

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.

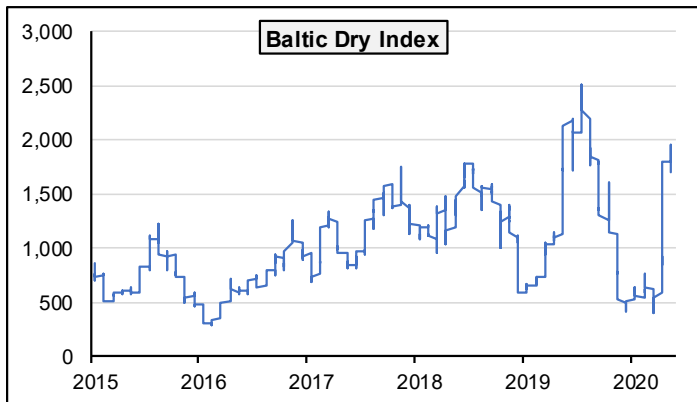
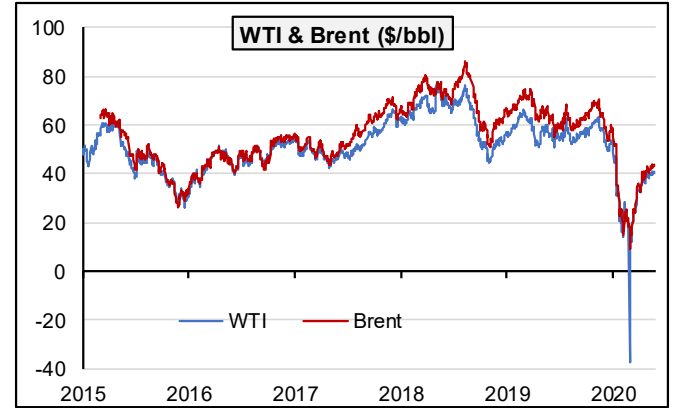
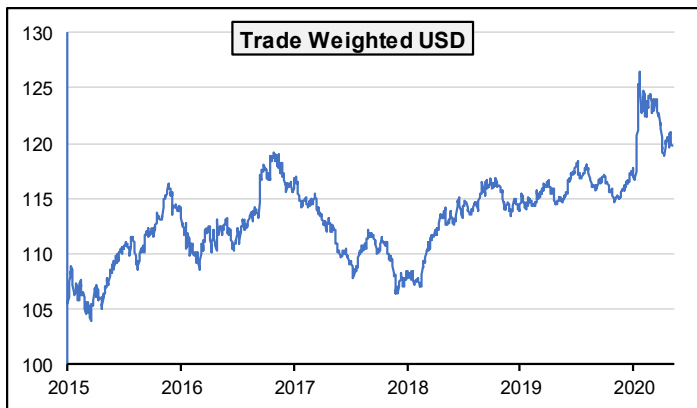
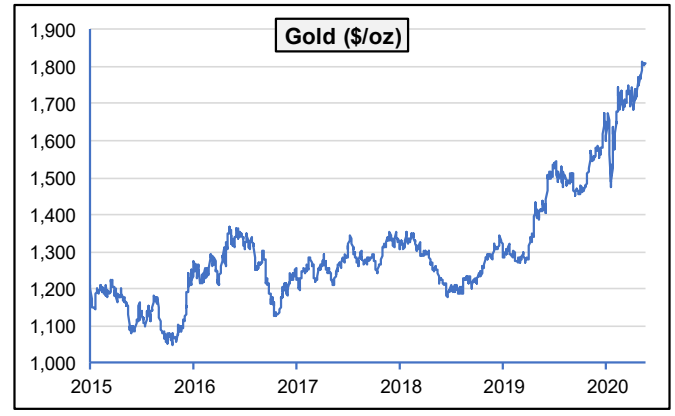
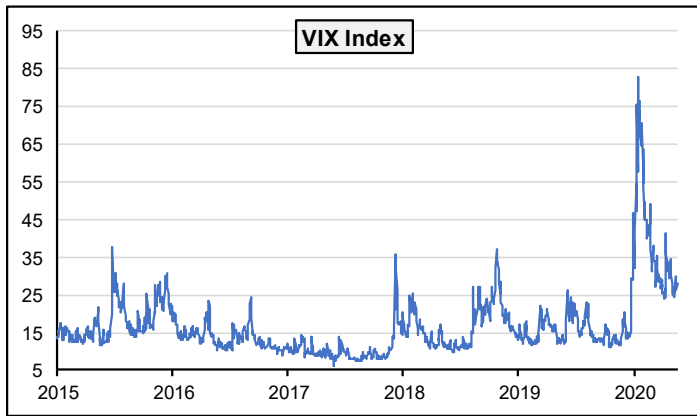
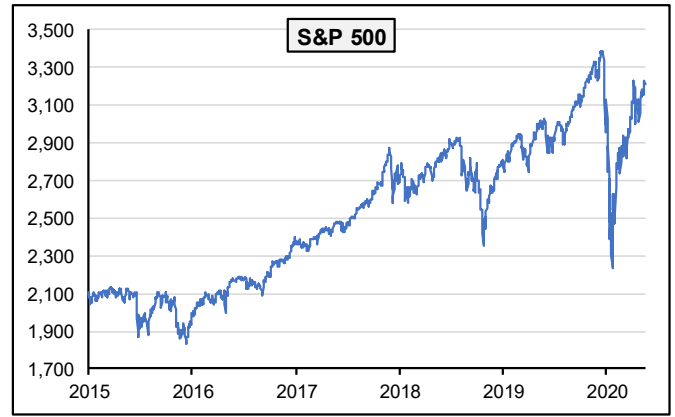
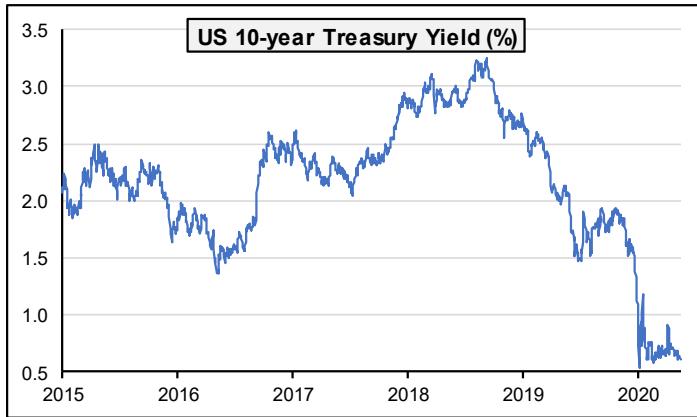
Precious Metals

