robinbhar@outlook.com https://www.rbmc.world

The Week in the Markets

Week of 24 July 2020 – Number 28

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	3,234	3,198	0.59%	94.7	7.02	$41.5	$1,889	2,889	$6,457	$1,701	$13,651	$2,215	$1,807	**$17,675**
Change w-o-w	**0.6%**	**-0.5%**	**-0.02**	**-1.5**	**0.3**	**2.2%**	**4.8%**	**1.6%**	**1.8%**	**1.0%**	**1.7%**	**0.6%**	**-1.3%**	**2.3%**

Macro Themes

As of 24 July, about 15.5mn **Covid-19** cases have been confirmed worldwide, and the death toll has surpassed 633k, according to Johns Hopkins University data. Hospitalisations and deaths are rising in the South and West of the **US**, as Trump backs wearing of masks. There was positive progress on a vaccine, but the outlook is uncertain (see **Chart 1**). Meanwhile, a €750bn **European** recovery fund was approved including €390bn of grants, while **Congress** returned to debate another stimulus package.

One fear among some economists about the policy response to the Covid-19 pandemic is that we are storing up huge trouble and at some point, down the line it will create an **inflationary** boom. Rampant inflation might result from the huge increase in governments' debt and deficits and the high rate of growth in the money supply (see **Chart 2**). Instead of **reflation**, however, we could have **stagflation**, **disinflation**, or **deflation**. Some investors believe inflation is finally making a comeback and are upping their exposure to inflation-linked **bonds**, **gold**, and hard assets such as **industrial metals** in an attempt to protect their portfolios from the threat of a run-up in consumer prices within the next 12 to 18 months. Investors counting on a pick-up in inflation can point to the determination of central banks and governments that are working in unison to minimize financial market turmoil from Covid-19 and to sustain an economic rebound. Another potential source of inflation would be a sustained decline in the **USD**. The USD's slide from its March highs has boosted commodities and emerging market asset valuations through a reduction in global funding costs. It is not hard to imagine these trends gathering momentum.

The problem with the inflation theory is that investors have been burnt in the past by expectations of price rises. Following the global financial crisis of 2008-09, predictions that central bank bond-buying programmes would fuel **hyperinflation** proved to be very wide of the mark. What did happen, however, was asset inflation (property, equities, commodities). More likely according to others is a risk of **stagflation** – higher inflation without the economic growth to go with it. The legacy of Covid-19, in terms of high structural unemployment and hefty debt loads – as well as higher taxes and a rising regulatory burden for companies – will suppress economies' ability to grow. Sovereign bond yields anchored near their all-time lows are a sign that economic stagnation remains uppermost in the minds of many investors. Bond fund managers are still awaiting evidence that the historic expansion of money supply in recent months will at some point push up prices in the broader economy.

Beyond the competing scenarios of reflation and stagflation remains another outcome: more of the same, or an extended period of modest growth and inflation, accompanied by low bond yields and meagre rises in wages. This **disinflationary** scenario has held since the last financial crisis. What about **deflation?** Such periods are characterised by low interest rates and high financial stress. Pandemics are deflationary according to analysis by the *BoE* of data over several hundred years starting with the Black Death in the 14th century.

