RBMC

THE BHAR REPORT

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The Week in the Markets

Week of 8 May 2020 – Number 17

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	2,919	2,895	0.61%	99.8	$23.5	$1,719	2,393	$5,325	$1,485	$12,124	$2,004	$1,610	**$15,225**
Change w-o-w	**2.1%**	**1.2%**	**0.00**	**0.9**	**27%**	**2.6%**	**0.0%**	**4.7%**	**-0.7%**	**0.0%**	**3.3%**	**0.0%**	**0.2%**

Macro Themes

As of 1 May, about 3.9mn **Covid-19** cases have been confirmed worldwide, and the death toll has surpassed 270k, according to Johns Hopkins University data. Reuters polls of more than 500 economists showed most major economies were in the midst of a severe economic downturn and their recoveries were predicted to be U-shaped (see **Chart 1**). Latest **US initial jobless claims** were 3.17mn, 33.5mn Americans have now been laid off, equivalent to 22% of the working age population.

Are we witnessing the fastest bull-to-bear-bull turn in history? This week, stock markets are back in bull market territory - the **FTSE** 100 is up more than 20% from its low point and the **S&P 500** is up by 31%. Germany's **DAX** went back up to 11,000. Equities have recovered about half of the losses sustained since the Covid-19 crisis began (see **Dashboard**). This might simply be bear market rallies which are quite common. Almost every downturn witnesses a bounce back before prices collapse all over again. If it is, it is the strongest ever recorded. According to *LPL Research*, the average bear market rally is 18%. The rally during the GFC was 27%, and during the dotcom collapse in 2000 it was 25%. The rallies reflect extraordinary measures from central banks and governments to stabilise the system (see **Chart 2**). Policymakers have gone further than they did even during the 2008 crisis. The bounce can also be justified by the fact that equity markets look to the future. Investors are now focused on the prospects for economies once lockdowns end.

Lockdowns are continuing, unemployment is soaring, government debt is climbing towards once unimaginable levels and the falls in GDP are the worst ever recorded for a single quarter. In Q120, the **US** economy slowed at its fastest rate since the GFC. National income dropped by 1.2% QoQ. The **eurozone** economy shrank by 3.8%. We still have no idea when Covid-19 will come under control, or whether there will be a second or third wave. We have no idea where we are in this crisis. rates of infection may be coming down, but the first wave of Covid-19 hasn't ended yet. If there is a second or third wave, we do not know how bad it will be, or what impact it will have on the global economy. No government has worked a path out of lockdown yet: a partial lifting and a phased return to normality? Testing, tracking, and tracing? Herd immunity, a vaccine, or an effective drug? Furthermore, economies are on life support. Debt is being ramped up to wartime levels. Printing money on a huge scale.

What if stock markets are right? The crisis may pass quicker than appears likely at the moment. Investors might be buying for fear of missing out (aka FOMO) and need investment returns, and there is nothing wrong with pricing in a recovery. But it would appear the stock markets are far too optimistic and are out of step with economic reality. The outlook for long-term growth and prosperity will depend largely on the speed and strength of the economic recovery. Unlike in previous recessions, some workers who have kept their jobs have cash they are waiting to spend. Markets, however, remain too optimistic for many reasons - the global economy had already begun to weaken before the pandemic, excessive corporate leverage and a US-China trade war have not gone away, Equities generally are still priced for a near-perfect bounce back from the Covid-19 crisis. Lockdowns may last longer than planned. Exit may prove bumpier. Hopes that the virus can be eradicated quickly, and a second wave of infections avoided, may be proven wrong. Amid so many unknowns, a further market correction looks more than likely given the disconnect with the real economy.

