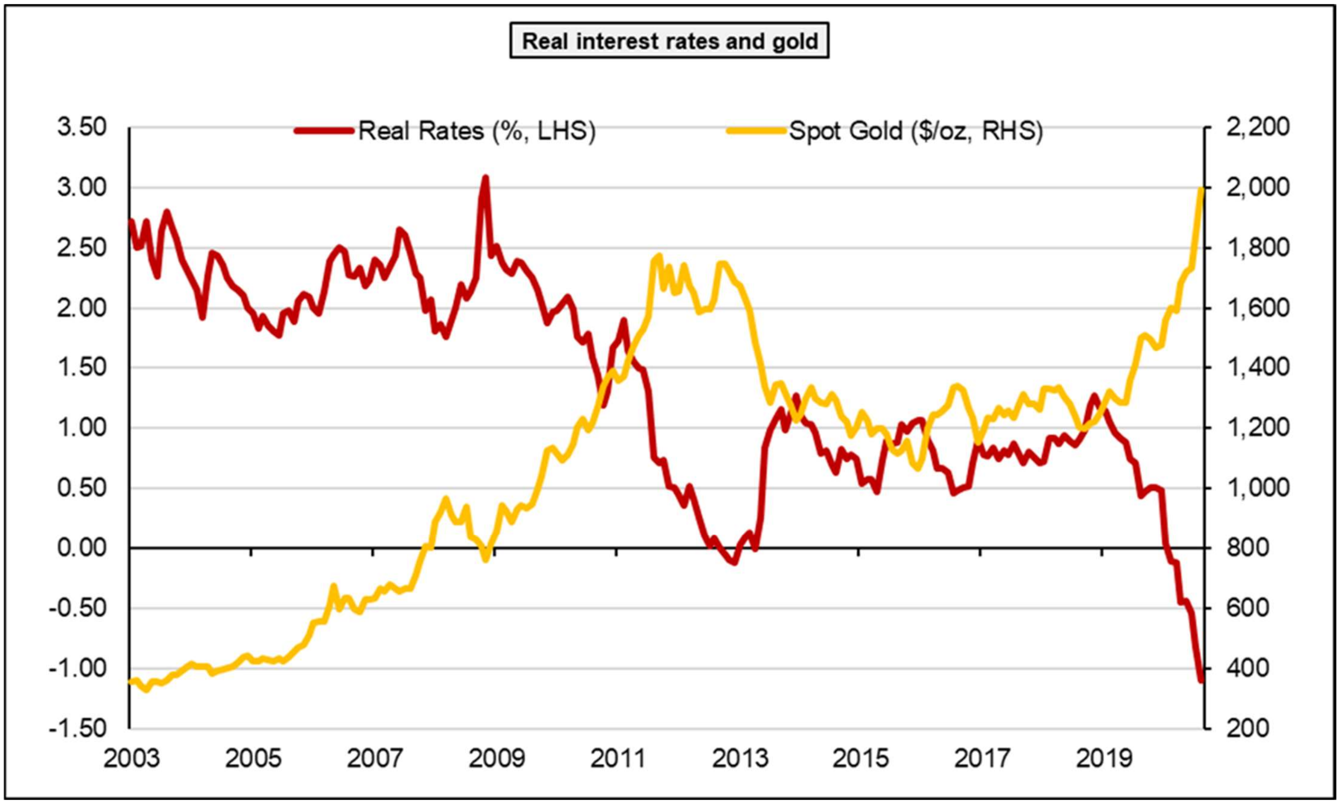
Chart 2. July manufacturing PMIs



Source: IHS Markit, JP Morgan, RBMC

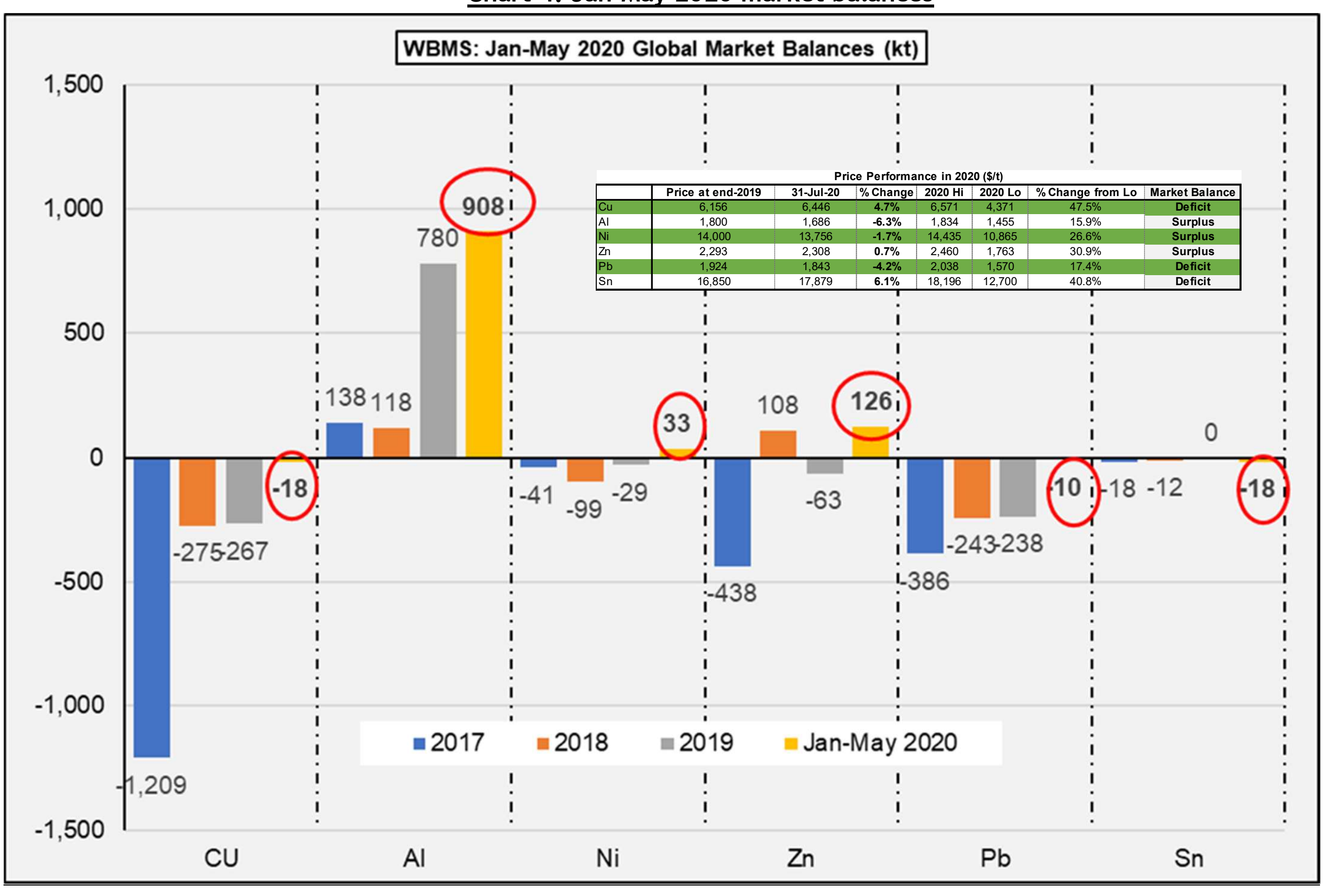
Charts of the Week

Chart 3. Real yields at all-time low, gold at all-time high