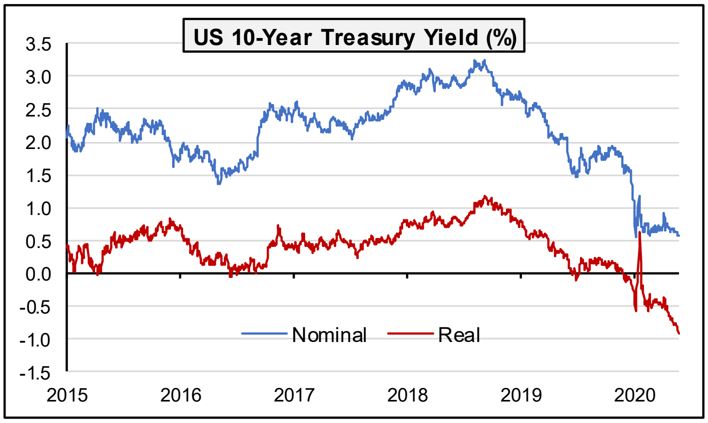
Precious Metals

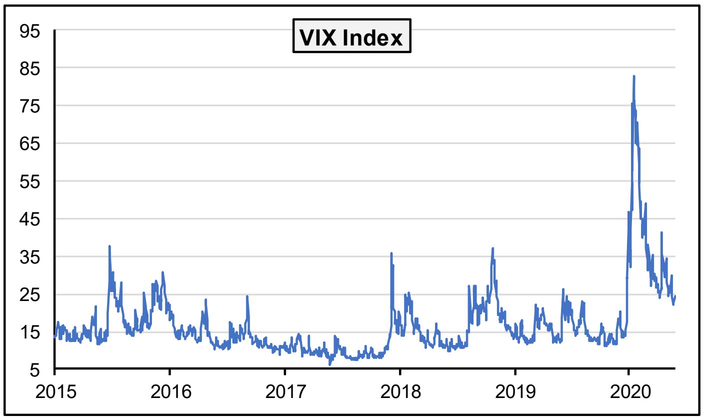
More stimulus packages from governments around the world, a weakening USD and geopolitical tensions boosted sentiment in the precious metals sector. **Gold** continues to outperform (high of $1,896/oz), with **silver** closely following and even the **PGMs** are being dragged higher despite their more industrial applications. The upside break could now signal an extension for gold towards the 2011 record high at $1,921/oz and a target of reaching $2,000/oz in the next 6 to 9 months looks achievable. New highs would be justified on loose monetary policy, low real yields, record ETF inflows and increased gold asset allocation. A tailwind for gold is evident as real yields turn deeply negative, opportunity costs for holding non-yielding assets essentially vanish, particularly when viewed through the historical lens of fiat currencies and their purchasing power. **Real US Yields** have had a big move lower this week, especially over the past two days (see **Dashboard**). The monthly correlation between gold prices and real rates since January 2003 is shown in **Chart 3**. Nominal gold prices have already posted fresh records in every other G-10 and major EM currency this year, so it is only a matter of time for fresh gold-USD highs. Gold has historically protected investors against extreme inflation. In years when inflation was higher than 3% gold's price increased 15% on average, according to the *World Gold Council*. Notably too, research by *Oxford Economics* shows that gold should do well in periods of deflation. A *Reuters* poll of 42 analysts and traders returned a median forecast for **gold** to average $1,713/oz in 2020 and $1,800/oz in 2021 – a large rise from projections of $1,639/oz and $1,655/oz in a similar survey in April. **Silver** prices will rise to $17.50/oz for 2020 and $20.03/oz for 2021, up from $16.56/oz and $17.87/oz respectively in April's poll. **Palladium** and **platinum** will average $2,050/oz and $832/oz, respectively this year, both rising in 2021 to $2,138/oz and $913/oz, respectively.

