

Week of 17 July 2020 - Number 27

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	3,216	3,214	0.61%	96.1	7.00	\$40.6	\$1,803	2,844	\$6,340	\$1,684	\$13,420	\$2,201	\$1,831	\$17,280
Change w-o-w	2.4%	-5.0%	0.04	-0.6	0.0	5.2%	-0.2%	1.6%	-0.6%	1.2%	1.7%	2.1%	0.1%	-0.3%

Macro Themes

As of 17 July, about 13.8mn Covid-19 cases have been confirmed worldwide, and the death toll has surpassed 590k, according to Johns Hopkins University data. The infection rate, hospitalizations and deaths are increasing in the US, nine states now reversing reopening measures, while containment measures are re-imposed in Hong Kong. There was encouraging vaccine news from Moderna but overall, it remains a precarious situation (see Chart 1). The Q2 corporate earnings season is underway where guidance on the outlook will be key.

The apparent disconnect taking place between stock markets and the economy continues to be the major talking point of financial markets as the Q2 earnings season gets underway. While optimism about the economic outlook is implied by stock markets, bond markets in stark contrast are far more pessimistic. Never in history have we seen such a significant disconnect between the stock market performance and the underlying macroeconomic sentiment. But stock markets are a forward-looking discounting mechanism, able to look past current headlines and ahead to the eventual recovery. Now, the data (China Q2 GDP, US payrolls, jobless claims, unemployment, global PMIs) are also beginning to affirm that the economy is on the mend. Global and US economic data are beating forecasts and there is growing optimism that corporate profits will do likewise as Q2 earnings season plays out in coming weeks.

Unprecedented fiscal and monetary actions have provided the liquidity and confidence needed to support and propel global equity markets; Chinese stocks are leading the way encouraged by the government (see Chart 2). But there also seems to be more to the rally than just that. The stock market is also beginning to separate those firms that will not only survive this pandemic but may also thrive once it is over. For example, large firms with excellent growth prospects are being rewarded, while firms that may struggle for the foreseeable future are being punished. One strong theme supporting equity markets since the worst of the pandemic panic in March is that the shock to companies' profits will be brief. Before long, the thinking goes, growth in net income will resume its upwards trend. Another justification for higher equity valuations has been the dramatic drop in long-dated government and corporate bond yields (indicative of muted expectations for future economic growth), which lifts the value of future cash flows via a lower discount rate. On a more negative note, the prospect of higher taxes on corporate profits - and perhaps also too on capital gains and dividends, de-globalization and rising labour costs - casts a shadow over the outlook for future stock returns.

China's GDP grew 3.2% in Q2 yoy - above the 2.5% forecast by economists in a Reuters poll and compared to -6.8% in Q1. Industrial production increased 4.4% yoy and rose in each of the past three months. The Chinese state has supported industrial activity over recent months, in part by increasing the amount local governments can borrow for infrastructure projects. However, retail sales defied expectations of a return to growth to fall 1.8% in June compared with the same period last year - their fifth month of decline.