Source: Federal Reserve Bank of St. Louis, LBMA, RBMC

Chart 4. Jan-May 2020 market balances

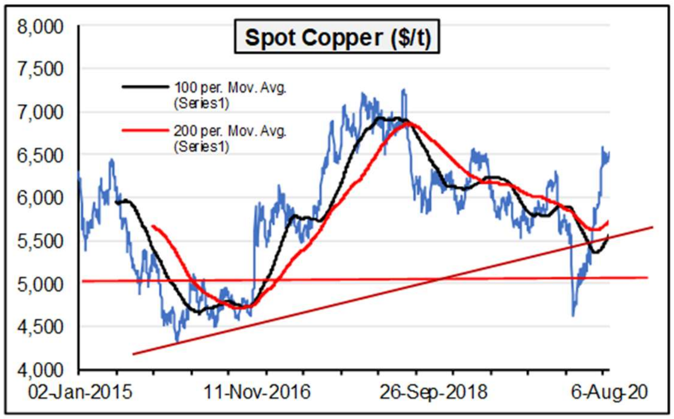


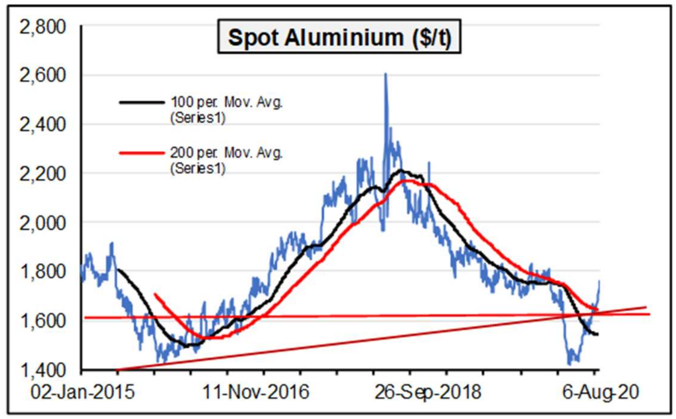
Price Performance in 2020 ($/t)