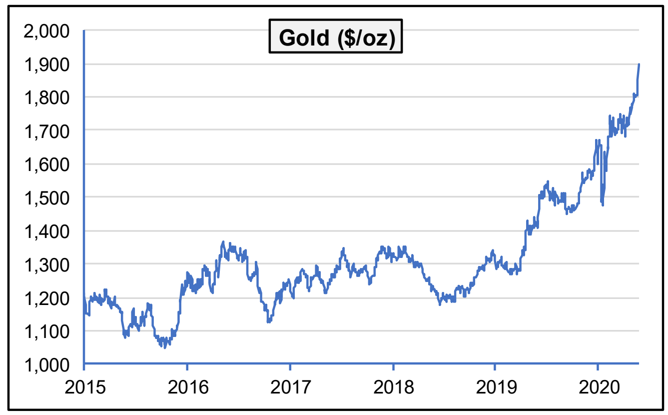
Base Metals

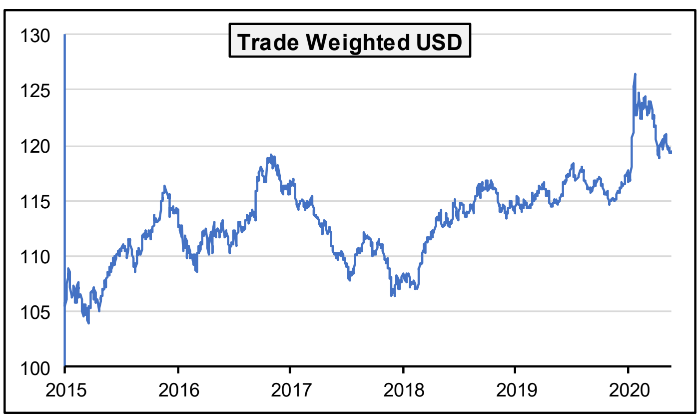
Base metals were buoyed by more government stimulus geared to a green agenda and a weakening USD. In the first four months of 2020, the world refined **copper** balance, based on apparent Chinese usage (excluding unreported/bonded stocks), indicated a surplus of 60kt but adjusted for changes in Chinese bonded stocks a market surplus of about 100kt, according to the *International Copper Study Group*. While mined and refined copper production was essentially flat during the period, refined demand fell by 2.5% yoy. The **nickel** market still lacks the supportive supply-related factors, however, such as falling exchange stocks and supply disruptions in key producing countries, that recently helped copper prices return to pre-pandemic levels. We believe this, combined with an ongoing divergence between bullish investor sentiment and bearish nickel market fundamentals, will cause more near-term volatility. **Industrial** metals will be winners in the "green recovery" promised by politicians. Governments across the world have approved more than $50bn of environmentally friendly stimulus measures this year. Meanwhile, Joe Biden, the US Democratic presidential nominee, has put clean energy at the centre of his $2tn plan to revive the US economy. He will wish to reverse the Trump administration's rearguard actions to defend and promote oil, gas, coal, and traditional cars. The green agenda aims for a major advance in electric vehicles, a transition to alternative fuels for aviation, big changes in how homes are heated and insulated, the ending of single-use plastics and much else. Carmakers face large fines in a couple of years if they have not managed to cut substantially the average emissions of their new cars sold. They need to invest rapidly in electric vehicles and find ways to persuade more customers to buy. A low-carbon future will be very mineral intensive because clean energy technologies need more materials than fossil-fuel-based electricity generation technologies, according to the *World Bank*. Low-carbon technologies, particularly solar photovoltaic (PV), wind, and geothermal, are more mineral intensive relative to fossil fuel technologies. The metals needed to decarbonize energy underpins battery backed energy storage, electrification of mobility and 5G, artificial intelligence, big data, and a more connected world. A *Reuters* poll of price forecasts and market balances is shown in **Chart 4**. Charts with moving averages are shown on **The Backpage**.

