

Trafigura

**LME WEEK  
ECONOMIC KEYNOTE  
ADDRESS**

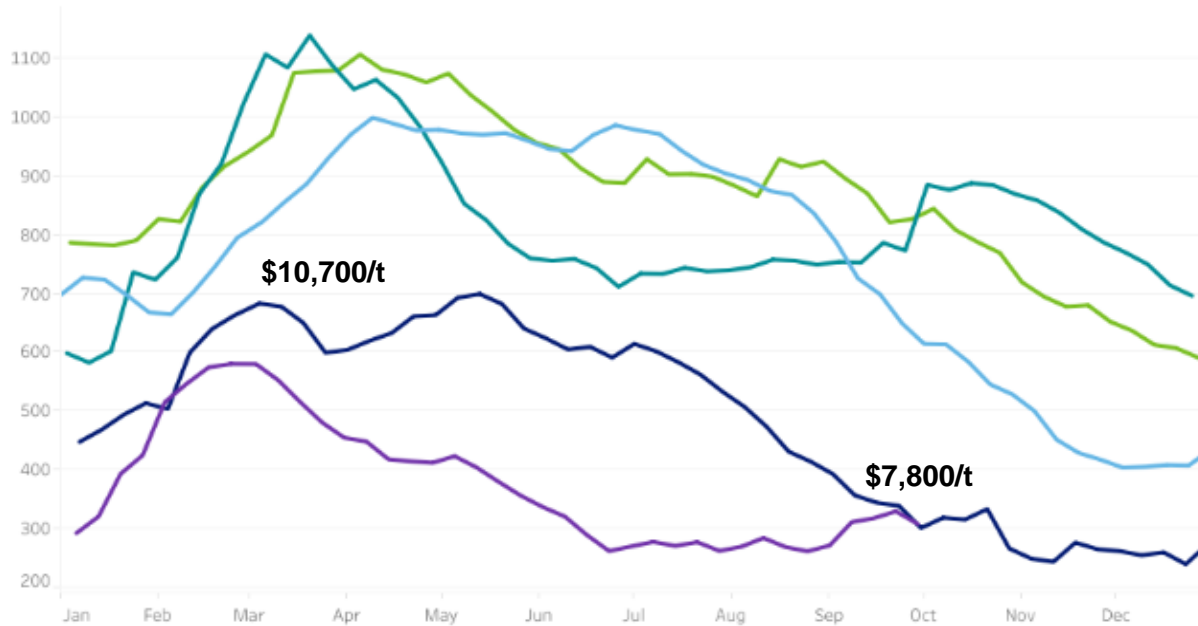
October 2023



# Something is amiss in commodity markets

## Visible stocks – Copper (global)

Stated as KT



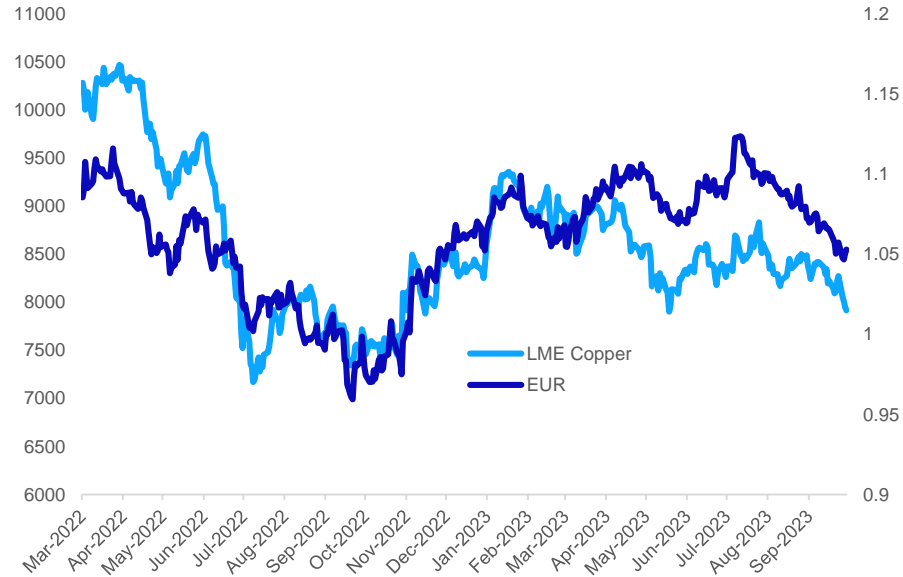
Source: LME, COMEX, SHFE, Trafigura Research

# Copper prices have been a Macro, not a Micro, story

## EUR vs. Copper

LME 3M Copper USD/tonne

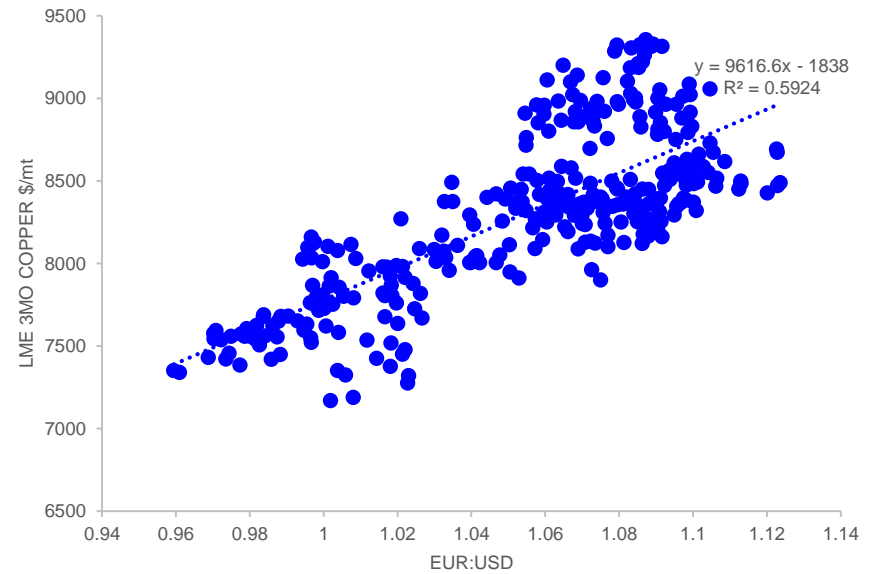
EUR:USD



Source: Bloomberg, Trafigura Research

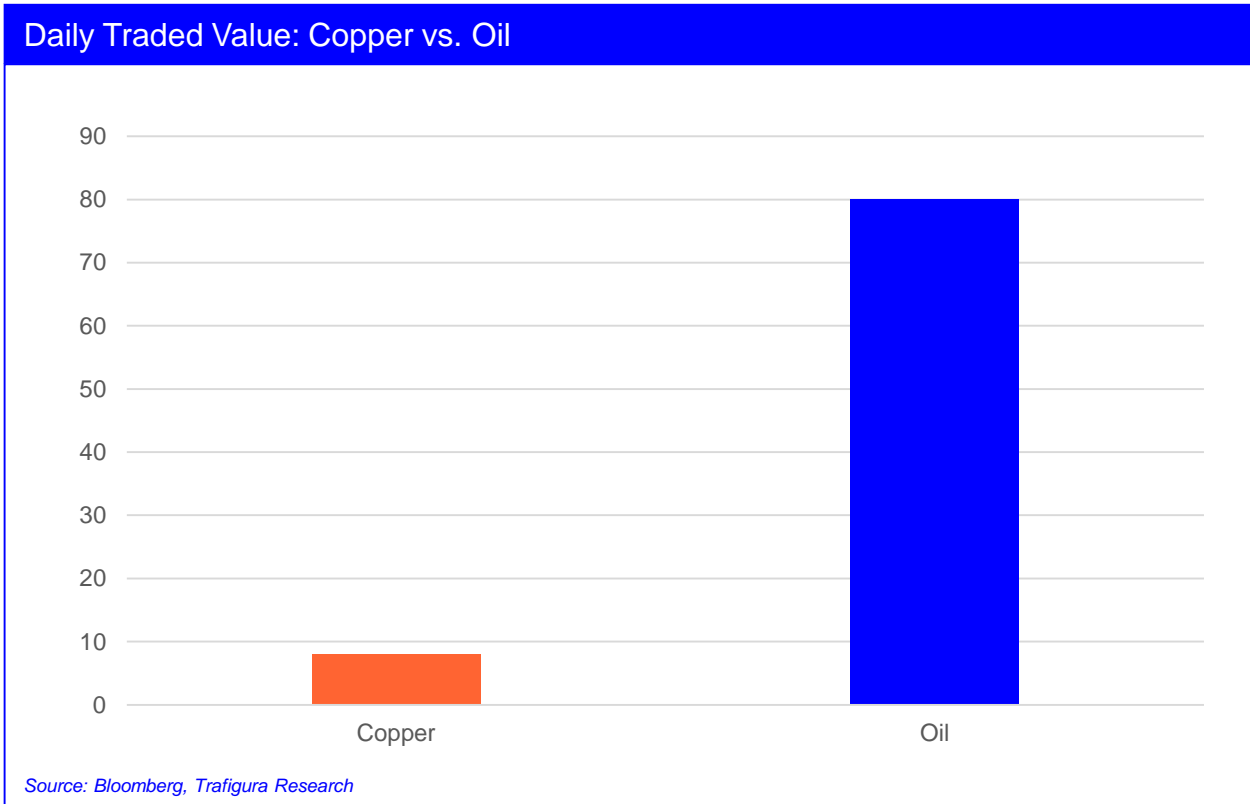
## EUR vs. Copper

LME Copper vs. EUR



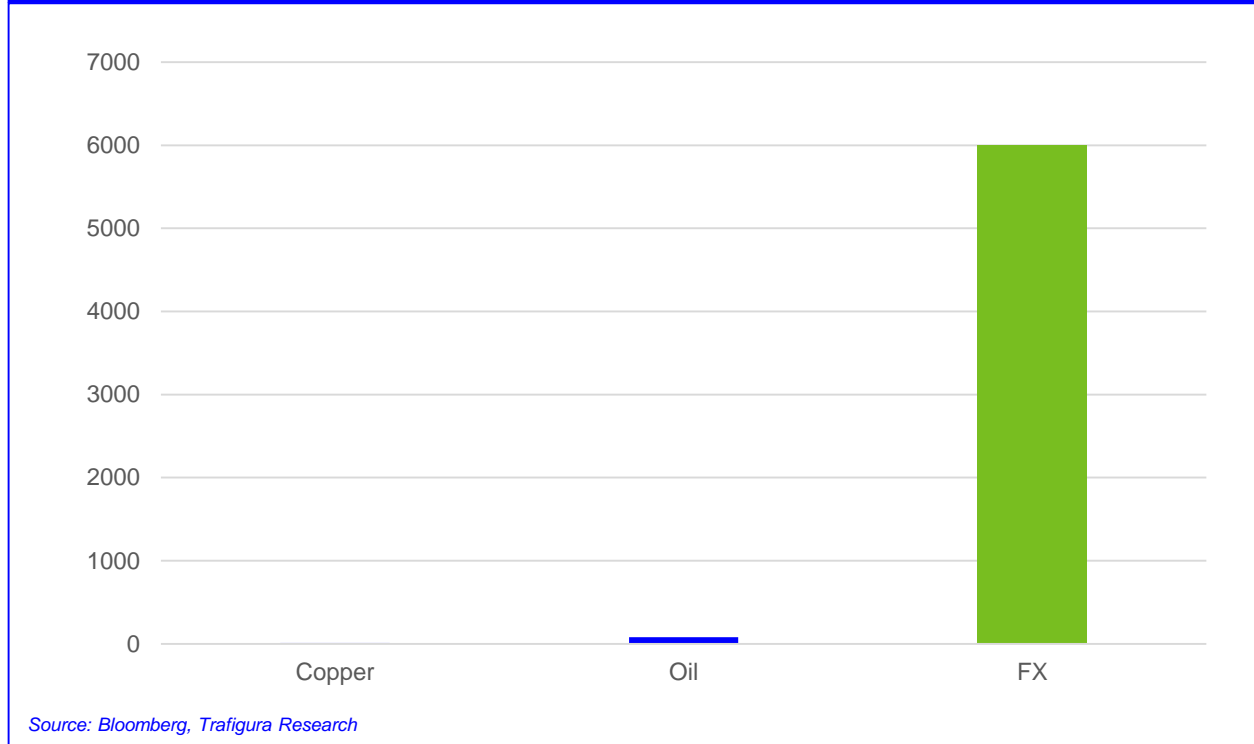
Source: Bloomberg, Trafigura Research

## Why does the Dollar matter so much for commodity markets?



...because it is orders of magnitude bigger than commodity markets

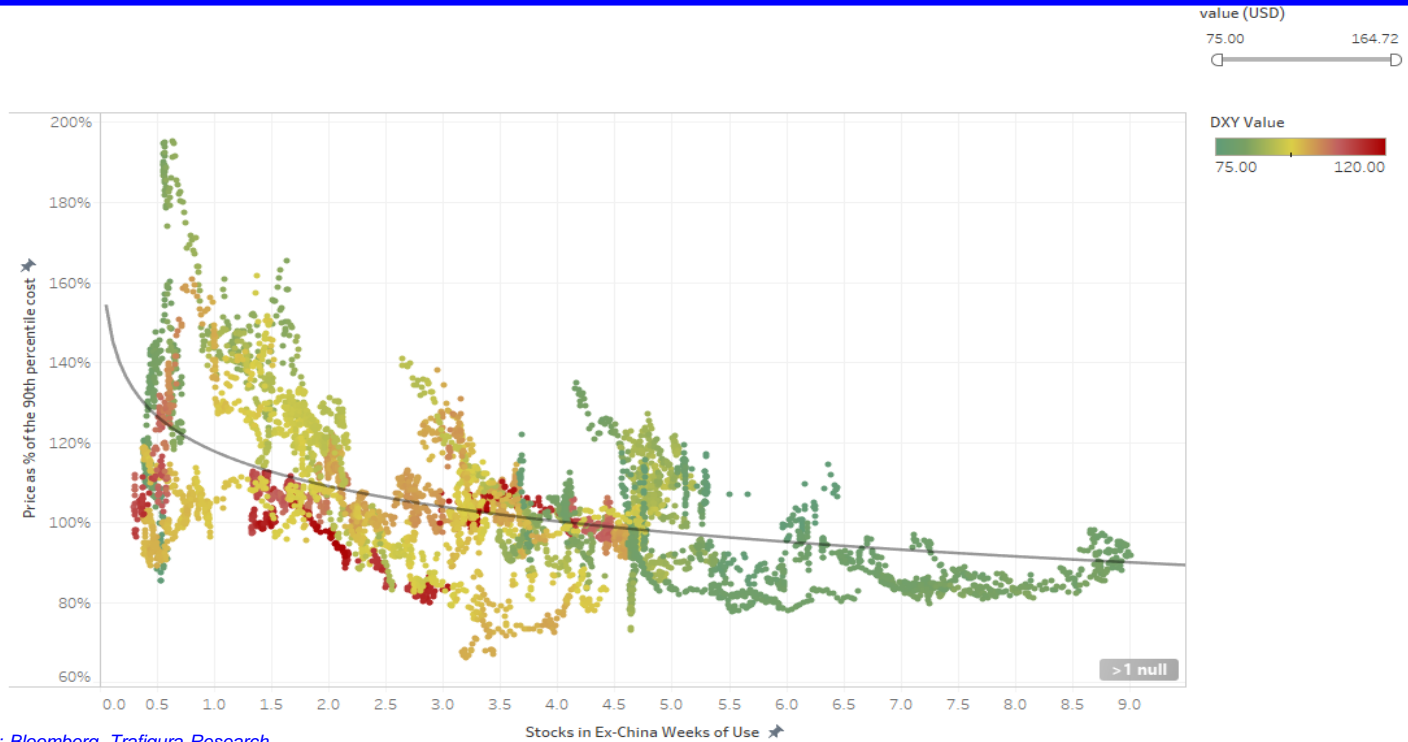
Daily Traded Value: Copper vs. Oil vs. FX



Source: Bloomberg, Trafigura Research

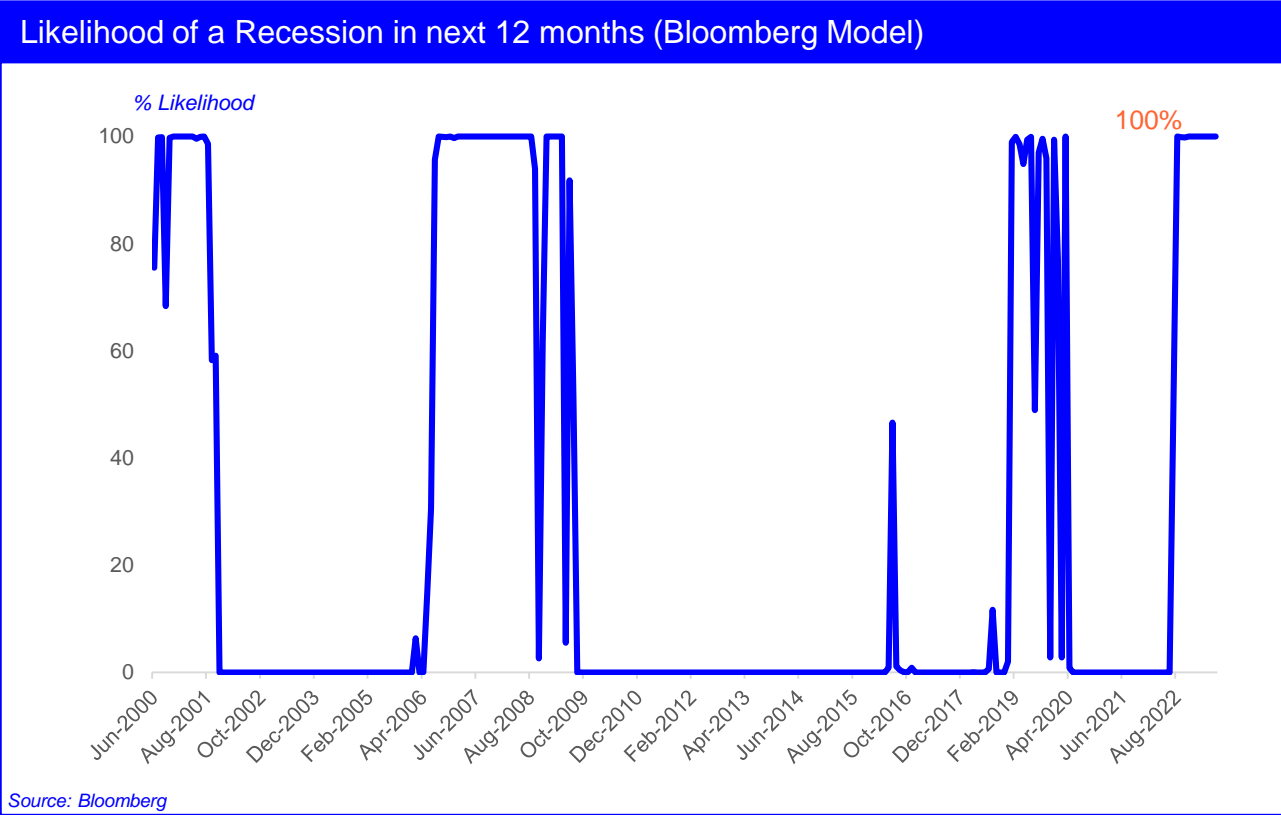
# ...and so can outweigh even the most compelling fundamentals