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

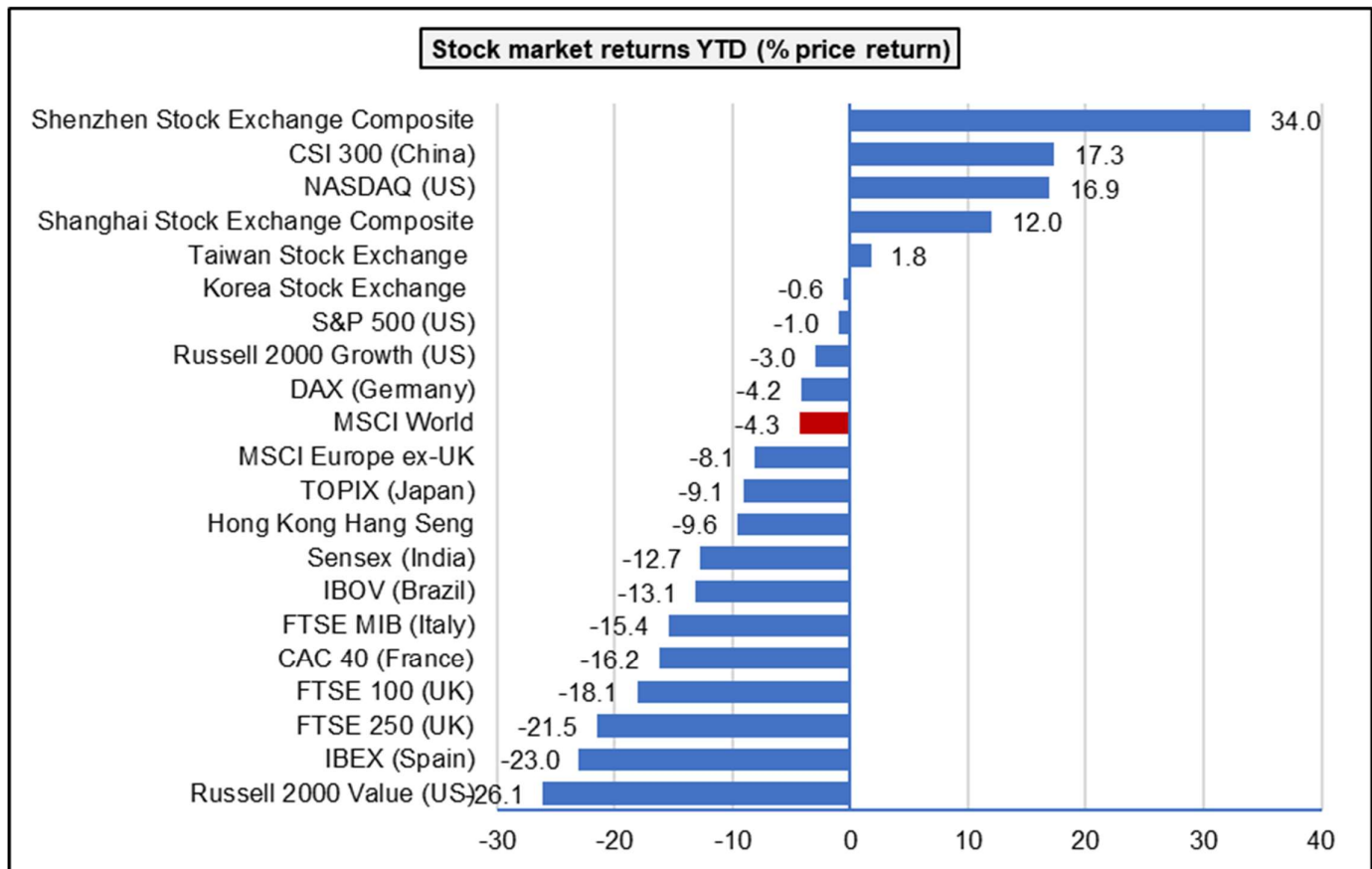
Charts of the Week