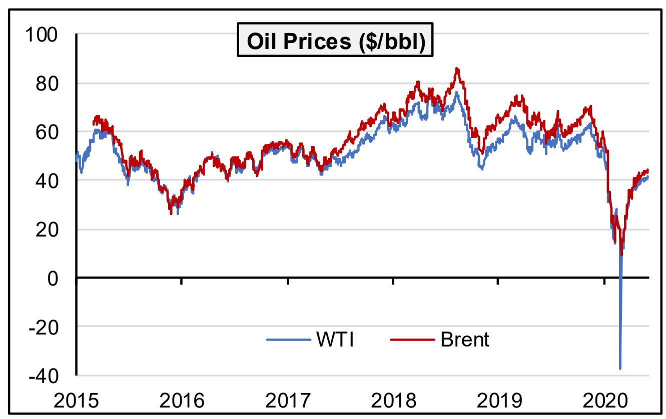
Dashboard – What You Need to Know

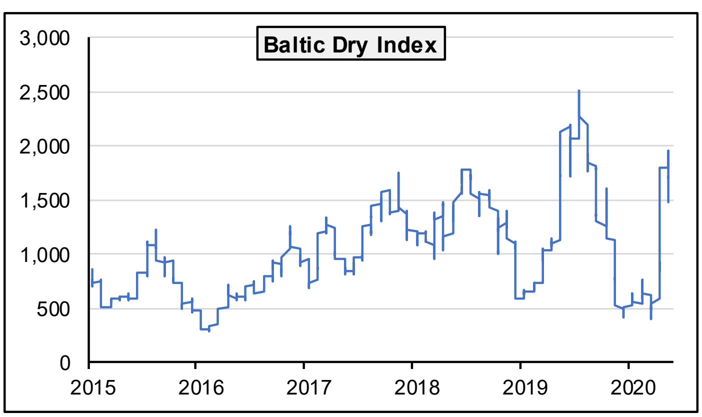


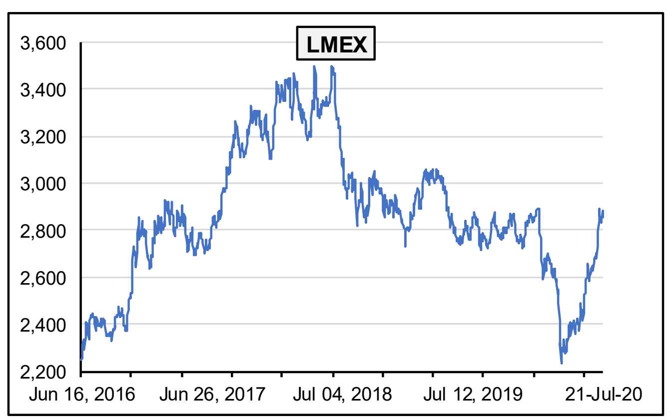












Source: Federal Reserve Bank of St. Louis, Trading Economics

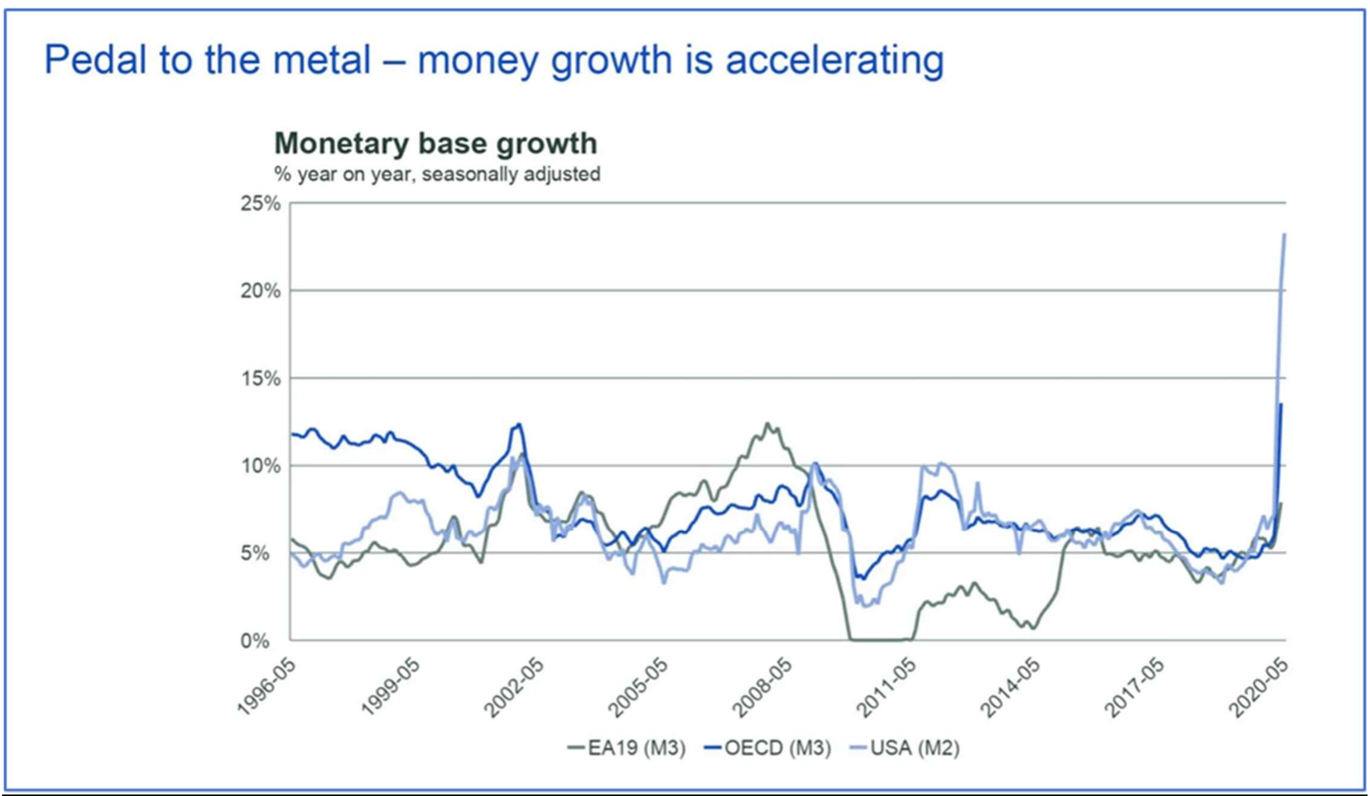
Charts of the Week

Chart 1. Virus vs. vaccine leaves outlook uncertain

Factors needed for quick and robust recovery	Recent news	Looking ahead
Infection contained (social distancing not required)	Hospitalisations and deaths are rising in the South and West of the US Trump backs wearing of masks Positive progress on vaccine	Hospital capacity Interaction between infections and activity Results of phase 3 vaccine trials
Policy response - Fiscal stimulus of sufficient size and nature - Central bank backstop - Absence of 'nationalism' and political scapegoating	€750bn European recovery fund approved including €390bn of grants Congress returned to debate another stimulus package	Will fiscal support be withdrawn too soon in the US and UK? US election implications Brexit negotiations
Economic resilience - proof of 'suspended animation'	US retail sales up 1% yoy	US after tax incomes and jobs UK employment Mortgage / credit delinquencies

Source: J.P. Morgan Asset Management

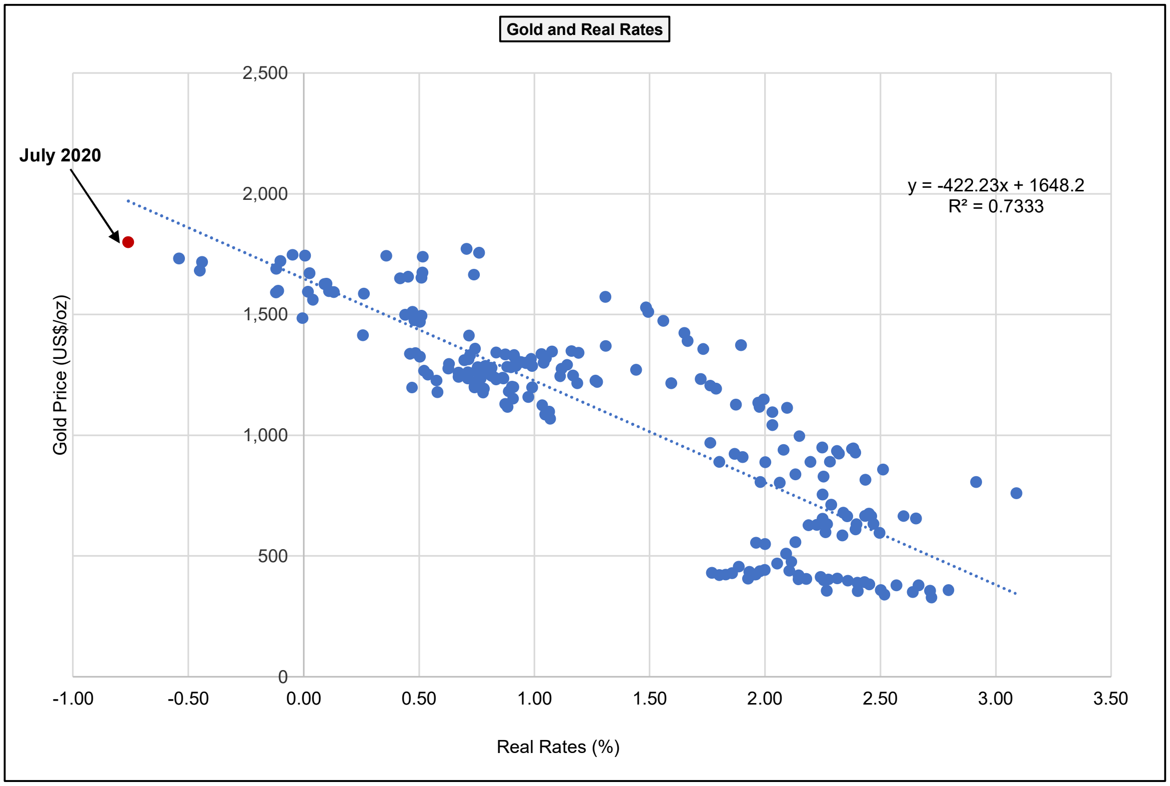
Chart 2. Money supply growth



Source: Financial Times

Charts of the Week

Chart 3. Gold and Real Rates Jan 2003 – July 2020



Source: Federal Reserve Bank of St. Louis, RBMC

Chart 4. Reuters Poll July 2020

2020 Reuters Price Forecast ($/t)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc
Mean	1,606	5,728	1,760	12,807	16,422	2,028
Median	1,600	5,710	1,764	12,728	16,185	2,041
Highest	1,700	6,300	1,850	14,000	18,500	2,100
Lowest	1,547	5,350	1,700	11,875	15,492	1,887