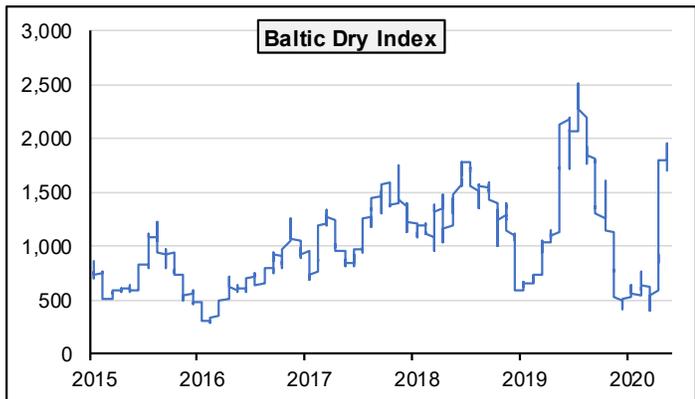
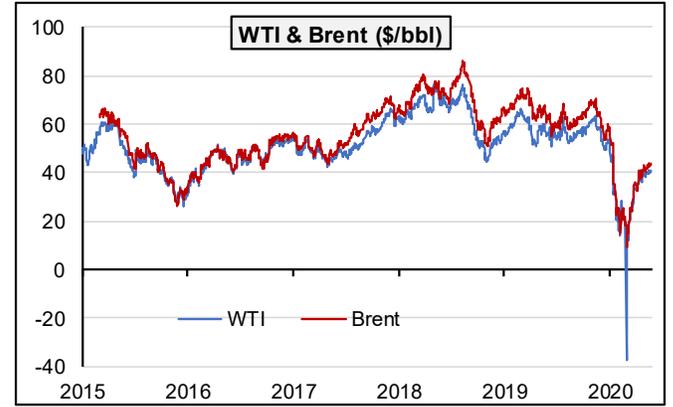
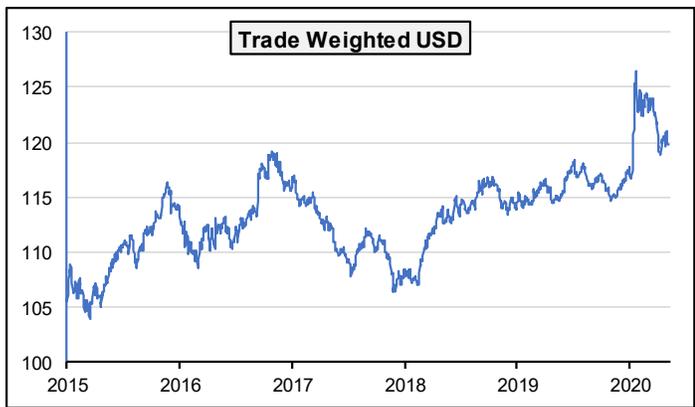
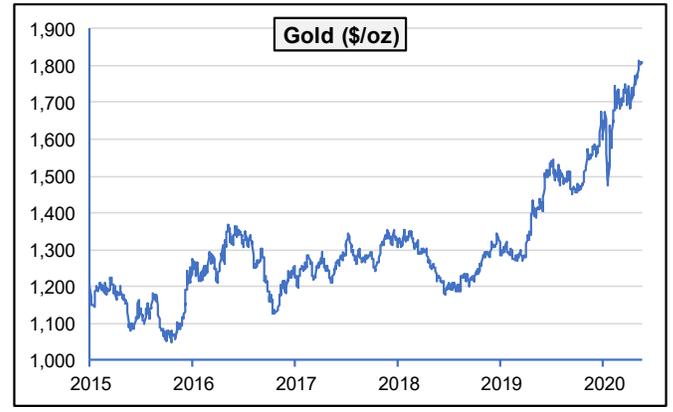
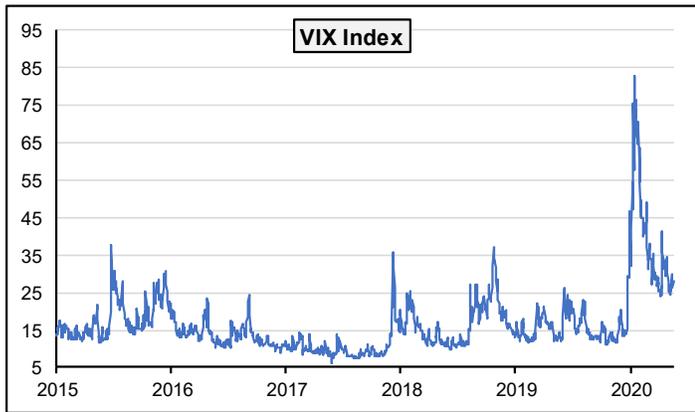
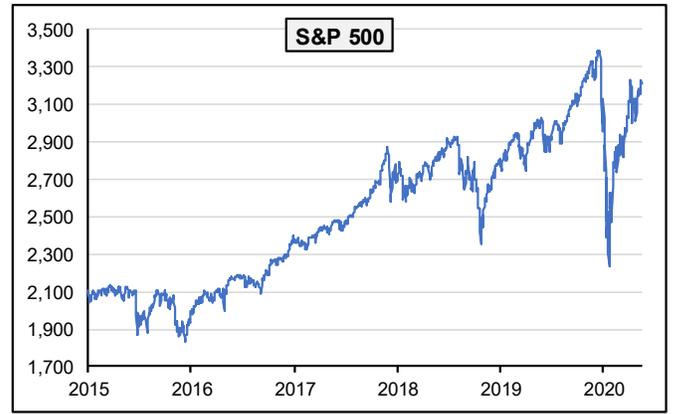
Precious Metals