## US\$ vs. Zinc Stocks

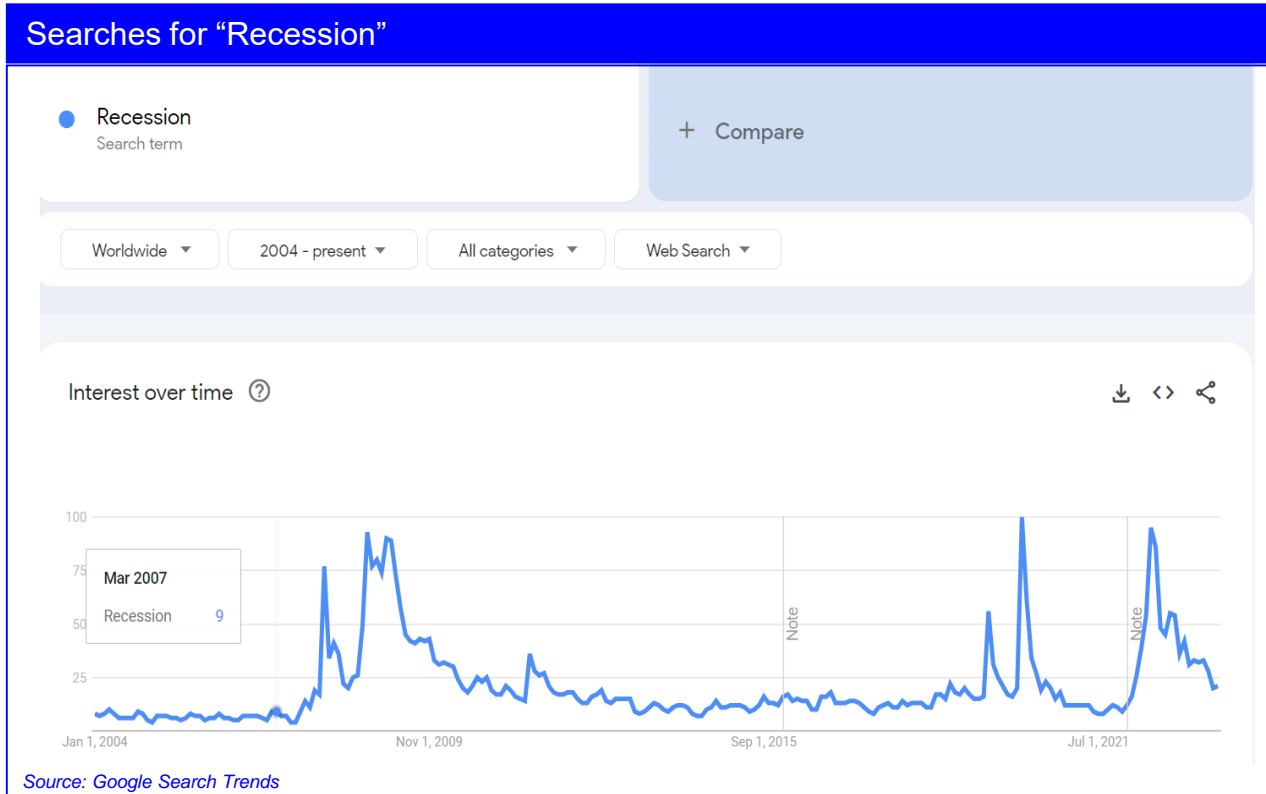


Source: Bloomberg, Trafigura Research

# A year ago, it was a certainty we would be in a recession by now

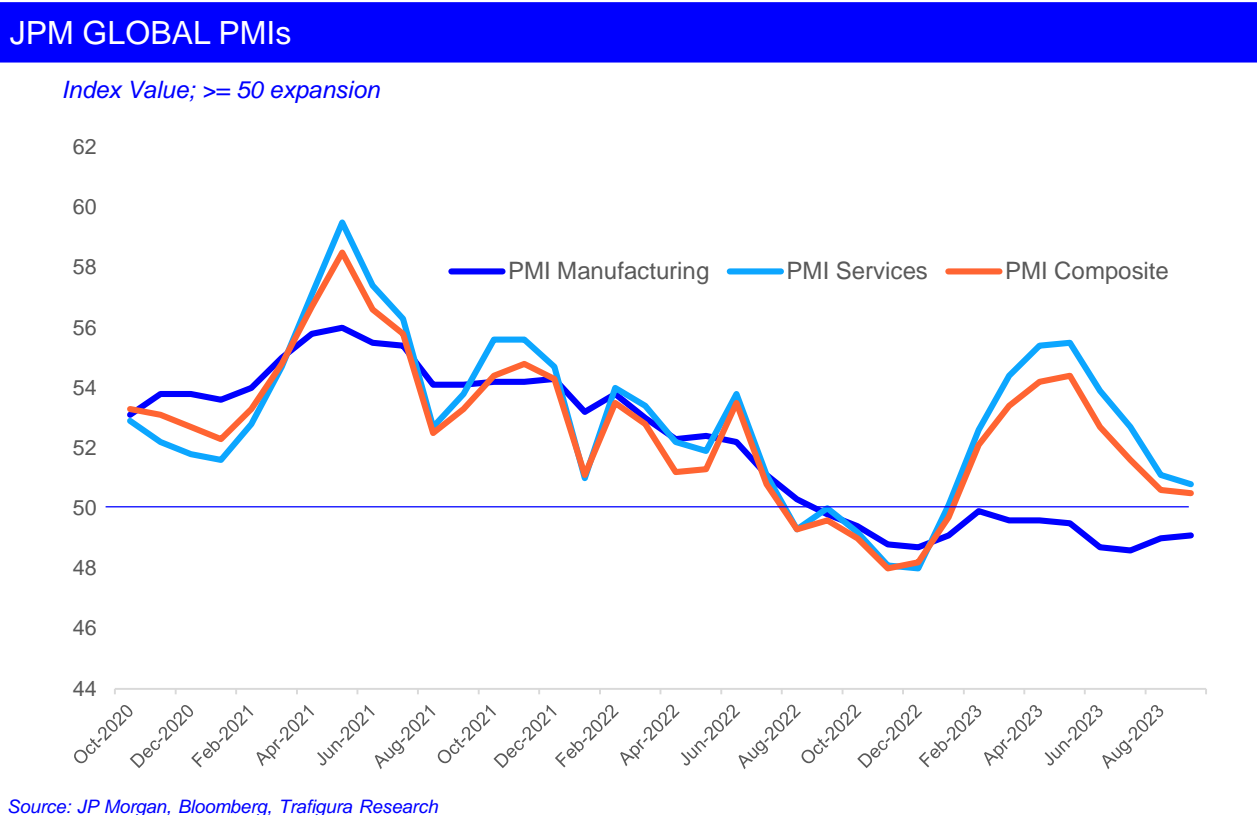


## ...driving consumer fears...but now:



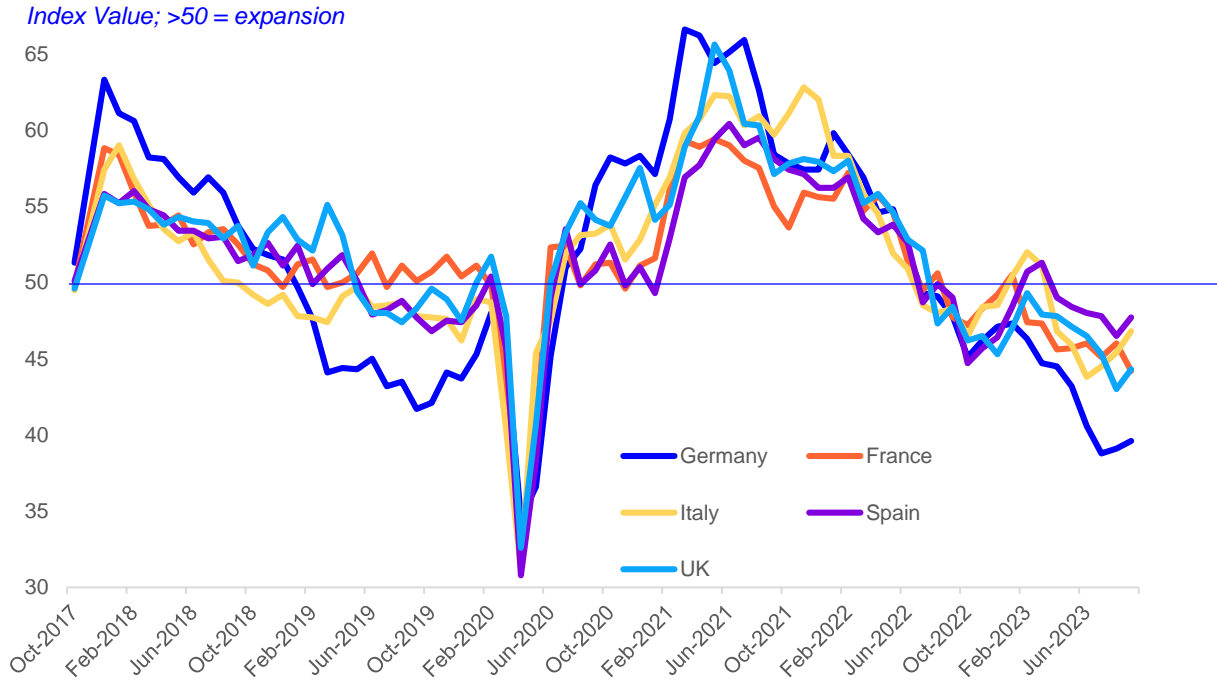


# Globally, Manufacturing is in contraction, while Services have held up



# European Manufacturing is very weak right now, although some uptick recently

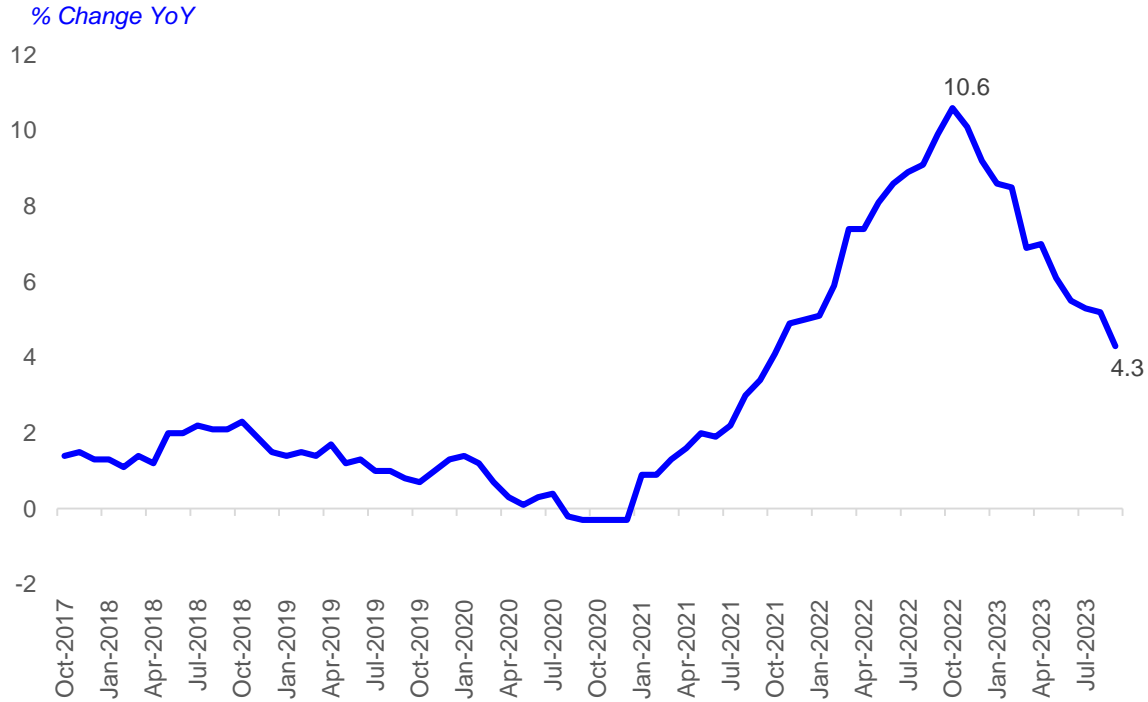
## European Manufacturing PMIs



Source: IHS/S&P, Bloomberg, Trafigura Research

# EU Inflation at least has dropped sharply

## EU Consumer Price Inflation

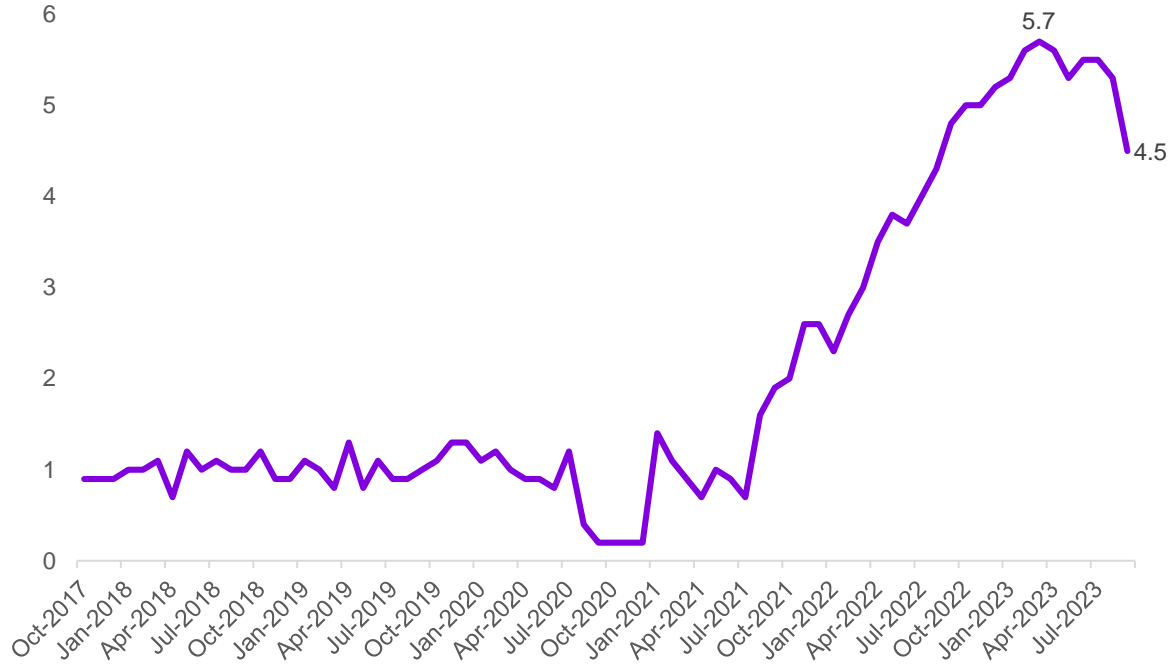