2021 Reuters Price Forecast ($/t)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc
Mean	1,683	6,261	1,873	14,433	17,597	2,094
Median	1,700	6,228	1,875	14,200	18,250	2,100
Highest	1,813	7,250	2,212	18,750	18,625	2,350
Lowest	1,550	5,600	1,678	12,500	15,725	1,250

Projected Market Balances (tonnes)

	Aluminium		Copper		Lead	
	2020	2021	2020	2021	2020	2021
Mean	2,229,375	827,000	172,182	-42,700	197,000	154,500
Median	2,700,000	1,150,000	145,000	-76,500	238,500	137,500
Highest	3,762,000	1,900,000	613,000	332,000	311,000	343,000
Lowest	363,000	-500,000	-270,000	-350,000	0	0

Projected Market Balances (tonnes)

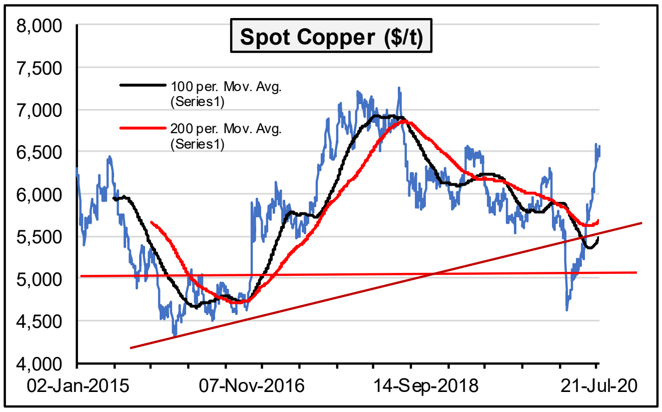
	Nickel		Tin		Zinc	
	2020	2021	2020	2021	2020	2021
Mean	58,286	6,429	433	1,167	340,286	165,714
Median	100,000	9,000	0	1,500	403,000	142,000
Highest	161,000	137,000	5,000	2,000	501,000	396,000
Lowest	-142,000	-138,000	-3,700	0	100,000	0

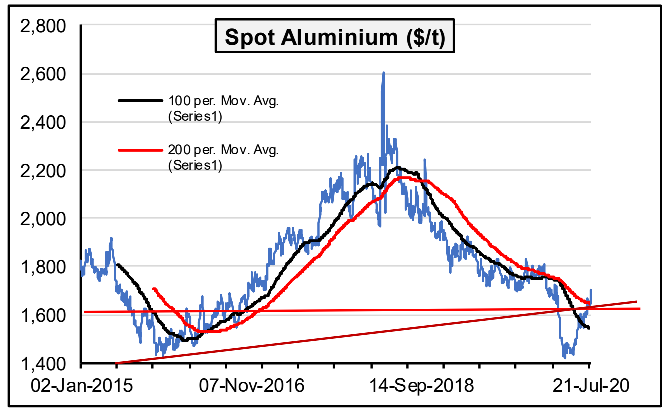
LME average cash prices ($/t)

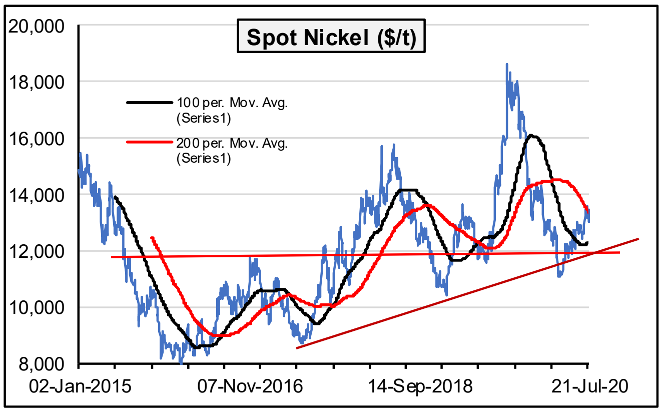
	Aluminium	Copper	Lead	Nickel	Tin	Zinc
2019	1,794	6,010	1,997	13,914	18,661	2,550
2018	2,108	6,530	2,240	13,114	20,145	2,922
2017	1,968	6,170	2,315	10,410	20,061	2,891
2016	1,604	4,868	1,867	9,595	17,934	2,090
2015	1,701	5,631	1,827	12,121	16,417	1,974

