RBMC

THE BHAR REPORT

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The Week in the Markets

Week of 19 June 2020 – Number 23

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	3,135	2,966	0.72%	97.5	7.07	$39.9	$1,731	2,633	$5,802	$1,607	$12,837	$2,052	$1,799	**$16,885**
Change w-o-w	**2.1%**	**1.6%**	**0.01**	**0.9**	**0.00**	**8.7%**	**-0.1%**	**1.0%**	**0.5%**	**0.3%**	**2.0%**	**2.2%**	**4.5%**	**-0.2%**

Macro Themes

As of 19 June, about 8.5mn **Covid-19** cases have been confirmed worldwide, and the death toll has surpassed 454k, according to Johns Hopkins University data. Fears of a **second wave** of the pandemic are increasing after new cases in several US states and new cases and talk of shutdown in Beijing. Financial markets are taking this news in their stride amid a mantra of **don't fight the central banks** including, further market-friendly tweaks to the Fed's credit programme and a planned USD1tn infrastructure package (see **Chart 1**). Meanwhile, there was better news in **Europe** and sentiment was boosted by news of a life-saving drug for Covid-19, **Dexamethasone**.

Wall Street gained this week on expectations of new aid for the US economy from the federal government and central bank. Jay Powell, the **Federal Reserve** chair, has warned Congress of "significant uncertainty" surrounding the "timing and strength" of the US economic recovery, after some encouraging data (May employment and retail sales) stoked hopes of a swift exit from the recession triggered by the pandemic. With the US still facing the threat of new infection spikes in several states, Mr Powell added that the biggest factor weighing on the outlook was "uncertainty about the path of the disease and the effects of measures to contain it". Until the public is confident that the disease is contained, a full recovery is unlikely. Mr Powell reiterated that the Fed was "committed to using our full range of tools to support the economy in this challenging time" but offered no additional signal about the form or timing of any further monetary policy action. Mr Powell has repeatedly made clear to Congress that they should consider additional **fiscal stimulus** on top of the $3tn already approved since the pandemic began.

Put simply, when the Fed is providing **liquidity** to the markets, it should be an overall positive for the stock market and, by implication, also assets such as **industrial commodities**. Historically, this meant investors should watch what the Fed is doing in terms of **interest rate** policy. Rates are close to zero and in just 3 weeks, the Fed has bought over $1.5tn in assets. This already outpaces QE2 and QE3 combined! (see **Chart 2**). It is now expected that the Fed to more than double the size of its **balance sheet** to $9-10tn in 2020. This is an incredible amount of liquidity being pumped into the market. The Fed is not only buying Treasuries and mortgage backed securities but have now moved onto corporate and municipal bonds. This has helped the recent rally from the interim market bottom, but can the Fed help the stock market defy gravity? That remains to be seen. If the economy is shut down through the summer, is there any limit to the Fed balance sheet? The read through to industrial commodities is abundantly clear.

The US administration's plans for a $1tn **infrastructure** spending package over 10 years to stimulate economic growth are being discussed. President Trump has always spoken of improving the country's infrastructure and what better time could there be for doing that than now, when the economy is on its knees, and unemployment is rising sharply? More importantly, **US elections** are near. The money would be spent on traditional infrastructure work such as roads and bridges, but it would also target 5G wireless infrastructure and rural broadband. Approval for more infrastructure spending would be positive for **metals** demand.