Source: Eurostat, Trafigura Research

## Core Inflation (ex-Food & Energy) remains high, but also coming down

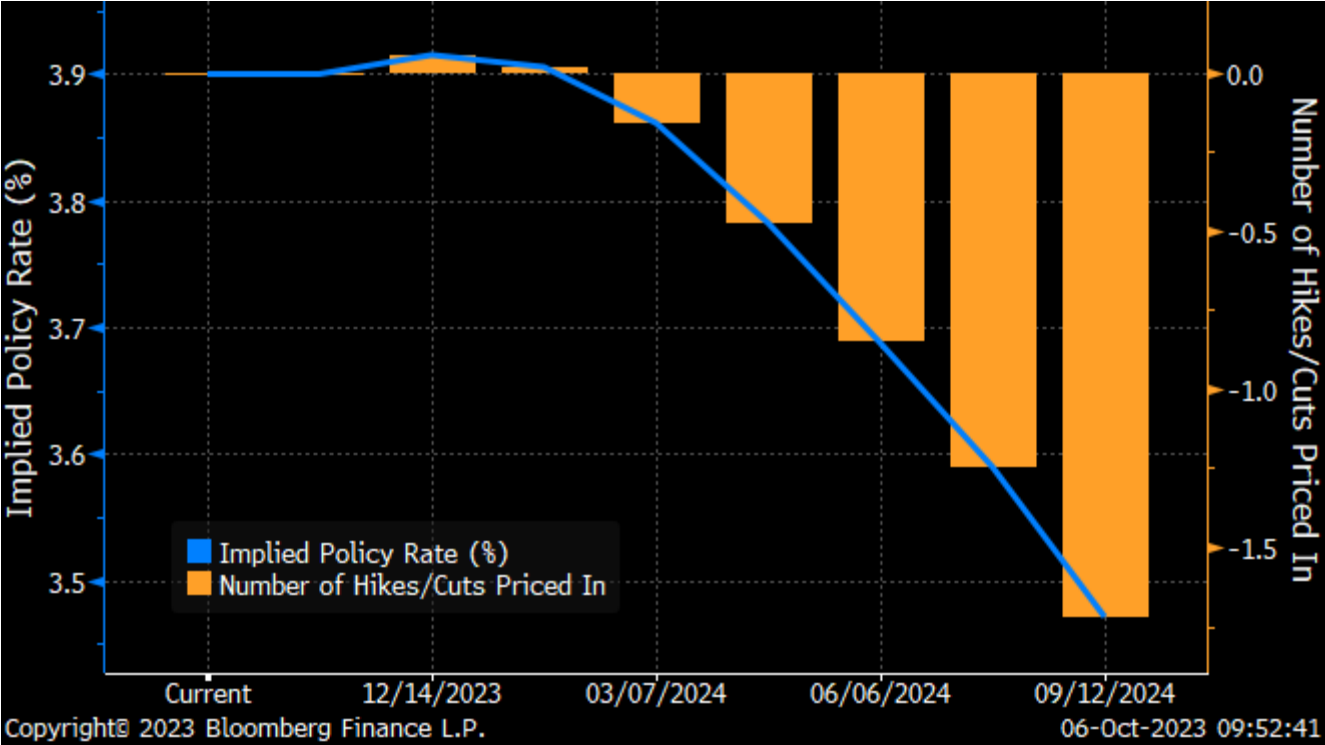
### EU Core Consumer Price Inflation

% Change YoY



Source: Eurostat, Trafigura Research

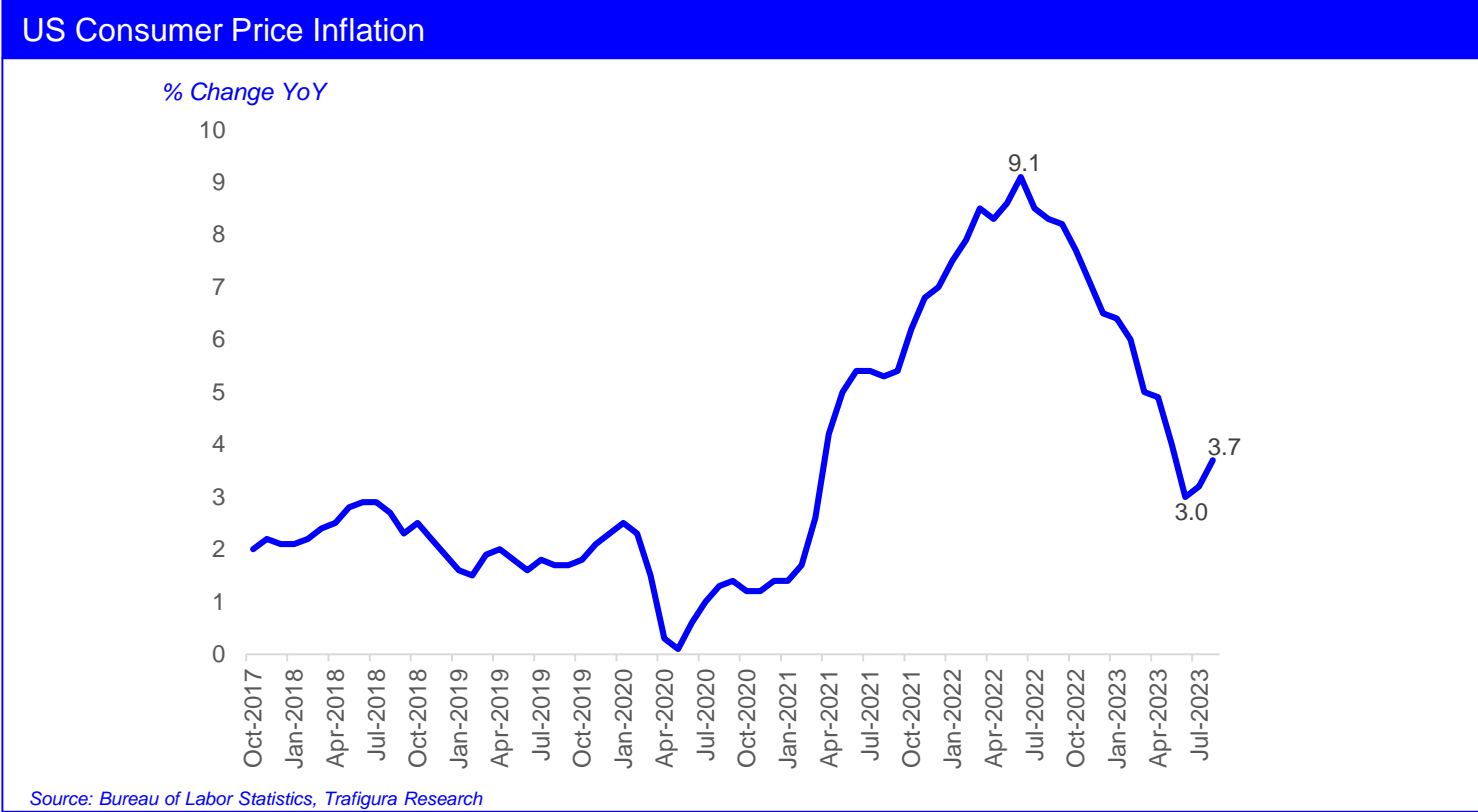
So the market is now pricing no more hikes, and cuts starting mid-next year



# Slow growth + no yield differential = weaker EUR



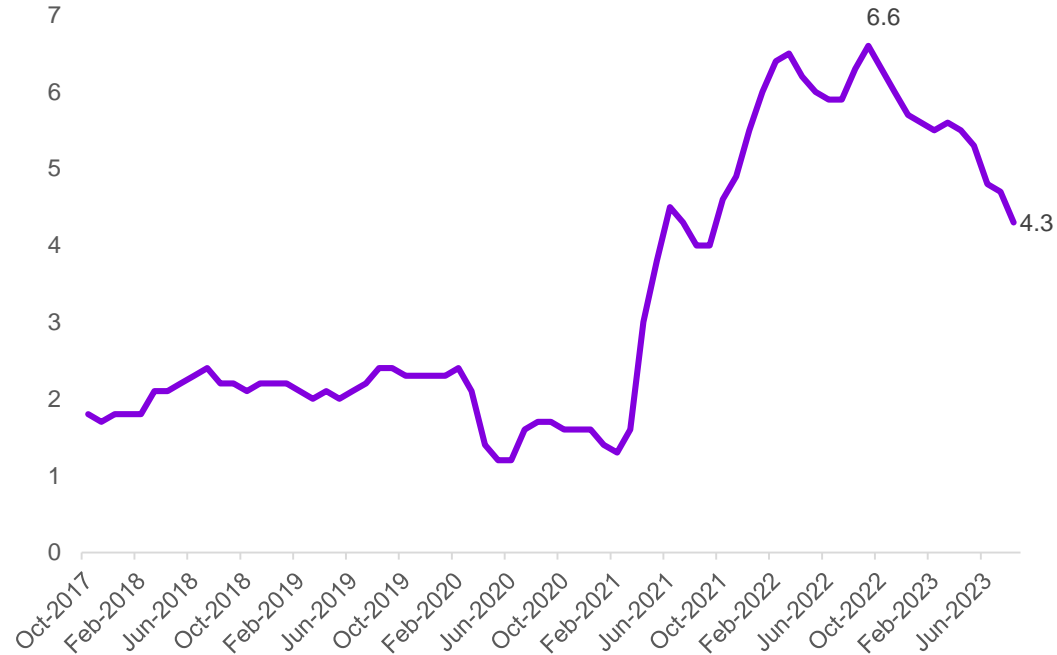
# Has the Fed “won”? Headline Inflation is down substantially



## ...and Core is coming down sustainably

### US Core Consumer Price Inflation

% Change YoY



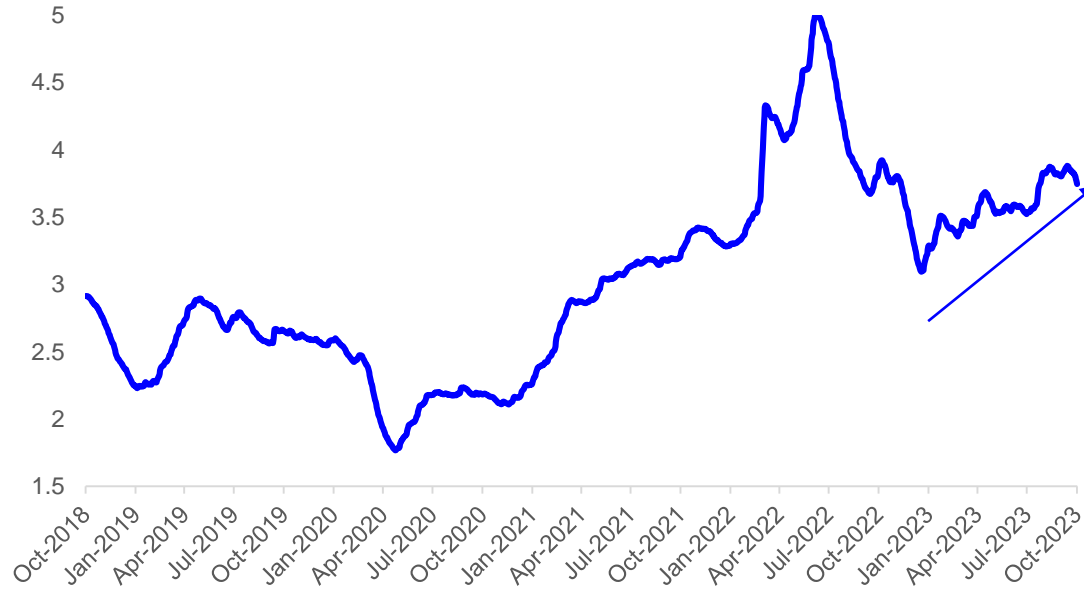
Source: Bureau of Labor Statistics, Trafigura Research