A tailwind for gold is evident as real yields turn negative, opportunity costs for holding non-yielding assets essentially vanish, particularly when viewed through the historical lens of fiat currencies and their purchasing power. If gold's primary competition as a Tier 1 asset is a US treasury bond, and if that treasury bond now comes with a negative, inflation-adjusted return - then suddenly your golden asset looks pretty good as a store of value and fiat devaluation hedge. Silver is catching up with gold both in absolute terms and relative to gold, as evidenced by a falling gold:silver ratio (see Chart 3). Silver prices rose by 3.8% last week and are currently trading around a one-year high and comfortably above the \$19.0 mark. Further price gains look likely, with next resistance at \$19.65, \$20.0 and the July 2016 high of \$21.14. Silver's role as a valued investment was broadly on display during 1H20, as investors actively accumulated silver in the first six months of the year, leading to a 10% gain in investment demand, according to the Silver Institute. Paving the way was remarkably strong growth in silver-backed exchange-traded products (ETPs), which have posted successive all-time highs this year, together with solid silver coin and bar investment. In China, improving price expectations and a rise in price volatility has also revived investor interest. Silver trading volumes on the Shanghai Futures Exchange recorded their highest monthly total for the year in May, while turnover on the Shanghai Gold Exchange remained elevated after hitting record levels in March. European car sales are forecast to decline by 25.7% this year (source: LMC Automotive), resulting in a loss of ~270koz of platinum demand. Despite a declining diesel market share, European automakers remain the largest end-users of platinum (~15% of total demand). Further platinum downside is expected owing to the poor fundamental outlook, while palladium is vulnerable to slipping further as the market is now expected to be close to balance this year.

Base Metals

Copper prices remained firm on the back of a surge in Chinese imports of the metal and worries about supply from South America. Customs data showed China's unwrought copper imports (anodes and cathodes) in June rose 50% from the previous month to 656kt - 15% above the previous monthly record. Over 1H20, imports totalled 2.84Mt - up 25% yoy and on track to beat 2018's annual record of 5.3Mt. June imports of copper concentrate fell 6% to 1.69Mt from May but were still up 8.4% yoy due to a shortage of mine supply because of the lockdowns imposed over Covid-19. For the first six months of 2020 imports total 10.84Mt, on pace to surpass last year's record-breaking tally of 22Mt. Industrial metals are sharing in optimism expressed by stock markets, with the LMEX index trading at pre-Covid-19 highs and outperforming the MSCI World Equity index. This outperformance also reflects the fundamentals of the base metals complex - demand rebound driving prices in 1H20 and supply constraints likely to drive prices in 2H20. Weak fundamentals (collapse in demand and slow recovery + oversupply) are behind underperforming metals such as aluminium, nickel, lead, and zinc. Strong fundamentals (demand rebound + supply constraints) have seen copper outperforming, tin also on supply constraints. Firm demand (China), supply constraints (mine disruptions due to lockdowns because of Covid-19 accounting for around 30% of total supply) and strong interest from the investment community to go long (weaker USD, liquidity and inflation fears) have driven copper back to levels seen earlier in the year. Prices have rallied 40% from the March lows and at \$6,600/t are 6% higher YTD. Supply disruption in 2020 is expected to result in lost mine production accounting for 5% of mine supply, or ~1Mt. The LME published last week its off-warrant stock levels. The data showed just over 1Mt of aluminium and 161kt of copper being held off-warrant, 61.5% and 87%, respectively, of on-warrant stocks. For the other metals, this percentage was far lower: Zn (34%), Ni (8%), Pb (13%) and Sn (7%). (see Chart 4). The new off-warrant stock data will not capture all warrantable material, but the exchange says it believes it does represent metal with a reasonable likelihood of being warranted over a short-term period, metal that is likely to affect stocks figures and, potentially, market conditions. Metals markets data is shown on The Backpage.

