Metals Strategy: Quick Update

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There plenty of emotions, sheer disbelief with vicious global equity losses (US stocks fall 7.6%, largest 1day drop since Dec 2008), major dislocations, and triggered circuit breakers.

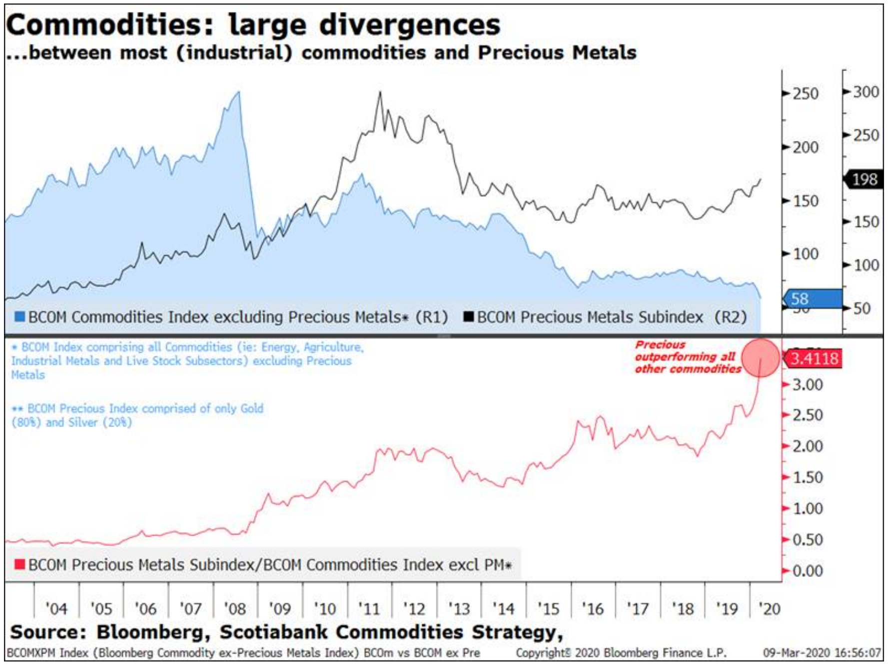
To summarize, this is an escalating demand (and supply) destruction global event that was complicated by policy missteps (a 'too-much-too-soon' Fed cut, no OPEC deal & aggressive Saudi response). Markets remain extremely jittery and keenly awaiting an unscheduled policy decision (more so than scheduled policy meets and data releases).

- I won't dive into details on how/why Saudi Arabia (and Russia) did a complete U-turn within days to declare an all-out price war on one of the most important US industries (at a time when demand is clearly fragile AND into a key election year). See our Oil Strategists take on price in light of no OPEC+ deal & a price war here. The decision(s) - like the Feds, which irked the market - is done. Move on. The few points to make are simple and defined within a handful of charts

- Max virus panic was not here. Financial market fear has been here for 2 weeks but relatively contained. Today was different; panic selling with limited volumes and liquidity risk (no price/directional risk) creeping into all markets.

- The Commodities sector have led the way from the start of the outbreak (copper & oil were clearly the first responders to Chinas mass quarantine). Commodities (ex-Gold), led by the energy sector, is now clearly pricing in an L-shaped "recovery" and escalating disinflationary environment

Chart 1:



- The Fed can (but should not) implement another intermeeting cut; its unlikely to placate risk markets. COORDINATED action from both CBs and government agencies is required to shore up confidence. The equity tantrum after the Feds 50bps simply implies expectations are now higher

- Unless theres a reduction in actual numbers (COVID cases / deaths), the pricing impact of fear & irrationality more than offsets the markets faith in stimulus. The decade + buildup of pricing in "bad news is good" for risk assets is now finally tiring because 1) diminishing returns; at some point stimulus is not enough 2) some self-awareness triggered with the last few of the Feds bullets used to fight an event-risk its ill-suited to

- Despite plenty of pushback ("why is Gold not $1900 given the massive repricing in nominal and real US yields"?), at the core, gold is still a commodity, despite exhibiting plenty of macro-economic characteristics tied to interest rates, currencies & fear/uncertainty. Its performed relatively much better vs the commodity complex, as it should, given the slower growth profiles coupled with aggressive global stimulus (Graph 1).
- Graph 2 highlights Gold reaction in the lead up and after the 9 episodes in which Oil plunged >10% in one day. On average, Gold is -0.80% (7days on), and -1.5% (50 days on), confirming that it will be tough for prices to really breakout as the general 'commodity brand' loses its luster on oils capitulation.

