

Week of 21 August 2020 - Number 32

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	3,397	3,381	0.64%	93.2	6.92	\$42.3	\$1,940	2,943	\$6,512	\$1,726	\$14,650	\$2,431	\$1,950	\$17,550
Change w-o-w	0.7%	0.6%	-0.07	0.1	-0.3	0.8%	-0.2%	1.8%	2.1%	0.9%	2.3%	5.7%	0.6%	-0.3%

### Macro Themes

As of 21 August, about 22.7mn **Covid-19** cases have been confirmed worldwide, and the death toll has surpassed 794k, according to Johns Hopkins University data. The number of Covid-19 cases worldwide has more than doubled in just 45 days. Will global numbers go exponential?

In its July minutes the **Fed** highlighted doubts about the recovery of the world's largest economy and signaled it is not ready to launch new tools to bolster the US economy. Officials stressed that uncertainty over the path of the economy was "very elevated" due to the impact of new waves of virus outbreaks and the waning fiscal support for households and businesses. "Additional accommodation would be required to promote economic recovery and return **inflation** to the committee's 2% objective", and some stressed that "strong fiscal policy support would be necessary to encourage expeditious improvements in labour market conditions". A measure of **deflation** probability has fallen to zero (see **Chart 1**). "Many" members of its policy-setting committee were unwilling to launch measures that would attempt to place a cap on yields of US government bonds. The FOMC believed so-called **yield curve control** was not "warranted in the current environment". Investors would look ahead to the upcoming **Jackson Hole Economic Symposium**, typically a platform for significant policy announcements, and the Fed's upcoming meeting in September for further clues on the central bank's plans.

So far, from March to August, the **S&P 500** is up over 50%, which is above the average (see **Dashboard**). In fact, this is the largest 100-day gain ever (see **Chart 2**). President Trump is behind in the **polls**, against a popular opponent. The latest trackers put Joe Biden on 50% against 42% for Trump, with significant leads for Biden in key battleground states such as Florida. However, the stock market is predicting a Trump victory. In 20 out of the last 23 presidential elections, and in everyone since 1984, if stocks are up in the three months before the election the incumbent party wins. If they are down, it loses. The last time the S&P 500 didn't call the result correctly was in 1980, when Ronald Reagan won against Jimmy Carter even though equities were up by 7% in the preceding months. If the market remains strong then Trump is going to be re-elected - or else a record is going to be broken. Keep an eye on the S&P 500 over the next few months.

Data showed the economic recovery in **China** continued in July. YTD data indicated that both headline **FAI** and **infrastructure** investment growth accelerated in July, rising 8.3% yoy and 7.9% yoy, respectively, from 5.6% and 6.8% prior. The July **Politburo** meeting suggests a clear policy intention to speed up infrastructure investment in H220. **Property** investment jumped 11.6% yoy in July with funding up 16.2%. The **PBoC** added CNY700bn of one-year funding following signs of weakness in the economy the prior week