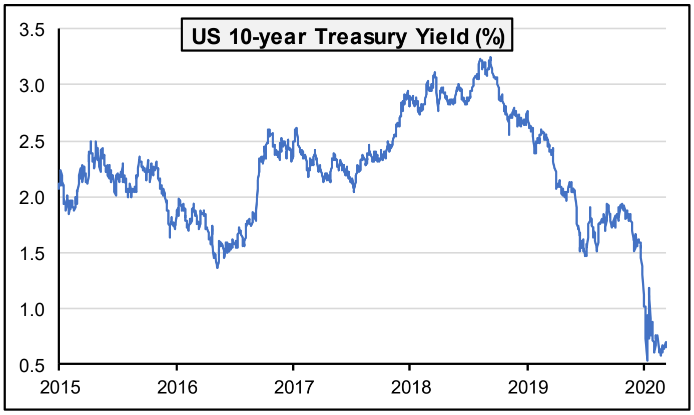
Precious Metals

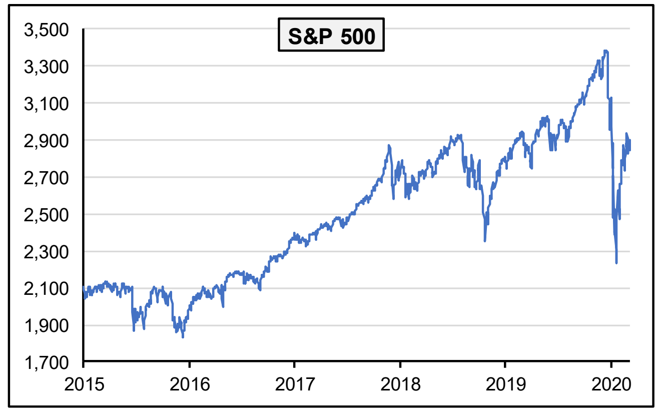
The risk-on tone in markets remained a headwind for the **precious metals** sector. Equity markets extended gains and a mixed USD provided little incentive to switch into **gold**. Nevertheless, the prospect of low rates and further QE (raising fears of debt deflation and currency debasement) continues to support prices. Technically, gold is struggling to hold a move above its measured base objective at $1,700/05 and upside momentum is waning near-term and the threat of a consolidation phase is growing. Support at $1,660 needs to hold to see this averted to keep the immediate risk higher still with resistance at $1,796/1,803 next. Below $1,660 would signal a more protracted consolidation phase, with support seen initially at $1,638. Overall, the bullish trend is targeting new highs above $1,921. **Palladium** fell sharply after Anglo Platinum said it was ramping up metals processing at its Rustenburg plant in South Africa. It has been undergoing repairs, forcing it to declare force majeure last month. However, this should be lifted in the coming weeks as the plant becomes fully operational ahead of schedule. Impala Platinum has warned it will take approximately a month to ramp up operations fully. Even so, **supply-side** issues are unlikely to offset the hit to demand due to falling auto sales - **global auto sales** are expected to plunge by up to 20% YoY in 2020 (source: *LMC Automotive*). This will likely weigh on demand for **platinum** and palladium.