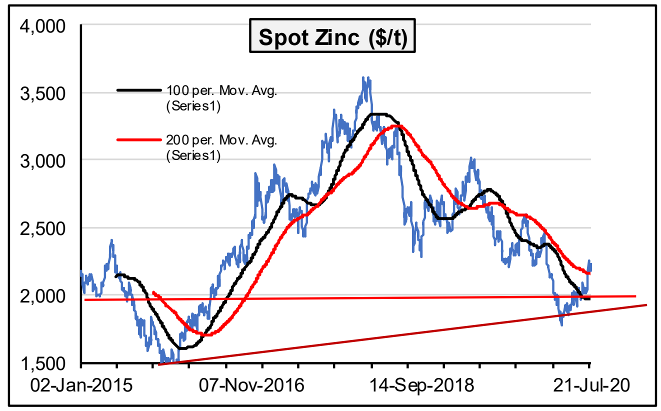
Source: Reuters, RBMC

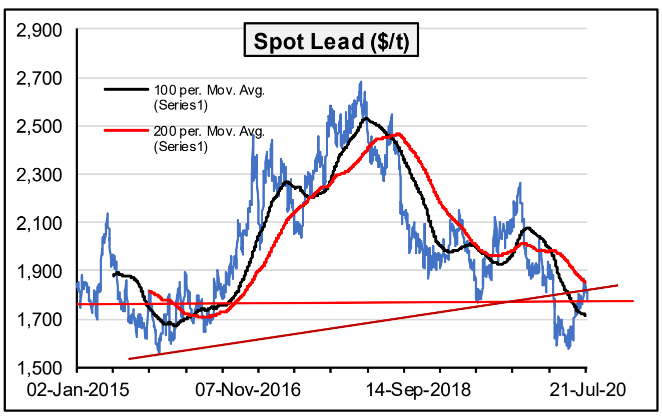
Charts: Industrial Metals

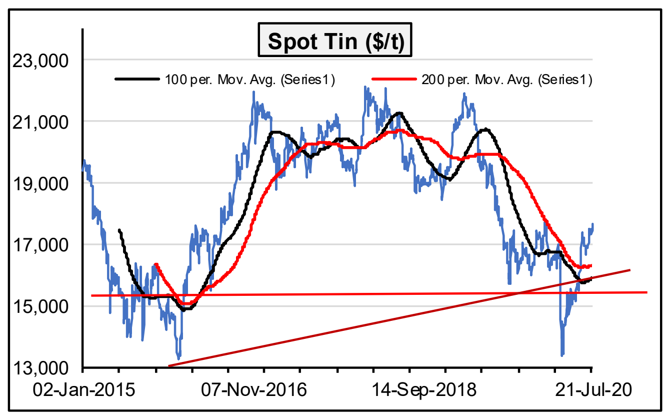


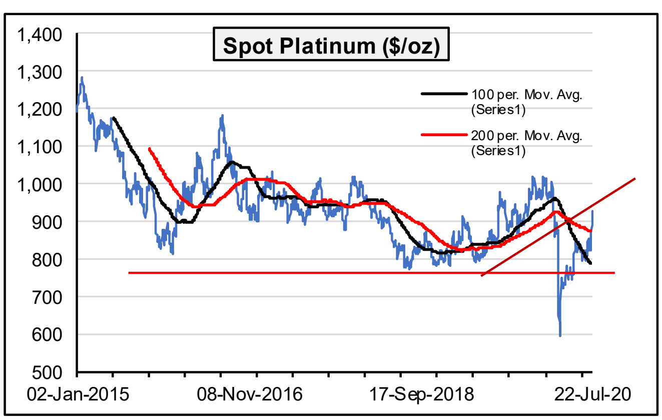


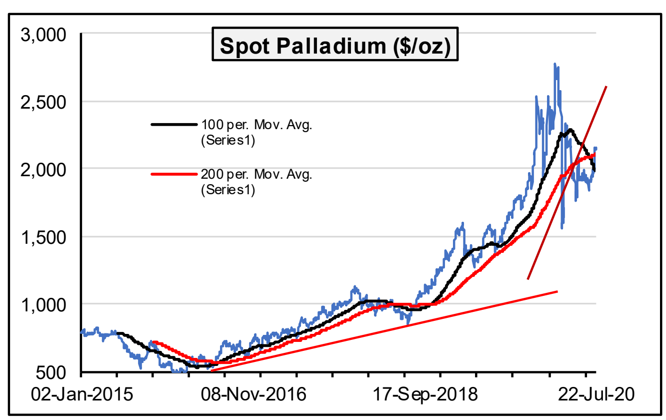












Source: LME, LBMA, LPPM, RBMC

The Backpage - Metals Markets Data

Base Metals Inventories (tonnes)

Copper	24-Jul-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
LME	141,725	157,350	221,675	262,600	295,000
LME Cancelled Warrants	91,600	63,450	111,800	53,350	41,750
SHFE	157,684	158,647	99,971	259,037	149,189
COMEX	80,256	79,612	71,233	31,116	34,565
GLOBAL	379,665	395,609	392,879	552,753	478,754
Aluminium	**24-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	1,649,275	1,664,400	1,652,025	1,317,925	953,500
LME Cancelled Warrants	281,225	274,050	181,700	142,750	260,175
SHFE	222,498	233,327	223,715	458,403	396,400
COMEX	33,814	35,258	30,756	20,501	5,058
GLOBAL	1,905,587	1,932,985	1,906,496	1,796,829	1,354,958
Nickel	**24-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	234,636	234,738	233,970	230,664	145,056
LME Cancelled Warrants	55,602	57,042	56,214	54,108	44,106
SHFE	32,702	31,843	28,991	458,403	27,157
GLOBAL	267,338	266,581	262,961	689,067	172,213
Zinc	**24-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	154,500	122,400	123,025	99,475	76,775
LME Cancelled Warrants	19,225	21,650	5,400	11,875	31,450
