RBMC

THE BHAR REPORT

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The Week in the Markets

Week of 31 July 2020 – Number 29

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	3,271	3,249	0.54%	93.3	6.99	$40.3	$1,975	2,874	$6,282	$1,709	$13,738	$2,315	$1,862	**$17,828**
Change w-o-w	**1.1%**	**1.6%**	**-0.05**	**-1.5**	**-0.4**	**-2.9%**	**4.6%**	**-0.5%**	**-2.7%**	**0.5%**	**0.6%**	**4.5%**	**3.0%**	**0.9%**

Macro Themes

As of 31 July, about 17.3mn **Covid-19** cases have been confirmed worldwide, and the death toll has surpassed 673k, according to Johns Hopkins University data. **US** 'hotspots' are moderating but there are local European concerns while no sign of abating in likes of Brazil/India. On a more constructive note, was the **EU** Recovery Fund agreement and the Fed extends **credit scheme** to year-end; US fiscal cliff and the Fed meeting were the main focus (see **Chart 1**). US **GDP** shrank almost 33% in three months during the height of the pandemic with latest weekly jobless claims at 1.43mn and continuing jobless claims at 17.02mn, pointing to the growth momentum slowing. **Germany's** economy shrank 10.1% in Q2 from Q1 as business investment, exports and consumer spending collapsed.

A new peak in gold prices suggests that a period of **deflation** due to Covid-19 will be followed by a resurgence in **inflation**. Investors 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. 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 (see **Dashboard**). Meanwhile, concerns over the impending US stimulus package also dented sentiment around the USD. The Fed has alleviated global demand for USD **funding**, toppling the reserve currency from the perch it occupied at the height of the Covid-19 crisis. The US's **yield** advantage has also largely evaporated; the differences in so-called real yields - adjusted for inflation - between the US and other leading economies such as Europe have significantly narrowed in recent months. The bullish mood in commodity markets also suggests a reflationary era could lie ahead - another prospect associated with a steady decline in the USD. This was the story from early 2009 until May 2011, when the global economy recovered from the financial crisis and equities broadly rebounded. This helps explain the fervour towards gold, with silver also playing catch-up.

The **FOMC** meeting yielded no surprises. Fed chairman Powell said the path of the economy will depend significantly on the course of the virus. He highlighted weaker credit and debit card spending and a rise in some measures of unemployment since the end of June. With the pace of US infections rising at the moment, there was little surprise that the Fed also focused on the need for Congress to maintain **fiscal support** to offset the "biggest shock to the US economy in living memory". There is no doubt that the Fed will do what it can to prop up the economy and markets, but note policymakers can soften a downturn, but ultimately, they do not have the power to prevent it. Mr Powell also said that the FOMC's review of its monetary policy framework is ongoing. The July meeting minutes - released in three weeks - should show how the Fed is leaning in terms of linking a future tightening of policy to either an **inflation** or **unemployment** target. Past experience shows that **forward guidance** from the Fed will be successful in keeping targeted rates in check.