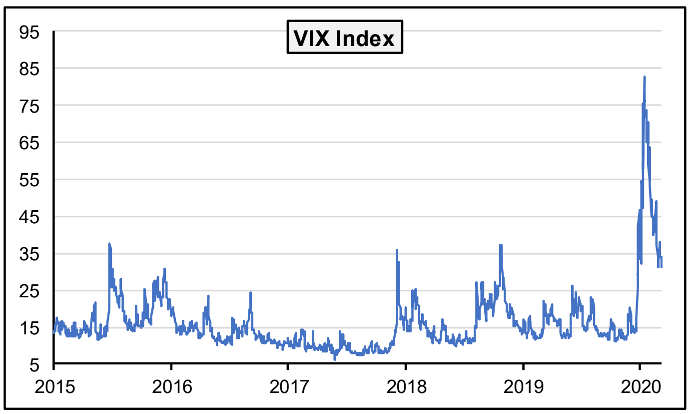
Base Metals

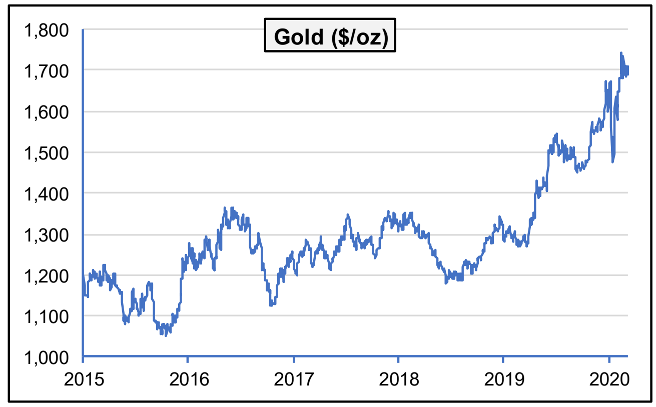
Sentiment in the **base metals** market was boosted by the easing of restrictions around the world, hopes of a vaccine which added to expectations of a pick-up in economic growth and news that China's Yunnan province has set aside 1bn yuan ($141mn) to **stockpile** 800kt of non-ferrous metals. However, the gains were limited by ongoing concerns about rising trade tension between the US and China. Global market **surpluses** were evident in all metals except **lead** and **tin** in the first two months of 2020, according to the *World Bureau of Metals Statistics (WBMS)*. This was before the impact of Covid-19 on the global economy and ahead of the lockdowns that had been imposed in most countries. These surpluses are set to increase amid the plunge in metals demand, with supply cutbacks and disruptions still to catch up to address the market imbalance (see **Chart 3**). The forecast for global GDP and industrial production growth this year is deeply negative amid the Covid-19 pandemic, dropping by 3% and 3.6% YoY, respectively. This does not bode well for metals **consumption** given the positive correlation with global GDP and industrial production, shown in **Chart 4**. This year will mark the first fall in global metals consumption since 2009 in the aftermath of the GFC. Given the unprecedented macroeconomic backdrop, it is difficult to be optimistic about metals demand in the near term, and downside risk seems equally likely. Slowing global demand and the shutdown of key industries are key features of the metals market which look set to continue for the foreseeable future. Risks to this outlook are to the downside, including a greater-than-expected slowdown in global growth. The YoY % falls in global metals consumption will exceed the falls seen in 2009 when aggregate demand fell by over 8%. It may even exceed the aggregate fall in demand of over 10% seen in 1999 during the Asian financial crisis. We need to go back to the mid-1970s amid the oil crisis when metals demand declined by almost 20% YoY. Although all base metals are seen falling, some will fare better than others. Charts with moving averages are shown on **The Backpage**.