### Precious Metals

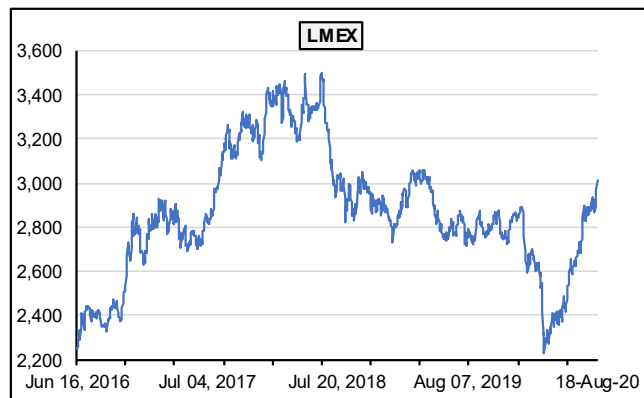
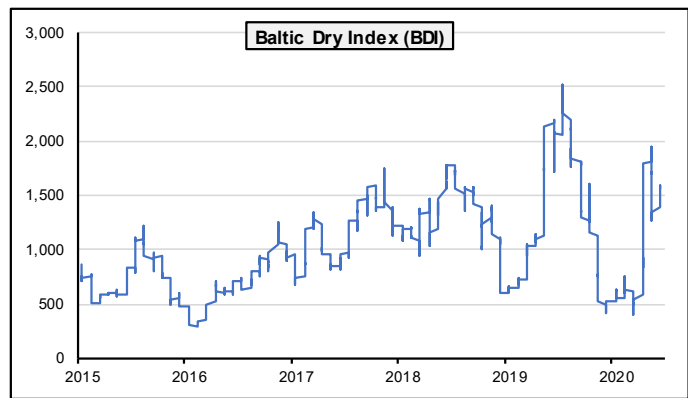
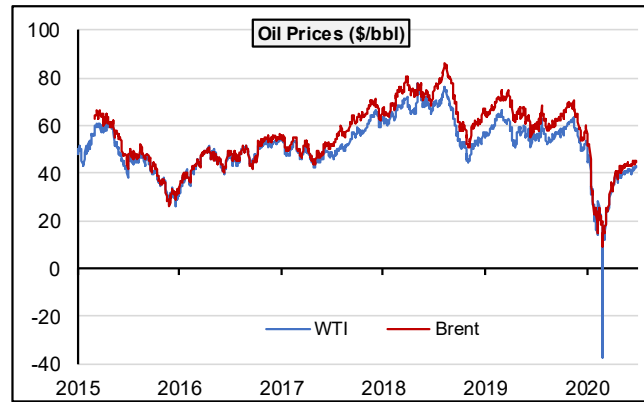
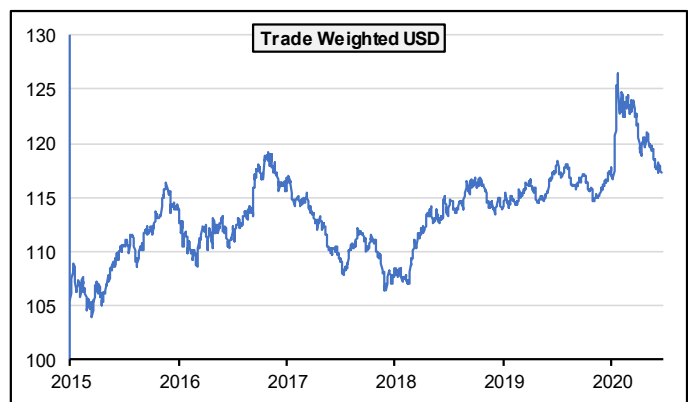
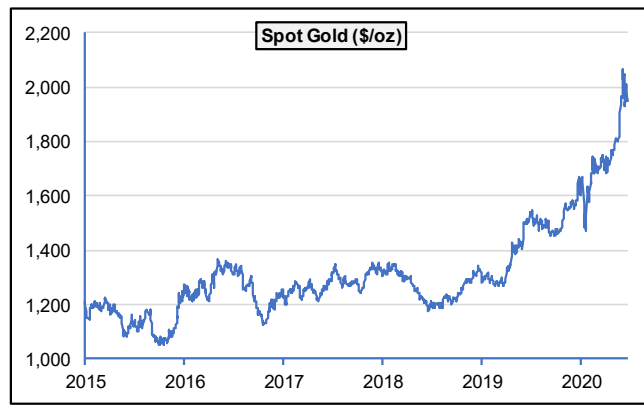
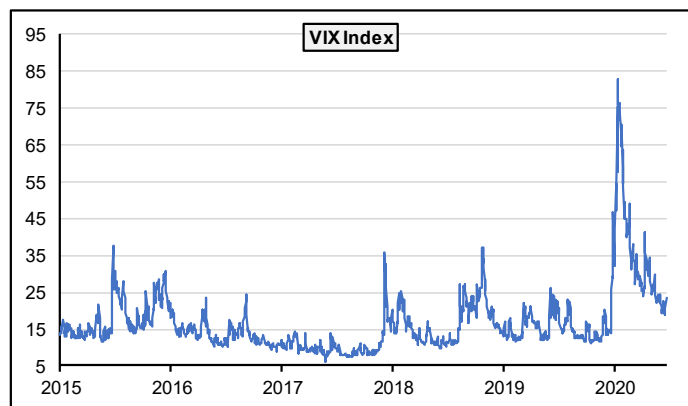
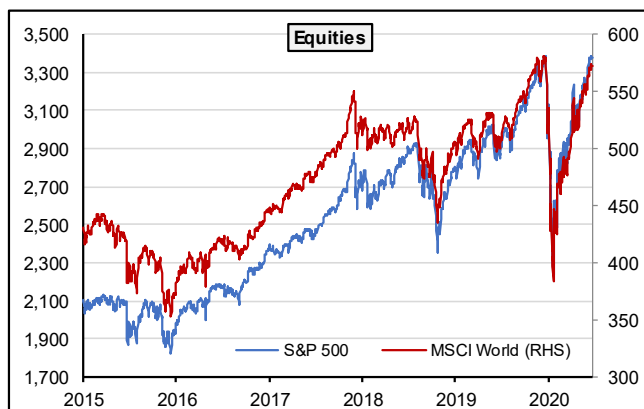
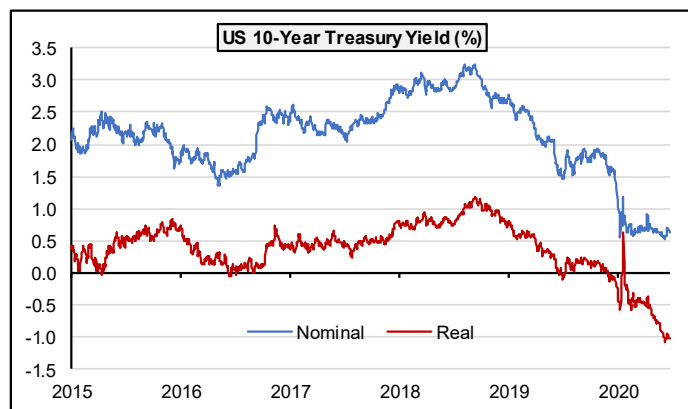
As **gold** continues to establish an equilibrium level **silver** is out-performing, as evidenced by the **gold:silver** ratio trading at 72, down from 81 at the start of August. Warren Buffett's Berkshire Hathaway Inc. added Barrick Gold Corp. to its portfolio in Q220, sending shares of the world's second-largest gold miner surging. Berkshire took a new position in Barrick, buying 20.9mn shares, or 1.2% of the company's outstanding stock, with a current market value of \$565mn, according to a regulatory filing on Friday. This bullish signal by Buffett as well as a softer **USD** and a fall in **bond yields** helped boost investor appetite for gold. In the past, Buffett cautioned against investing in gold because it's not productive like a farm or a company. However, surging gold prices have, in recent months, been boosting miners profit margins, making them more attractive investments especially for the generalist investors who have not had any interest in the sector for years. Buffett famously said "*gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head.*" Alongside wind energy, solar PV will likely lead the way in the transformation of the global energy sector, according to the **International Renewable Energy Agency (IRENA)**. IRENA said the cumulative installed capacity of solar PV would rise from 480GW in 2018 to 2,848GW in 2030 and 8,519GW by 2050, becoming the second most prominent source (after wind) of energy by 2050 (see **Chart 3**). **Silver Institute** calculations imply that even with aggressive thrifting, **silver** demand would have to increase from around 82moz (2019) to an estimated 107moz and 130moz by 2025 and 2030, respectively. This quantum will likely move silver demand in this application from around 8% to 13% of total silver demand, ceteris paribus. Much will, however, depend on the silver price. It is of note that new and evolving technologies and materials, together with highly productive manufacturing equipment, will be required to reduce production costs, improve efficiencies, and reduce the surface area of PV cells. The **PGMs** lost ground on the back of weaker gold and should fall further amid oversupplied markets for **platinum** and **palladium**.