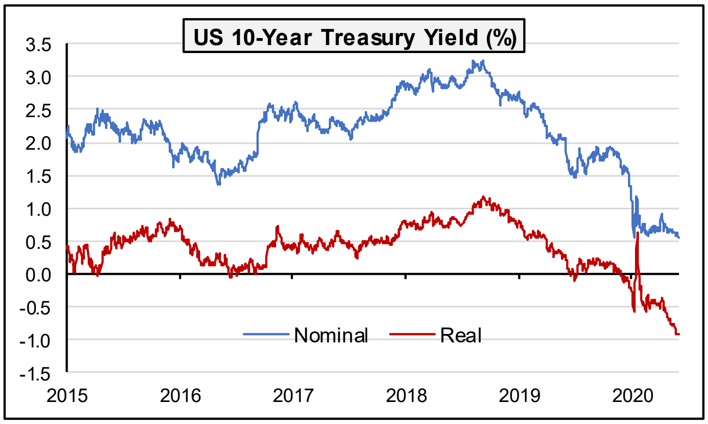
Precious Metals

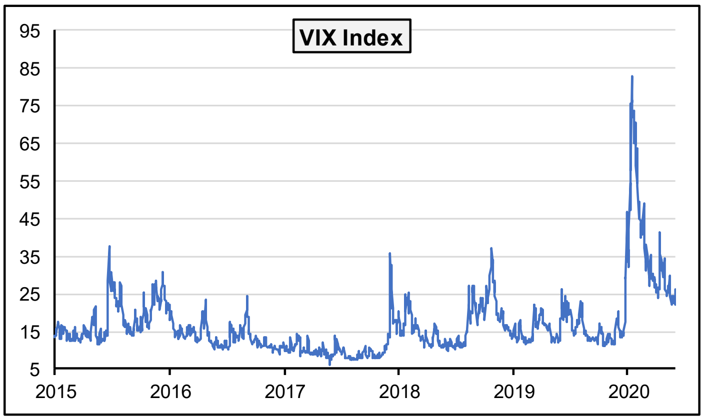
Gold continues to benefit from the aggressive monetary easing adopted by global central banks to tackle the virus impact, registering a new all-time high and inching towards a next target of $2,000/oz. In addition to institutional investors (pension funds and insurance companies) family offices are helping to fuel the price of gold, according to commentator John Authers of *Bloomberg*. Authers said family offices and high-net-worth investors are among a category of investors who have been actively trading gold futures. They are allowing their contracts to be converted into physical deliveries of the yellow metal: "Worried about protecting the value of their fortunes, they are opting for the perceived safety of physical gold." With more stimulus measures on the horizon, it is likely gold will continue to find support in the short term. The Covid-19 pandemic impacted the consumer sectors of the gold market in H120, with total demand dropping by 6% to 2,076t versus the same period in 2019, according to the *World Gold Council's* latest Gold Demand Trends report. However, while overall gold demand fell, H1 saw record flows into gold-backed ETFs of 734t. In contrast, bar and coin investment declined sharply in Q2 driven by Asian weakness and leading to a 17% decline to 397t in H1. With global markets in lockdown and consumers deterred by high gold prices and a squeeze on disposable income, jewellery demand fell by 46% to 572t and gold used in technology dropped 13% to 140t in H1 (see **Chart 2**). How high could gold go? Gold prices are some way off their inflation-adjusted peak (i.e. real terms), and when inflation is factored in, the all-time high of gold is about $2,500/oz, as shown in C**hart 3**. Ascribing fair value to gold prices is difficult, if not impossible, as the golden asset is such an emotive subject. Amid all the mania for gold, perhaps it is worth remembering **The Greater Fool Theory** - that there will always be an investor, i.e. a "greater fool", who will foolishly pay a higher price than the intrinsic worth of a security. Gold's rise has been complemented by strength in **silver**, up 39% in the last few weeks and a massive 80% from late-March lows (vs. gold +27%). The **PGMs** made gains on the back of the surge in gold and silver prices but are not sustainable due to oversupply.

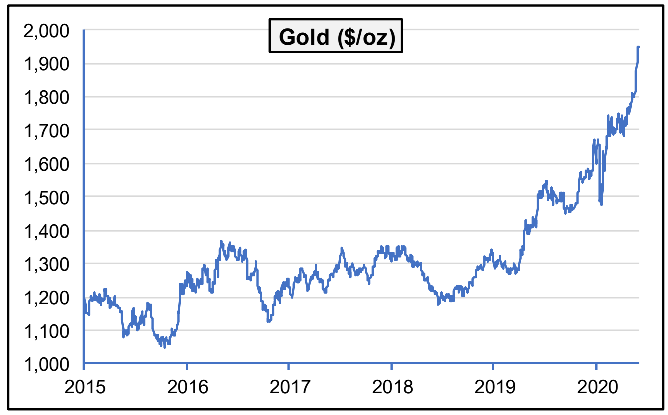
Base Metals

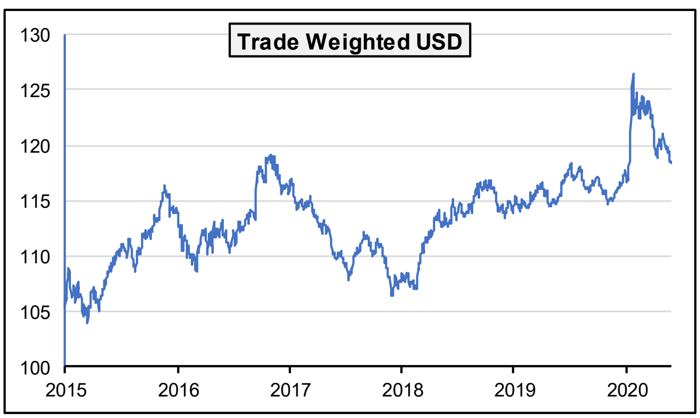
Copper consolidated recent gains while the other metals made modest gains supported by a weaker **USD** and the **reflation** story that has seen investor demand for **hard** or **real assets; LMEX** was flat wow (see **Dashboard**). Russian producer, *Rusal*, said it believes the worst is over for the **aluminium** market, with signs of better demand in Europe and the US emerging. **Nickel** was buoyed by positive sentiment, as investors continue to see a positive backdrop for demand from new energy sectors, where the outlook remains bullish amid strong demand for electric vehicle batteries. *Tesla* boss Elon Musk urged miners to produce more nickel, a key ingredient in the batteries that power the company's electric cars, warning the current cost of batteries remained a big hurdle to the company's growth. Over coming years nickel demand from the batteries sector - currently only 5% of nickel usage - should see a more balanced demand picture not solely reliant on stainless steel. The *International Stainless Steel Forum (ISSF*) has released figures for Q120 showing that stainless steel melt shop production decreased by 8.0% yoy to 11.7Mt, led by a 9% yoy fall in China. Stainless steel usage was hit by demand collapsing in hospitality, oil & gas, and aerospace industries. This was the first decline in annual global production since 2015, although on a quarterly basis production last fell during Q418 (see **Chart 4**). Using nickel in car batteries offers greater energy density and storage at lower cost, delivering a longer range for vehicles, currently one of the restraints to EV uptake. Nickel usage in batteries is expected to grow rapidly over coming years, with industry forecasts suggesting this figure will rise to around 15% by 2030 and over 30% by 2040. Covid-19 has knocked demand for EVs in the short-term. Over the longer-term, we reiterate our optimistic view for nickel as an essential element to achieve the goals of a carbon-free and sustainable economy. Increasing EV penetration rates, nickel-intensive battery cell chemistries (at least for the foreseeable future) and favorable government policies will drive the expansion of nickel demand in the battery sector. Nickel shortages are likely as prices remain below **incentive** levels. Metals markets data is shown on **The Backpage.**