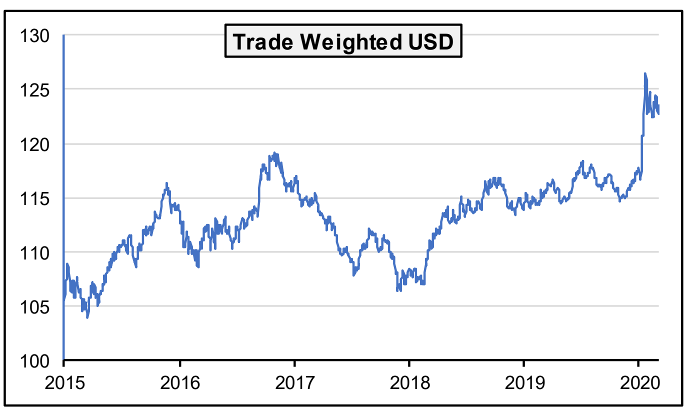
Dashboard – What You Need to Know

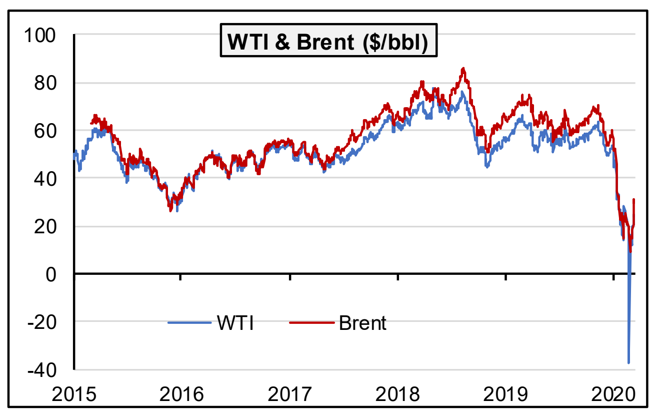


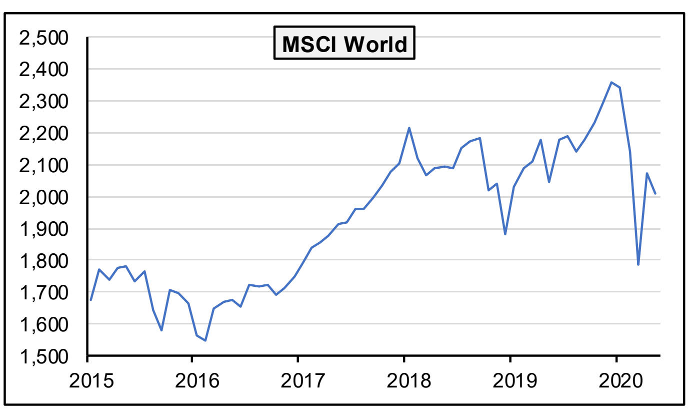


