ED&F MAN Capital Markets EST. 1783

LME Metals Report

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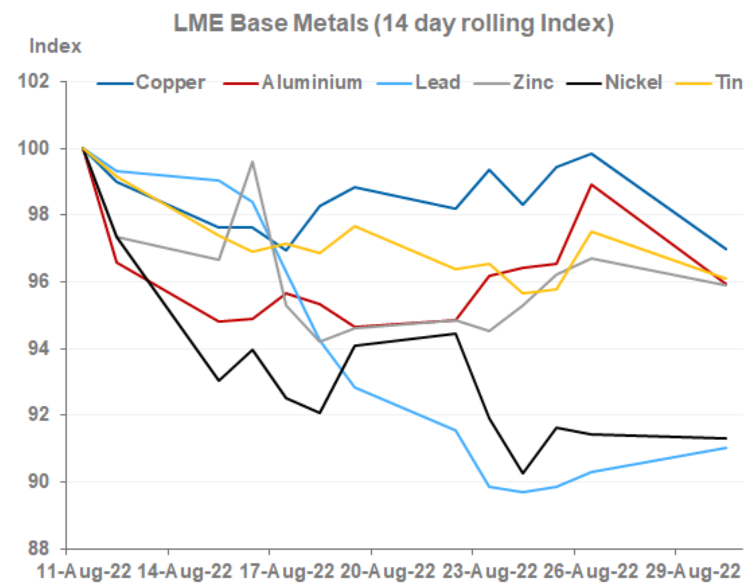


Commodity prices are under pressure once again right now, as copper and aluminum have each sunk to four and six-week lows in the last hour, with only nickel higher. There was no particular news that sparked the earlier decline, but we suspect that a stronger dollar and a lingering hangover over from last week's sharp US equity selloff continues to impact sentiment negatively. Overnight, we learned that official PMI numbers out of China showed some signs on stabilization, but they remain in contraction mode and did little to help sentiment either. In this respect, the official factory PMI rose to 49.4 in August from 49.0 in July and although there were slight upticks in the new export orders and output indices, all three remain below 50 and in contraction territory. The composite PMI, which combines manufacturing and services, fell to 51.7 from 52.5 a month prior. "The official PMIs show a further loss in economic momentum this month as the reopening boost waned and the property downturn deepened," Capital Economics said in a note. "We continue to think the economy will struggle to make much headway during the coming months." In addition, the recent spike in COVID-related restrictions will likely keep the PMI readings under pressure at least through September.

In the Chinese ferrous markets, iron ore prices fell overnight by about 1%, ending down for a third straight month. There were modest declines in steel prices as well, but stainless valuations were up by more than 2% on account of the firmer tone in nickel.

In the energy space, oil prices fell by more than $5/barrel on Tuesday and are down by another $1.40 right now at $90.29 (having sunk to $88.27 earlier). Data released late on Tuesday from the API showed crude stocks rising unexpectedly by nearly 600,000 barrels (versus an expected decline of 1.5 million) but there were sharp drawdowns in both gasoline and distillates. Nonetheless, the figures are not doing much for prices as the focus instead is on a market that could be heading into surplus. In this regard, OPEC's technical research group put out a note today projecting a 900,000-barrel surplus for this year, up 100,000 bpd from an earlier forecast.

Meanwhile, Russia halted most gas deliveries to Europe again today, as it prepares for a four-day maintenance on its pipeline that will run through today to September 3. Many analysts think the outage could run well beyond that date. But European gas markets are not too rattled, with benchmark Dutch futures declining by almost 10% earlier as a significant buildup in storage seems to be reassuring participants. In addition, there is widespread talk about rationing heading into the winter, which means that gas demand will be reduced even further. Reuters also reports that “Europeans are voluntarily cutting their energy consumption, including limiting their use of electrical appliances and showering at work to save money”.

Precious metals continue to struggle, as gold seems to be heading towards a breach of $1700 mark given the way it has been trading over the last 10 days. The complex is down another $14/ounce right now at $1722. Silver has already taken out the $18 mark, down $0.30 at $17.98. There are more modest declines in platinum and palladium.