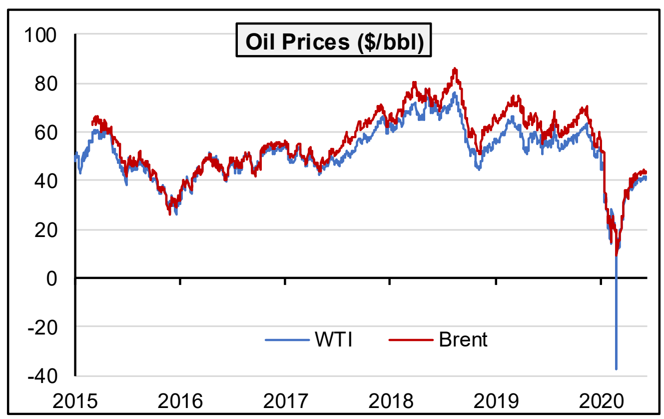
Dashboard – What You Need to Know

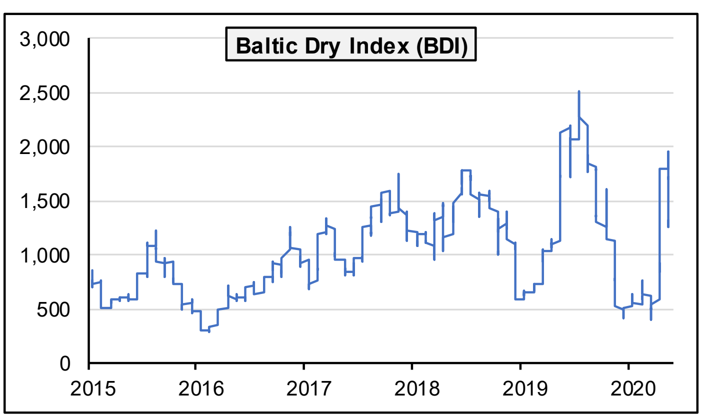


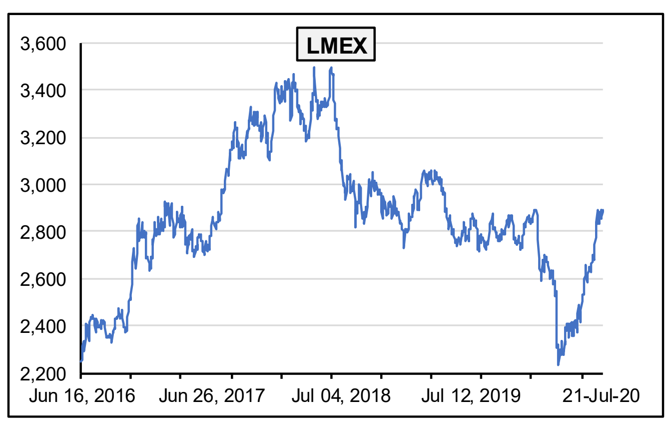












Source: Federal Reserve Bank of St. Louis, Trading Economics

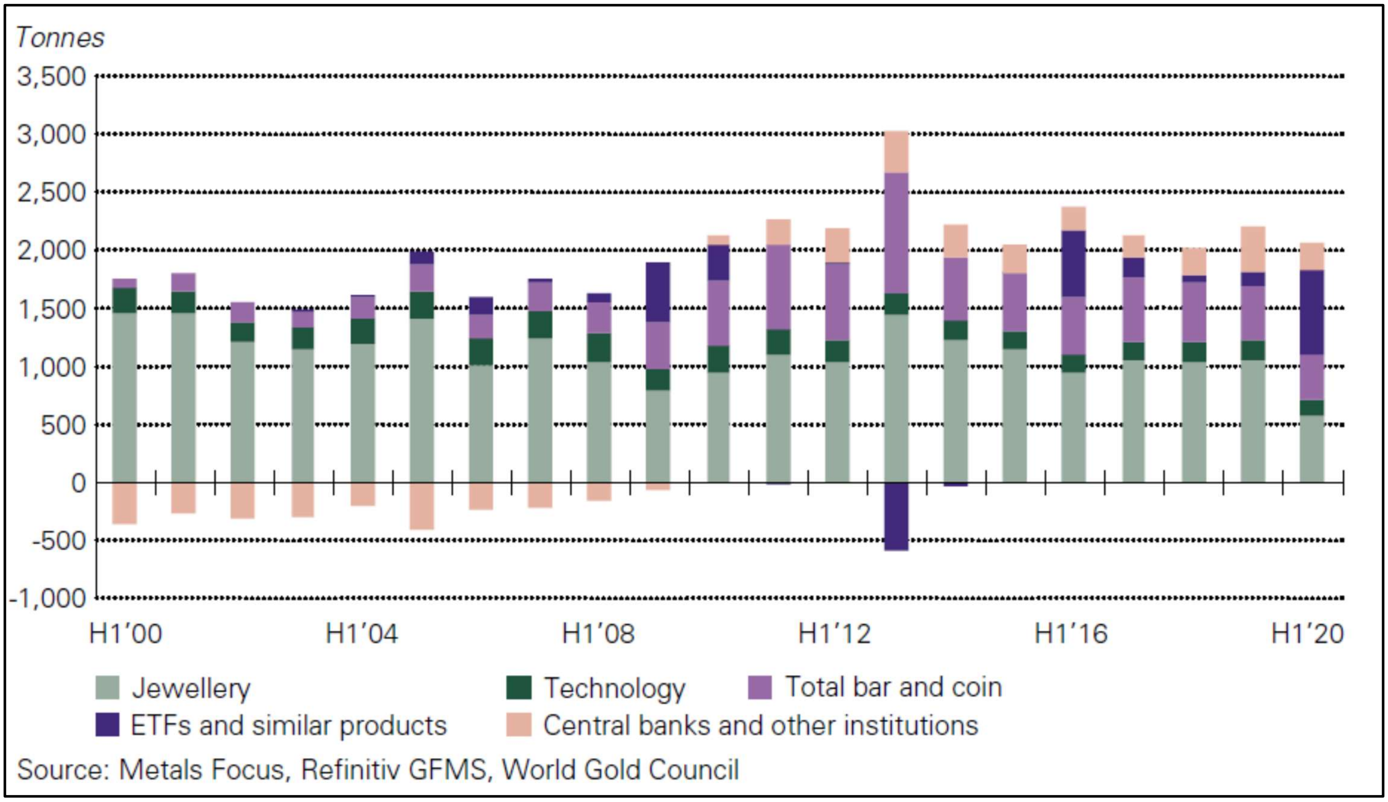
Charts of the Week

Chart 1. Fiscal cliff and the Fed in focus

Factors needed for quick and robust recovery	Recent news	Looking ahead
Infection contained (social distancing not required)	US 'hotspots' moderating Local European concerns No sign of abating in likes of Brazil/India	Does US infection data fall or plateau? Does Europe reaccelerate? Results of phase 3 vaccine trials
Policy response - Fiscal - Monetary - Foreign policy	EU Recovery Fund agreement Fed extends credit scheme to year-end US/China embassy closures	US fiscal cliff Fed (average inflation targeting/ yield curve control) Brexit negotiations US election
Economic data	US growth momentum slowing	Q2 GDP and earnings