Dashboard - What You Need to Know



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

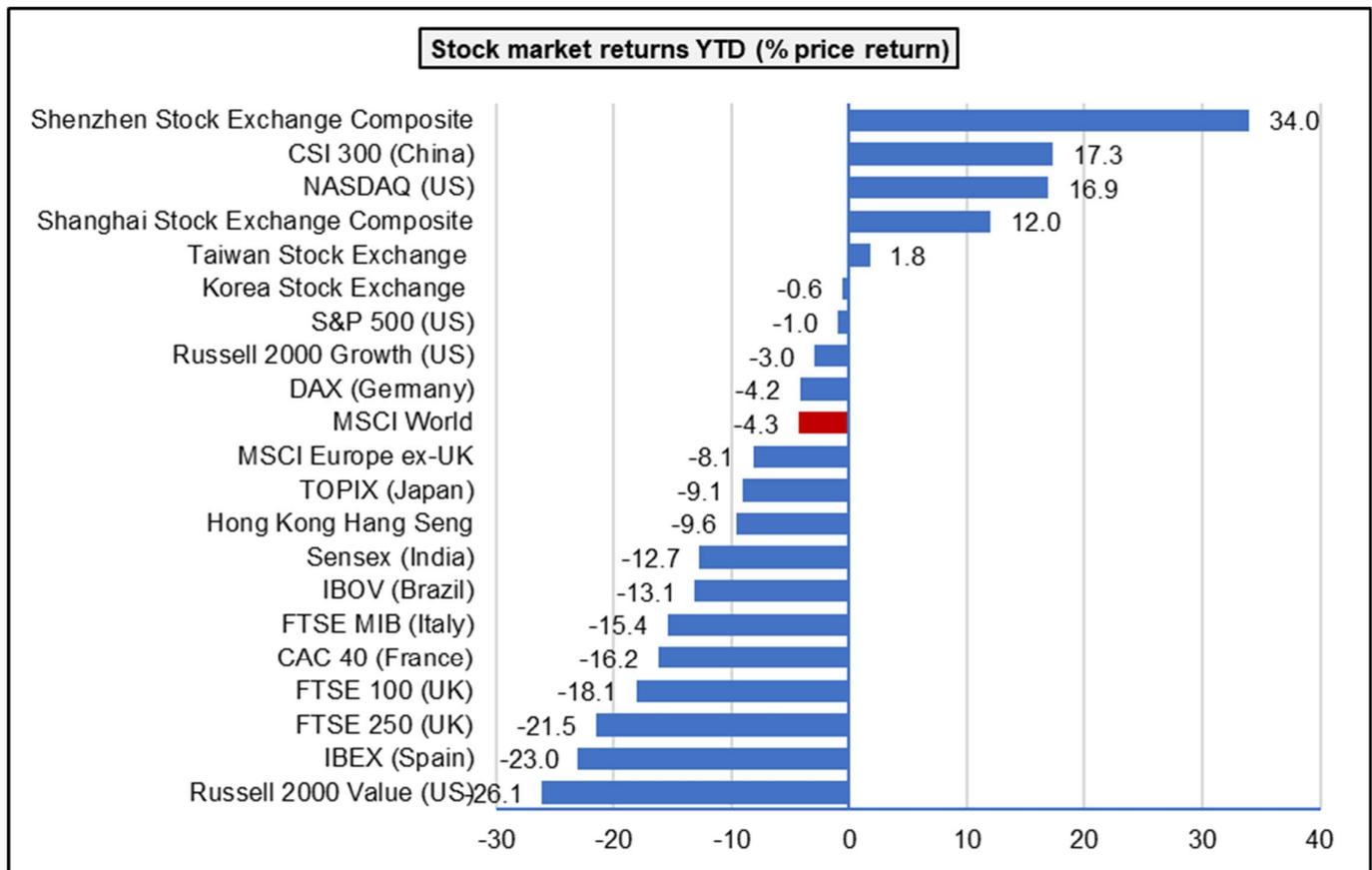
Charts of the Week

Chart 1. A precarious situation

Factors needed for quick and robust recovery	Recent news	Looking ahead
Infection contained (social distancing not required)	Infection rate, hospitalisations and deaths increasing in US, 9 states now reversing reopening measures Containment measures re-imposed in Hong Kong Encouraging vaccine news from Moderna	To what degree does reopening slow/reverse Results of Oxford vaccine trial