In the currency markets, the general dollar index was higher by about ¼ of a point earlier and came close to a 20-year peak but has retraced somewhat in the last hour. The Euro is trading on either side of parity, while sterling has plunged to 1.1602 earlier. The yen is holding steady at 138.70, but the Canadian dollar is quite weak, now at a six-week low of 1.3130.

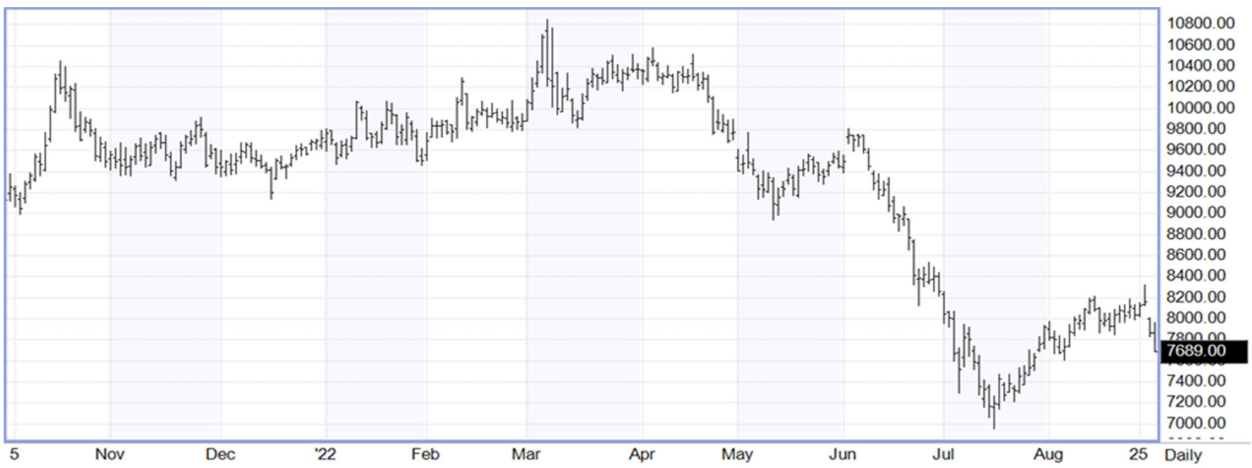
In US macro news out from Tuesday, the Conference Board's consumer confidence index rose to 103.2 in August (consensus 97.4) from 95.3 in July. This was the first increase in the index in four months. The July JOLTS job openings report came in at 11.239 million after 11.04 million seen in June. And finally, the June S&P Case-Shiller home price index rose 18.6% year-over-year following a prior 20.5% increase.

In the last hour, the ADP reported that 132,000 jobs were added in August, well below the 315,000 estimate and much less than the 270,000 created in July. Is this a possible sign that the labor markets are finally starting to soften? We will see as the more comprehensive nonfarm payroll number comes out on Friday (expected at 285,000). In response to the ADP number, treasury yields have come off their highs with the 2-yr note yield up one basis point to 3.46%. The 10-yr note yield is up one basis point, at 3.13%.

US equity markets are expected to open higher, but we would not read too much into this as a similar advance dissolved rather quickly on Tuesday as well. For now, the mood remains sellerish pretty much across most markets, with the dollar being the lone exception.

