THE BHAR REPORT

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The Week in the Markets

Week of 14 August 2020 – Number 31

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	3,373	3,360	0.71%	93.1	6.94	$42.0	$1,944	2,891	$6,378	$1,710	$14,315	$2,300	$1,938	**$17,608**
Change w-o-w	**0.7%**	**0.2%**	**0.27**	**-0.4**	**-0.3**	**1.9%**	**-4.5%**	**0.2%**	**1.1%**	**-1.4%**	**-0.2%**	**-3.8%**	**2.2%**	**-0.8%**

Macro Themes

As of 14 August, about 20.9mn **Covid-19** cases have been confirmed worldwide, and the death toll has surpassed 759k, according to Johns Hopkins University data. The number of Covid-19 cases worldwide has reached over 20mn, doubling in just 45 days. It took six months to get to 10mn cases after Covid-19 was identified in Wuhan, China, in December last year – but only a month-and-a-half for that figure to double. The next few weeks will likely tell if global numbers go exponential. **US** stocks hovered close to an all-time high as sentiment remains very strong amid massive monetary and fiscal stimulus. In the US, new applications for unemployment benefits fell below 1mn for the first time, fewer than the 1.1mn expected, since the start of the Covid-19 pandemic. Stock markets elsewhere are also rallying (see **Chart 1**).

It is a truism that **stock markets** nearly always rise in a **recession**. In other words, when the economy turns down, stock head up. The historical record shows that of the 13 post-war **recessions**, equities have risen during nine of them, and often by more than they have in this downturn. The median gain is 5%, and the average gain is 1.3%. The current rally is a strong one. So far, from March to August, the S&P 500 is up 50%, which is well above the average. There are several reasons to explain this. Equity markets are, by their nature, **forward-looking**. The **business cycle** is a cycle and things turn. Every other recession has been followed eventually by an upturn. Investors start looking past the crash, and buying into the recovery, and that quickly starts to drive prices higher. There is plenty of **support** as massive fiscal (governments have ramped up budget deficits and have launched a range of schemes from furloughs, to loans, to infrastructure and green investment) and monetary policy (central banks have slashed interest rates to fresh lows and employed QE) support are deployed to keep demand alive and engineer a recovery. Some of this money goes into keeping demand alive, and preserving jobs, much of it inevitably spills out into **asset** prices. Roughly two-thirds of S&P 500 companies have reported their Q220 figures. **Earnings** beat Wall Street's expectations – analysts expect an all-time high 83% of S&P 500 companies to beat estimates in Q220.

China's vehicle sales and production rose for a fourth month in July, supported by government stimulus and policies aimed at lifting consumption. Total auto sales in July rose by 16.4% to 2.11mn vehicles from a year earlier, while production rose by 21.9% to 2.2mn vehicles over the same period, data from the *China Association of Automobile Manufacturers* (*CAAM*) show. The association expects auto sales to fall around 10% this year barring a second wave of virus infections which could deepen the slide to around 20%. In a promising sign for many global automakers which have invested heavily in electric vehicles for the China market, sales of **new energy vehicles** (**NEVs**) ended 12 straight months of decline with a 19.3% jump to 98,000 units.