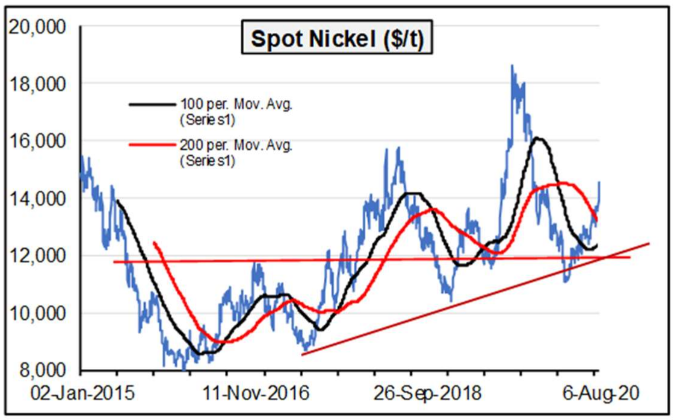
	Price at end-2019	31-Jul-20	% Change	2020 Hi	2020 Lo	% Change from Lo	Market Balance
Cu	6,156	6,446	**4.7%**	6,571	4,371	47.5%	**Deficit**
Al	1,800	1,686	**-6.3%**	1,834	1,455	15.9%	**Surplus**
Ni	14,000	13,756	**-1.7%**	14,435	10,865	26.6%	**Surplus**
Zn	2,293	2,308	**0.7%**	2,460	1,763	30.9%	**Surplus**
Pb	1,924	1,843	**-4.2%**	2,038	1,570	17.4%	**Deficit**
Sn	16,850	17,879	**6.1%**	18,196	12,700	40.8%	**Deficit**