### Base Metals

August is very much in full swing as volumes and natural trade interest has its traditional summertime hiatus. Not so the algorithms sadly, machines don't take holidays and the lack of liquidity exacerbating moves is more than noticeable, as evidenced by wide intraday moves across the **base metals** complex. That said, a driver of rising markets is that they are forward-looking - eyeing accelerated infrastructure investment in China - while economic statistics reflect the past. **Copper** is leading the charge higher as CTA speculative longs re-build (now at 4.5% of open interest from a recent peak of 18%) taking their cue from the stock market rally, even though the copper market is expected to be in a surplus in 2020. Also, record Chinese imports have justified the recent price rally, but doubts remain if this can continue let alone be surpassed. New record monthly highs for all forms of copper imports were set in preliminary data for July from **Chinese Customs**, recording 1.31Mt copper content. This comfortably eclipsed the previous high of 1.14Mt in November 2019 and the impressive total of 1.13Mt in June 2020. Copper cathode imports have hit another record figure of around 574kt - versus 494kt the previous month and 292kt a year ago (see **Chart 4**). Scrap tightness (scrap imports are down 54% YTD) is one important driver of China's increased appetite for copper in refined metal form amid a favourable import arbitrage. There are also reports that the country's stockpile manager (SRB) has been buying. Copper concentrate imports were flat in the same YTD period, a constrained outcome due to mine shutdowns and given China's continuing build-out of smelter capacity and the consequent need for higher raw materials imports. Supply side issues have already pushed spot premiums up sharply, while LME copper inventories are at 13-year lows, having fallen 61% from this year's peak to only 110kt, with cancelled warrants accounting for 52% of the total (see **The Backpage**). **Nickel** surged to nine-month highs on growing concern about Philippines ore supply - nickel ore exports dropped 28% yoy to 102,310t (by metal content) in H120. On a more negative note, China's **CATL**, a Tesla supplier, is developing a new type of EV battery that contains no nickel or **cobalt**. CATL is also developing technology to integrate battery cells directly into an EV's frame to extend its driving range. **Aluminium** was also beset with supply issues, with **Norsk Hydro** warning output at its Alunorte alumina refinery would slow amid extended maintenance on a pipeline transporting bauxite from the nearby Paragominas mine. This could see production at only 35-45% of full capacity and is expected to be out for at least two months. Metals markets **data** is shown on **The Backpage**.