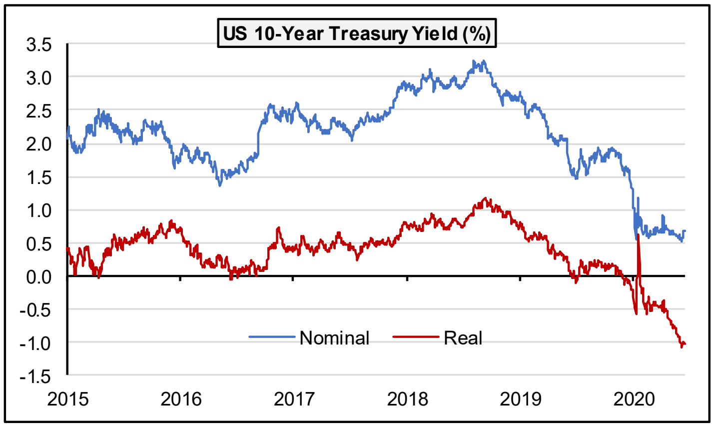
Precious Metals

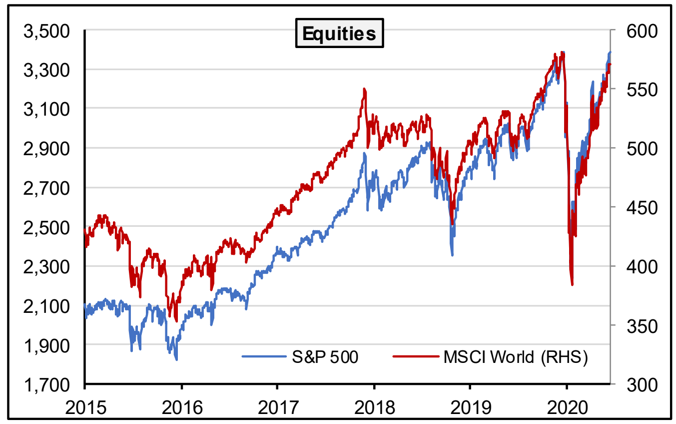
Gold prices registered an all-time high last week of $2,075/oz but fell mid-week to a low of $1,862/oz amid extreme intraday volatility. Prices had become over-extended given investor and momentum-based/trend following CTA buying, a correction was overdue. The US 10-Year Treasury yield jumped to 0.66% from 0.58% prompting the sell-off in gold (see **Chart 2**). US treasuries and European bond yields climbed, cutting into negative real yields that have been driving investor demand in the precious metals. The trigger was the stronger than expected rise in US PPI for July - 0.6%, beating an expected level of 0.3%. Gold-backed **ETFs** saw their first back to back days of outflows since June - the last four days have seen almost 15t of gold outflows from the ETFs, breaking a run of 31 consecutive days of inflows. Prices have since recovered after a strong **US CPI** print for July, suggesting higher **inflation** is emerging. **Bond yields** near historical lows demonstrate more concern about **deflation** than fear of inflation, however. Aggregate Comex gold **open interest** has not fallen sharply during this gold price correction - it suggests liquidating longs have been offset by new shorts (see **Chart 3**). With US treasury yields set to fall, investors are starting to cycle into solid, **real assets** like gold, said Mohamed A. El-Erian of *Allianz*. He said that the narrative that has been driving big tech is now true of gold. *"What's interesting about gold is that it's starting to become everything to everybody. People like it because it's defensive. People like it because it's a reflationary trade. People like it because its inflation protection," said El-Erian. "So, the narrative of gold is similar to the narrative with big tech: it gives you everything."* Treasuries are holding less appeal. We remain bullish and recommend buying the dips as prices are headed higher given the numerous uncertainties on the economic, geopolitical, and financial front. Gold should continue to benefit as investors are looking for a broader range of risk-mitigating assets now that yields on government bonds are so low. **Silver** tracked gold closely but, as is usually the case, was far more volatile. Similarly, the **PGMs** lost ground as well. With global requirements for both **platinum** and **palladium** still stalling in the wake of Covid-19, the fundamentals point towards lower prices.

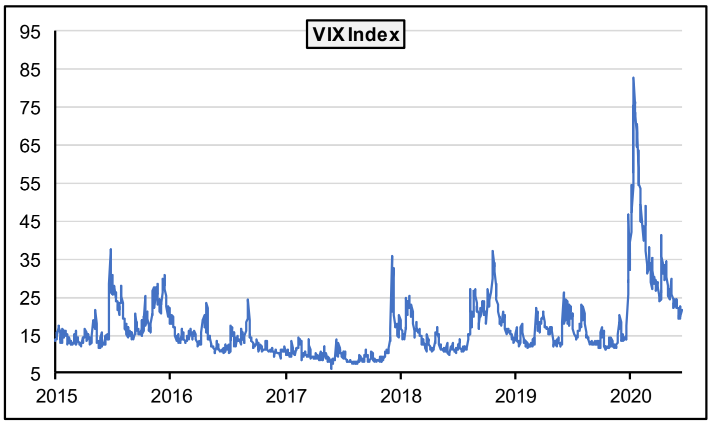
Base Metals

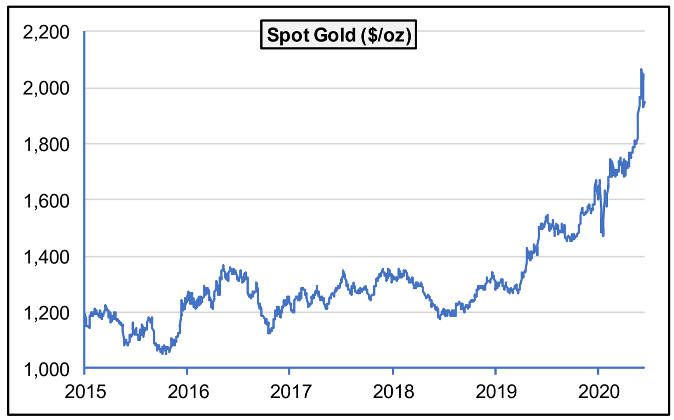
Base metals prices have rebounded sharply from their late-March lows tracing out a V-shaped recovery, as evidenced by the **LMEX index**, and in-line with the rebound in global manufacturing (see **Chart 4**). Over the past two weeks, aluminium, nickel, lead and zinc are leading the way higher. Equity markets are, by their nature, forward-looking. In exactly the same way metals markets are too. **Base metals** have rallied sharply off their March lows in response to massive stimulus and infrastructure investment in China (state grid, high-speed railway network, next generation information networks, expanding 5G applications, building more charging facilities and promoting wider use of new energy automobiles and stimulating new consumer demand and industrial upgrading), and evidenced by the rebound in the LMEX index. Both asset classes should remain underpinned by massive stimulus, with metals additionally bolstered by **infrastructure** spending. However, volatility is likely to remain elevated ahead of US elections and amid the evolution of Covid-19 cases. **Copper** and **tin** were out-performing in H120 partly on a demand rebound but also on supply constraints; particularly the loss of **scrap** in the case of copper (the equivalent of 500kt of refined metal). Both metals have now become over-extended and reflect speculative froth. Base metals are likely to be underpinned over the rest of the year by massive stimulus helping to engineer an ongoing recovery in global GDP growth, while infrastructure spending should see manufacturing activity and industrial production growing steadily. Copper and tin benefitted in H120, as tight fundamentals reflected in deficit markets attracted the investment community. In H220, fundamentals should continue to determine relative price performance. Can **aluminium**, **nickel**, **zinc**, or **lead** take over the baton from copper and tin? The **LME** has issued a discussion paper on plans to drive forward its sustainability agenda recognizing that metals are vital to our transition to a more sustainable and greener future. Building on the work already undertaken in embedding responsible sourcing standards into its brand listing requirements, the LME believes now is the right time to expand its focus to incorporate the broader sustainability challenges facing the metals and mining industries. It plans new contracts to support recycled, scrap and EV industries, a digital register for sustainable aluminium, and a spot trading platform for price discovery and trading of low carbon aluminium for interested buyers and sellers. Metals markets **data** is shown on **The Backpage.**