## ...but rising gasoline prices are a risk

### US Retail Gasoline Price, Nationwide Average

*\$/gallon*

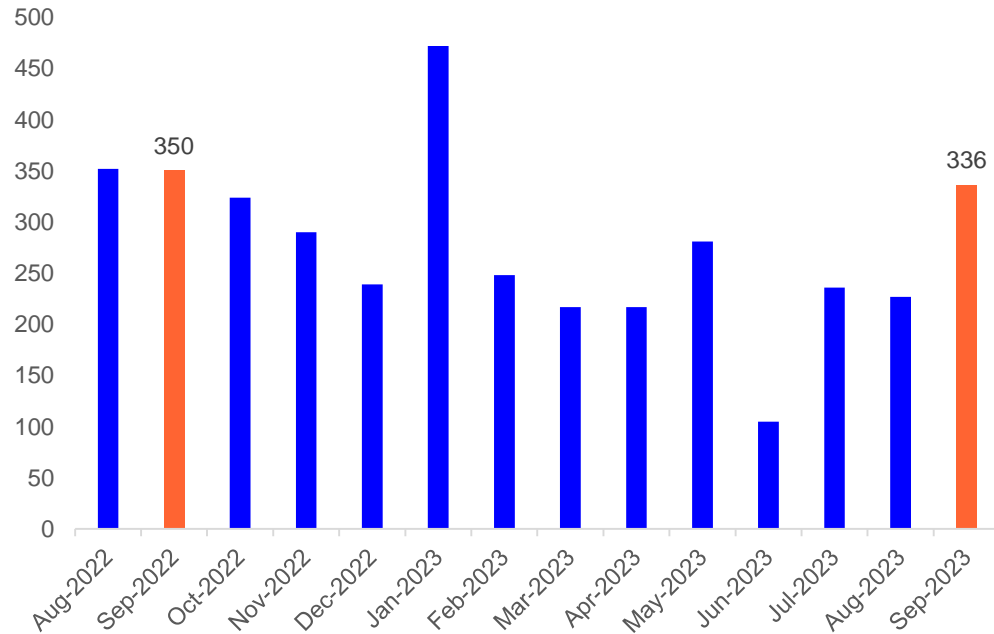


Source: AAA, Bloomberg, Trafigura Research

## ...and job growth is too hot

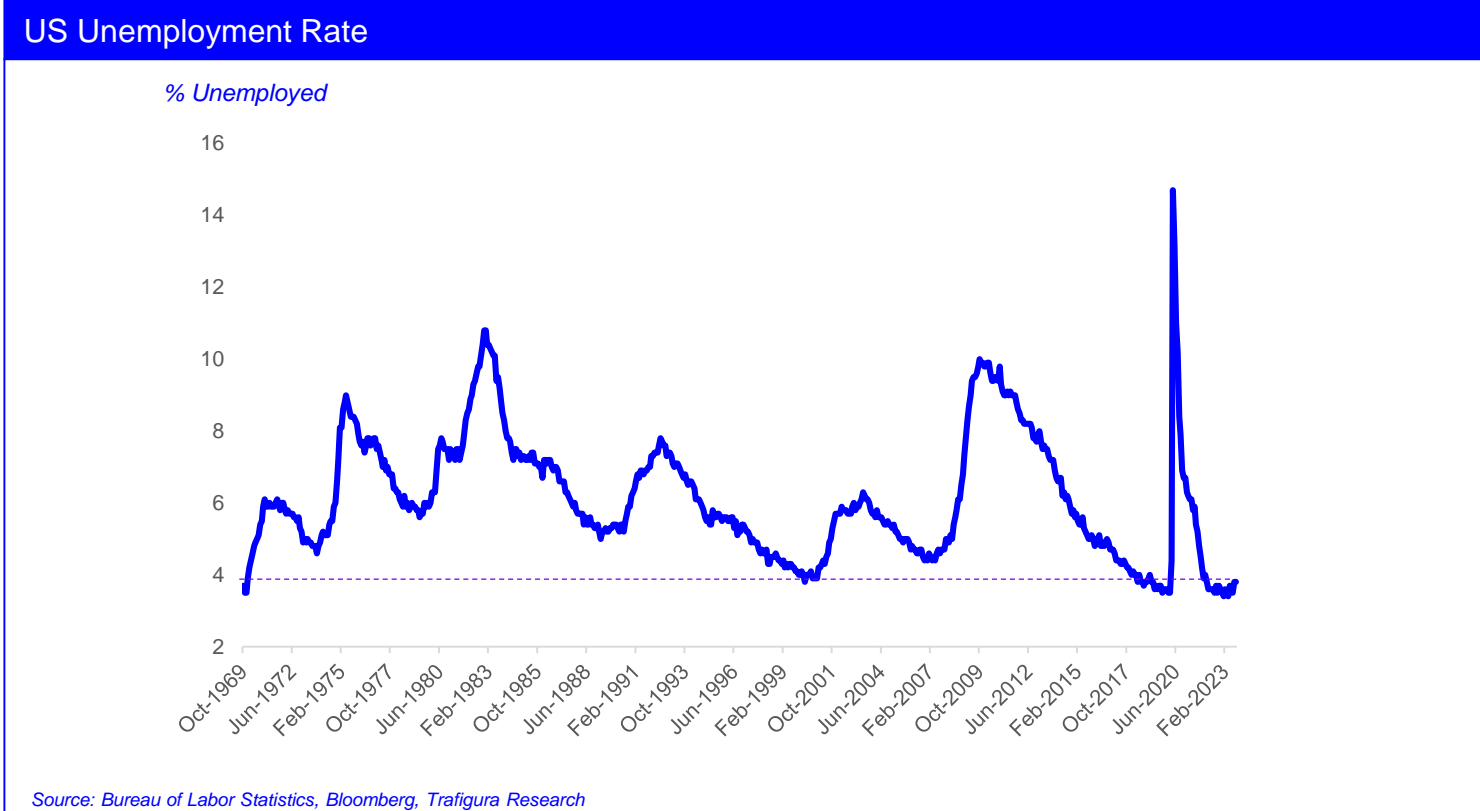
### US Nonfarm Payrolls

'000 Net Change MoM



Source: Bureau of Labor Statistics, Bloomberg, Trafigura Research

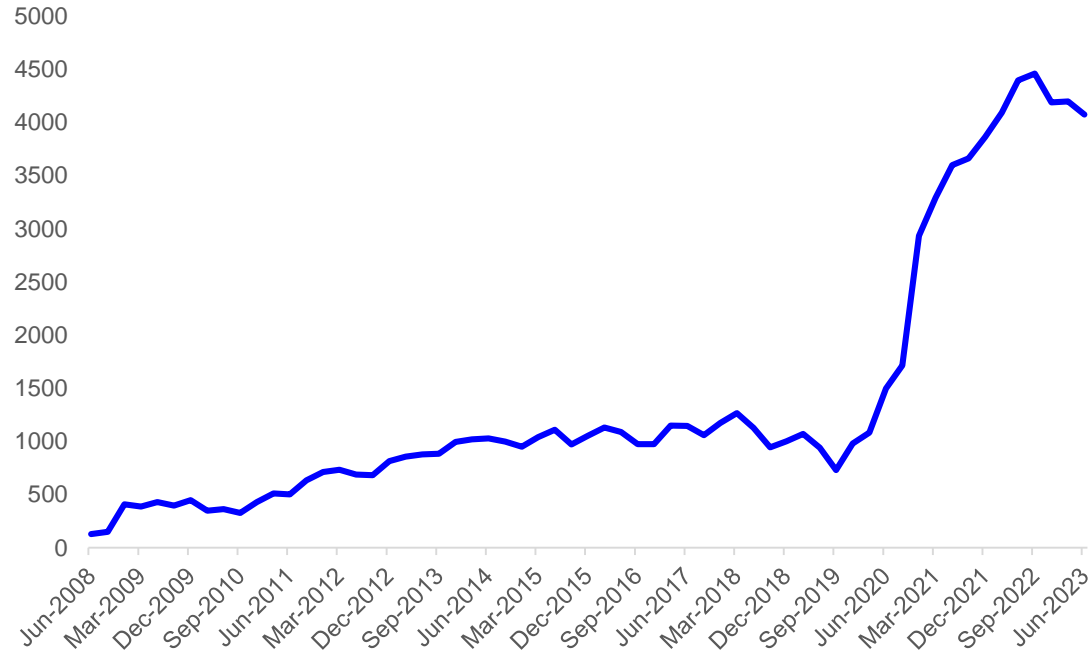
# The Fed has managed to bring inflation down without causing unemployment



