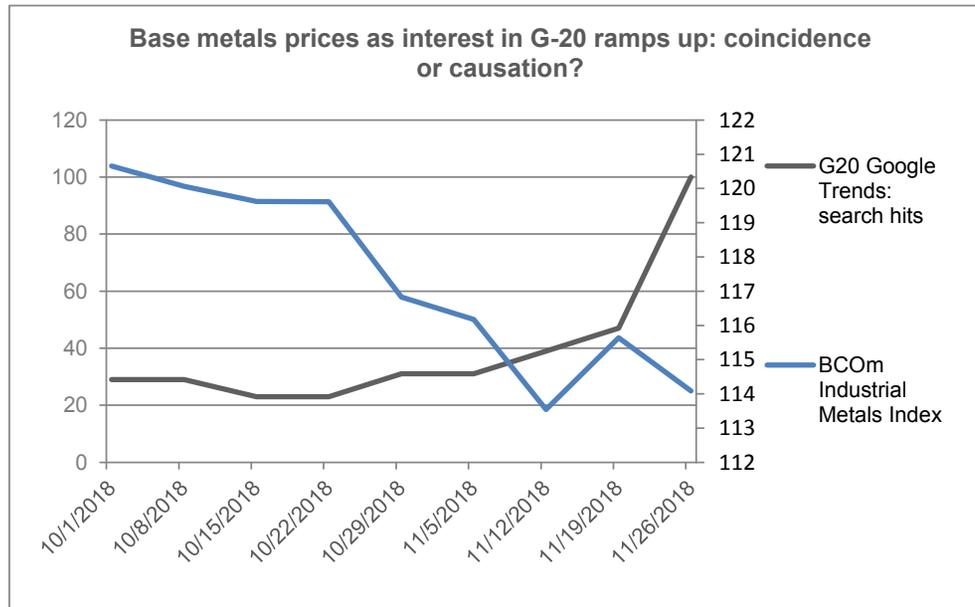


**Metals Strategy: LME Flow update— who is most exposed to a shortcovering or liquidation**

The LME data changes released on Tuesday aren't as interesting, as the actual levels of speculative positioning and how SHFE is lying ahead of this weekends much anticipated Trump-Xi and G-20 meeting.

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**Summary:**

- **LME Copper investors are the most optimistic for a G-20 ceasefire, but at the same time have the most to lose if trade tensions escalate and IF the heavy selling (first at \$6400, now at \$6300) is scaled lower.**
- **SHFE Copper interest is very under owned vs historical standards; tailwinds likely to come from this crowd...**
- **SHFE participants are pretty bearish Nickel and Zinc; LME investors are rather under owned both Nickel and Zinc (they have only recouped 28% and 40% respectively of their pre-summer peak positioning)**
- **LME Ali Investors are somewhat 'full' and don't have much potential short covering tailwinds the others have (they have recouped 55% of the pre-summer positioning)**

The below outlines current LME speculative (COT) and SHFE data across each metal and changes in the 1 month lead-up to G-20 to test where participation (and risk) lies.

#### Copper:

- LME Copper speculative positioning saw the largest inflows (!) with 76K mt added over the past month, bringing positioning to almost 1.25m mt, the highest since June 2018 when trade tariffs fears really kicked off. Clearly some optimism/hope that's there will be some G-20 agreement is being priced into LME futures and this also highlights that base metals are perhaps reaching headline fatigue and/or have already priced in the "worst case" scenario standoff between China & US. The fact that 3m prices have remained sticky below \$6300 all month, however, indicates there still some steady OTC producer-related selling above overwhelming these financial inflows.
- SHFE open interest remained rather unchanged (vs historical trends) throughout November falling only 35k mt, indicating a rather indifferent outlook. China has already liquidated throughout this year with almost 2m mt reduction in Aggregate SHFE Open Interest starting when Section 232 tariffs; they thus remain neutral to Copper but very under owned.
- LME Dec18 option expiry (due to expire next Wednesday the 5th), have the largest Open Interest in the \$6000 put (3300 lots), followed by the \$6300 call (1600x) and \$6400 Call (1000x), both technical ceilings...

#### Zinc:

- LME investors barely changed positioning in November, selling a measly 2k mt, and keeping overall COT positioning at the low end of the range, 1.2m mt. Thus threes upside potential if the G-20 provides the catalyst for inflows from these participants.
- SHFE players increased Agg OI by 115k mt (but SHFE prices fell from CNY 22,000 to almost CNY 20,500) highlighting some fresh short interest. Aggregate SHFE OI stands at > 2.5m mt around YTD highs. SHFE crowd are very bearish Zinc prices (what do they know?) but simultaneously are at risk of further short covering on any technical breakout or positive outcome.
- The largest option plays are in the low delta \$2900 strike (2400x ), the \$2350 put (1900x) and the \$2650 call (1700x)