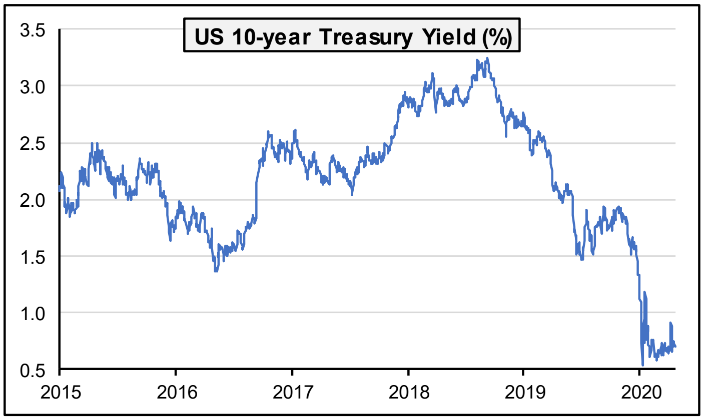
Precious Metals

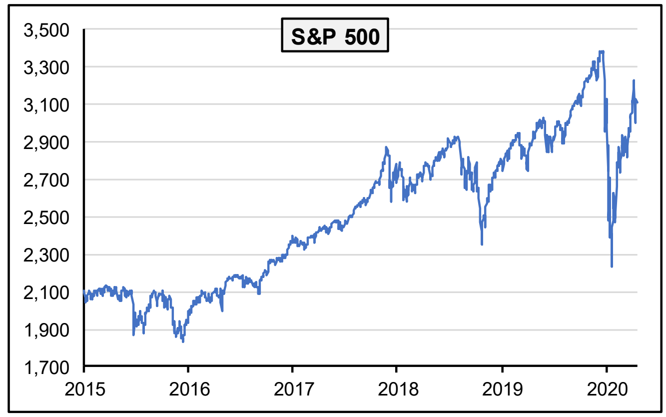
Ongoing risks to the global economic recovery, especially with regards to recent spikes in virus cases in both the US and China continue to underpin **gold's** price action. However, a lack of **physical demand** is likely to see gold hold $1,700-$1,750 over the near term. Gold prices are consolidating in a broad $1,680-1,750/oz range underpinned by the latest comments from the Fed over the economic outlook. From a seasonal perspective, physical demand is subdued and not expected to pick up until September and ahead of the Indian festival/wedding season, Christmas, and Chinese New Year. Meanwhile, investors are liquidating **futures** positions and there have been some outflows from gold-backed **ETFs** amid soaring stock markets and optimism over re-opening of economies. **Money managers** trimmed their net-bullish positioning in gold futures during the most recent reporting period for data compiled by the CFTC. As of 9 June, the net long is now at the lowest level in more than a year, as longs were liquidated, and shorts added. For the reasons stated - mainly ultra-accommodative Fed policy and more tools/stimulus to be employed - we would look for money managers to eventually move back into gold. In this context, we continue to expect that money managers will seek to shelter their capital from a prolonged period of negative real rates in gold as well as seeking to benefit from the bull trend in prices. Gold has run out of steam at the recent highs as investor selling has combined with weak Asian physical demand. But returning investor interest and Asian buying later this year should see prices re-testing the recent highs and push on towards $1,800/oz. **PGM** prices are set to fall as markets are oversupplied (see **Chart 3**).