## Forget the headlines: the US consumer is still sitting on a lot of cash

Currency held in Checking Accounts, US Households & Nonprofits

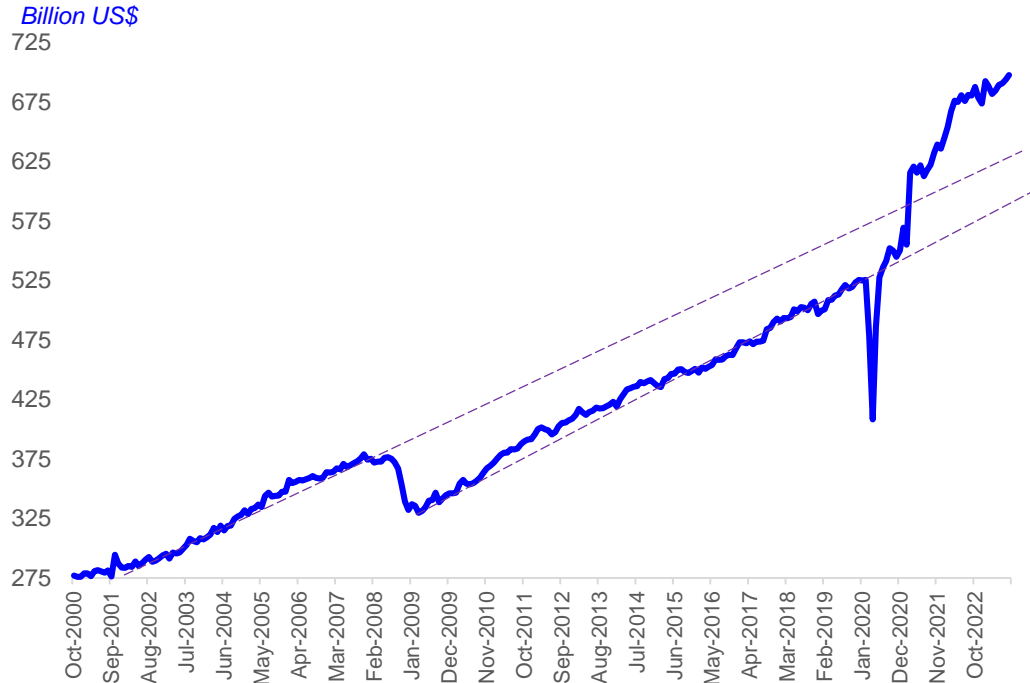
Billion US\$



Source: Federal Reserve, Bloomberg, Trafigura Research

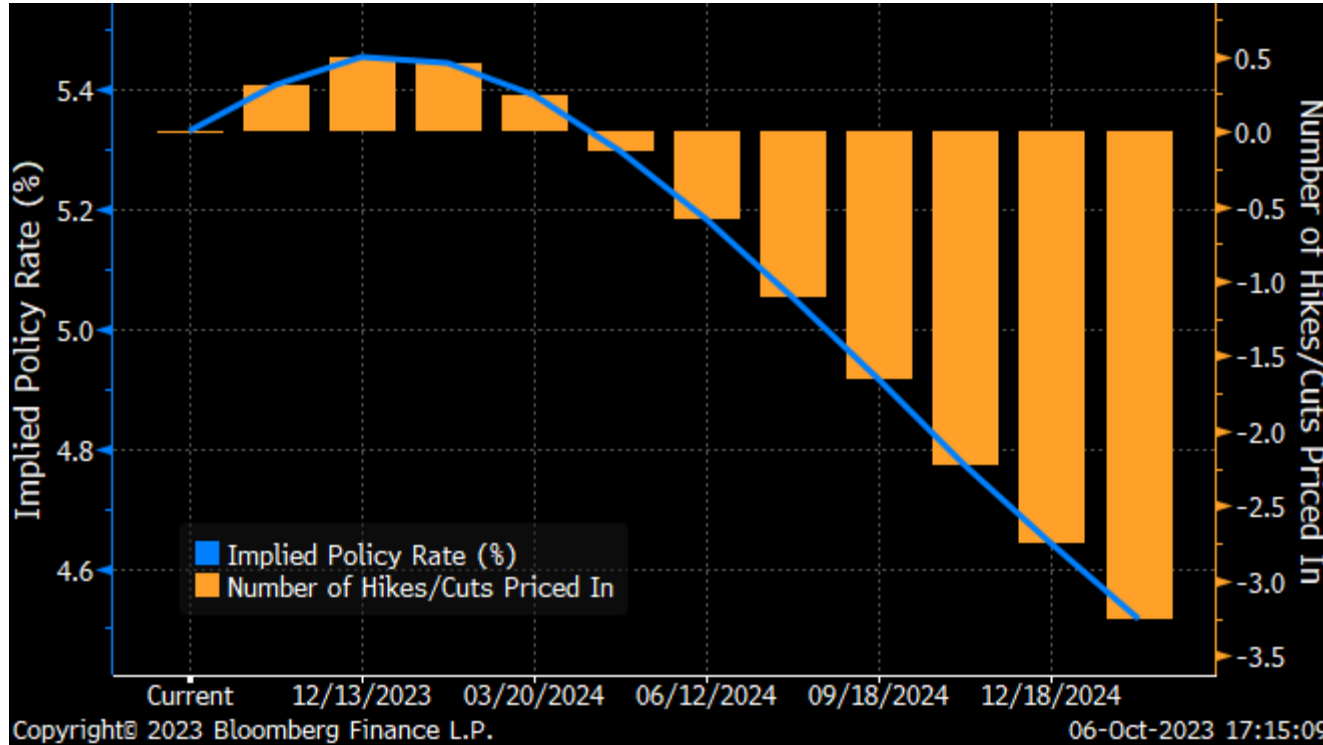
## ...and continue to spend heavily

### US Retail Sales, Monthly

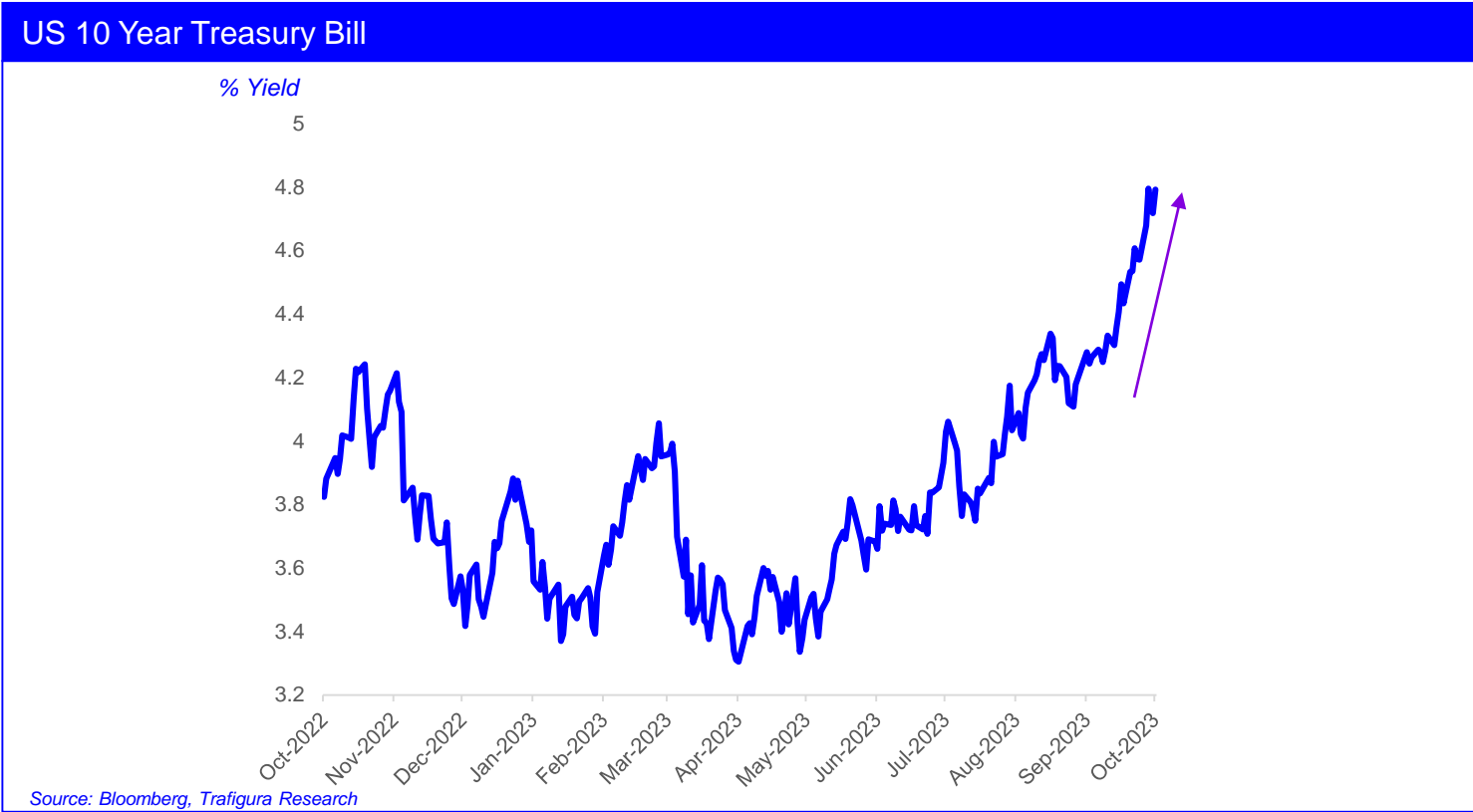


Source: US Census Bureau, Bloomberg, Trafigura Research

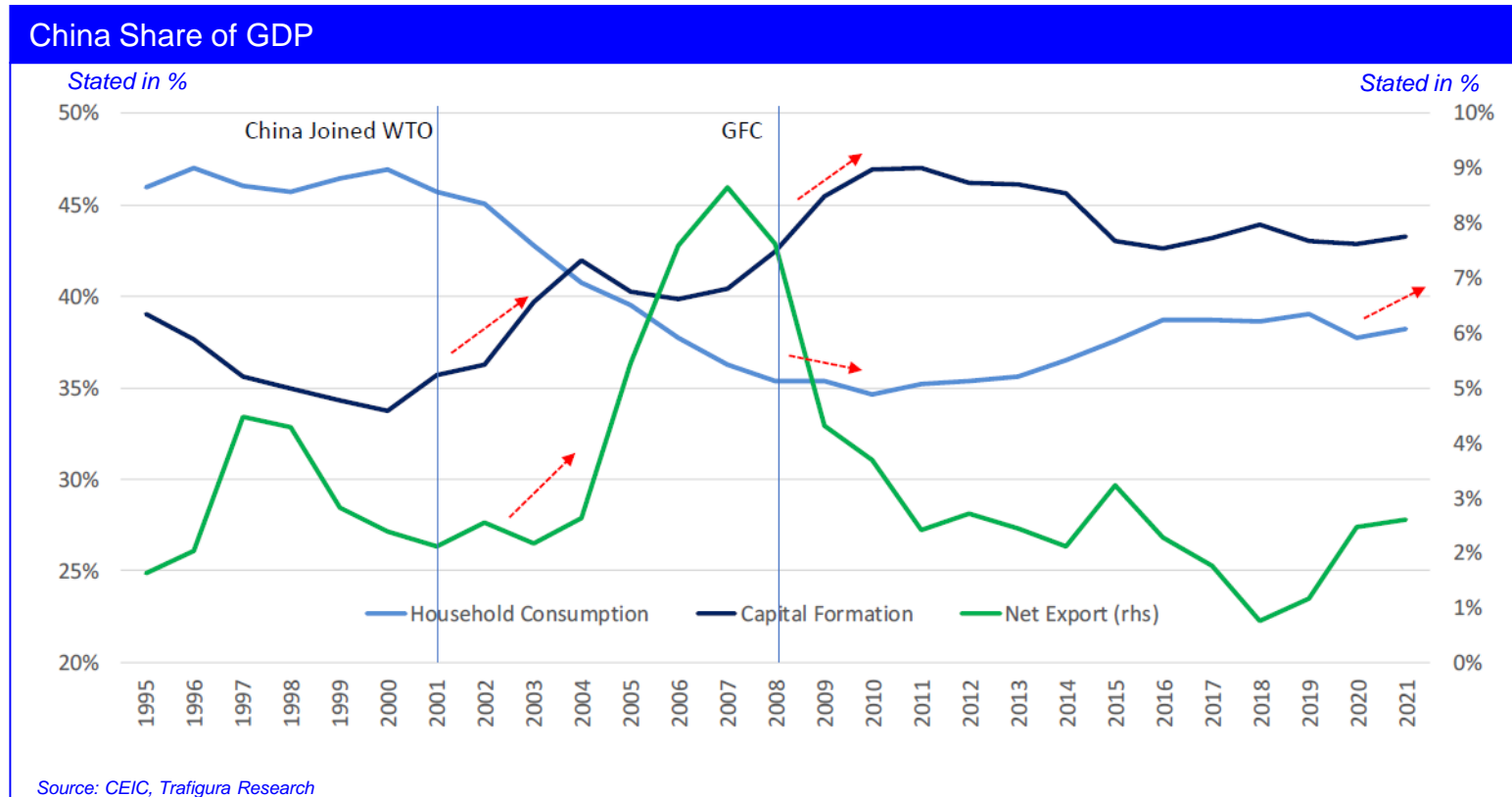
## All this means the Fed might still hike 1-2 more times, and not cut until late 2024