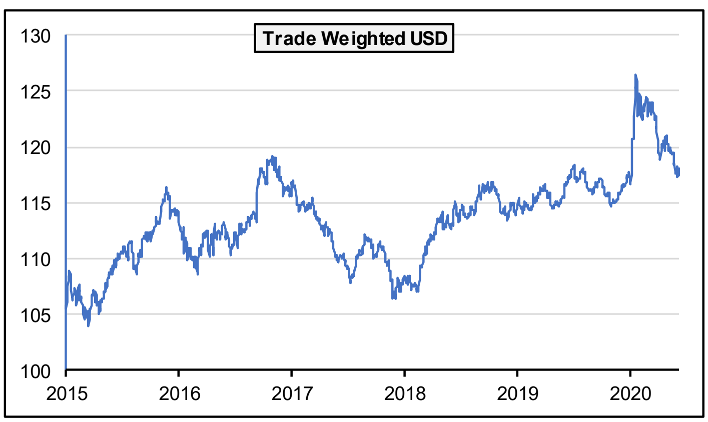
Dashboard – What You Need to Know

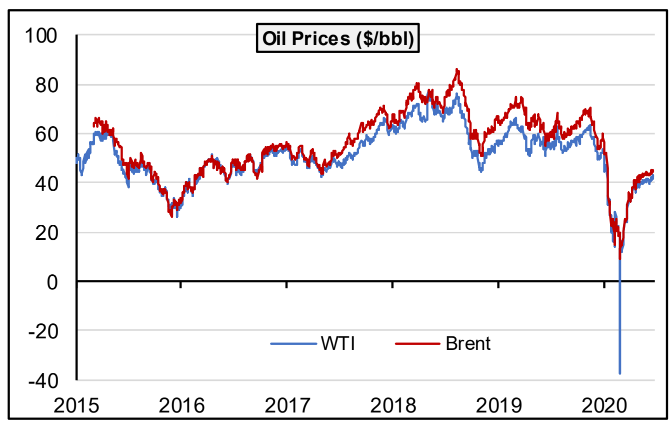


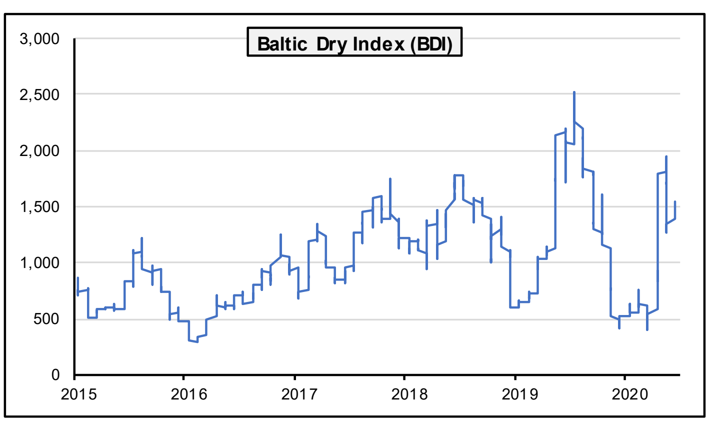