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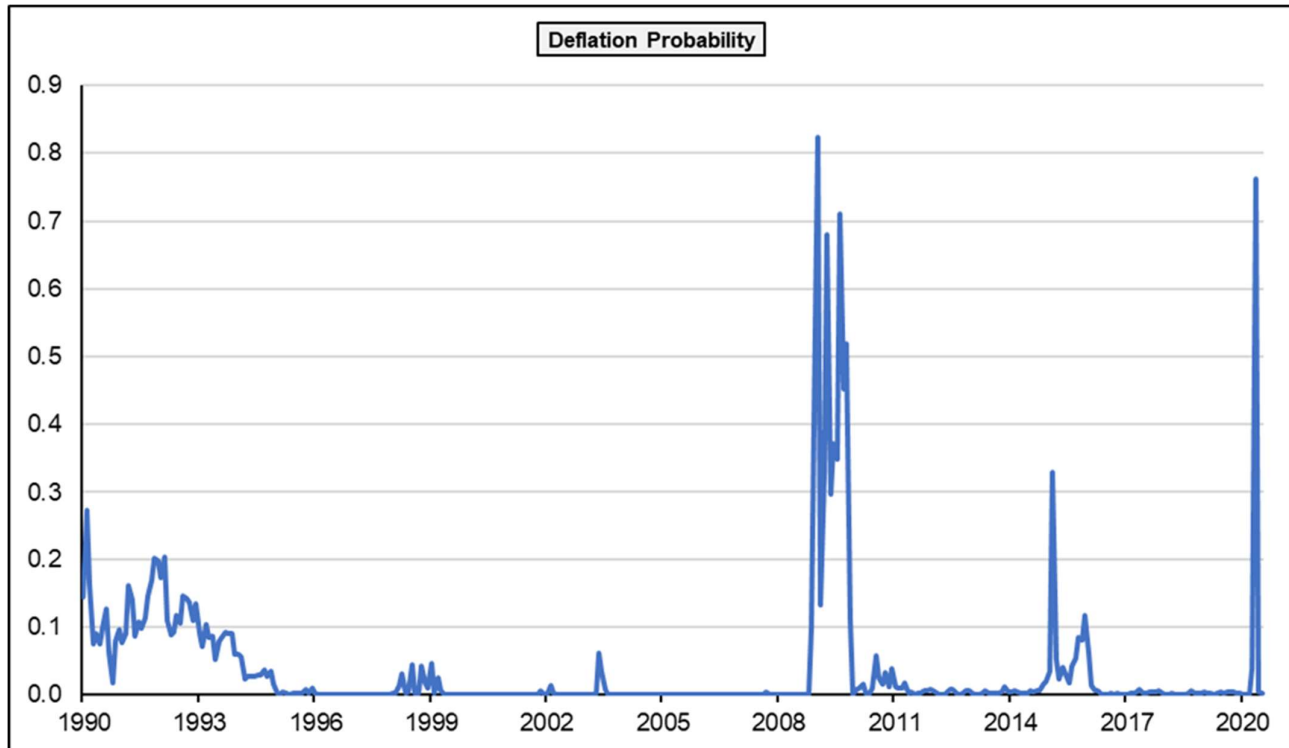
## Dashboard - What You Need to Know



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

## Charts of the Week

### Chart 1. Low risk of deflation



Source: Federal Reserve Bank of St. Louis, RBMC

### Chart 2. Greatest 100-day S&P 500 Index rally ever!

#### Largest 100-Day S&P 500 Index Gains Ever (Greater Than 22%)

This Was The Greatest 100-Day Rally Ever; Past Big Rallies Have Led To Continued Strength