# The move in rates is now going to be painful



# China is facing challenges in executing an economic transition



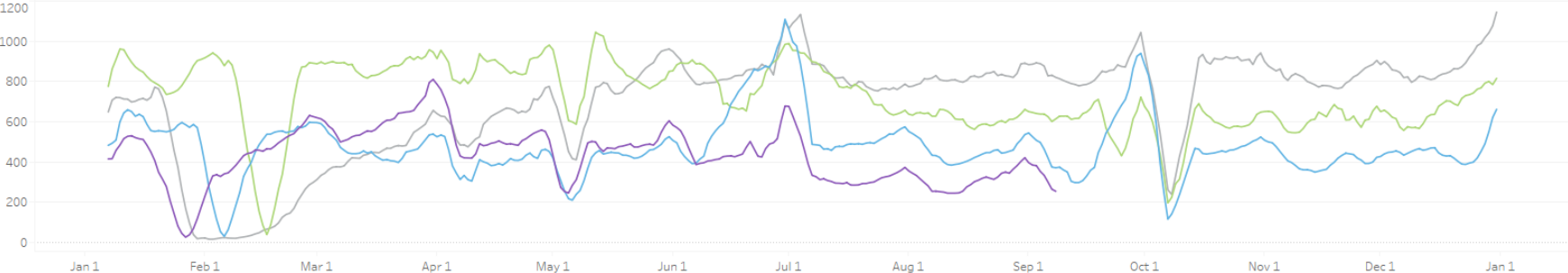


# Property has been extremely weak this year

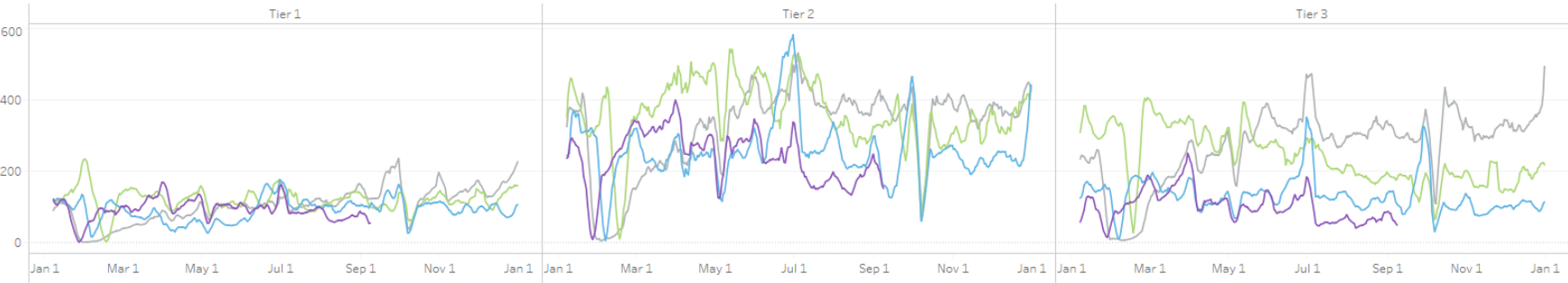
## Demand | Housing Sales

2023 2022 2021 2020 Category Primary City EN All Mvg Days 7

Housing Sales | Primary Housing Market ('000 m3)

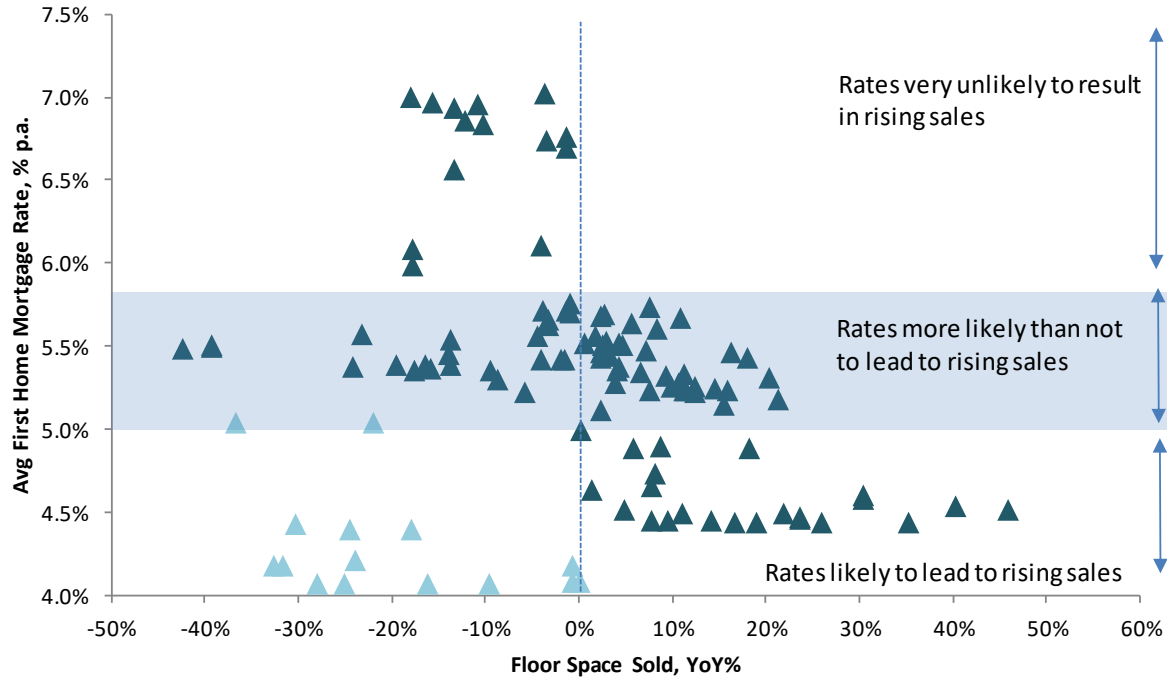


Housing Sales | Primary Housing Market ('000 m3)