Source: J.P. Morgan Asset Management

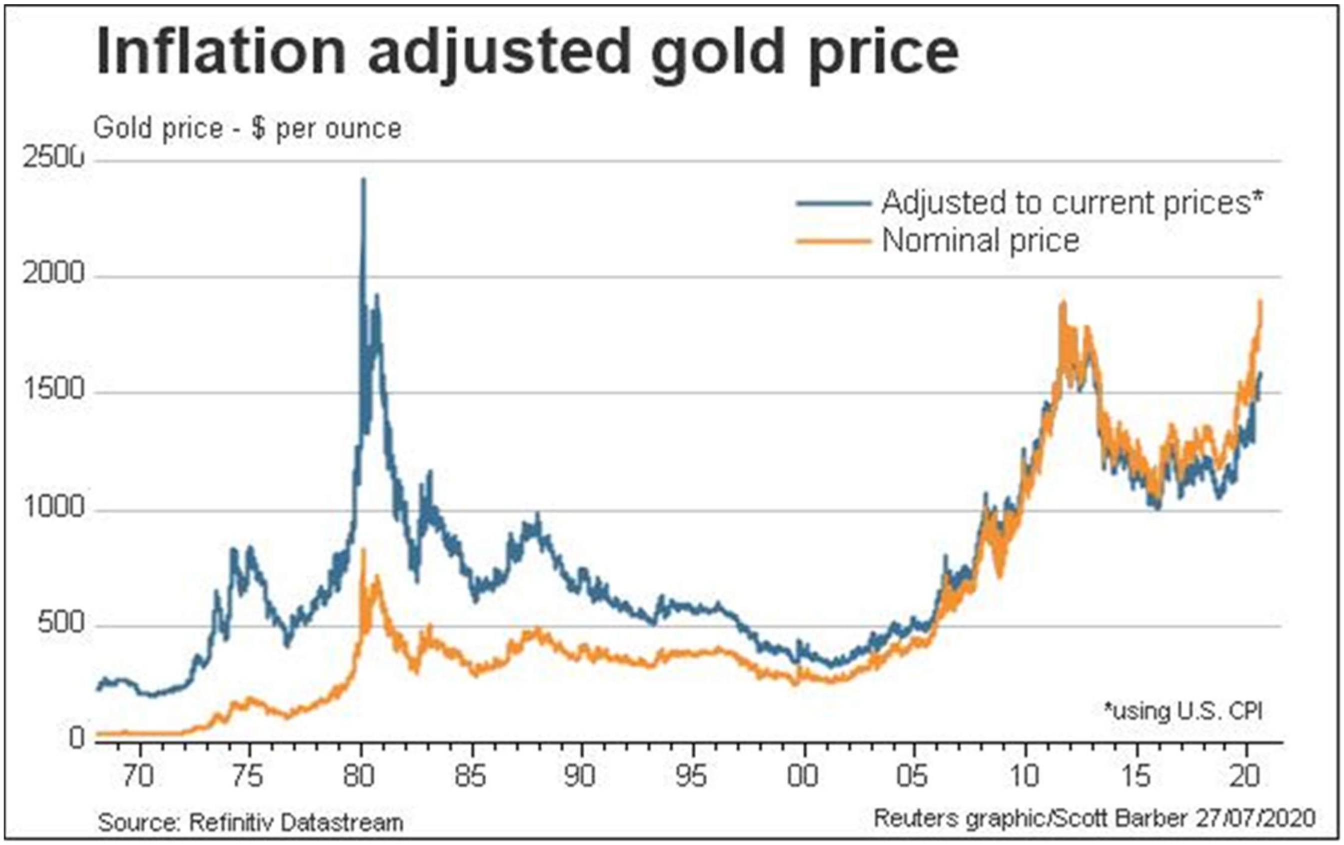
Chart 2. Gold - Record ETF inflows offset consumer weakness



Source: World Gold Council

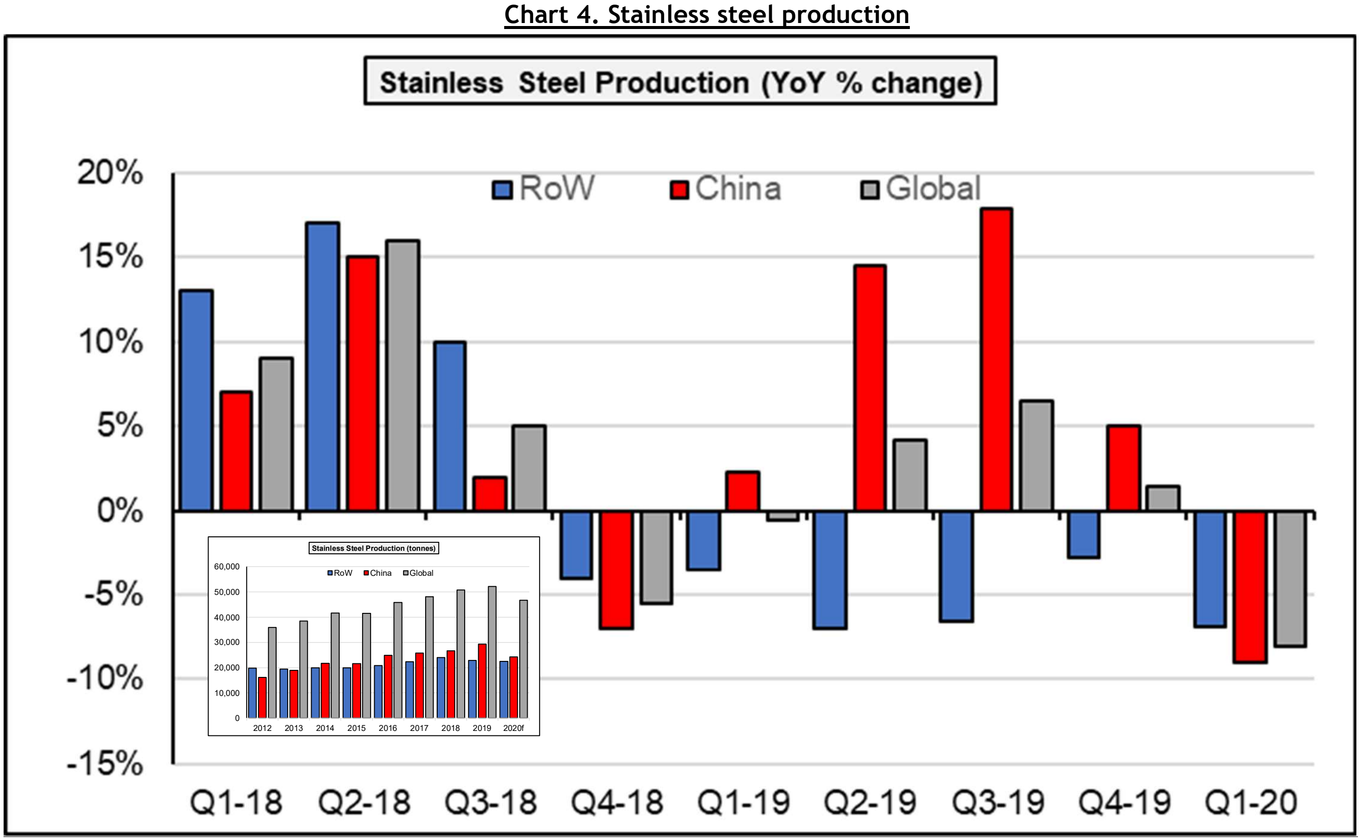
Charts of the Week

Chart 3. Gold in real terms



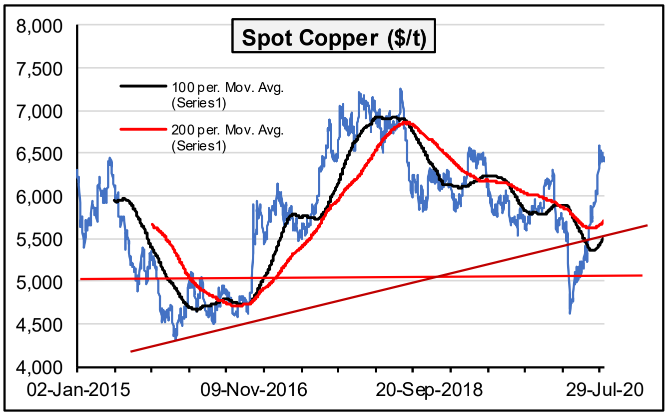
Source: Refinitiv

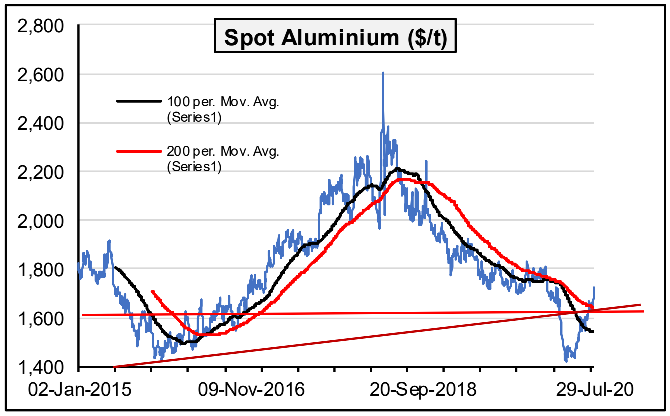
Chart 4. Stainless steel production

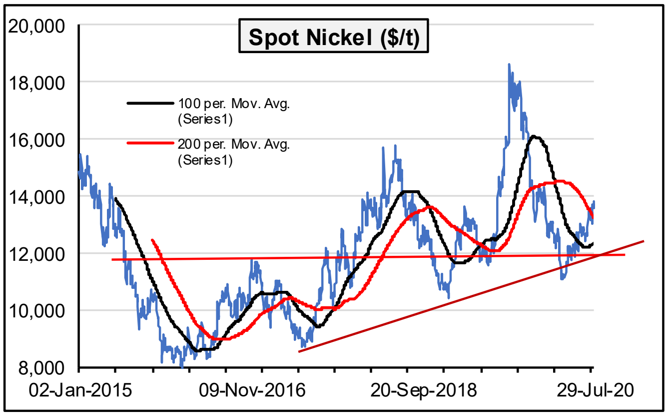


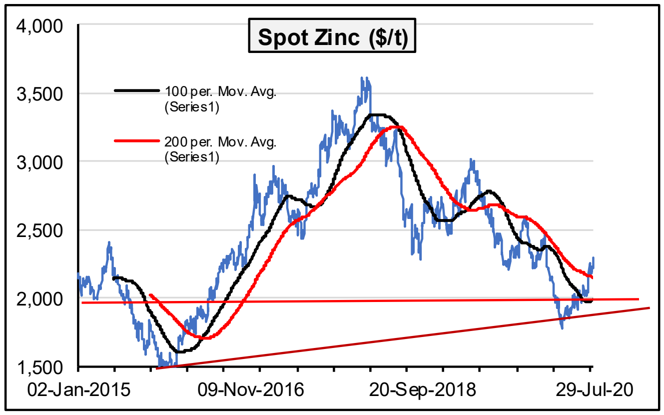
Source: ISSF, RBMC

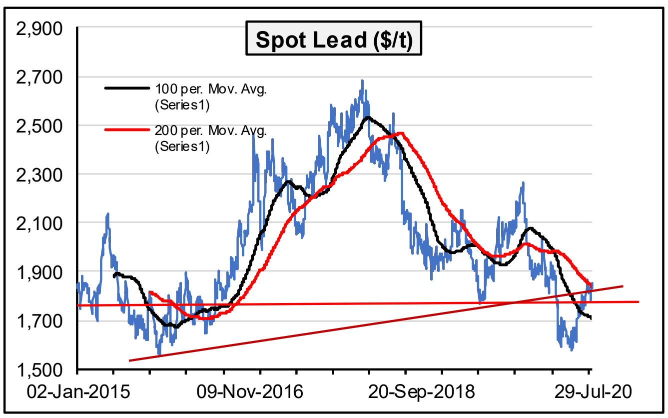
Charts: Industrial Metals

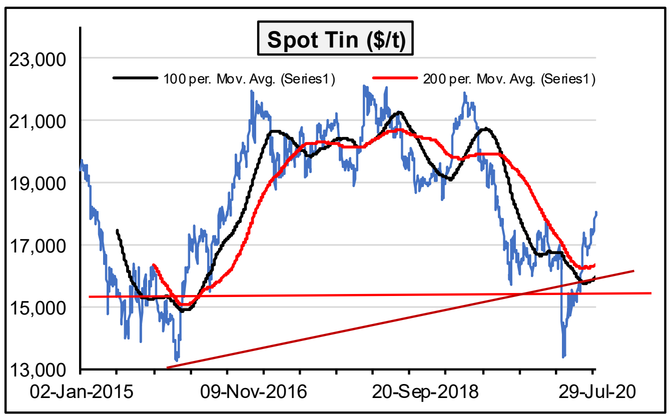


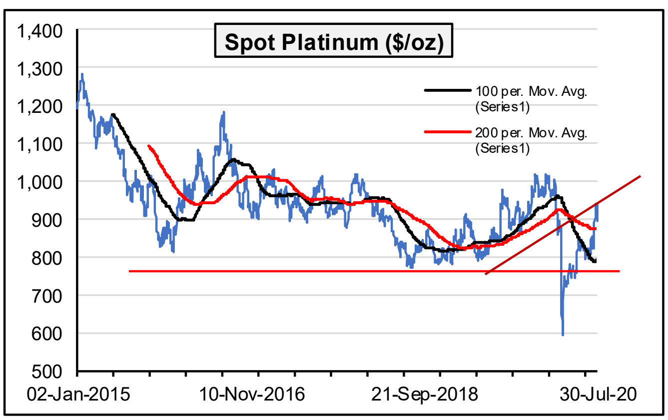


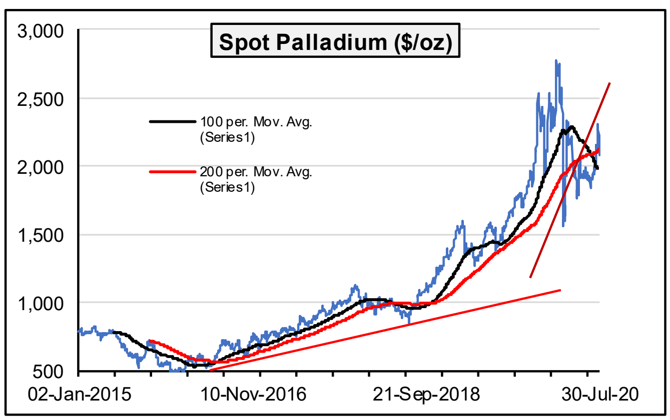












Source: LME, LBMA, LPPM, RBMC

The Backpage - Metals Markets Data

Base Metals Inventories (tonnes)					
Copper	**31-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	128,125	141,725	216,600	253,700	287,800
LME Cancelled Warrants	80,225	91,600	102,600	55,950	31,825
SHFE	159,513	157,684	99,971	458,403	149,189
COMEX	80,784	80,256	72,091	37,927	35,926
GLOBAL	368,422	379,665	388,662	750,030	472,915
Aluminium	**31-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	1,637,425	1,649,275	1,642,600	1,346,200	1,027,950