Date	100 Day % Change	S&P 500 Index Return			
		1 Month	3 Month	6 Month	12 Month
3/21/1961	23.8%	1.7%	0.6%	3.4%	8.7%
3/19/1963	22.4%	5.2%	6.9%	11.7%	21.1%
10/15/1970	22.2%	-1.5%	10.0%	22.2%	15.9%
4/15/1971	24.9%	-1.3%	-4.1%	-4.3%	6.4%
5/16/1975	37.1%	0.2%	-4.5%	0.7%	12.1%
2/4/1976	22.3%	-2.7%	-1.0%	2.5%	0.4%
8/15/1980	26.7%	0.8%	9.1%	1.7%	4.4%
1/6/1983	39.6%	0.6%	4.5%	15.3%	16.2%
3/20/1986	26.1%	3.5%	3.2%	-1.8%	24.3%
3/23/1987	25.9%	-4.6%	2.8%	3.1%	-10.8%
3/6/1991	27.6%	-0.2%	2.4%	3.7%	8.8%
9/4/1997	25.2%	3.7%	4.9%	13.4%	5.5%
3/23/1998	24.9%	3.2%	0.7%	-6.5%	15.2%
1/29/1999	31.4%	-4.2%	4.3%	3.8%	6.3%
7/8/2003	23.1%	-4.0%	2.6%	11.5%	10.0%
7/30/2009	45.9%	4.3%	5.7%	8.8%	11.6%
1/24/2011	23.0%	1.3%	3.4%	3.6%	1.8%
2/27/2012	24.4%	3.3%	-3.6%	3.2%	10.8%
8/13/2020	50.8%	?	?	?	?
Average		0.5%	2.7%	5.3%	9.4%
Median		0.7%	3.0%	3.5%	9.4%
% Positive		61.1%	77.8%	83.3%	94.4%

Source: LPL Research, FactSet 08/13/20/2020 (1950 - Current)

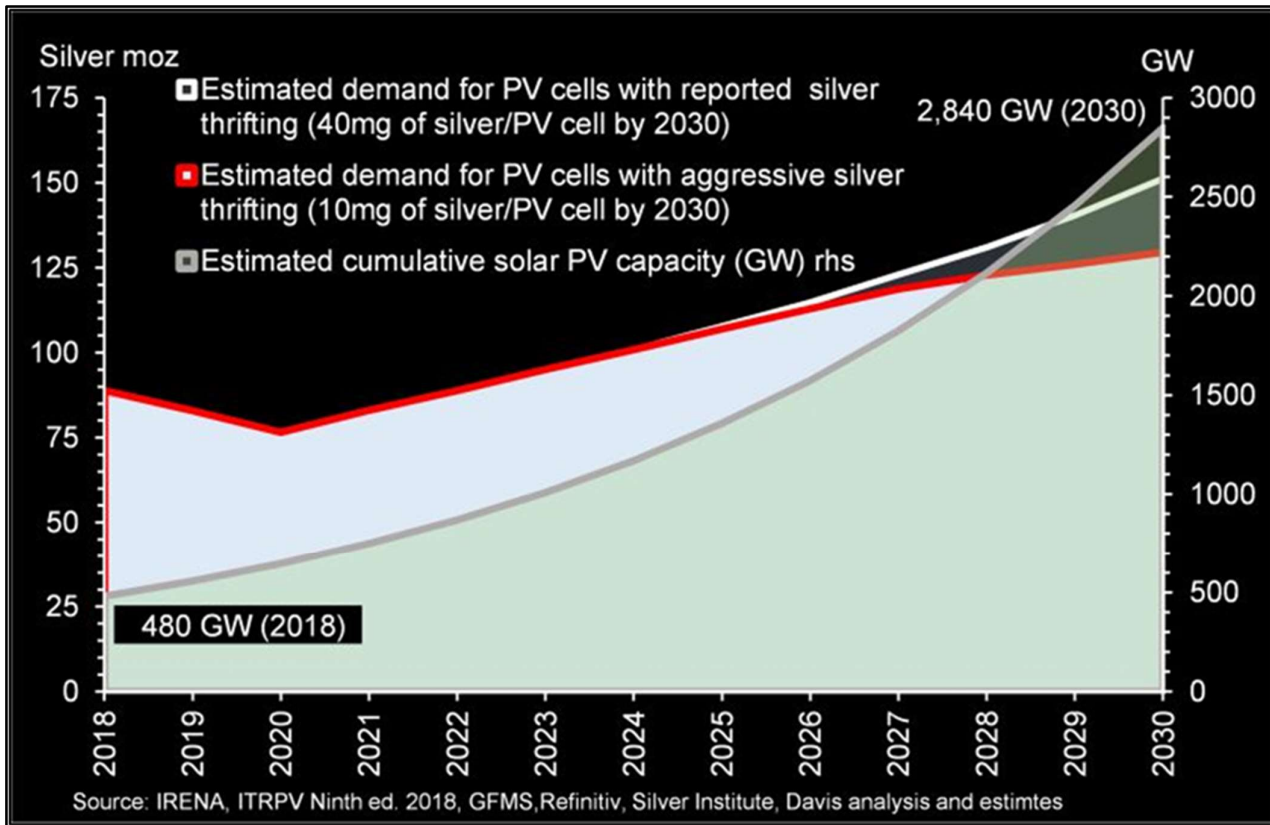
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957.