Policy response - Fiscal stimulus of sufficient size and nature - Central bank backstop - Absence of 'nationalism' and political scapegoating	BoE Governor Bailey does (another) U-turn on negative rates	US stimulus CARES II? EU Recovery Fund negotiations US - China tensions/US political risk Brexit
Economic resilience - proof of 'suspended animation'	UK GDP bounce very limited in May Small upside surprises in inflation	2 nd quarter earnings season (less about Q2, more guidance)

Source: J.P. Morgan Asset Management

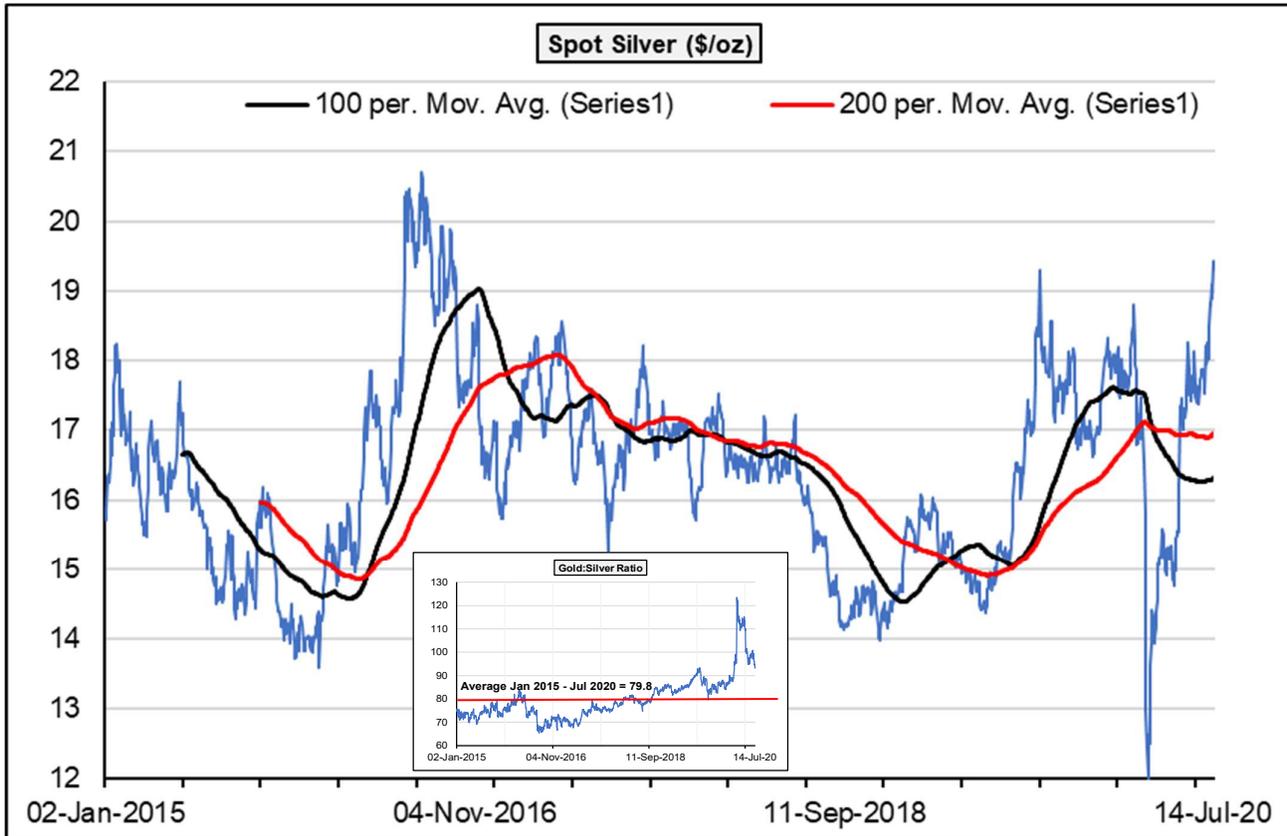
Chart 2. Chinese stock markets are leading the way



Source: Trading Economics, RBMC

Charts of the Week

Chart 3. Silver prices and gold:silver ratio



Source: RBMC

Chart 4. LME off-warrant stocks

LME Stocks Data (tonnes)						
	On-Warrant Stocks	Off-Warrant	Off-Warrant as	Off-Warrant Stocks		
	09-Jul-20	End-May 20	% of On-Warrant	End-Apr-20	End-Mar-20	End-Feb-20
Aluminium	1,632,675	1,004,227	61.5%	930,728	842,438	828,964
Copper	185,200	161,374	87.1%	184,362	151,992	75,555
Nickel	234,672	18,753	8.0%	22,430	23,249	22,108
Lead	61,725	7,957	12.9%	13,390	10,369	7,928
Zinc	121,775	40,918	33.6%	13,199	40,228	25,662
Tin	3,920	265	6.8%	3,536	4,841	3,036

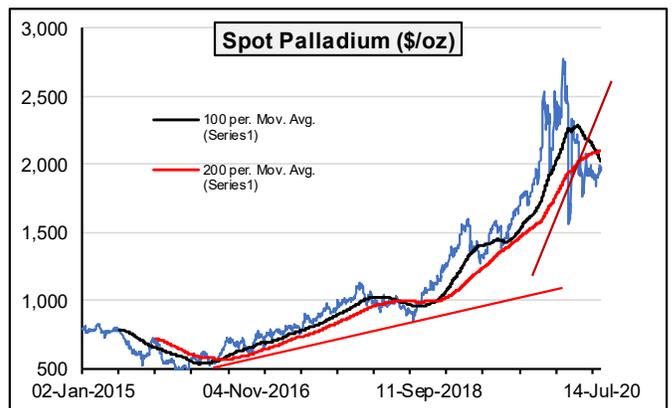