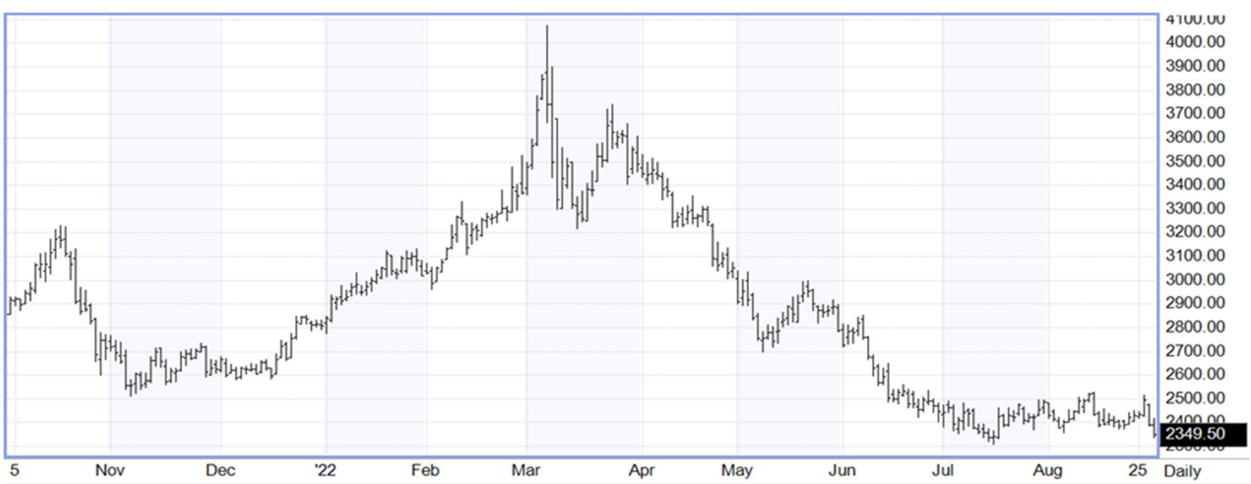
COPPER -- SUPPORT: $7,602 / RESISTANCE: $8,214

We are at $7,753, down $110. We have been trading between $7,653-$7,960.



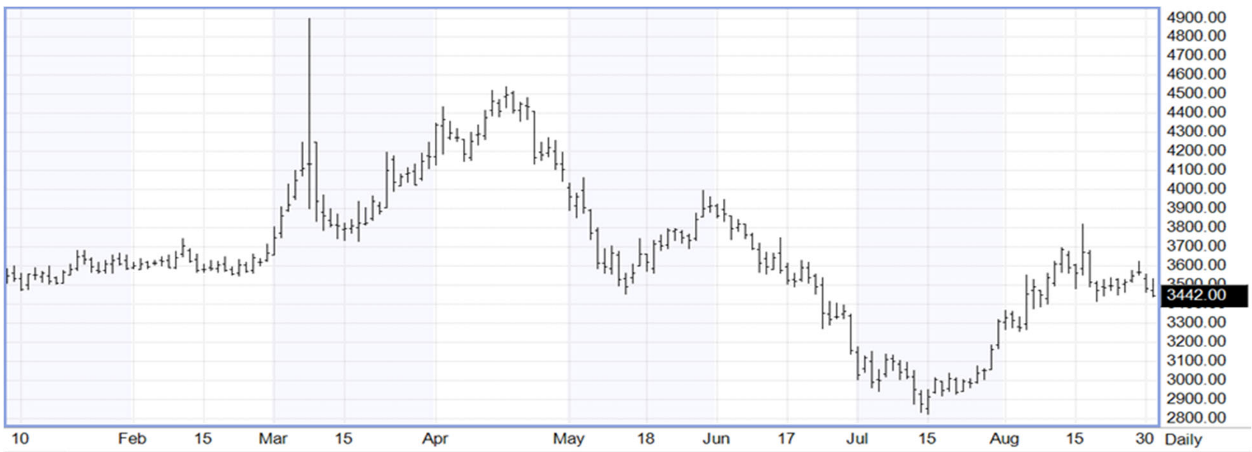
ALUMINUM -- SUPPORT: $2,300 / RESISTANCE: $2,515

We are at $2,360, down $31. We have been trading between $2,339-$2,417 so far today.



ZINC – SUPPORT: $3,267 / RESISTANCE: $3,623

We are at $3,464, down $18. We have been trading between $3,437-$3,532.



LEAD -- SUPPORT: $1,943 / RESISTANCE: $2,064

Lead is at $1,953, down $2348. We have been trading between $1,947-$1,994.

NICKEL -- SUPPORT: $21,020 / RESISTANCE: $22,630

We are at $21,810, up $441 and close to our highs for the day. We have been trading between $21,295-$21,825 thus far.

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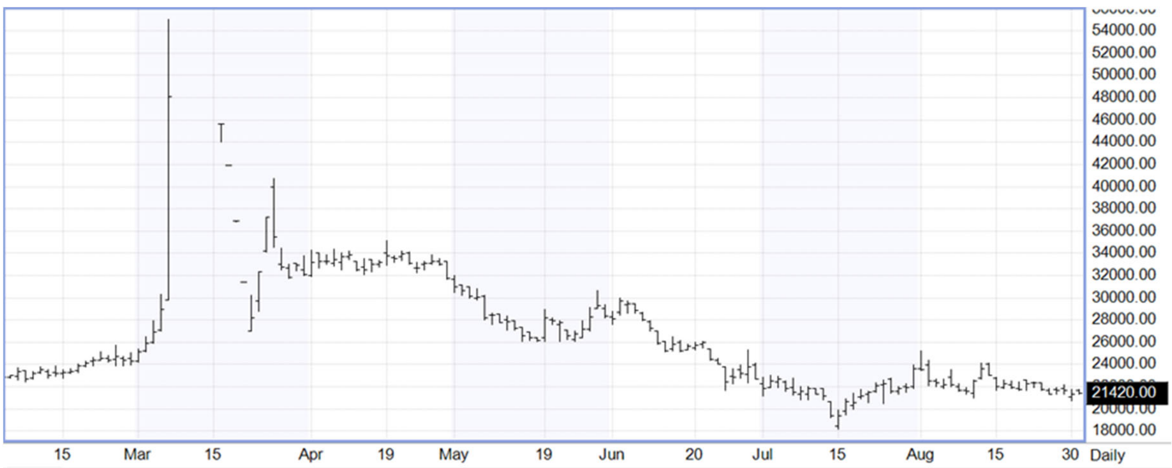
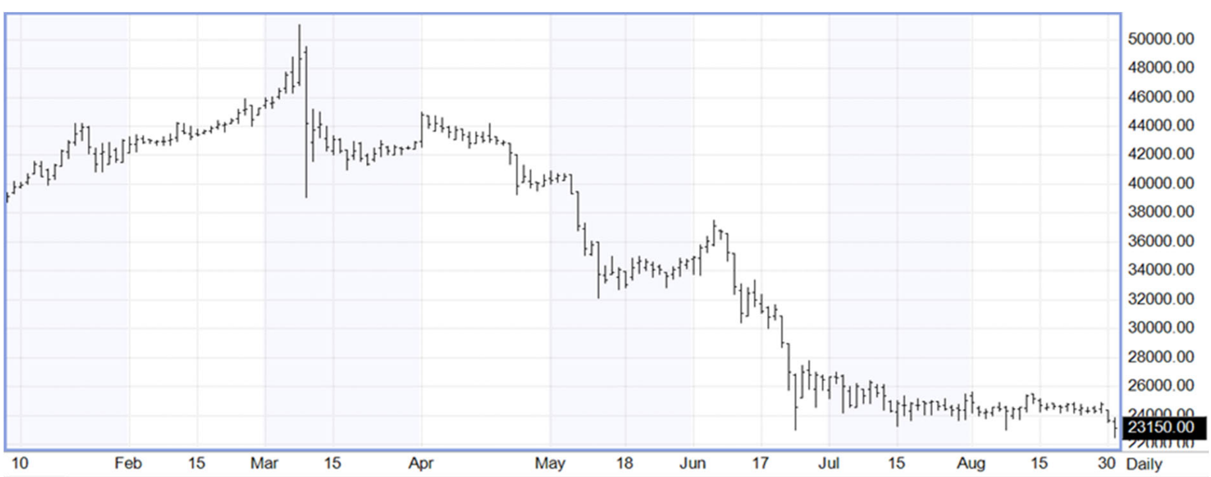


TIN -- SUPPORT: $22,000 / RESISTANCE: $25,500

We are at $22,960, down $692 and having a brutal week thus far. We have been trading between $22,495-$23,825.



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