LME Cancelled Warrants	255,100	281,225	165,525	159,575	248,075
SHFE	221,819	222,498	223,715	259,037	396,400
COMEX	37,475	33,814	32,241	20,075	5,058
GLOBAL	1,896,719	1,905,587	1,898,556	1,625,312	1,429,408
Nickel	**31-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	235,242	234,636	233,898	231,156	143,670
LME Cancelled Warrants	56,382	55,602	55,746	54,492	43,056
SHFE	34,215	32,702	28,991	27,966	27,157
GLOBAL	269,457	267,338	262,889	259,122	170,827
Zinc	**31-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	188,175	154,500	122,575	97,425	79,350
LME Cancelled Warrants	17,150	19,225	7,075	9,200	28,550
SHFE	88,347	89,188	97,705	146,966	74,984
GLOBAL	276,522	243,688	220,280	244,391	154,334
Lead	**31-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	117,575	107,600	67,425	73,400	78,500
LME Cancelled Warrants	15,900	15,600	20,525	3,075	10,675
SHFE	32,938	35,436	23,333	3,828	35,720
GLOBAL	150,513	143,036	90,758	77,228	114,220
Tin	**31-Jul-20**	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
LME	4,015	3,950	3,530	5,690	4,825
LME Cancelled Warrants	65	325	410	1,735	1,020