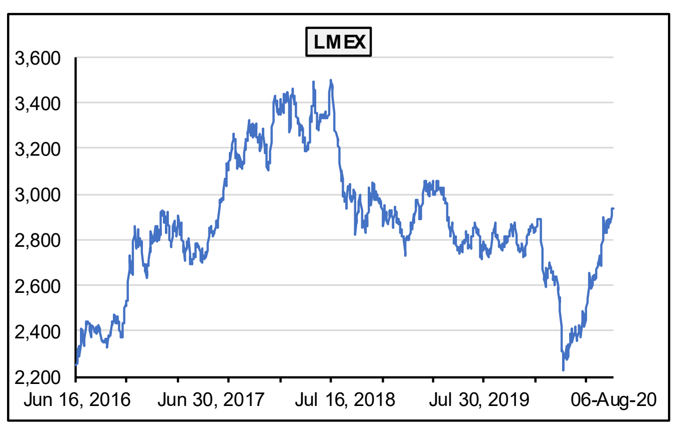








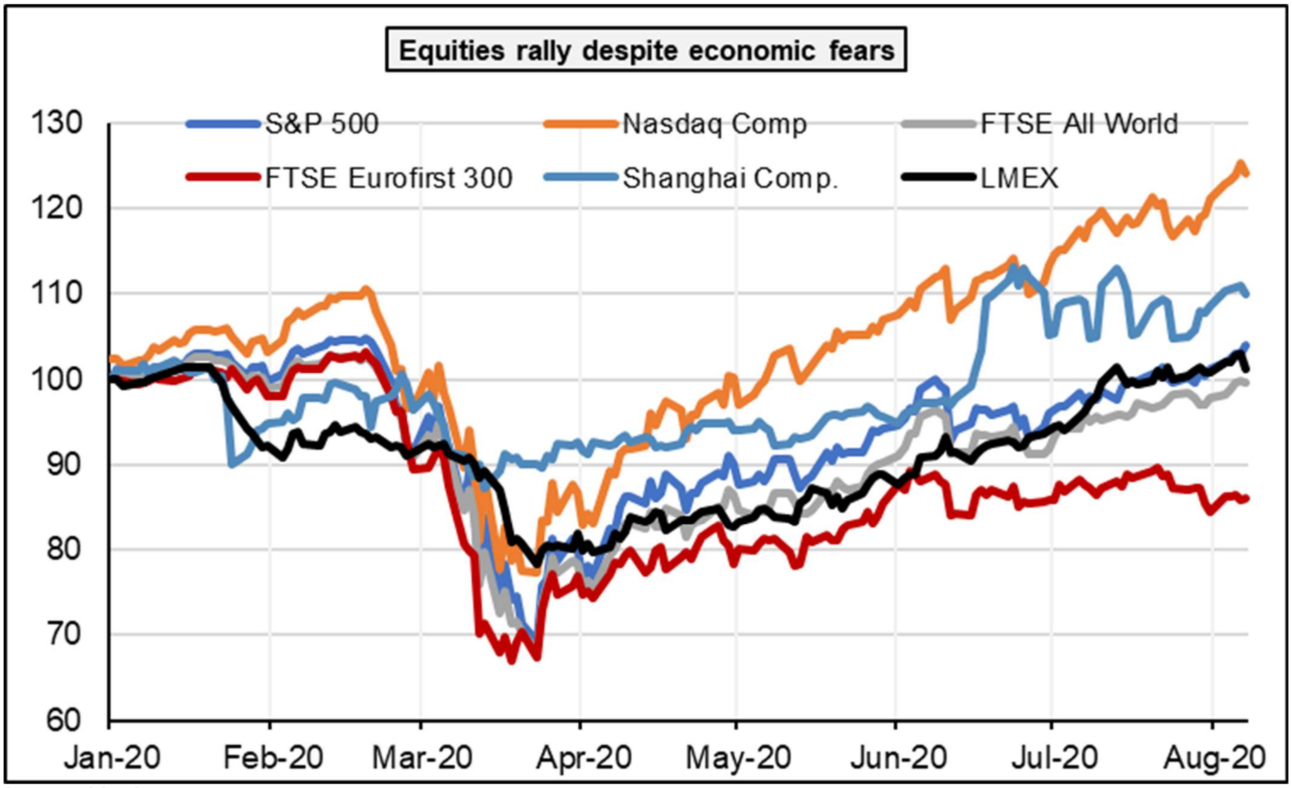




Source: Federal Reserve Bank of St. Louis, Trading Economics

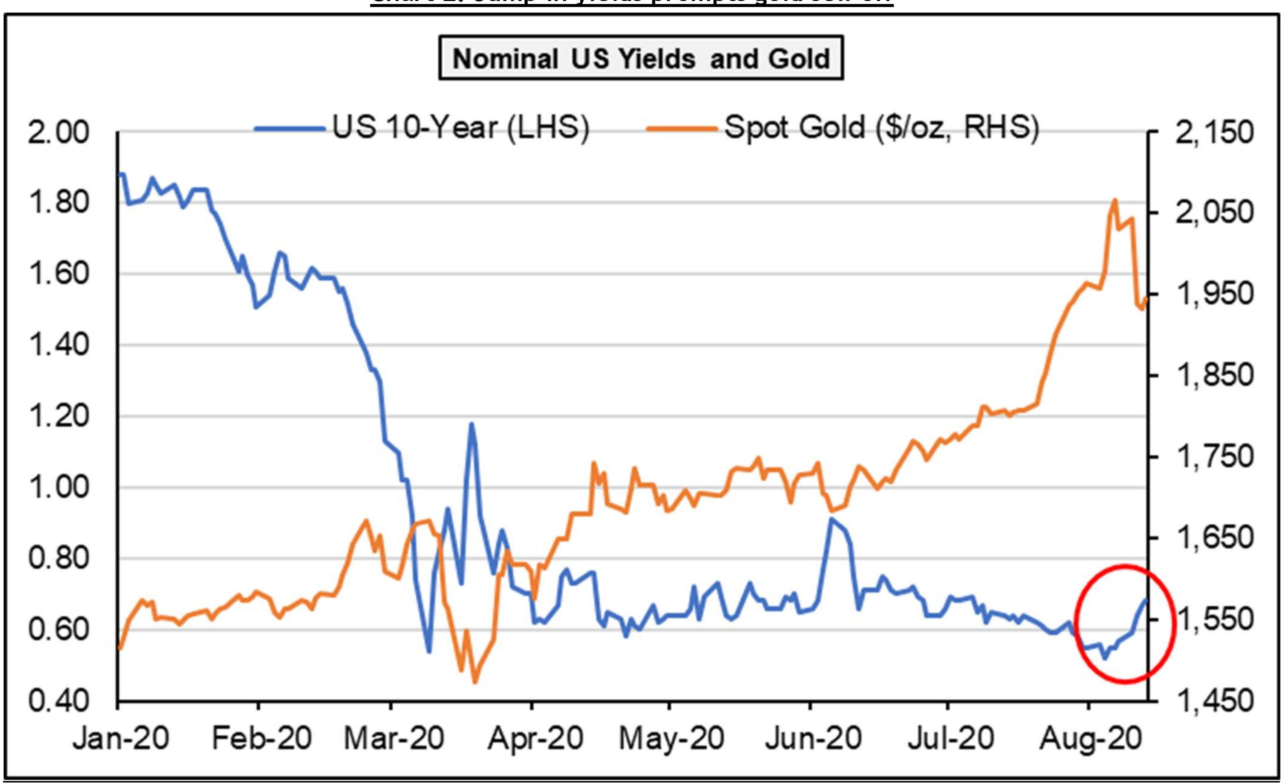