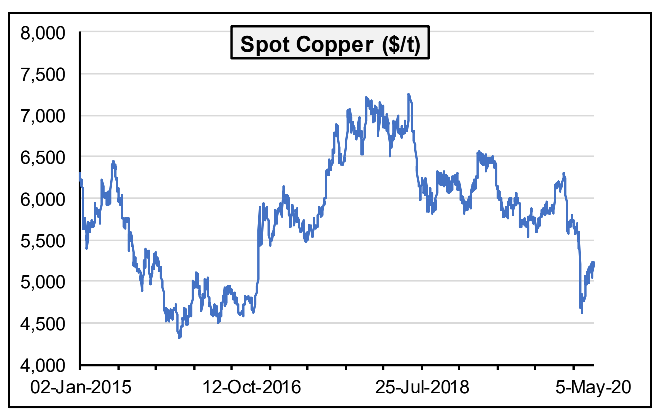








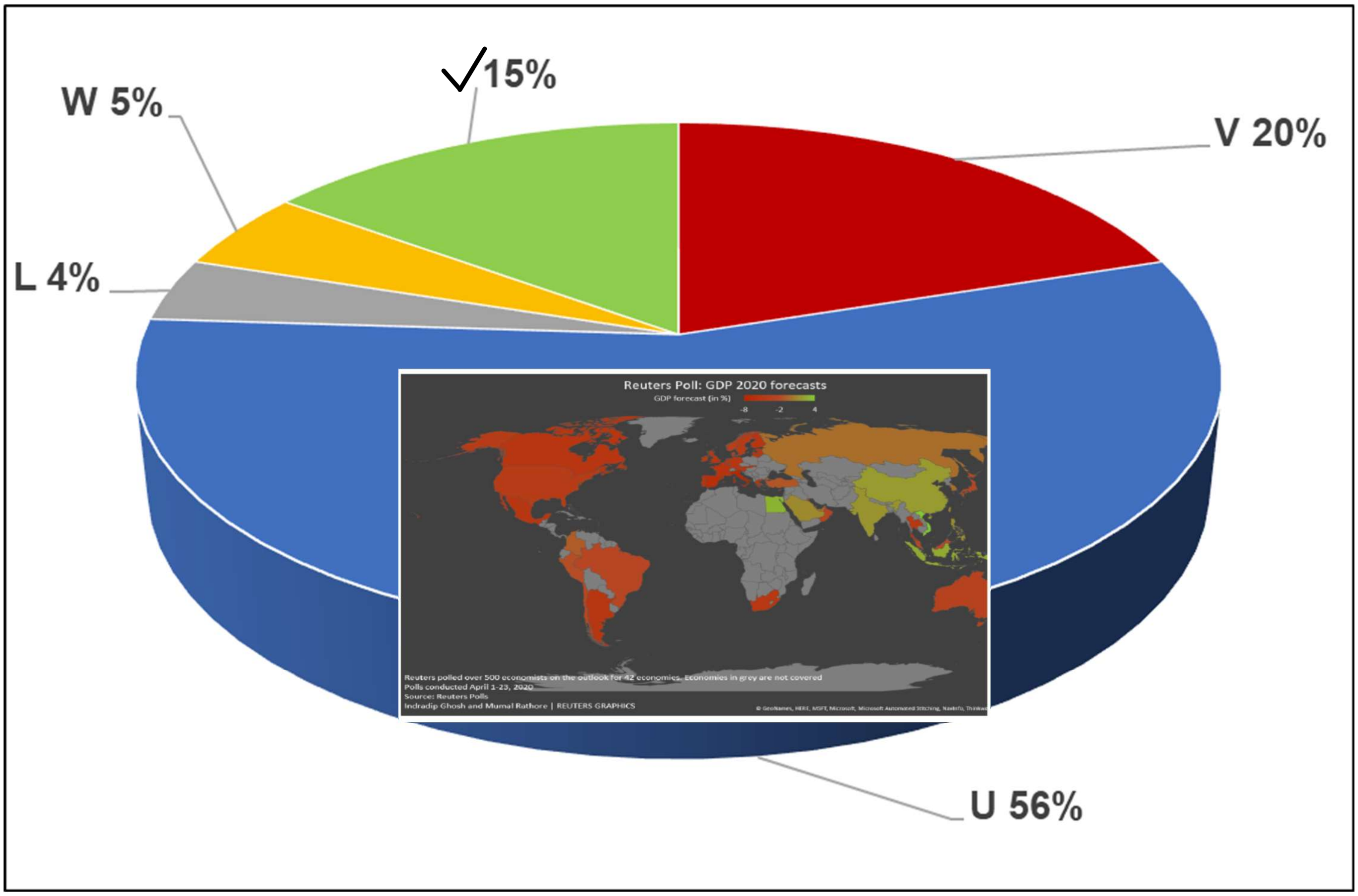




Source: Federal Reserve Bank of St. Louis, Trading Economics

Charts of the Week

