

LME Metals Report

Written by Edward Meir – Commodity Research Group

Tel: 1-203-656-1143 • emeir@edfmancapital.com

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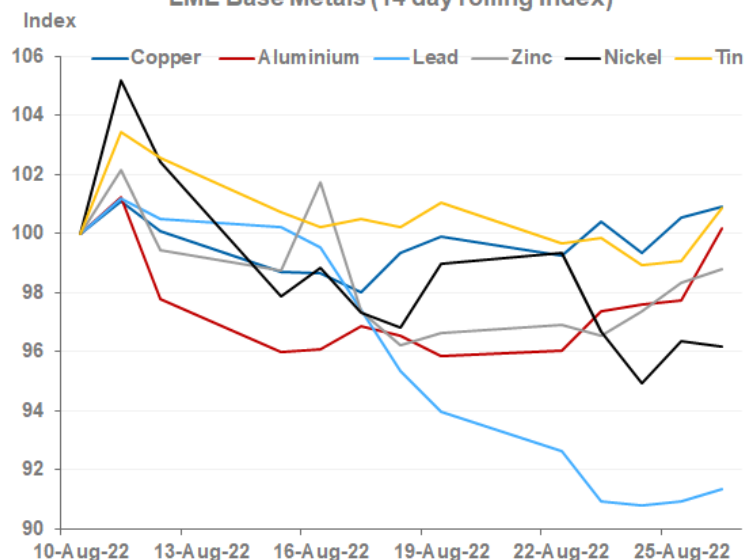
**This commentary was written at 8:20 A.M.
on August 29, 2022, US EST.**

Note: LME markets are closed today... Moses coming down from the mountain, bearing the ten commandments? Not quite, but Fed Chief Jerome Powell's Friday speech came close to pulling off the financial equivalent. Here, we had a rapt global audience listening to Powell's economic sermon at this summer's annual central bank symposium that took place below the majestic peaks of Jackson Hole, Wyoming. Although the thunder and lightening were missing, Powell's hawkish eight-minute talk nevertheless shook things up. By the end of his remarks, US stocks fell by about 3%, shedding a cool \$80 billion for the session -- or \$167 million in red ink for each second that Powell spoke. The selloff is expected to continue today; Dow futures are pointing to a 250-point loss, while the S&P-500 and the NASDAQ are called down by 35 and 142 points, respectively.

US bond markets did not do much Friday in reaction to Powell's talk but are making up some ground right now as the ten-year rate is up 10 ten basis points at 3.13%. But with rates *already* moving higher during much of August, bond investors had discounted a much more hawkish Powell address than equity investors did -- and got it mostly right.

For some historical context, readers will recall that at this time last year, Powell's "message from the mountain" was definitely more upbeat after the Fed Chair reassured investors that the budding inflationary pressures they were seeing were "transitory" and thus did not warrant a major policy shift. Burned by that wrong call a year later, Powell's remarks were more realistic this time around. Most troubling for the stock market, there was no hint of an eventual rate pause as was intimated at Powell's July news. Instead, Powell warned that *"restoring price stability will likely require maintaining a restrictive policy stance for some time....[and that reducing inflation] is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain...History shows that the employment costs of bringing down inflation are likely to increase with delay, as high inflation becomes more entrenched in wage and price setting...The successful Volcker disinflation in the early 1980's followed multiple failed attempts to lower inflation over the previous 15 years. A lengthy period of very restrictive monetary policy was ultimately needed to stem the high inflation and start the process of getting inflation down to the low and stable levels that were the norm until the spring. Our aim is to avoid that outcome by acting with resolve now."*

LME Base Metals (14 day rolling Index)



Powell added that the *“economy continues to show strong underlying momentum [and that] the labor market is particularly strong...with demand for workers substantially exceeding the supply. Inflation is running well above 2%... and while the lower inflation readings for July are welcome, a single month’s improvement falls far short of what the Committee will need to see before we are confident that inflation is moving down”*.

In closing, the Fed Chair did not tip his hand as to how high a rate increase we could expect in late September, noting that the decision would “depend on the totality of the incoming data and the evolving outlook”. For what its worth, Fed funds futures market are now assigning a 61% probability to a 75-basis point rate increase, up from 47% a week ago.

All in all, we think Powell was correct to give the speech he did. If he hinted at a pause, the reaction in US equity markets would have been surely positive, but bond yields would have soared as investors would conclude that the Fed was capitulating too early. We still think the Fed will pause, but not just yet. We think the timing will be more appropriate by year-end at which point the Fed should see more price moderation, especially if commodity prices continue to flatline or come down. Keep in mind as well, that the year-over-year inflation comparisons will also look far less ominous as we head into 2023.