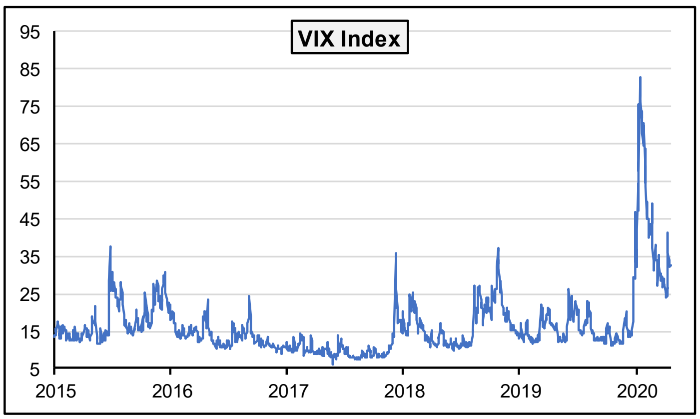
Base Metals

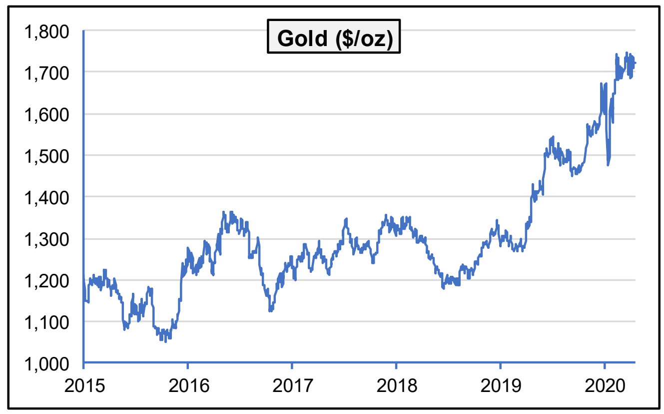
Base metals have been moving closely with the broader macro sentiment and huge injections of liquidity by central banks and governments. Chinese data for May boosted sentiment, as the economy rebounds - fixed asset investment YTD was down YoY only by 6.3% (vs April's -10.3%). Similarly, industrial production YTD was down YoY by only 2.8% (April was at -4.9%). Set against a grim economic outlook waves of **CTA** short covering have been triggered which could be drawing to a close and setting up metals for a fall. What may determine the outlook in the short-term could come down to the charts and whether prices are able to hold above the longer-term moving averages, which tend to act as buy (sell) triggers for systematic players to act on. Both **copper** and **tin** prices are trading above both the **100-day ma** and the **200-day ma**. Like the rest of the base metals complex **nickel** prices have moved off earlier lows below $11,000/t in response to huge government stimulus and optimism over rebounding economic activity in China. Nickel production at mines and refineries was severely disrupted during March and April which helped, but we continue to expect the pandemic's impact on global primary nickel demand to overcome supply-side support this year. The **International Nickel Study Group** (**INSG**) estimates that global mined nickel production fell by almost 5% in Q120 year due to a combination of lockdowns and low prices. Nickel usage, however, slumped by more than 11%, leaving a refined nickel surplus of 46kt in Q120, the first surplus recorded since 2015 (see **Chart 4**). Refined nickel production is forecast to have declined by 15kt in Q120 because of Covid-19-related closures and output cuts - operations in South Africa, Madagascar, Canada, Colombia, and the Philippines were affected. Key stainless end-users are in the aerospace and oil and gas industries, both of which are also expected to experience a drawn-out recovery. **Stainless steel** will continue to be the driver of the nickel price until **EVs** and **energy storage** attain critical mass. The EV sector will continue to find support in the medium-term, according to battery materials manufacturer *Umicore*. Global nickel in passenger vehicles totalled just under 3kt in April, compared with average global nickel usage of 178kt per month in Q120. Charts with moving averages are shown on **The Backpage**.