SHFE	3,283	2,931	3,106	3,963	6,419
GLOBAL	7,298	6,881	6,636	9,653	11,244

Open Interest (lots)					
	31-Jul-20	**Week-Ago**	**Month-Ago**	**3m-Ago**	**Year-Ago**
Copper	310,075	304,140	286,964	265,648	310,473
Aluminium	759,286	774,153	790,983	813,983	667,276
Nickel	196,663	197,734	201,811	221,861	277,215
Zinc	202,554	202,389	191,756	219,071	229,431
Lead	104,927	105,668	105,662	109,851	108,520
Tin	15,821	15,204	16,173	17,540	16,093

Moving Averages					
	Cash	**10-DMA**	**40-DMA**	**100-DMA**	**200-DMA**
Copper	6,282	6,483	6,096	5,524	5,708
Aluminium	1,709	1,657	1,610	1,546	1,647
Nickel	13,738	13,468	13,067	12,384	13,259
Zinc	2,315	2,223	2,100	1,996	2,154
Lead	1,862	1,821	1,786	1,712	1,839
Tin	17,828	17,710	17,209	15,973	16,362

Support, Resistance and RSI					
	S1	**S2**	**R1**	**R2**	**RSI**
Copper	6,305	6,050	6,633	6,820	59
Aluminium	1,665	1,600	1,757	1,833	71
Nickel	13,310	13,050	13,890	14,240	62
Zinc	2,162	2,100	2,332	2,455	68
Lead	1,794	1,755	1,886	1,900	60
Tin	17,055	16,820	18,250	18,900	70

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