Commodity markets held up better than stocks on Friday and had a generally solid showing this past week as well. Oil prices ended with an overall gain and prices are up again right now by about \$.50/bbl. Last week, the Saudis hinted that they would cut production going forward, a sign of their displeasure at a potential Iranian nuclear deal. Bloomberg reports today that the various sides remain at loggerheads over key details and will need several more weeks to iron out their differences. We will see what happens. Base metals also had a good run last week, led by copper, aluminum and zinc. A shortage of inventories and ongoing closures in Europe and China on account of rising power costs and drought is leading to a firmer tone. But right now, COMEX copper is down by about 11 cents/lb. pre-market, suggesting that the LME complex will open sharply lower on Tuesday. Ditto for the precious metals group; values were down for most of last week and are struggling again right now.

One market that has benefitted more than most from Powell’s hawkish tone is the US dollar; it soared to multi-year highs on Friday and is steady right now; sterling has been the main casualty here, now breaking below \$1.17.

In terms of US macro data, nothing comes out today, but on Tuesday we get the S&P Case-Shiller home price index, US consumer confidence readings and the jobs opening/quits rates. Wednesday brings us the ADP employment report (expected at 310,000) and the Chicago manufacturing PMI. On Thursday, we get the ISM index for August, (expected at 52 from 52.8) along with weekly initial claims (expected at 249,000, up 6,000 on the week). Nonfarm payrolls comes out Friday (expected at +325,000 compared with July’s monster number of 528,000). Unemployment is expected to have risen to 3.5% in August, unchanged from July. July factory orders are also out Friday (expected at 0.3%).



We leave our readers with the following indications and will resume our usual coverage on Tuesday.

COMEX Copper: \$3.58, down 11 cents
Gold: \$1735, down \$12
Silver: \$18.37, down \$.37
Platinum: \$844, down \$11
Palladium: \$2110, down \$12
WTI: \$93.58, up \$.50
US 10-year: 3.13%
Euro: .9993
Sterling: 1.1695
Yen: 138.50
Dollar Index: 108.74, UNCH
NASDAQ futures: down 142
Dow futures: down 250
S&P futures: down 35

COPPER -- SUPPORT: \$7,602 / RESISTANCE: \$8,250

We are at \$8,064, up \$33. We have been trading between \$7,965-\$8,123.

ALUMINUM -- SUPPORT: \$2,310 / RESISTANCE: \$2,536

We are at \$2,394, down \$9. We have been trading between \$2,373-\$2,411 so far today.

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Base Metals Prices and Forward Curve Snapshot

LME Cash	29-Aug-22	Prev Day	Month ago	3M Trend		12M Trend
CU (\$/MT)	8,188	8,167	7,931			
AL (\$/MT)	2,503	2,444	2,504			
PB (\$/MT)	1,984	1,972	2,037			
ZN (\$/MT)	3,647	3,625	3,412			
NI (\$/MT)	21,540	21,578	23,579			
SN (\$/MT)	24,939	24,485	25,212			
LME Frwrds	Cash	3-month	15-month	27-month	63-month	Curve's shape
CU (\$/MT)	8,188	8,161	8,117	8,083	8,046	
AL (\$/MT)	2,503	2,494	2,537	2,584	2,698	
PB (\$/MT)	1,984	1,986	1,962	1,933	1,901	
ZN (\$/MT)	3,647	3,566	3,189	2,876	2,500	
NI (\$/MT)	21,540	21,633	22,021	22,305	22,978	
SN (\$/MT)	24,939	24,750	23,495			
SHFE Front	1 month	3 month	6 month	9 month	12 month	Curve's shape
CU (CNY/T)	63,650	62,940	62,210	62,550	62,290	
AL (CNY/T)	19,025	18,895	18,735	18,815	18,625	
PB (CNY/T)	14,965	14,965	14,965	14,915	14,925	
ZN (CNY/T)	25,550	24,945	24,190	23,830	23,450	
NI (CNY/T)	172,150	166,660	160,240	156,980		
SN (CNY/T)	199,820	197,540	194,870	192,500	194,590	