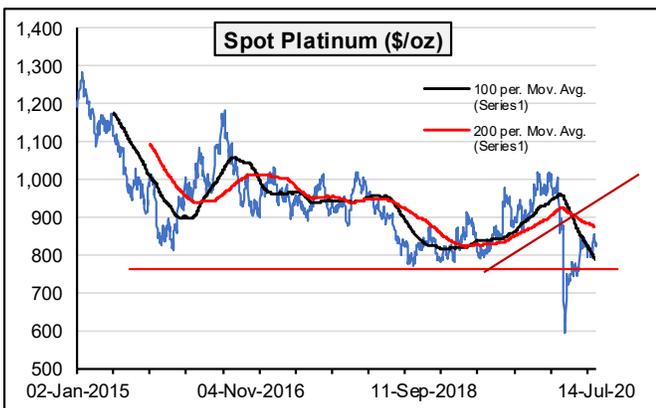
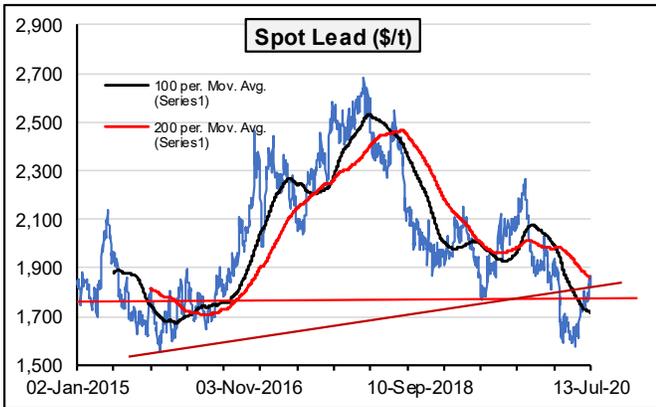
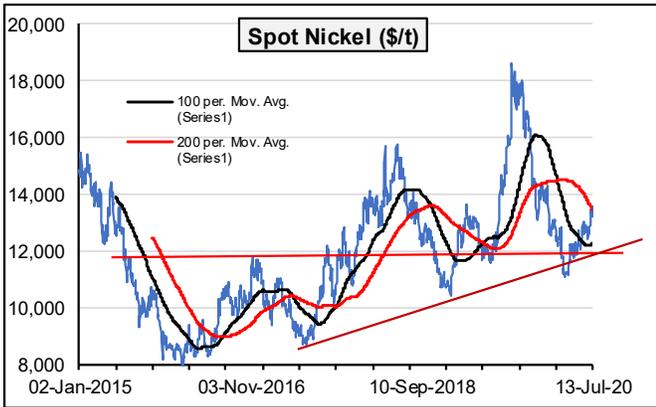
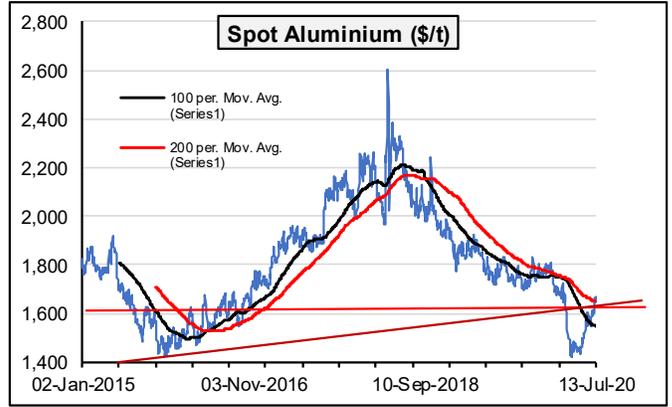
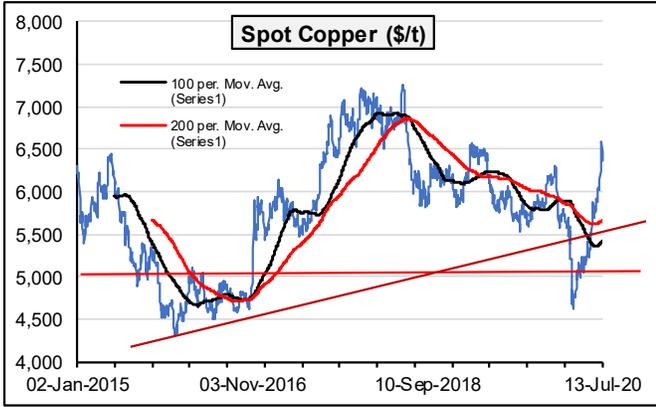
The LME's new reporting rule, in force from 1 February, means warehouse operators must report all off-warrant stock data that falls into three categories:

- If it is stored under an agreement requiring the use of LME-registered warehouses;
- If it is stored under an agreement where the owner has the right to warrant metal on the LME in the future; or
- Where the metal owner chooses to report their stock.

The report will be published on the 10th day of each month, or the first business day thereafter. The reports are published on a month's delayed basis. e.g. the report for June will be published in August.

Source: LME, RBMC

Industrial Metals Charts



Source: LME, LBMA, LPPM, RBMC

The Backpage - Metals Markets Data

Base Metals Inventories (tonnes)					
Copper	17-Jul-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	157,350	181,075	236,600	263,750	299,600
LME Cancelled Warrants	63,450	92,475	105,350	36,825	6,300
SHFE	158,647	137,366	109,969	230,956	154,520
COMEX	79,612	80,231	68,277	38,345	33,506
GLOBAL	395,609	398,672	414,846	533,051	487,626
Aluminium	17-Jul-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	1,664,400	1,626,550	1,605,625	1,300,950	987,275
LME Cancelled Warrants	274,050	286,325	206,525	121,250	388,975
SHFE	233,327	213,650	238,703	485,802	422,022
COMEX	35,258	34,560	28,477	21,400	5,117
GLOBAL	1,932,985	1,874,760	1,872,805	1,808,152	1,414,414
Nickel	17-Jul-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	234,738	234,672	233,238	230,190	148,374
LME Cancelled Warrants	57,042	56,778	55,374	54,258	64,662
SHFE	31,843	29,495	28,365	27,966	27,211
GLOBAL	266,581	264,167	261,603	258,156	175,585
Zinc	17-Jul-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	122,400	123,375	124,050	98,050	80,650
LME Cancelled Warrants	21,650	21,875	6,050	8,675	3,000
SHFE	93,637	91,307	96,796	146,966	75,519
GLOBAL	216,037	214,682	220,846	245,016	156,169
Lead	17-Jul-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	63,025	61,675	75,100	72,150	63,075
LME Cancelled Warrants	15,650	16,125	27,475	17,075	2,275
SHFE	40,547	27,038	22,995		35,262
GLOBAL	103,572	88,713	98,095	72,150	98,337
Tin	17-Jul-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	3,975	3,975	2,705	6,590	6,490
LME Cancelled Warrants	440	530	490	1,450	65
SHFE	2,999	2,999	3,284	3,828	8,126
GLOBAL	6,974	6,974	5,989	10,418	14,616
Open Interest (lots)					
	17-Jul-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
Copper	308,570	297,754	286,964	256,849	310,473
Aluminium	786,843	801,291	790,983	744,572	667,276
Nickel	194,460	234,672	201,811	219,614	277,215
Zinc	203,189	123,375	191,756	217,538	229,431
Lead	106,465	61,675	105,662	111,260	108,520
Tin	15,078	16,500	16,173	16,948	16,093
Moving Averages					
	Cash	10-DMA	40-DMA	100-DMA	200-DMA
Copper	6,451	6,361	5,871	5,456	5,676
Aluminium	1,635	1,631	1,576	1,549	1,650
Nickel	13,305	13,425	12,846	12,303	13,423
Zinc	2,191	2,159	2,051	1,978	2,159
Lead	1,811	1,824	1,753	1,716	1,852
Tin	17,400	17,312	16,800	15,883	16,308
Support, Resistance and RSI					
	S1	S2	R1	R2	RSI
Copper	6,348	6,050	6,633	6,820	71
Aluminium	1,640	1,600	1,712	1,735	57
Nickel	13,155	13,050	13,680	13,890	56
Zinc	2,144	2,100	2,250	2,320	64
Lead	1,810	1,755	1,881	1,900	56
Tin	16,820	16,405	17,500	17,900	66

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