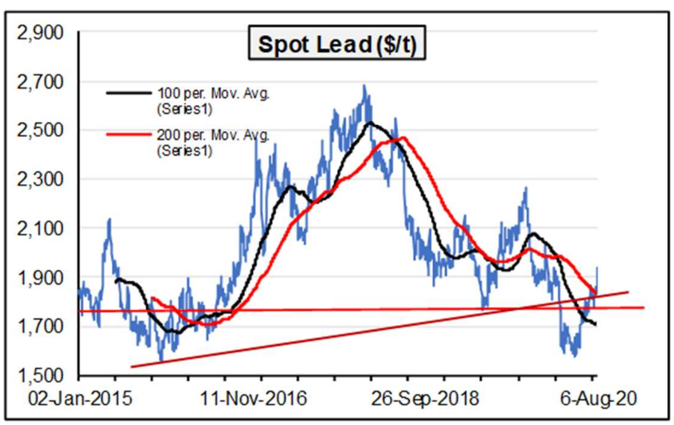
Source: WBMS, RBMC

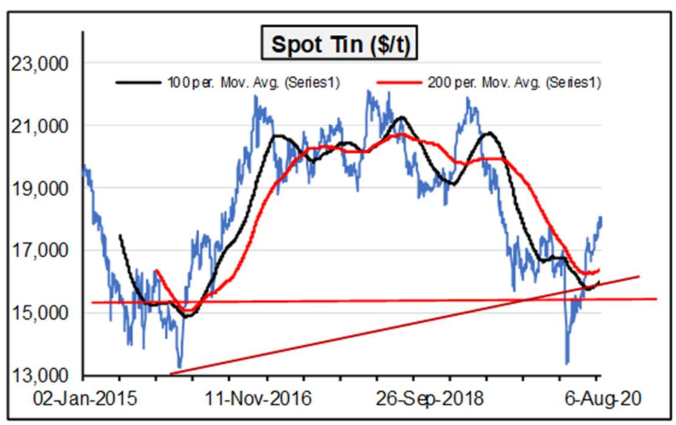
Charts: Industrial Metals

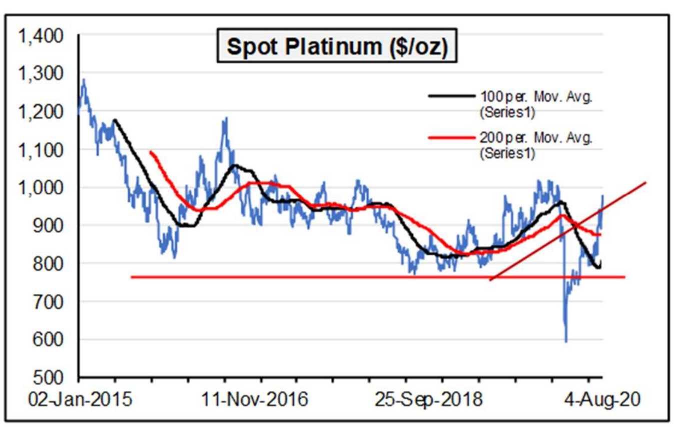


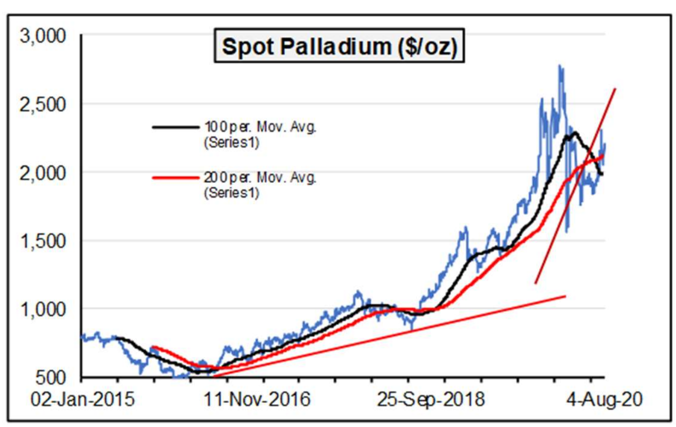












Source: LME, LBMA, LPPM, RBMC

The Backpage - Metals Markets Data

Base Metals Inventories (tonnes)					
Copper	**07-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	117,950	128,125	192,025	243,700	274,525
LME Cancelled Warrants	68,900	80,225	11,160	174,100	27,325
SHFE	174,455	159,513	114,318	230,956	156,367
COMEX	80,296	80,784	78,395	39,209	39,761
GLOBAL	372,701	368,422	384,738	513,865	470,653
Aluminium	**07-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	1,621,375	1,637,425	1,613,050	1,349,800	1,004,225
LME Cancelled Warrants	252,300	255,100	240,275	53,500	274,350
SHFE	228,906	221,819	224,026	410,543	391,467
COMEX	40,488	37,475	78,395	18,702	5,058
GLOBAL	1,890,769	1,896,719	1,915,471	1,779,045	1,400,750
Nickel	**07-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	236,700	235,242	234,654	233,034	142,032
LME Cancelled Warrants	56,088	56,382	55,728	53,568	41,286
SHFE	34,761	34,215	29,422	27,421	28,894
GLOBAL	271,461	269,457	264,076	260,455	170,926
Zinc	**07-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	206,925	188,175	121,950	100,175	77,150
LME Cancelled Warrants	16,800	17,150	7,400	9,175	28,725
SHFE	84,499	88,347	95,809	120,881	79,442
GLOBAL	291,424	276,522	217,759	221,056	156,592
Lead	**07-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	118,025	117,575	61,700	73,925	84,000
LME Cancelled Warrants	16,800	15,900	16,050	3,100	10,100
SHFE	32,222	32,938	27,362	6,658	38,192
GLOBAL	150,247	150,513	89,062	80,583	122,192
Tin	**07-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	4,020	4,015	3,895	4,835	4,785
LME Cancelled Warrants	215	65	604	1,995	920
SHFE	3,474	3,283	3,374	3,527	6,064
GLOBAL	7,494	7,298	7,269	8,362	10,849

Open Interest (lots)					
	07-Aug-20	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
Copper	320,849	310,075	288,545	265,785	742,072
Aluminium	801,621	759,286	782,500	817,309	308,730
Nickel	207,055	196,663	201,452	221,418	287,327
Zinc	211,500	202,554	196,096	217,664	255,424
Lead	112,307	104,927	103,678	110,611	119,010
Tin	17,213	15,821	15,863	17,313	17,661

Moving Averages					
	Cash	**10-DMA**	**40-DMA**	**100-DMA**	**200-DMA**
Copper	6,308	6,480	6,158	5,551	5,719
Aluminium	1,735	1,676	1,619	1,547	1,647
Nickel	14,339	13,620	13,135	12,416	13,215
Zinc	2,392	2,255	2,120	2,006	2,151
Lead	1,896	1,833	1,794	1,712	1,834
Tin	17,751	17,862	17,305	16,006	16,378

Support, Resistance and RSI					
	S1	**S2**	**R1**	**R2**	**RSI**
Copper	6,305	6,253	6,633	6,732	58
Aluminium	1,700	1,665	1,757	1,800	73
Nickel	13,510	13,310	13,995	14,166	64
Zinc	2,176	2,095	2,334	2,357	69
Lead	1,811	1,794	1,887	1,905	55
Tin	17,445	17,055	18,250	18,520	60

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