Chart 1. Reuters Poll: Expected shape of the global economic recovery



Source: Reuters Polls

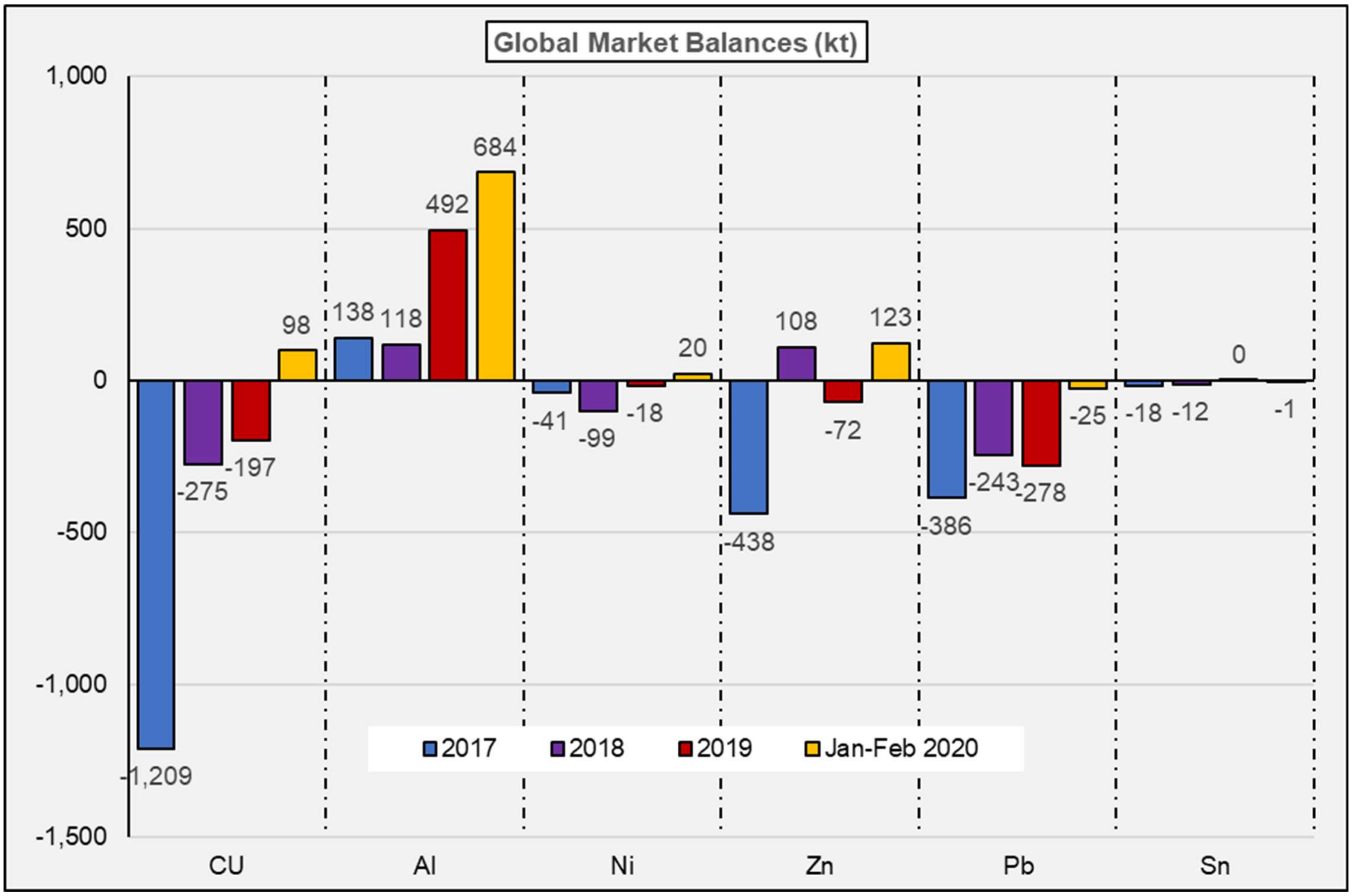
Chart 2. “Try and see” in the absence of “test and trace”