#### Aluminum:

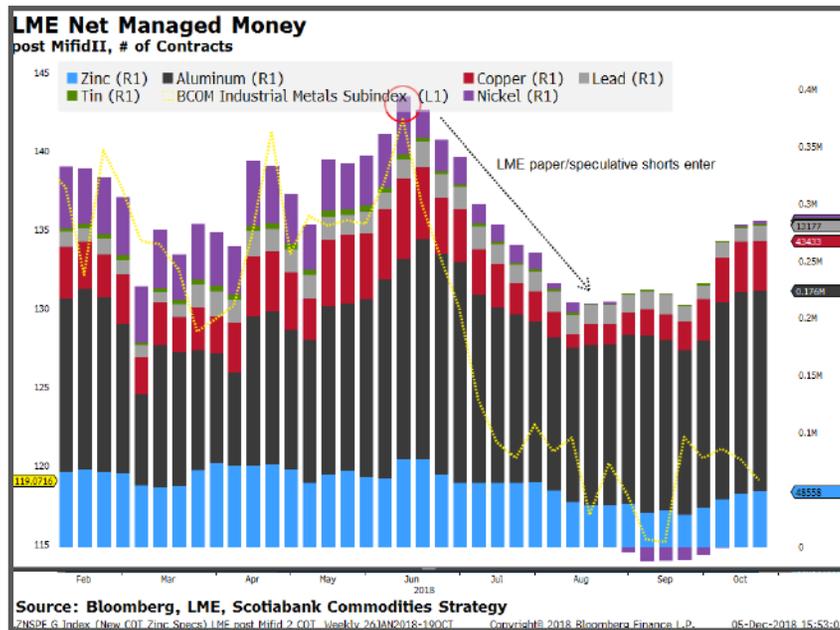
- LME investors liquidated the most in Aluminum (vs any other flow changes across its peers) with 340K mt of outflows during November, helping to lower the 'perceived' cost of production floor from \$2000. However, overall COT positioning is still a historically lofty 4.2m mt (peak was 4.8m mt)
- SHFE also liquidated 225K mt during November, and they also hold a decent amount of positioning (3.5m mt), albeit not as lofty as LME specs.
- There is no decent sized option positioning across Dec (taken an anything >1000lots), perhaps the clearest indication speculators are comfortable managing current futures positioning within the 'accepted' technically compressed ranges, despite the event risk.

Nickel:

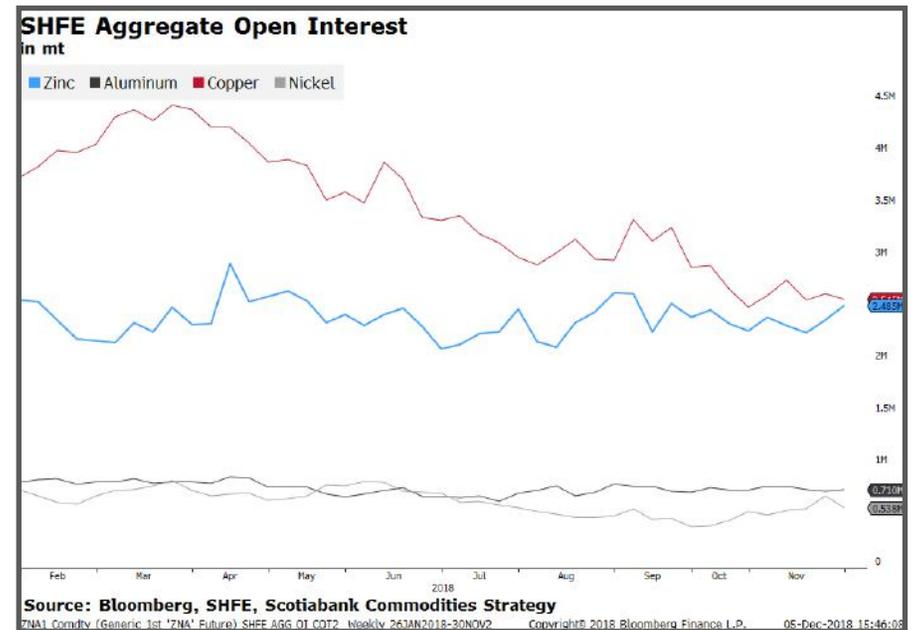
- LME investors increased their positioning by 27K mt (relatively the 2nd largest inflow after Copper) during November, despite its price collapse through \$11,000. However, SHFE fresh shorts (SHFE OI increased by 170K mt the last 6 weeks as prices consistently trended downward) more than offset the speculative inflows and highlights the thinking that perhaps one doesn't fade Chinese positioning swings as one does with LME & CME COT data. Nickel has certainly been caught up in the bulks collapse which (like oil) belatedly began pricing in trade related demand destruction on top of the fact that *some* steel production cuts will be made this winter curbing Iron Ore and Nickel demand at the mills.
- LME Dec options: all ITM puts have accumulated the most Open Interest - \$11,500 Put (1100x), \$11,000 Put (700x) and the \$12,000 Put (800x)

	Lastest Holdings, mt	Nov monthly change, mt	Weekly Change, Notl \$
Nickel	30,295	26,569	\$ 287,478,699
Alu	4,153,793	(343,767)	\$ (663,813,686)
Zinc	1,198,441	(2,350)	\$ (5,766,661)
Copper	1,241,194	77,546	\$ 480,049,395
Lead	357,495	4,260	\$ 8,237,343
Tin	10,195	(585)	\$ (10,717,200)

Graph 1



Graph 2



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