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

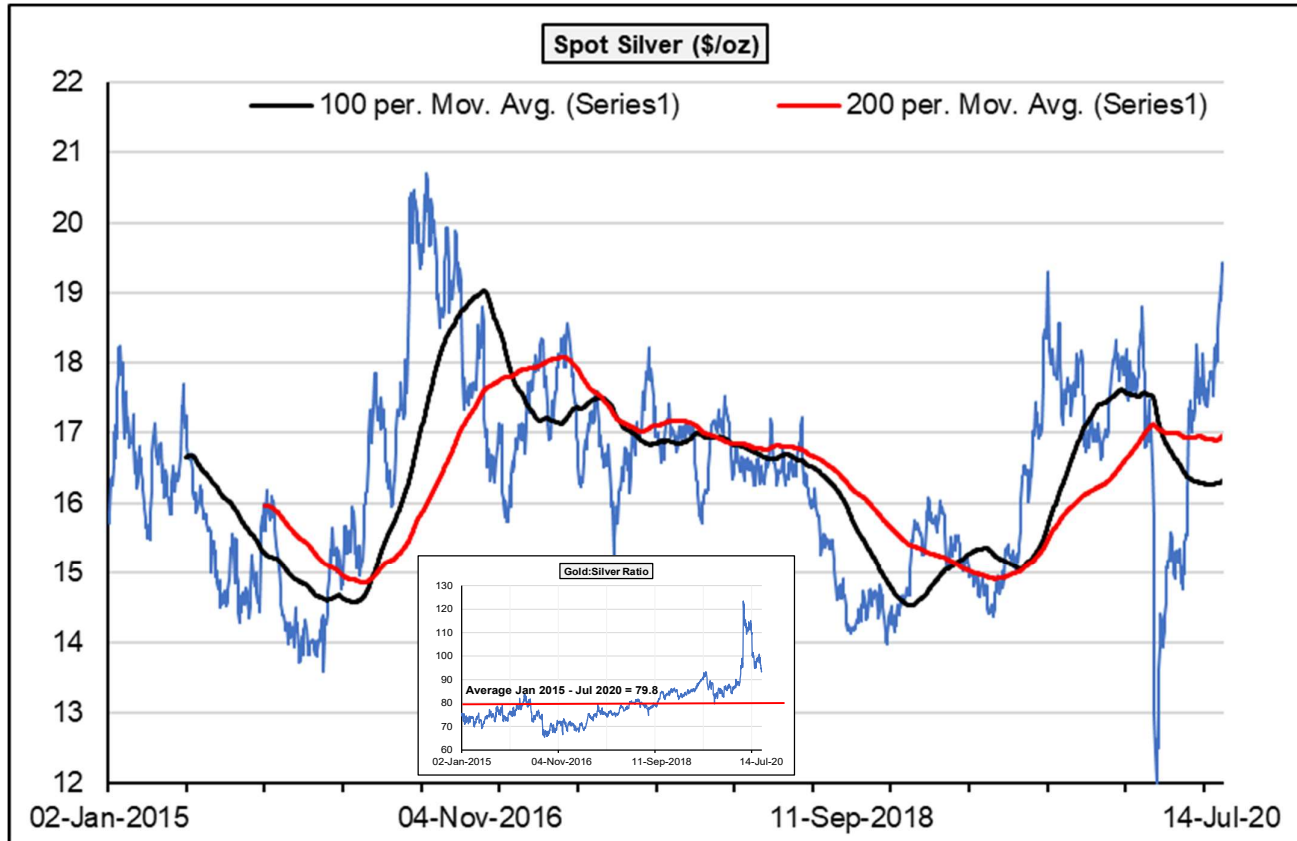
Chart 2. Chinese stock markets are leading the way