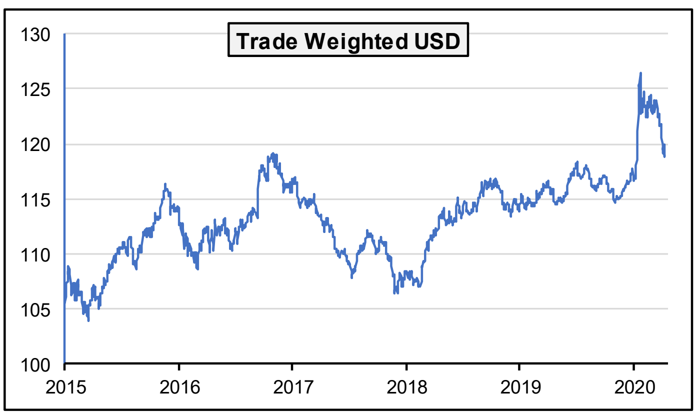
Dashboard - What You Need to Know

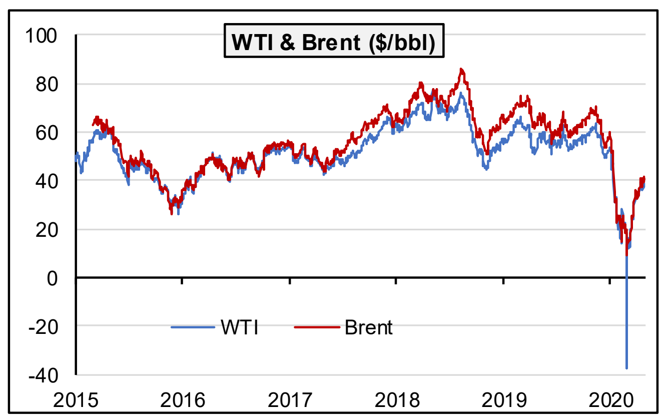


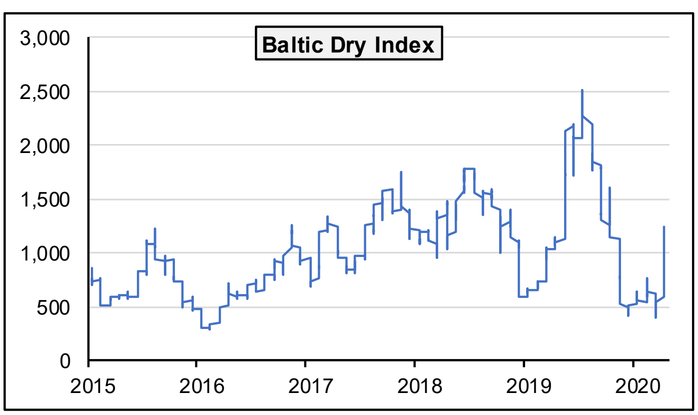


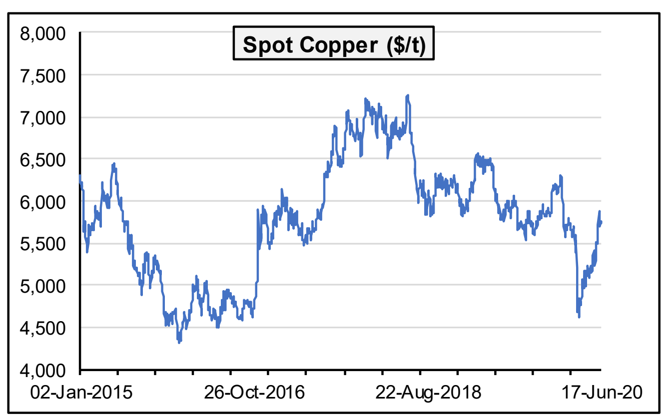












Source: Federal Reserve Bank of St. Louis, Trading Economics

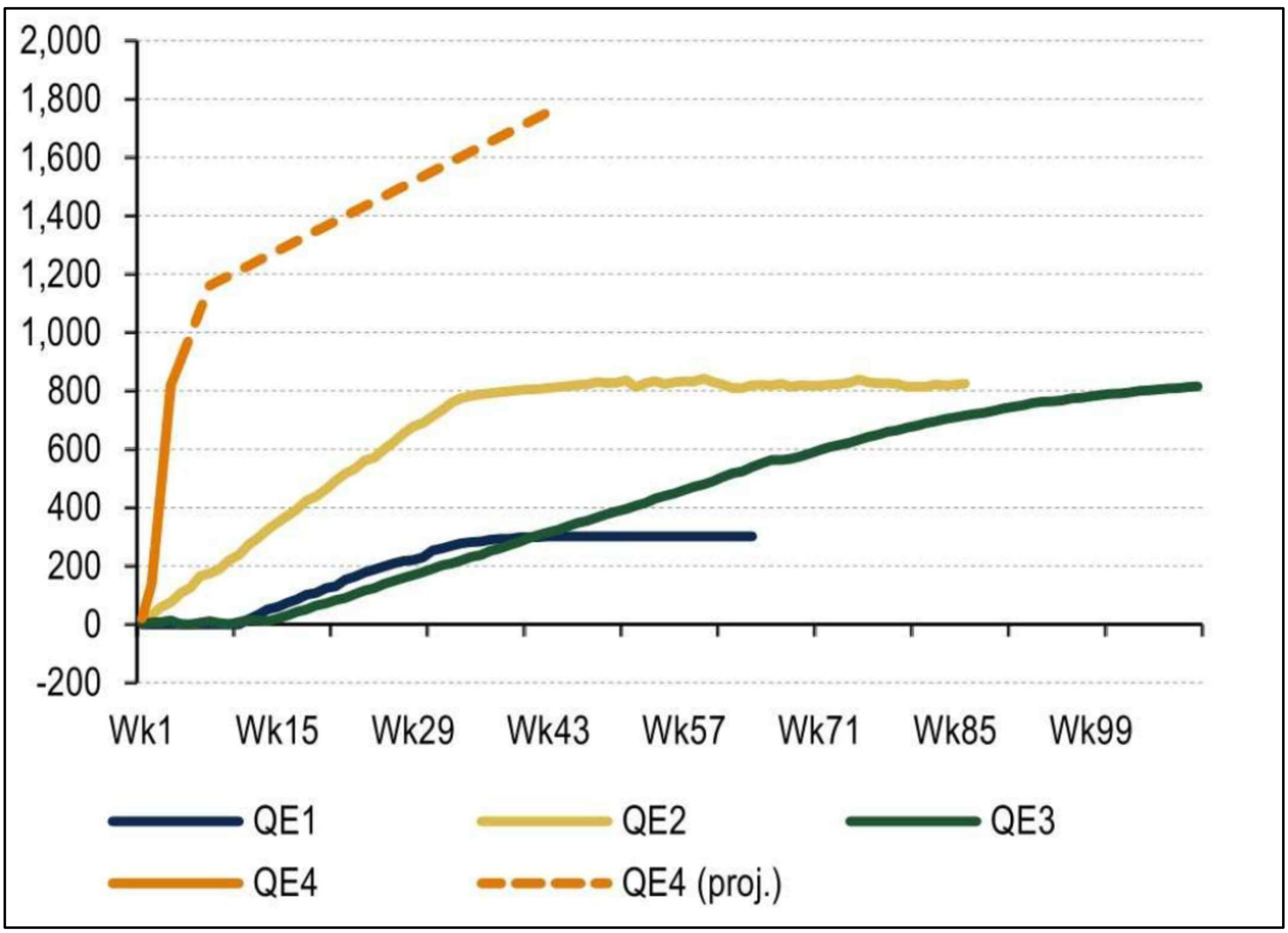
Charts of the Week

Chart 1. Virus vs. central banks…again

Factors needed for quick and robust recovery	Recent news	Looking ahead
Infection contained (travel restrictions can be eased)	Concerning virus data in US, new cases and talk of shutdown in Beijing Better news in Europe Dexamethasone results	How will governments respond to signs of new infections?
Policy response - Fiscal stimulus of sufficient size and nature - Central bank backstop - Absence of 'nationalism' and political scapegoating	Further market-friendly tweaks to Fed credit programme USD1tn infrastructure package	EU Recovery Fund at this week's Council meeting BoE Brexit (see OTMOI article) US and China tensions/ US political risk
Economic resilience - proof of 'suspended animation'	UK April GDP down 20% m/m Strong retail sales report	Labour market data 2nd quarter earnings season round the corner

Source: J.P. Morgan Asset Management

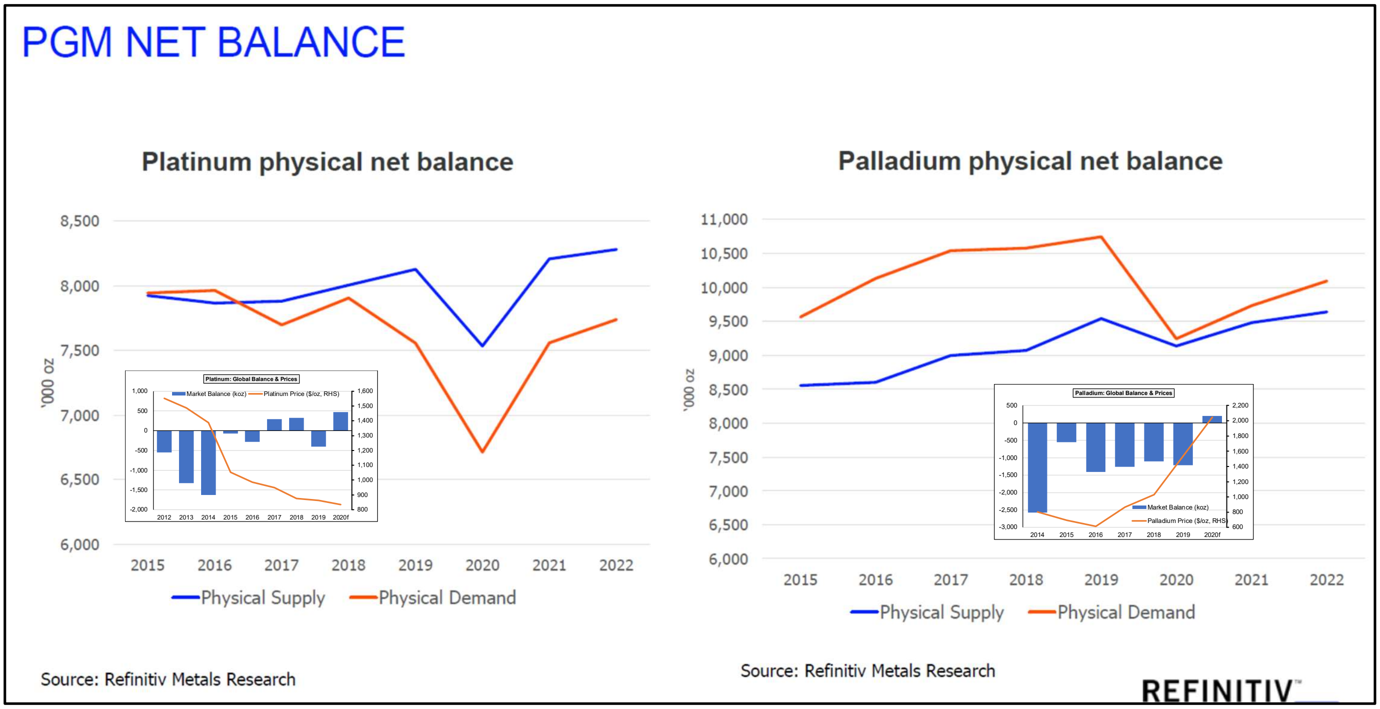
Chart 2. QE4 Treasury purchase in perspective ($bn)