SHFE	89,188	93,637	97,705	133,349	74,984
GLOBAL	243,688	216,037	220,730	232,824	151,759
Lead	**24-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	107,600	63,025	69,175	73,200	57,425
LME Cancelled Warrants	15,600	15,650	26,525	3,025	9,875
SHFE	35,436	40,547	23,333	7,074	35,720
GLOBAL	143,036	103,572	92,508	80,274	93,145
Tin	**24-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	3,950	3,975	3,106	6,045	6,185
LME Cancelled Warrants	325	440	565	1,600	2,440
SHFE	2,931	2,999	3,106	3,702	6,419
GLOBAL	6,881	6,974	6,212	9,747	12,604

Open Interest (lots)

	24-Jul-20	Week-Ago	Month-Ago	3m-Ago	Year-Ago
Copper	304,140	308,570	286,964	259,302	310,473
Aluminium	774,153	786,843	790,983	797,526	667,276
Nickel	197,734	194,460	201,811	221,102	277,215
Zinc	202,389	203,189	191,756	218,668	229,431
Lead	105,668	106,465	105,662	111,709	108,520
Tin	15,204	15,078	16,173	17,248	16,093

Moving Averages

	Cash	10-DMA	40-DMA	100-DMA	200-DMA
Copper	6,570	6,488	5,996	5,492	5,694
Aluminium	1,664	1,649	1,594	1,548	1,648
Nickel	13,651	13,414	12,959	12,342	13,334
Zinc	2,235	2,207	2,077	1,986	2,157
Lead	1,807	1,823	1,770	1,713	1,845
Tin	17,853	17,498	17,006	15,928	16,332

Support, Resistance and RSI

	S1	S2	R1	R2	RSI
Copper	6,348	6,050	6,633	6,820	61
Aluminium	1,640	1,600	1,712	1,735	68
Nickel	13,155	13,050	13,680	13,890	56
Zinc	2,144	2,100	2,250	2,320	59
Lead	1,794	1,755	1,886	1,900	52
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