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 |

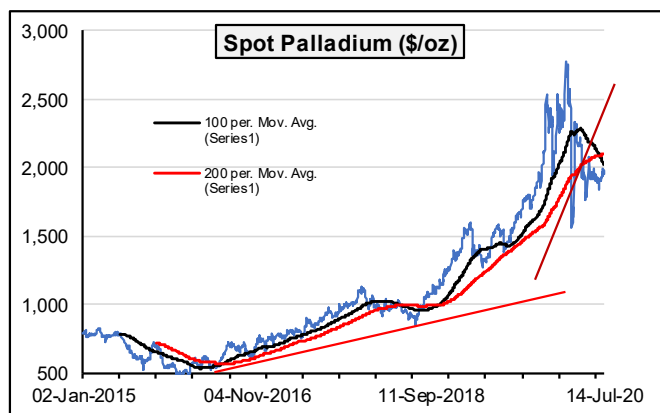
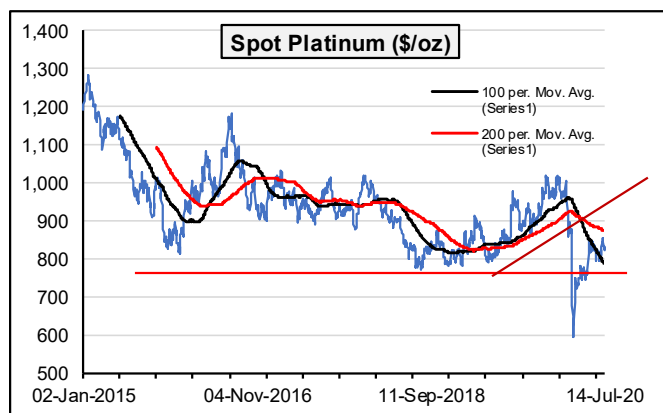
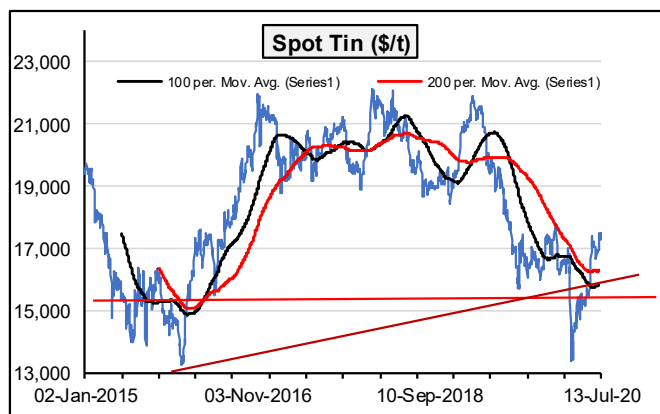
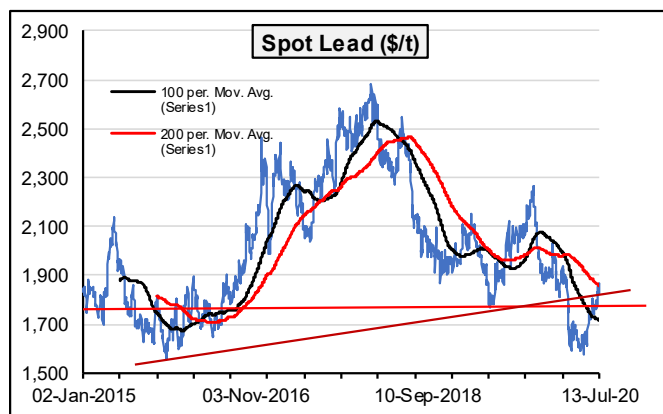
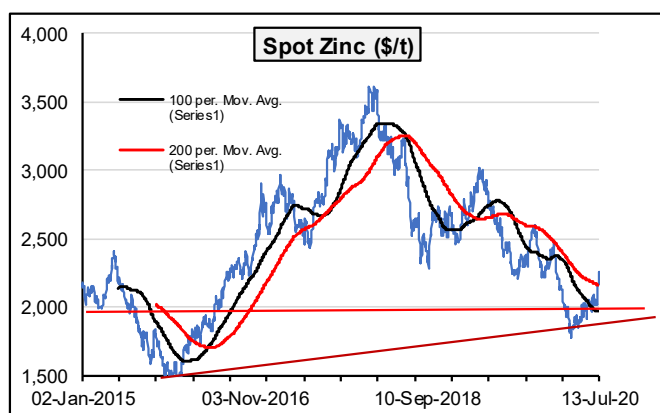
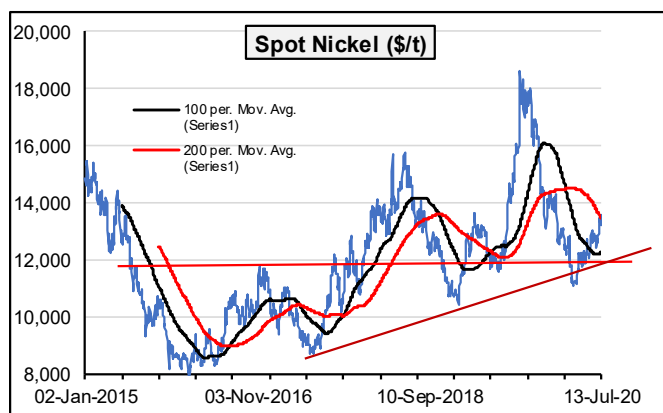