Charts of the Week

Chart 1. Equities and metals rally sharply from March lows



Source: RBMC

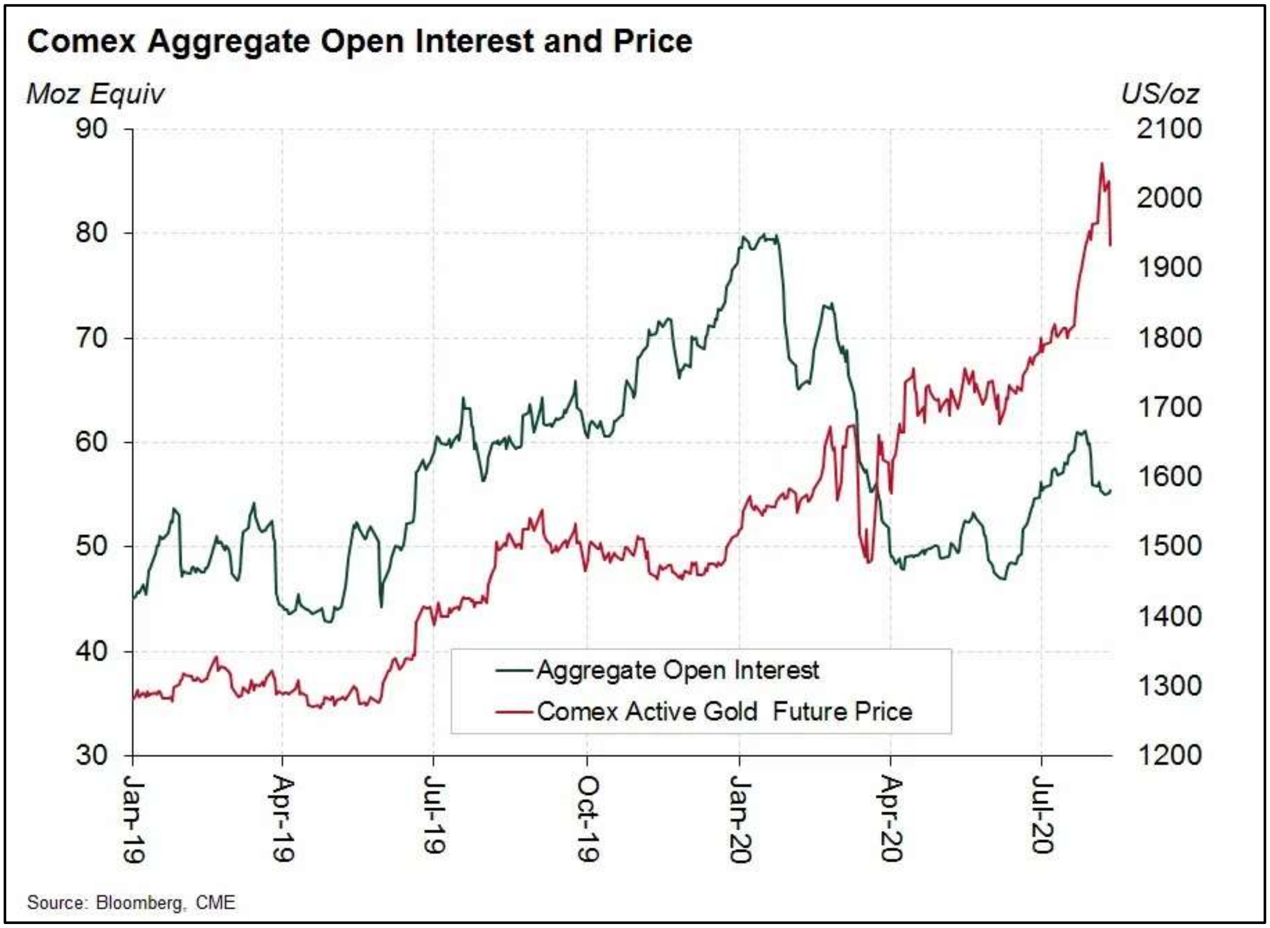
Chart 2. Jump in yields prompts gold sell-off