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 Test and trace technologies to facilitate sustainable reopening
Policy response - Fiscal stimulus of sufficient size and nature - Central bank backstop - Absence of ‘nationalism’ and political scapegoating	Unprecedented fiscal expansion with Fed, BoE, BoJ absorbing issuance All major central banks more active in supporting credit markets	More complete and detailed eurozone solution Brexit negotiation extension Conciliatory communications between US and China
Economic resilience - proof of ‘suspended animation’	US unemployment benefits are very generous Furlough schemes being well utilised in Europe	Visibility of return to normality Furloughed schemes not removed too early/ not shifted to redundant

Source: J.P. Morgan Asset Management

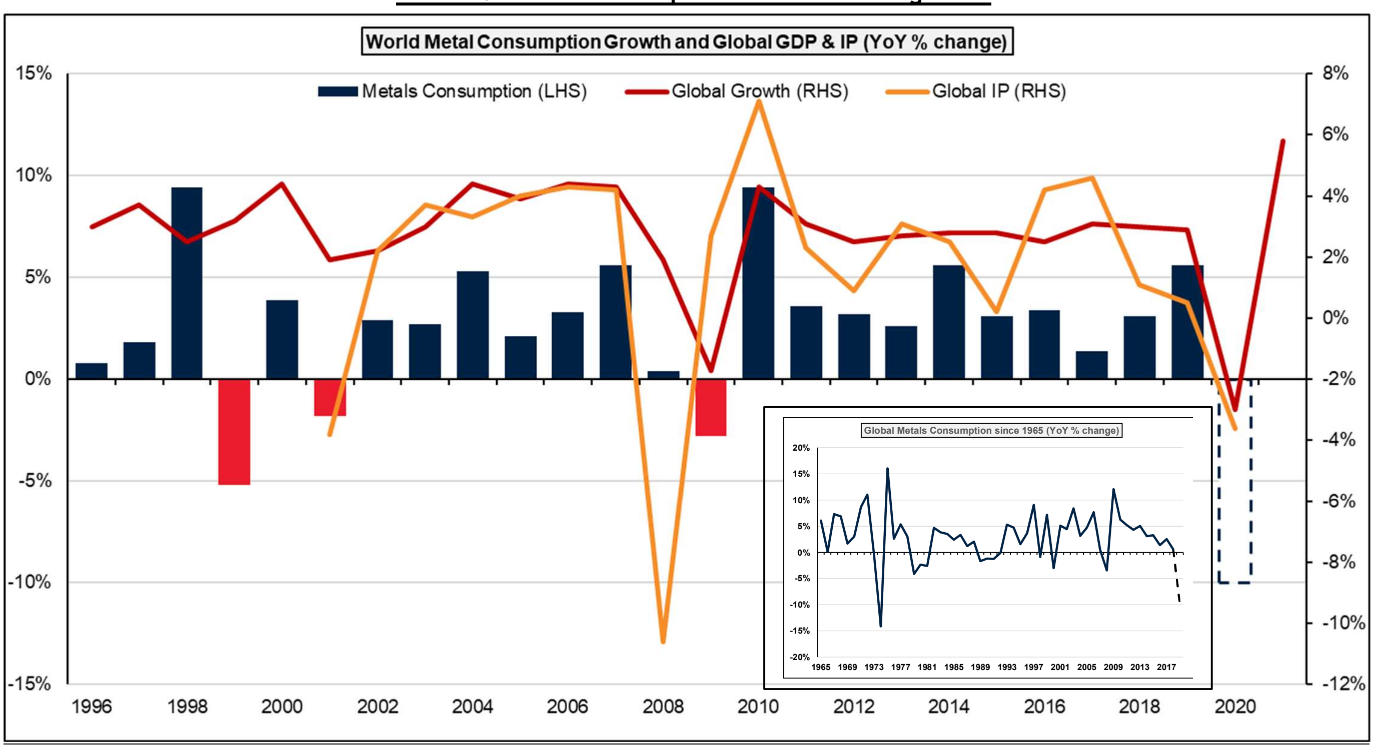
Charts of the Week

Chart 3. Global Refined Market Balances (kt)



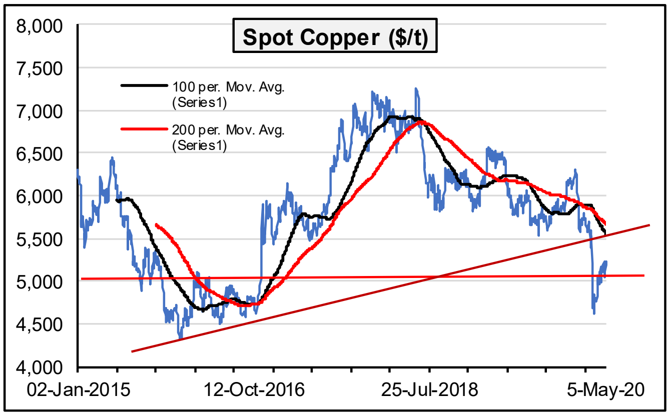
Source: WBMS

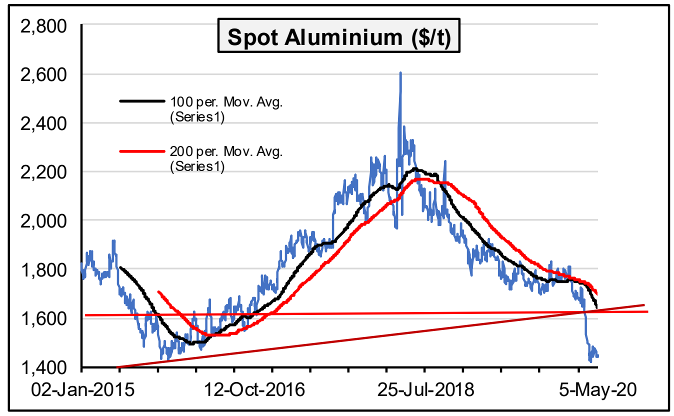
Chart 4. Metals consumption and economic growth

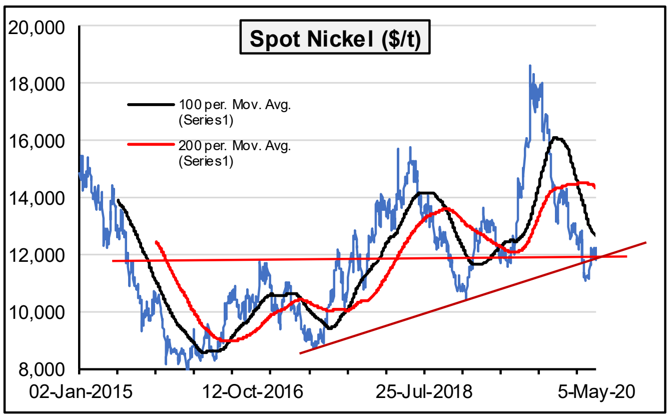


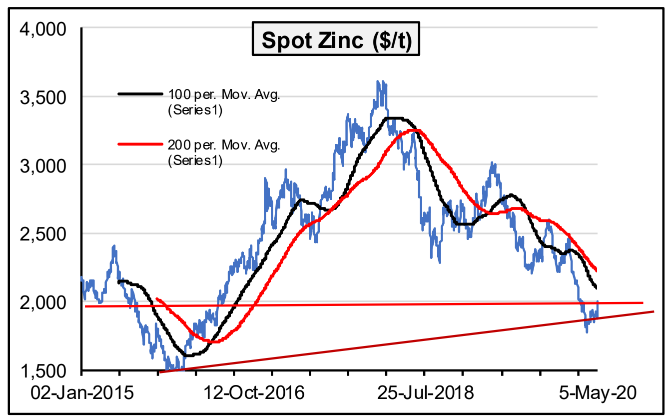
Source: World Bank, WBMS, RBMC

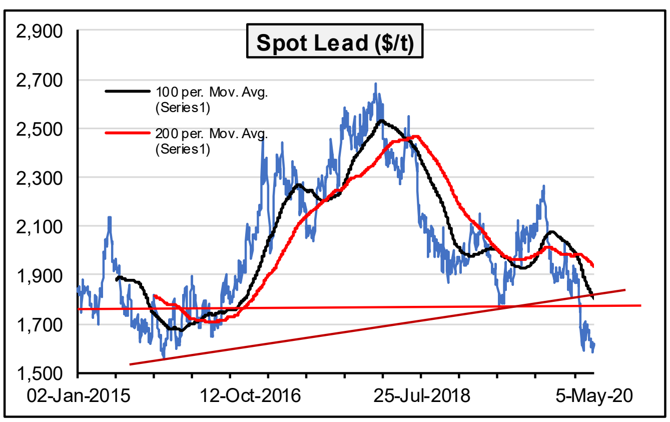
The Backpage – Industrial Metals

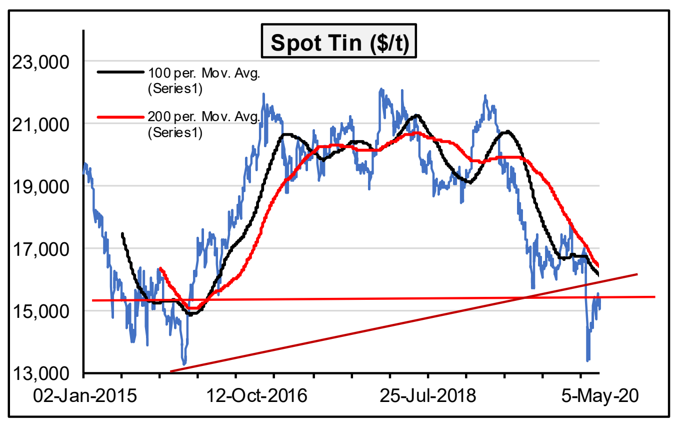


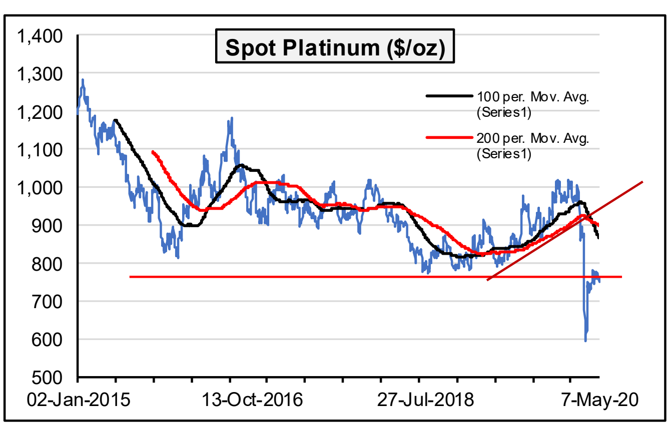


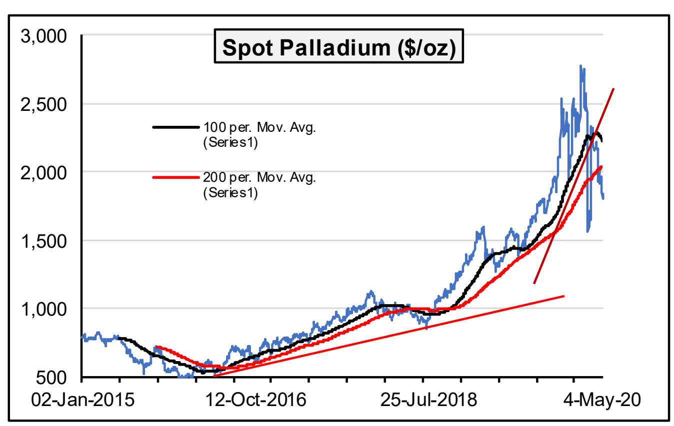












Source: LME, LBMA, LPPM

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