Source: BofA

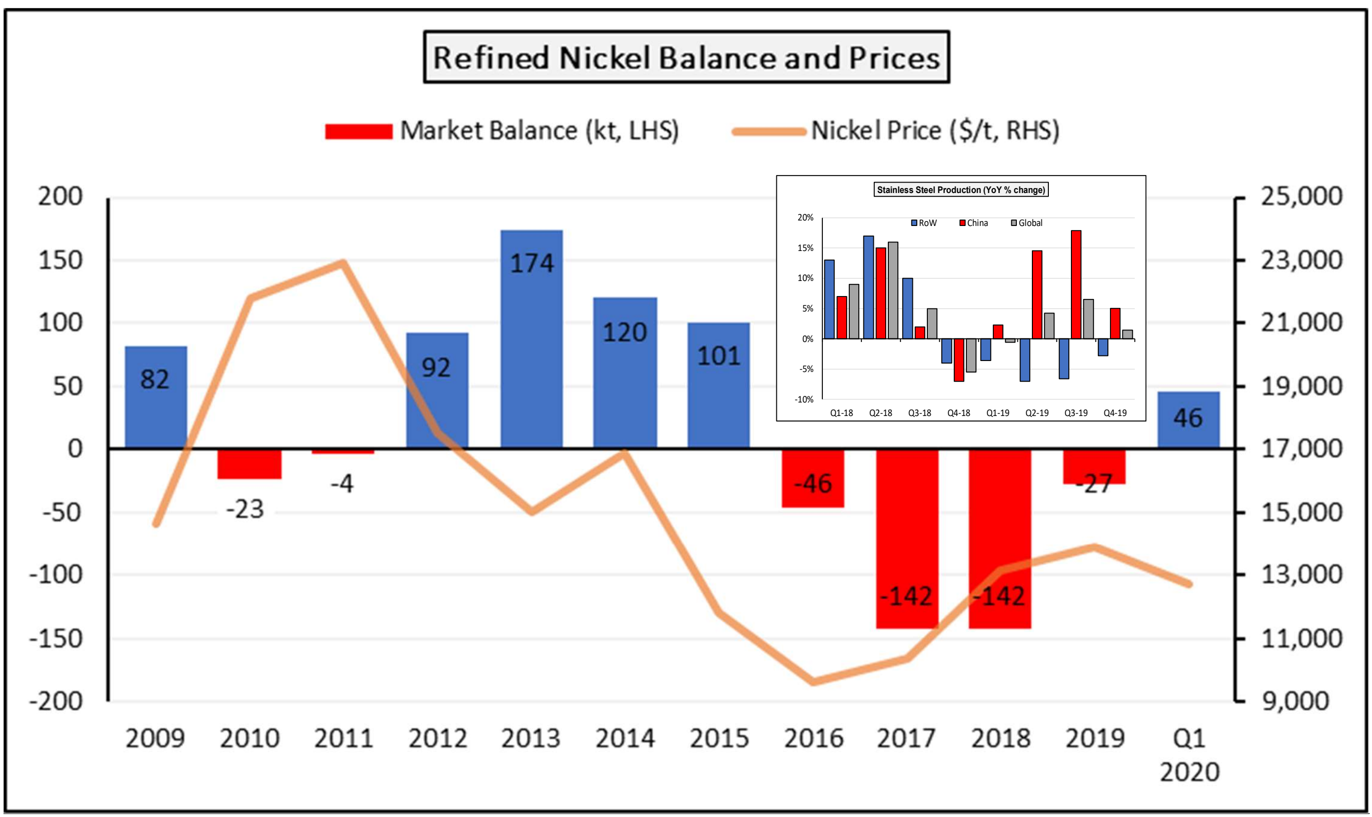
Charts of the Week

Chart 3. PGM market balances



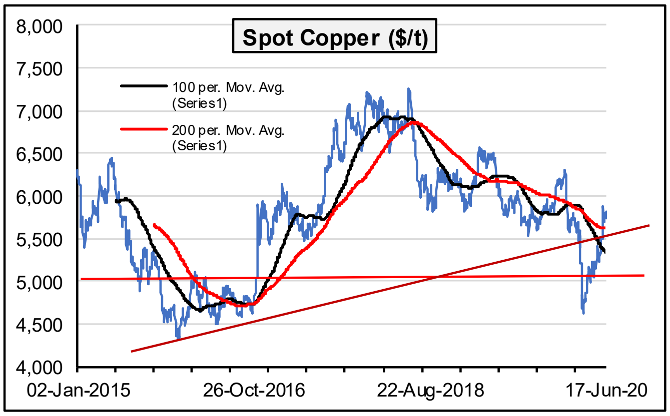
Source: Refinitiv

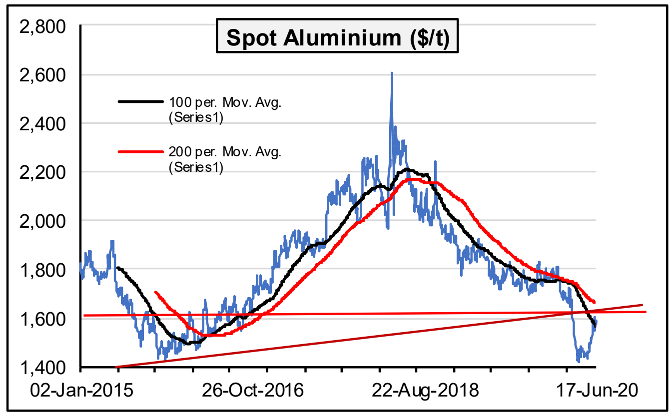
Chart 4. Global nickel balance

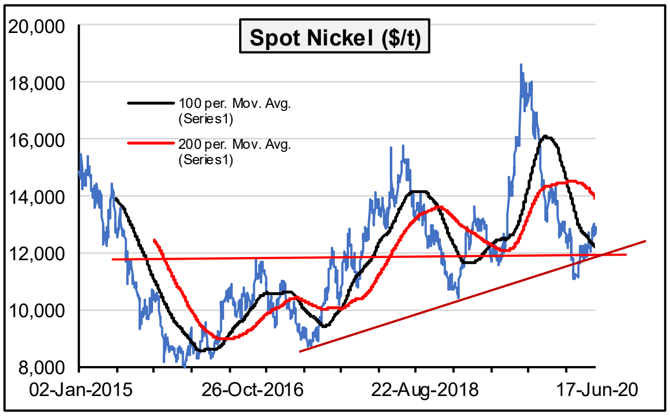


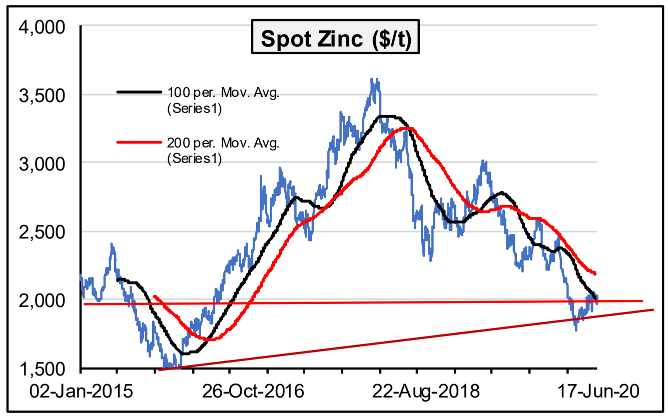