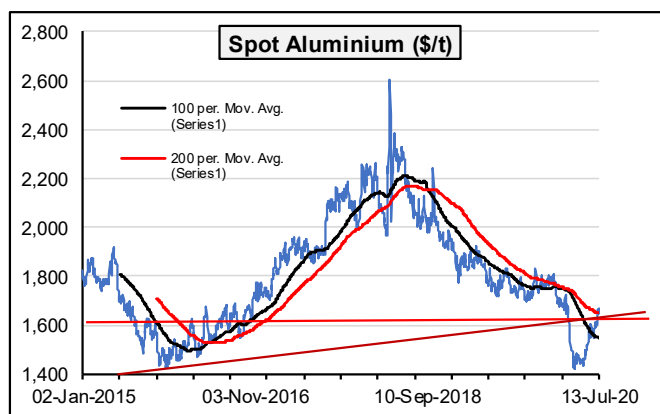
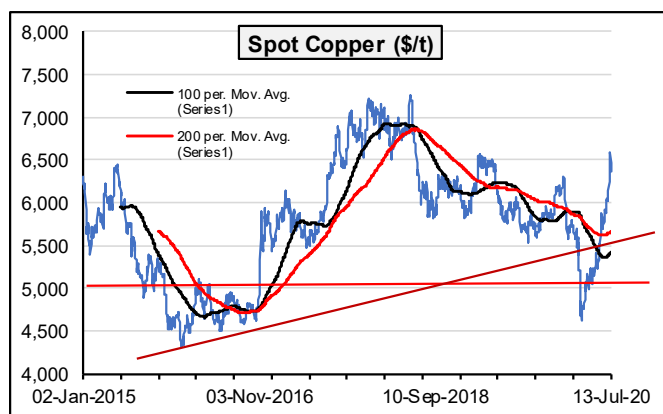
The LME's new reporting rule, in force from 1 February, means warehouse operators must report all off-warrant stock data that falls into three categories:

- 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*