Base Metals Inventories

Copper	Today	1 day Δ	1 month	6 month	Yr Ago	12M Trend
LME (MT)	120,525	0	130,575	73,025	254,250	
SHFE (MT)	34,898		37,025	159,023	82,390	
COMEX (MT)	47,398	-591	54,802	63,797	45,505	
GLOBAL (MT)	202,821	-591	222,402	295,845	382,145	
Aluminum	Today	1 day Δ	1 month	6 month	Yr Ago	12M Trend
LME (MT)	278,025	0	291,025	824,025	1,338,125	
SHFE (MT)	204,564		185,358	335,892	248,926	
COMEX (MT)	21,274	0	21,569	21,206	35,897	
GLOBAL (MT)	503,863	0	497,952	1,181,123	1,622,948	
Lead	Today	1 day Δ	1 month	6 month	Yr Ago	12M Trend
LME (MT)	37,975	0	39,500	44,325	55,450	
SHFE (MT)	71,822		68,151	88,857	195,435	
GLOBAL (MT)	109,797	0	107,651	133,182	250,885	
Zinc	Today	1 day Δ	1 month	6 month	Yr Ago	12M Trend
LME (MT)	77,050	0	70,500	144,100	238,275	
SHFE (MT)	90,288		97,316	172,750	52,157	
COMEX (MT)	2,699	0	2,699	2,699	2,699	
GLOBAL (MT)	170,037	0	170,515	319,549	293,131	
Nickel	Today	1 day Δ	1 month	6 month	Yr Ago	12M Trend
LME (MT)	54,846	0	57,804	80,094	195,252	
SHFE (MT)	3,538		1,741	5,189	4,455	
GLOBAL (MT)	58,384	0	59,545	85,283	199,707	

Source: EDF Man Capital Markets/ Bloomberg

Technical Profile

	29-Aug-22	1 day	1 month ago	3 month ago	Yr ago
Volume (3-Mnth/lots)					
CU	18,084	28,926	43,356	52,317	36,757
AL	18,228	29,559	34,757	37,260	55,387
PB	4,559	10,070	9,938	10,887	11,038
ZN	5,206	14,617	22,737	23,218	18,935
NI	1,732	7,811	9,900	17,929	18,614
SN	338	479	897	292	633
Open Int (3-Mnth/lots)					
CU	238,551	238,551	226,119	286,964	310,473
AL	582,107	582,107	551,994	790,983	667,276
PB	83,639	83,639	84,518	105,662	108,520
ZN	194,447	194,447	196,784	191,756	229,431
NI	147,038	147,038	154,414	201,811	277,215
SN	11,949	11,949	12,217	16,173	16,093

Moving Averages & Implied Price Direction

	Cash	10 MAV	40 MAV	100 MAV	200 MAV
CU ↑	8,188	8,068	7,757	8,784	9,323
AL ↓	2,503	2,422	2,421	2,682	2,868
PB ↔	1,984	2,045	2,036	2,125	2,222
ZN ↓	3,647	3,603	3,349	3,669	3,639
NI ↓	21,540	21,807	21,801	25,926	24,845
SN ↓	24,939	24,756	25,048	31,821	36,881

Support & Resistance

	S1	S2	R1	R2	RSI
CU	NA	NA	NA	NA	60
AL	NA	NA	NA	NA	60
PB	NA	NA	NA	NA	37
ZN	NA	NA	NA	NA	60
NI	NA	NA	NA	NA	45
SN	NA	NA	NA	NA	49

Market Round-up (Data as on 9:30 am GMT)

	Today	1 day	1 month	6 month	Yr Ago
Gold	1,732	1,758	1,763	1,901	1,817
Silver	18.31	19.12	20.20	24.36	24.06
Platinum	838	874	890	1,039	1,007
Palladium	2,092	2,140	2,130	2,501	2,404
WTI	93.39	92.52	98.62	95.72	68.74
Brent	101.15	99.34	110.01	100.99	72.70
WTI Inv (mbbl)	422	422	427	412	424
Sterling	1.1666	1.1832	1.2171	1.3420	1.3764
Euro	0.9937	0.9975	1.0220	1.1219	1.1795
CNY	6.92	6.85	6.74	6.31	6.47
Dollar Index	109.32	108.47	105.90	96.71	92.69

Physical Premiums (Aluminium)

	Today	1 day	1 month	6 month	Yr Ago
US (\$/lb)	0.266	0.267	0.287	0.362	0.344
JP (\$/MT)	90.65	90.74	96.35	115.11	156.67
EU (\$/MT)	518.81	524.33	565.00	466.25	363.13

Source: EDF Man Capital Markets/ Bloomberg