Source: LPL Research

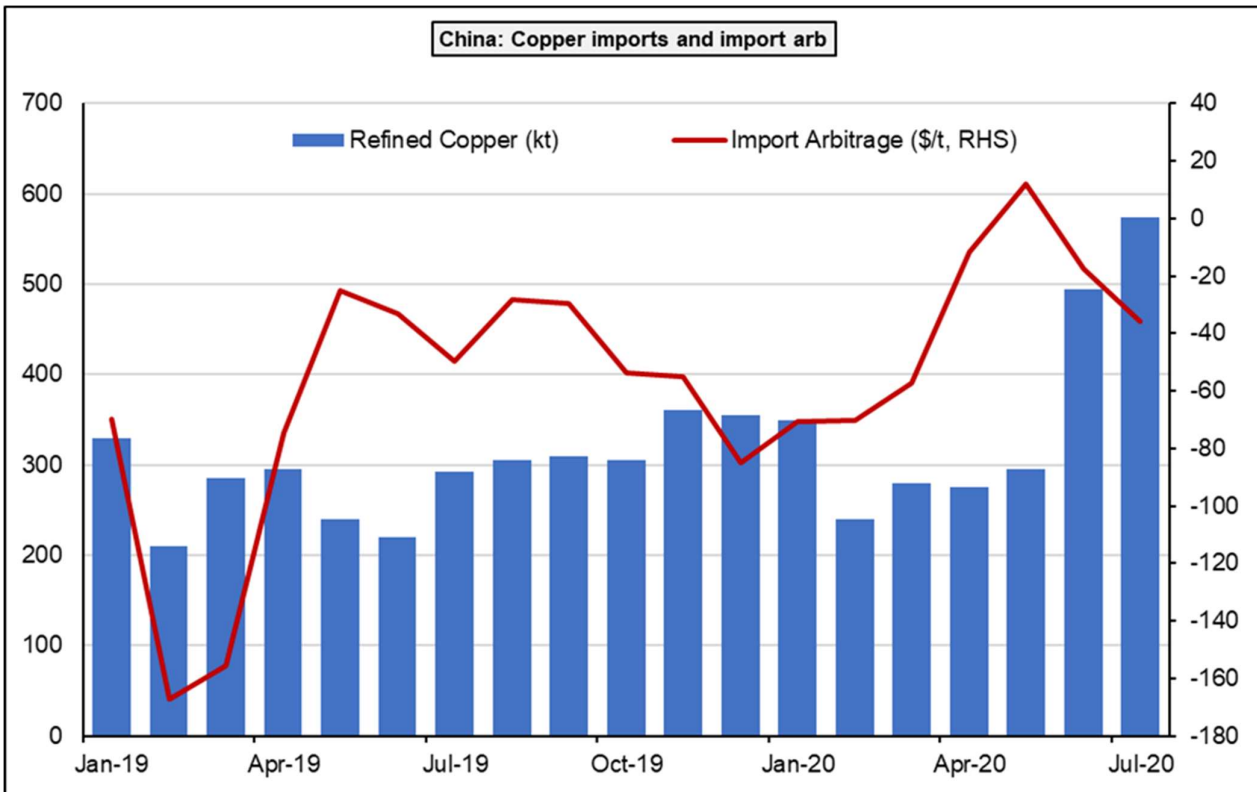
## Charts of the Week

**Chart 3. Silver demand to be boosted by solar PV**



Source: IRENA

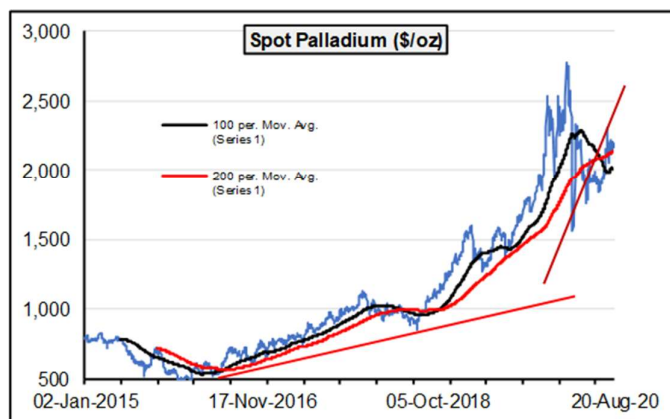
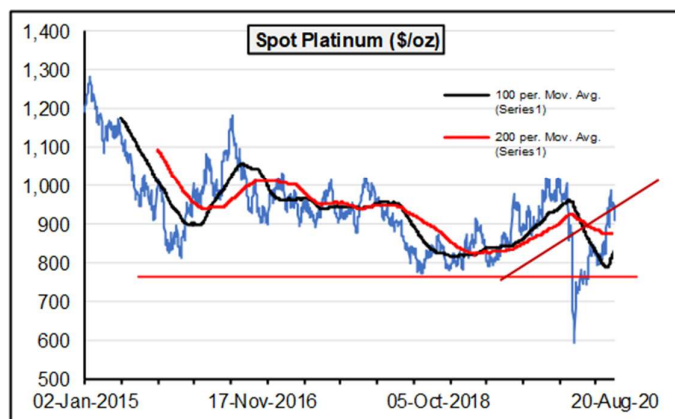
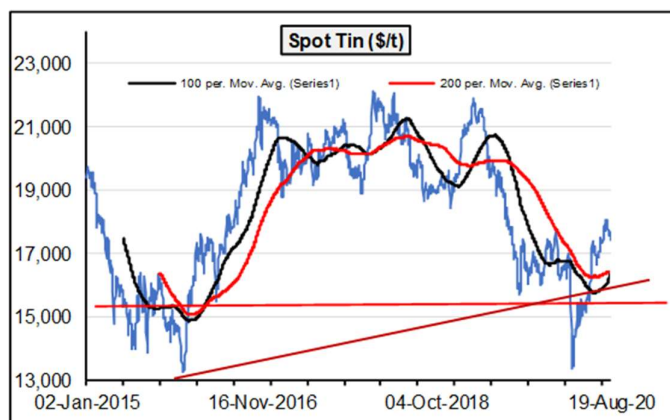
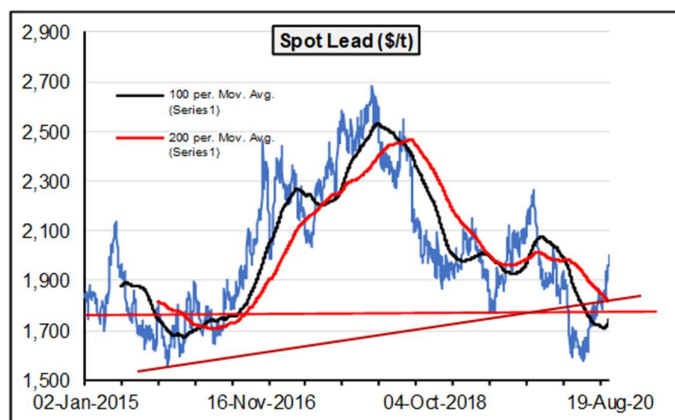
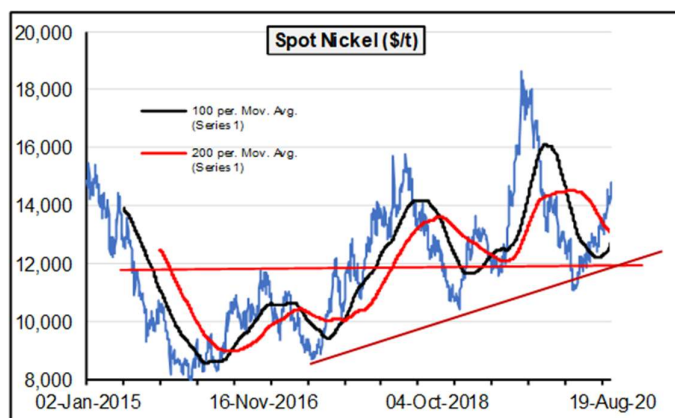
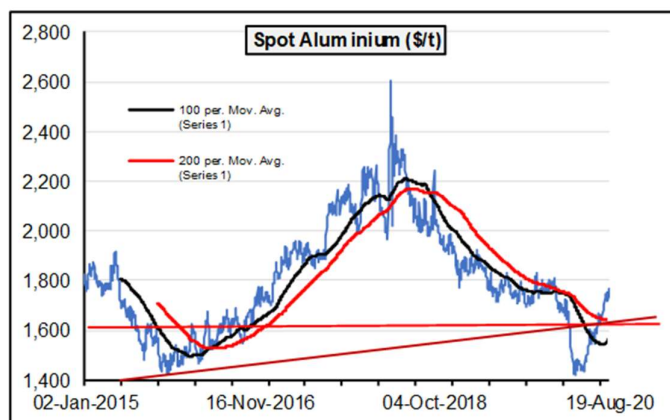
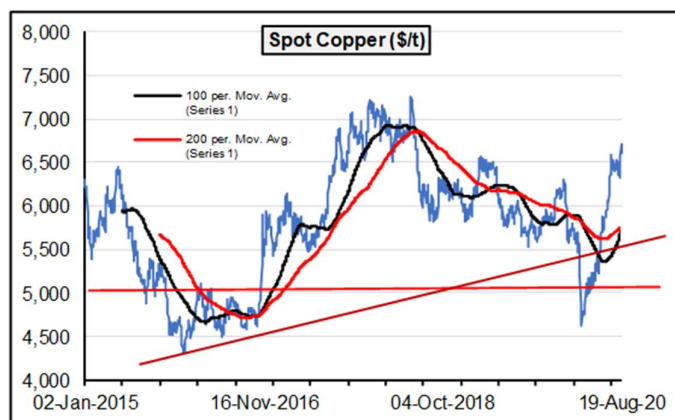
**Chart 4. China copper imports**



Source: China Customs, Fastmarkets, RBMC



## Charts: Industrial Metals



Source: LME, LBMA, LPPM, RBMC

## The Backpage - Metals Markets Data

Base Metals Inventories (tonnes)					
Copper	21-Aug-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	103,475	110,000	146,300	271,775	328,250
LME Cancelled Warrants	50,550	59,750	66,700	43,725	30,675
SHFE	172,266	172,051	158,647	175,825	156,573
COMEX	79,284	80,056	80,289	45,950	39,761
GLOBAL	355,025	362,107	385,236	493,550	524,584
Aluminium	21-Aug-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	1,355,900	1,588,325	1,652,200	1,458,100	941,350
LME Cancelled Warrants	218,200	239,925	268,350	221,875	269,625
SHFE	246,900	244,068	233,327	322,060	379,007
COMEX	46,687	43,174	35,258	20,924	5,058
GLOBAL	1,649,487	1,875,567	1,920,785	1,801,084	1,325,415
Nickel	21-Aug-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	238,950	238,638	235,158	233,850	149,850
LME Cancelled Warrants	59,718	56,634	57,018	54,744	37,980
SHFE	34,160	34,518	31,843	26,799	29,771
GLOBAL	273,110	273,156	267,001	260,649	179,621
Zinc	21-Aug-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	226,300	220,125	121,050	106,575	70,300
LME Cancelled Warrants	11,225	15,225	20,600	25,750	26,450
SHFE	77,629	76,512	93,637	116,022	75,211
GLOBAL	303,929	296,637	214,687	222,597	145,511
Lead	21-Aug-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	125,575	120,050	74,075	75,275	79,400
LME Cancelled Warrants	11,200	15,775	15,500	16,400	4,925
SHFE	32,403	3,600	40,547	111,289	35,720
GLOBAL	157,978	123,650	114,622	186,564	115,120
Tin	21-Aug-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	5,240	5,375	3,980	3,330	6,115
LME Cancelled Warrants	220	330	225	1,210	630
SHFE	3,584	3,600	2,931	3,368	5,435
GLOBAL	8,824	8,975	6,911	6,698	11,550
Open Interest (lots)					
	21-Aug-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
Copper	331,061	332,464	306,687	263,492	295,653
Aluminium	789,906	807,302	776,264	825,980	745,203
Nickel	212,086	216,317	194,052	211,087	283,233
Zinc	221,301	219,209	200,829	210,874	243,692
Lead	113,918	115,589	105,207	107,068	117,822
Tin	16,405	17,301	15,025	15,896	17,683
Moving Averages					
	Cash	10-DMA	40-DMA	100-DMA	200-DMA
Copper	6,512	6,417	6,333	5,703	5,751
Aluminium	1,726	1,735	1,662	1,562	1,646
Nickel	14,650	14,342	13,567	12,723	13,088
Zinc	2,431	2,391	2,221	2,063	2,143
Lead	1,950	1,931	1,842	1,741	1,817
Tin	17,550	17,653	17,454	16,341	16,431
Support, Resistance and RSI					
	S1	S2	R1	R2	RSI
Copper	6,252	6,226	7,027	6,732	65
Aluminium	1,740	1,704	1,813	1,833	67
Nickel	14,050	13,865	15,000	15,500	71
Zinc	2,363	2,321	2,458	2,485	77
Lead	1,931	1,892	1,972	2,044	72
Tin	16,795	16,405	18,000	18,250	48

*For more commentary see my blog on [www.rbmc.world](http://www.rbmc.world)  
Comments, suggestions, and feedback are welcomed*