# Unlike before, China's problem is not supply of credit, but demand for credit

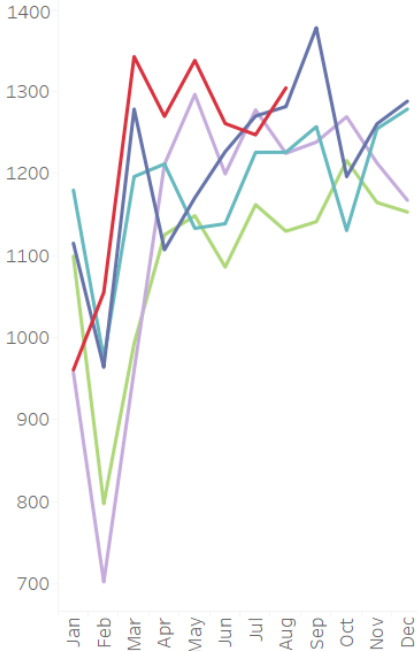
## Property Sales & Mortgage Rates



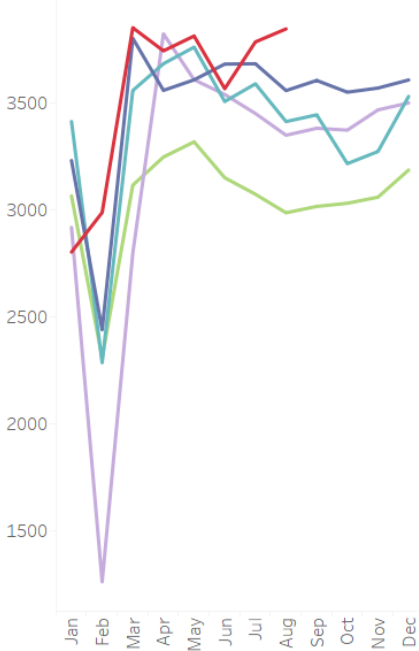
Source: CEIC, Trafigura Research

# Despite bearish sentiment on China, record demand across commodities

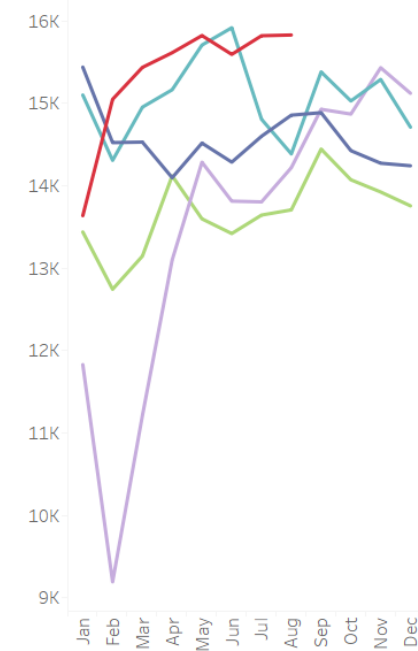
Copper Semis Demand  
China



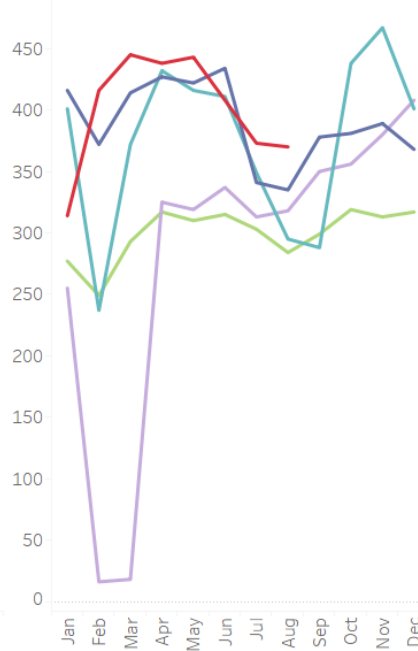
Aluminium Demand  
China



Oil Demand  
China



Gas to Industrial Sector Demand  
China



Source: China Customs, SMM, Trafigura Research

2023 2022 2021 2020 2019

# Property may be very weak, but other sectors are clearly offsetting

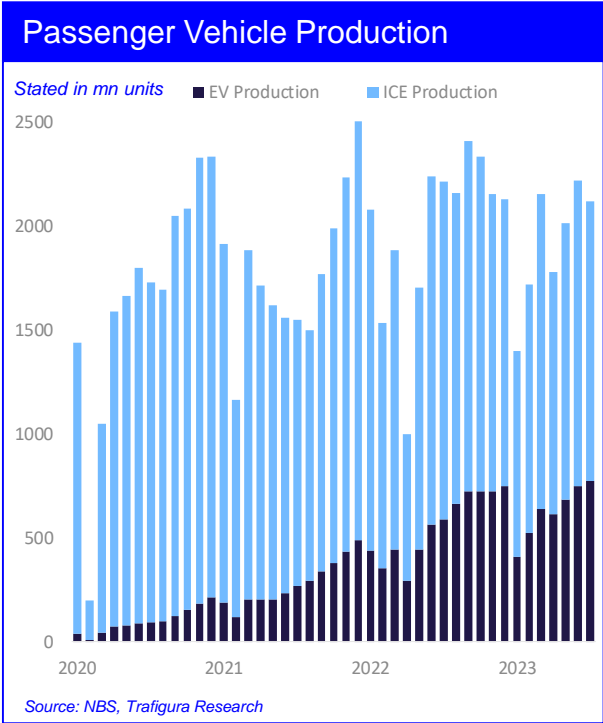
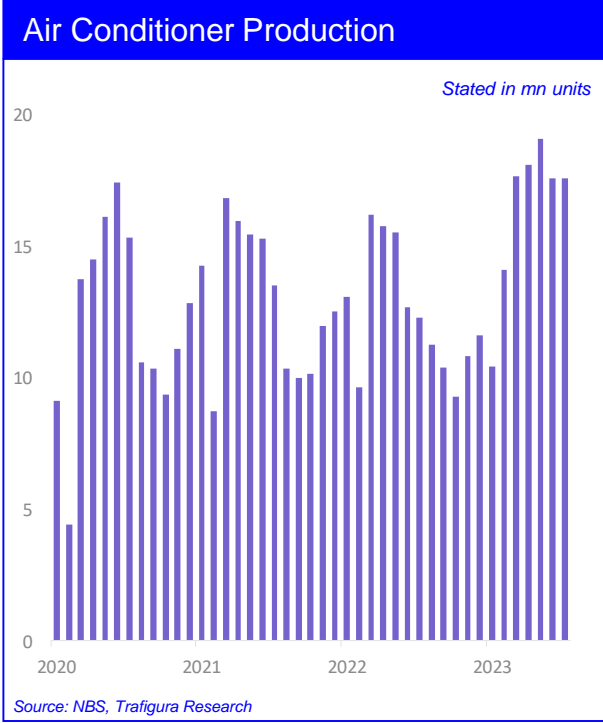
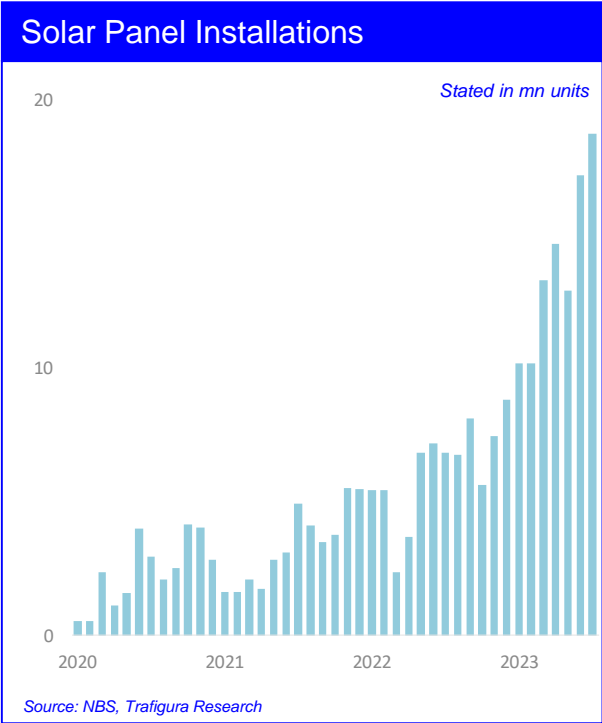
## Commodity Demand Change, 2023 vs. 2021

'000 tonnes



Source: Trafigura Research

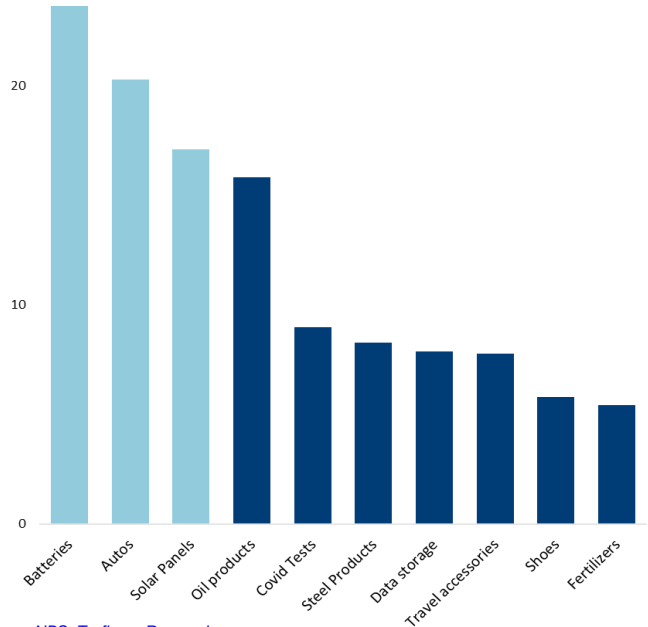
# Solar installations, air conditioner output and EV production running at high levels



# China is looking to utilize capacity via increased exports

## Top 10 Fastest Growing Exports

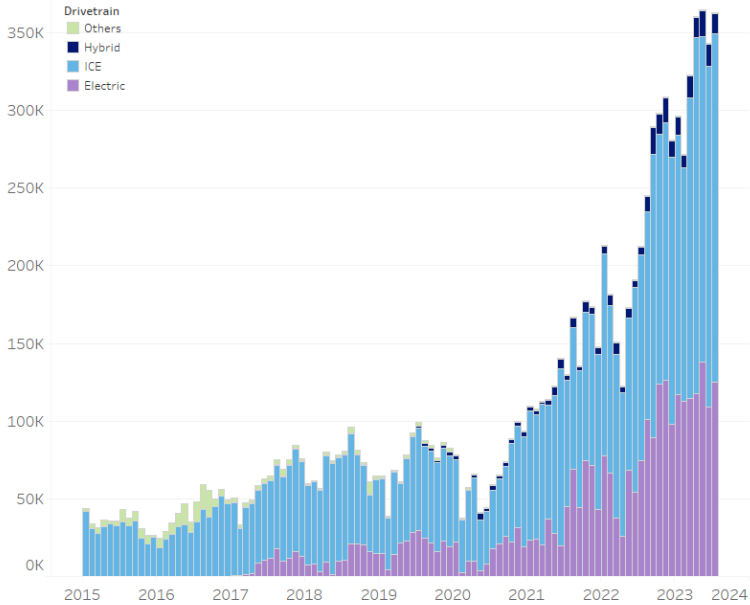
Billion US\$ YoY Change



Source: NBS, Trafigura Research

## Passenger Vehicle Exports

Number of Vehicles

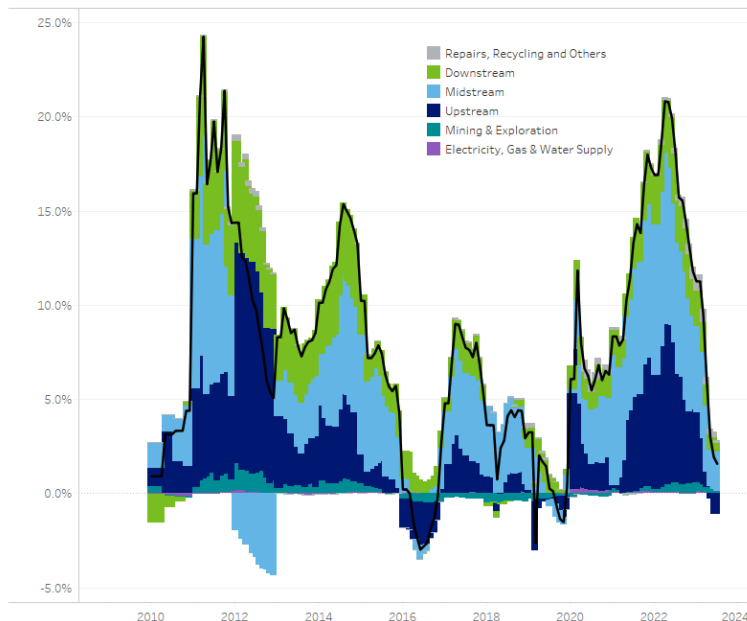


Source: Customs Data, Trafigura Research

# China has been destocking for an extended period – this is now coming to an end

## Industrial Inventory

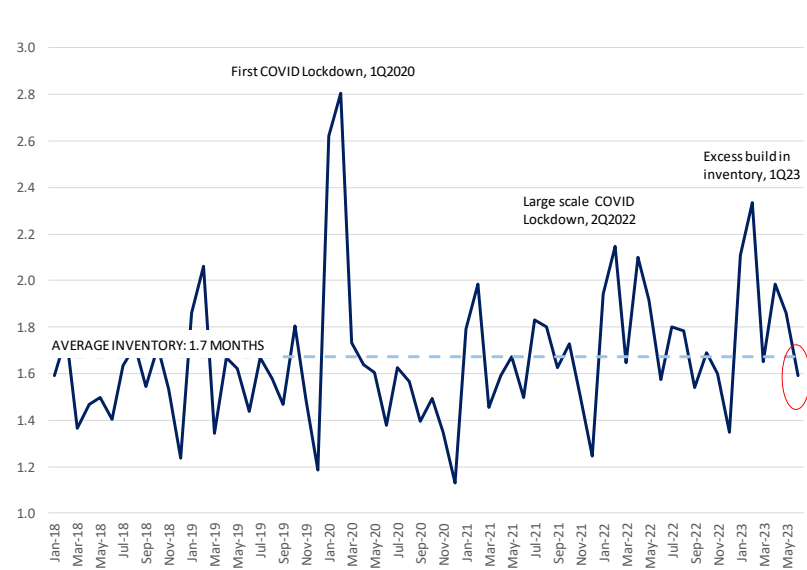
Stated in YoY%, Nominal



Source: NBS, CEIC, Trafigura Research

## Industrial Product Inventory—Midstream Sectors

Months of Inventory

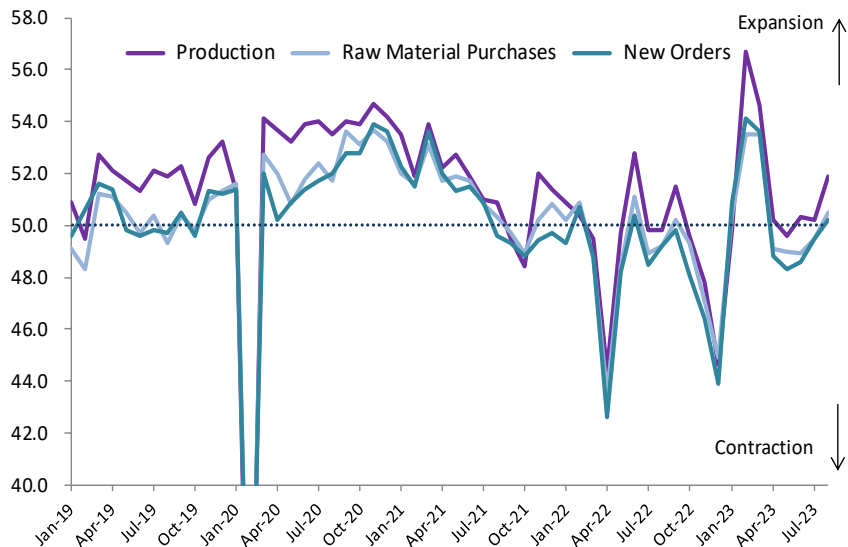


Source: NBS, CEIC, Trafigura Research

# August PMI looks like a restocking PMI; all Aug. data points have beat expectations

## PMI Production & Purchases

Index Score; >50 = expansion



Source: CEIC, Trafigura Research

## August Data for China (released so far)

Indicator	Units	Actual	Expected	Previous	MoM Trend
PMI - Official	Index	49.7	49.2	49.3	↑
PMI - Caixin	Index	51	49	49.2	↑
Imports	% YoY	-7.30%	-9%	-12.40%	↑
Exports	% YoY	-8.80%	-9%	-14.50%	↑
CPI	% YoY	0.10%	0.10%	-0.30%	↑
PPI	% YoY	-3%	-2.90%	-4.40%	↑
New Credit	RMB bn	3120	2690	528	↑

Source: NBS, Trafigura Research



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## KEY MESSAGES

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- Macro matters: rates, US\$, inflation and growth fears have all been the key drivers of Metals prices
- Fundamentals are better than the headlines
- China property remains a concern but other areas are more than picking up the slack
- US growth is running too strong; either we are headed for a recession, or the Fed needs to keep rates higher for longer...or both
- Higher rates are also likely to impact investments in future production, further tightening markets
- Spikes not Cycles: more volatility ahead, but long-term trends remain intact

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