Source: INSG, ISSF, RBMC

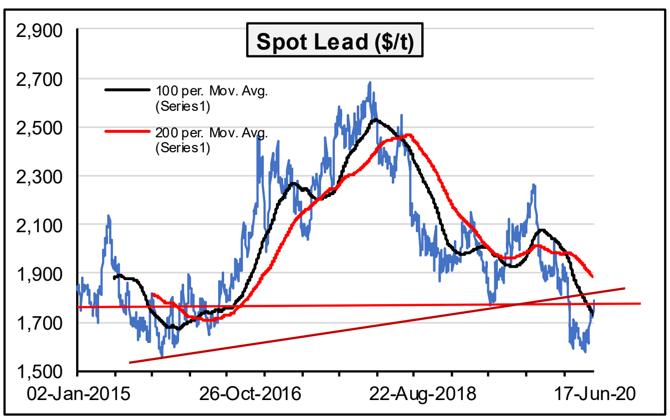
The Backpage – Industrial Metals

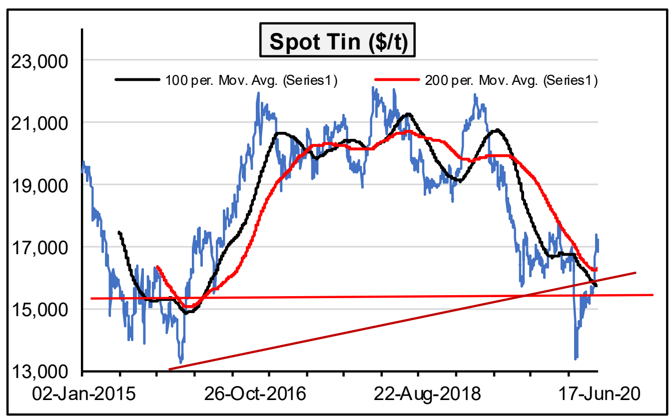


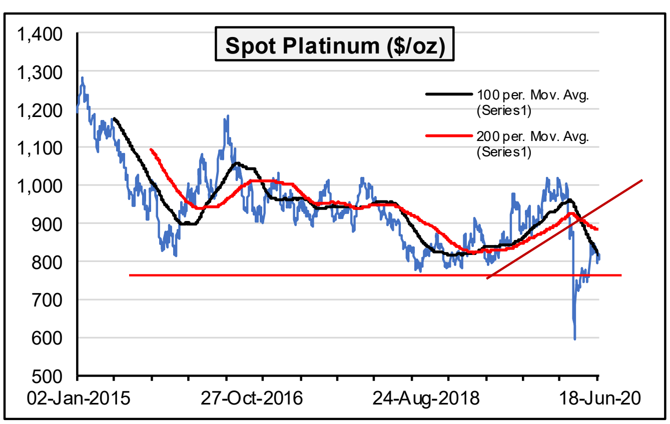


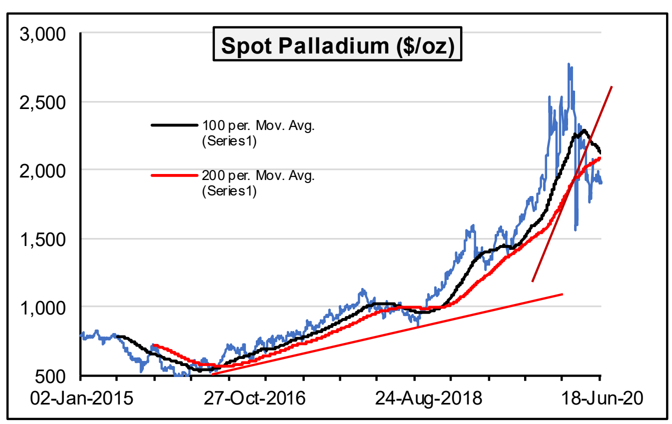












Source: LME, LBMA, LPPM, RBMC

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