- There are large divergences occurring within the USD which is complicating Precious vs Base metal trends. G-10 FX is strengthening (vs US$) due to compressing interest rate differentials; however, EMFX is being slaughtered (due to risk aversion and oil prices) and will act has a heavy hand over base metals pricing. Graph 3

Chart 2:

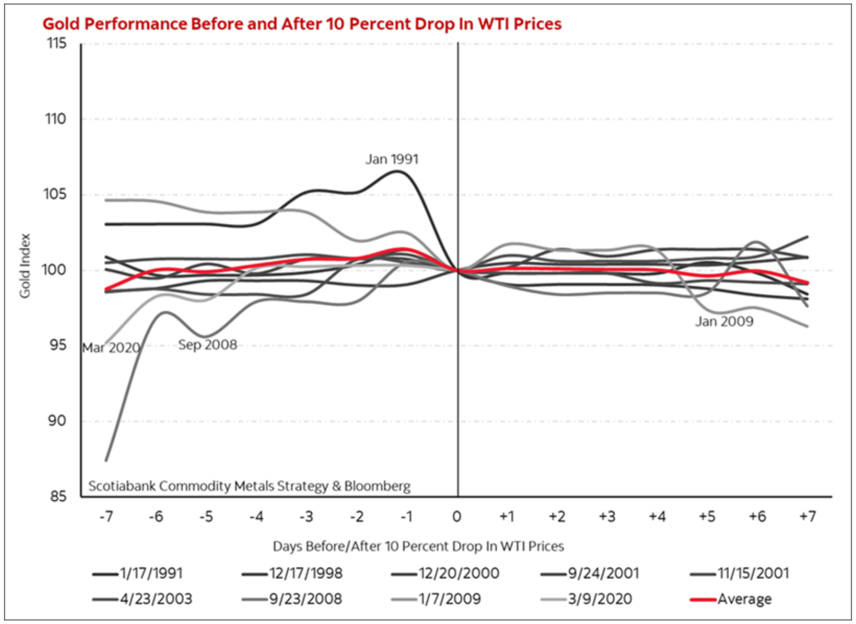
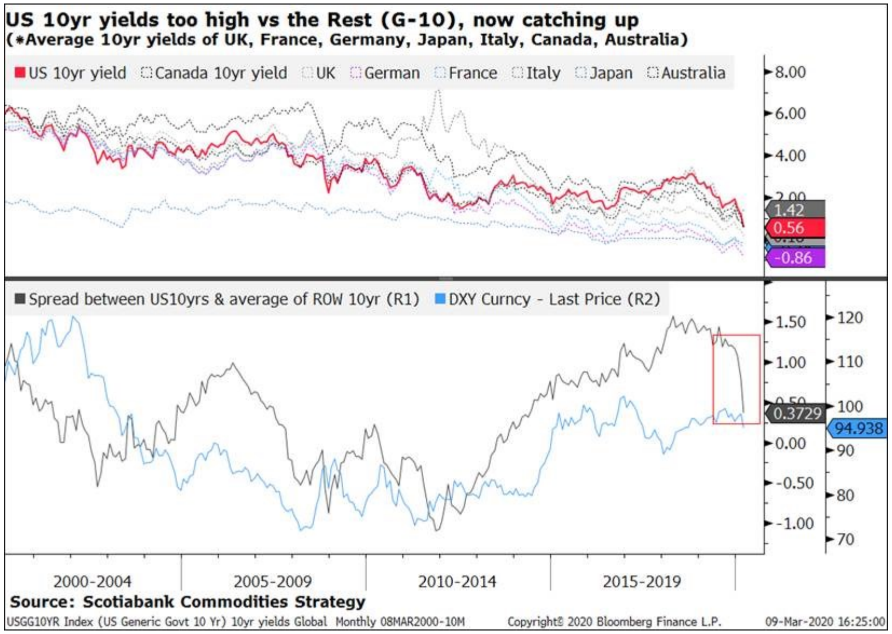


Chart 3:



- All fundamentals – including commodities -- have taken a backseat to the macro and sentiment (even more so than past divergences)
- This all has political ramifications, which isn't being considered/priced in

Chart 4: