LME Metals Report

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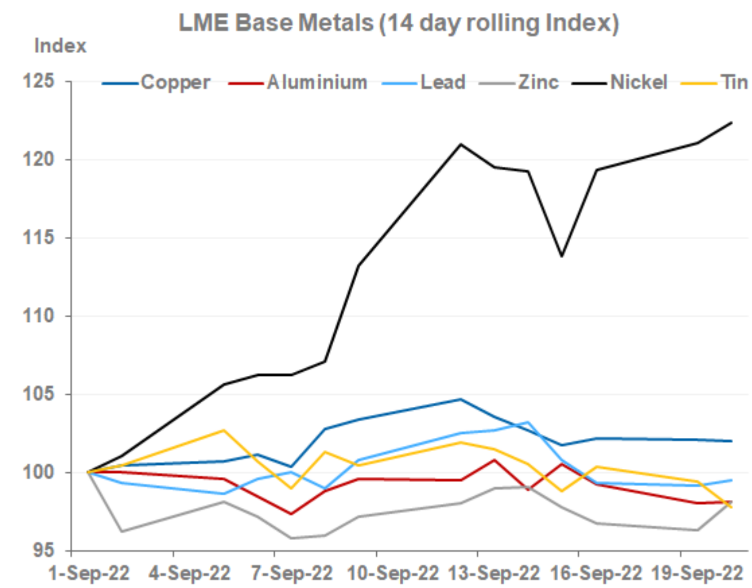

It was an ugly day in the US equity markets after the Fed's 2 pm policy statement came out. The statement bluntly noted that it "anticipates that ongoing increases in the target range will be appropriate," quashing any hopes for a more nuanced message on rates. Jay Powell's subsequent press conference was hardly any more reassuring as the Chairman came across as the more hawkish Powell of August as opposed to the more dovish Powell from July. On the rate front -- and as expected -- the Fed raised the funds rate by 75 basis points to 3-3.25% and it now projects another 1.25% of rate hikes through year-end, bringing the fed funds range to 4.4%. Fed funds are expected to peak at 4.6% early next year and then begin to decline to 3.9% in 2024 and to 2.9% in 2025. (Having said that, the Fed's "dot-plot" forecasts are notoriously wrong—the ones from this time last year had current rates at about .75%).

Powell reiterated that it was job #1 for the Fed to break the inflation cycle before inflationary expectations, which are well anchored for now, start to move higher. "The historical record cautions strongly against prematurely loosening policy," he noted. Powell was pretty pessimistic on what he was seeing on the inflation front thus far, noting that the PCE index (a favored Fed inflation gauge) is pretty much unchanged from year-ago levels.

Asked about the damage that rate rises could inflict, Powell was uncertain, saying that "No one knows whether this process will lead to a recession" but clearly the markets are concluding otherwise. US equities fell right after the policy statement came out, rallied midway through Powell's press conference, but then plunged as stocks went into the final 30 minutes of trading. By the close, each of the three indices lost 1.7% each (or more than 500 points in the case of the Dow). The CBOE market volatility index popped to a high of 30.18, before settling at 27.99, its highest close since June 30th and perhaps a sign that some sort of selling capitulation may be nearing.

US credit markets were all over the place; both the ten year and the two-year treasury made new highs just as Powell spoke, getting to 3.62% and 4.11% respectively, but retreated thereafter to settle at 3.51% and 3.95%. However, that decline hardly helped US equities as Powell's generally more hawkish message seemed to carry more weight. The modest slide in yields did seem to help gold, which ended up slightly, settling at $1,675.70. Silver gained 1% as well, but both platinum and palladium lost ground, shadowing the weaker tone evident in the LME markets. Apart from nickel, the rest of the LME metals ended at their lows. Ali was the weakest in the group, briefly breaching $2200 to mark a new 18-month low.

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Crude oil prices finished lower by nearly $1/brl after opening sharply higher on news that Russian President Putin would mobilize 300,000 additional reservists for the conflict in Ukraine. It remains to be seen if these troops will fare any better than the ones that are already there.

In the currency markets, the dollar surged to a two-decade high and tacked on more than a point basis the general dollar index. Since the beginning of the year, the index is up nearly 16%, its largest yearly percentage gain since at least 1972. Indeed, there have been few places for portfolio managers to hide this year apart from cash and the general dollar index. Among individual currencies, the Euro hit a 20-year low, trading at $0.9810, while sterling plunged to $1.1237 at one point, a fresh 37-year low.

In US macro news, total housing starts increased 12.2% month-over-month in August to a seasonally adjusted annual rate of 1.575 million (consensus 1.448 million), driven by a 28% increase in multi-unit starts. (Single-family starts were up 3.4%). Building permits, though, were down 10% month-over-month to a seasonally adjusted annual rate of 1.517 million (consensus 1.610 million), driven lower by a 18% decline in multi-unit permits and a 3.5% decline in single-family units. The key takeaway from the report is that the weakness in permits is likely not sustainable, especially given that mortgage rates have risen since July-August and are now over 6%. In addition, the NAHB housing market index for September, out on Tuesday, showed yet another decline in homebuilder sentiment and so we would not reach too much into these numbers.

On Thursday, we get weekly initial claims (expected at 214,000, unchanged from the previous week) along with leading economic indicators for August (expected at -.1%, last -.4%). The Bank of England also meets on Thursday, as does the Bank of Japan.

We think we should see a broad retreat in commodities prices once Thursday's Asia session gets underway as our asset class "catches up" with Wednesday’s much weaker tone in US equities markets and the surging dollar.

In other metals news…

* Global primary aluminum output in August rose 3.49% year on year to 5.888 million tons, this according to the **International Aluminum Institute**. Estimated Chinese production was 3.5 million tons in August, the IAI added.

* Reuters notes that the **global zinc market** moved to a deficit of 72,800 tons in July from a surplus of 34,600 tons a month earlier, this according to data from the **International Lead and Zinc Study Group**. During the first seven months of 2022, there was an 83,000-ton surplus vs. a deficit of 23,000 tons in the same period of 2021.

* The **LME** reported that it does not see evidence of metal moving into its warehouses after Bloomberg reported on Tuesday that Rusal was working on a plan to deliver its metal into LME sheds. Metal movement has remained relatively constant over the last 12 months, the LME added.

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* On a related noted, Bloomberg quotes the **CEO of Rio Tinto** as saying that the unrestricted flow of Russian aluminum into the US is making North American producers less competitive. US trade data shows that Russian ali imports into the US were up almost 60% last month from April. “It’s actually very difficult to have a profitable aluminum industry in North America at this point in time because Russian aluminum is flowing in,” Rio’s CEO was quoted as saying.