Source: Federal Reserve Bank of St. Louis, RBMC

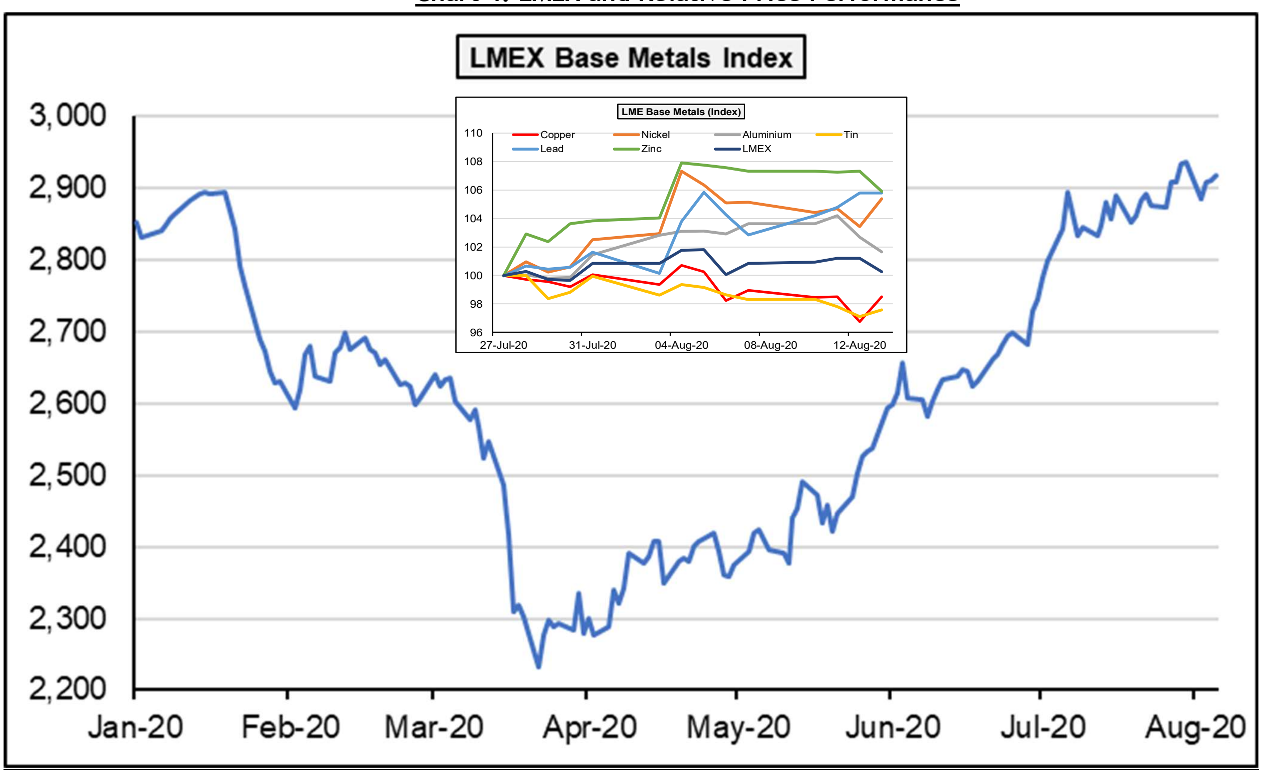
Charts of the Week

Chart 3. Gold: Longs liquidating and new shorts added



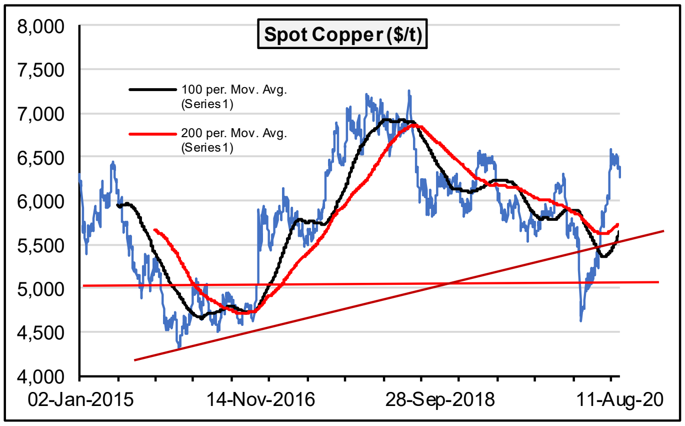
Source: World Gold Council

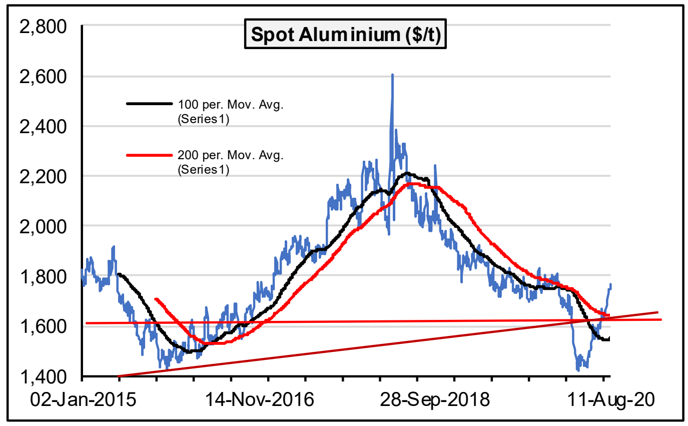
Chart 4. LMEX and Relative Price Performance

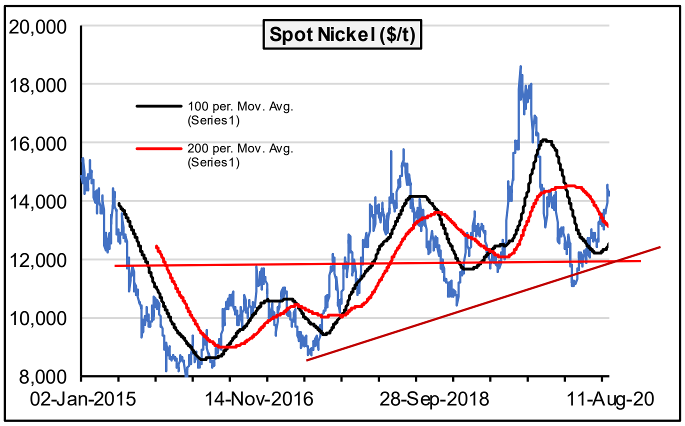


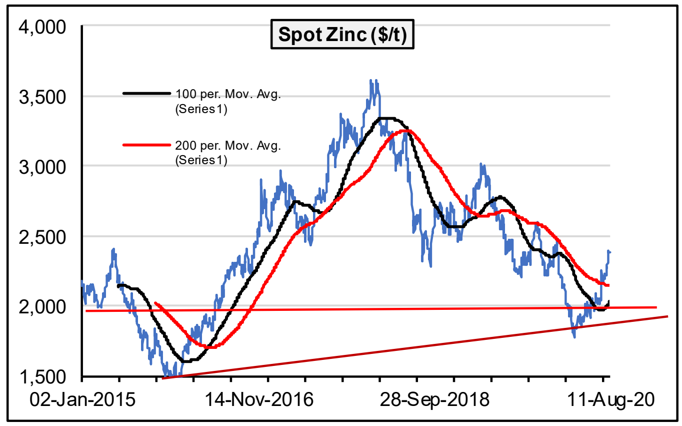
Source: LME, RBMC

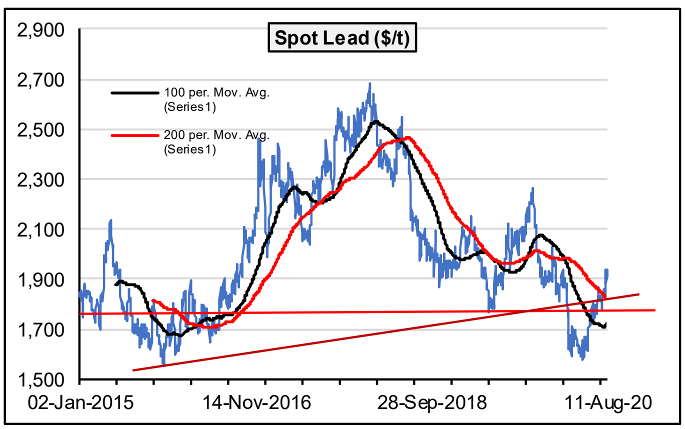
Charts: Industrial Metals

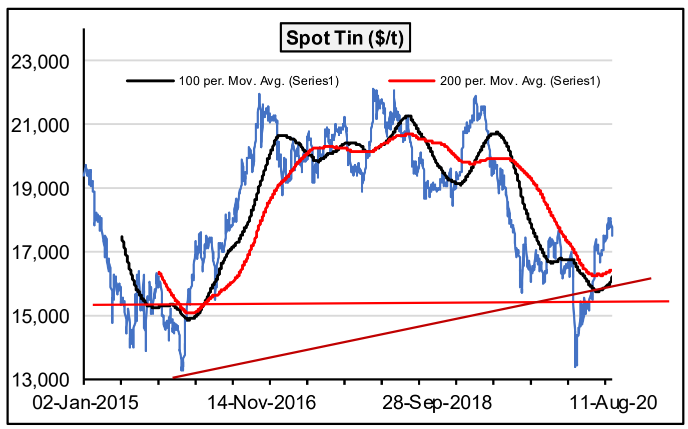


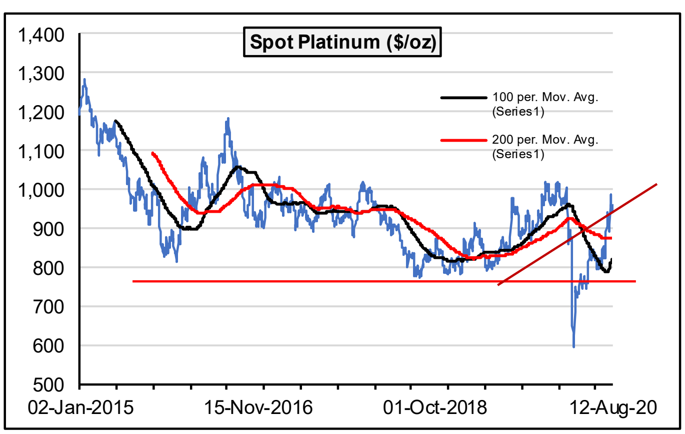


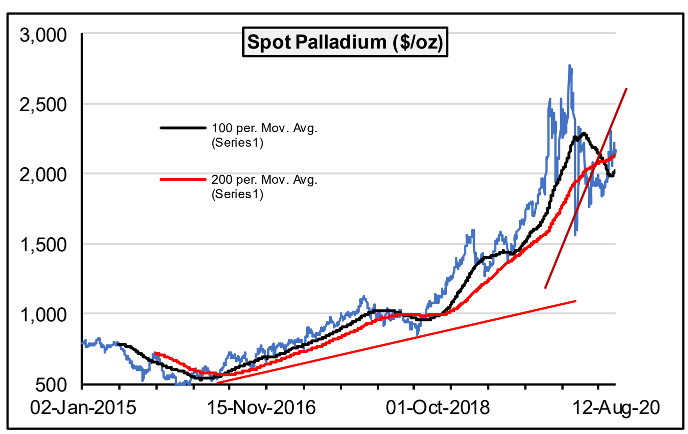












Source: LME, LBMA, LPPM, RBMC

The Backpage - Metals Markets Data

Base Metals Inventories (tonnes)					
Copper	**14-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	113,200	114,375	168,225	282,675	271,800
LME Cancelled Warrants	59,075	68,250	65,100	51,425	30,075
SHFE	172,051	174,455	137,336	204,219	162,830
COMEX	80,056	80,296	80,050	41,178	172,874
GLOBAL	365,307	369,126	385,611	528,072	607,504
Aluminium	**14-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	1,594,325	1,621,400	1,669,550	1,361,575	984,250
LME Cancelled Warrants	243,325	249,375	258,075	171,400	291,075
SHFE	244,068	228,906	213,650	388,899	387,663
COMEX	43,174	40,488	35,258	20,924	
GLOBAL	1,881,567	1,890,794	1,918,458	1,771,398	1,371,913
Nickel	**14-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	238,638	235,896	234,192	233,604	144,414
LME Cancelled Warrants	55,824	55,704	55,938	53,574	38,964
SHFE	34,518	34,761	29,495	27,698	29,009
GLOBAL	273,156	270,657	263,687	261,302	173,423
Zinc	**14-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	213,950	197,750	123,200	99,025	74,475
LME Cancelled Warrants	16,250	16,800	21,675	9,675	29,825
SHFE	76,512	84,499	91,307	122,051	73,857
GLOBAL	290,462	282,249	214,507	221,076	148,332
Lead	**14-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	119,000	117,950	61,300	74,675	81,575
LME Cancelled Warrants	16,375	16,725	15,700	17,125	5,625
SHFE	3,600	32,222	27,038	6,444	
GLOBAL	122,600	150,172	88,338	81,119	81,575
Tin	**14-Aug-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	4,275	4,095	3,910	4,745	4,780
LME Cancelled Warrants	255	455	515	1,930	855
SHFE	3,600	3,474	3,006	5,842	5,729
GLOBAL	7,875	7,569	6,916	10,587	10,509
Open Interest (lots)					
	14-Aug-20	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
Copper	335,819	322,897	298,497	263,249	317,452
Aluminium	808,742	799,127	797,481	819,564	764,291
Nickel	215,490	206,194	199,449	214,829	292,570
Zinc	220,454	210,613	205,961	215,186	252,443
Lead	115,744	112,772	106,028	111,666	121,492
Tin	17,301	17,245	15,982	16,495	18,070
Moving Averages					
	Cash	**10-DMA**	**40-DMA**	**100-DMA**	**200-DMA**
Copper	6,378	6,431	6,276	5,637	5,740
Aluminium	1,710	1,726	1,648	1,554	1,647
Nickel	14,315	14,128	13,399	12,591	13,136
Zinc	2,348	2,358	2,188	2,040	2,146
Lead	1,938	1,895	1,824	1,727	1,823
Tin	17,608	17,803	17,405	16,192	16,414
Support, Resistance and RSI					
	S1	**S2**	**R1**	**R2**	**RSI**
Copper	6,200	6,050	6,633	6,732	50
Aluminium	1,730	1,712	1,800	1,833	74
Nickel	13,600	13,510	14,750	14,827	62
Zinc	2,300	2,250	2,458	2,485	69
Lead	1,836	1,811	1,972	2,044	64
Tin	17,480	17,055	18,250	18,520	50

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