Market Movers

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S&P GSCI TR

27th April 2018

The last few days' break out, if maintained, set us up for a further run in excess of 10%, with only the old highs in QIV of 2015 offering much in the way of resistance.

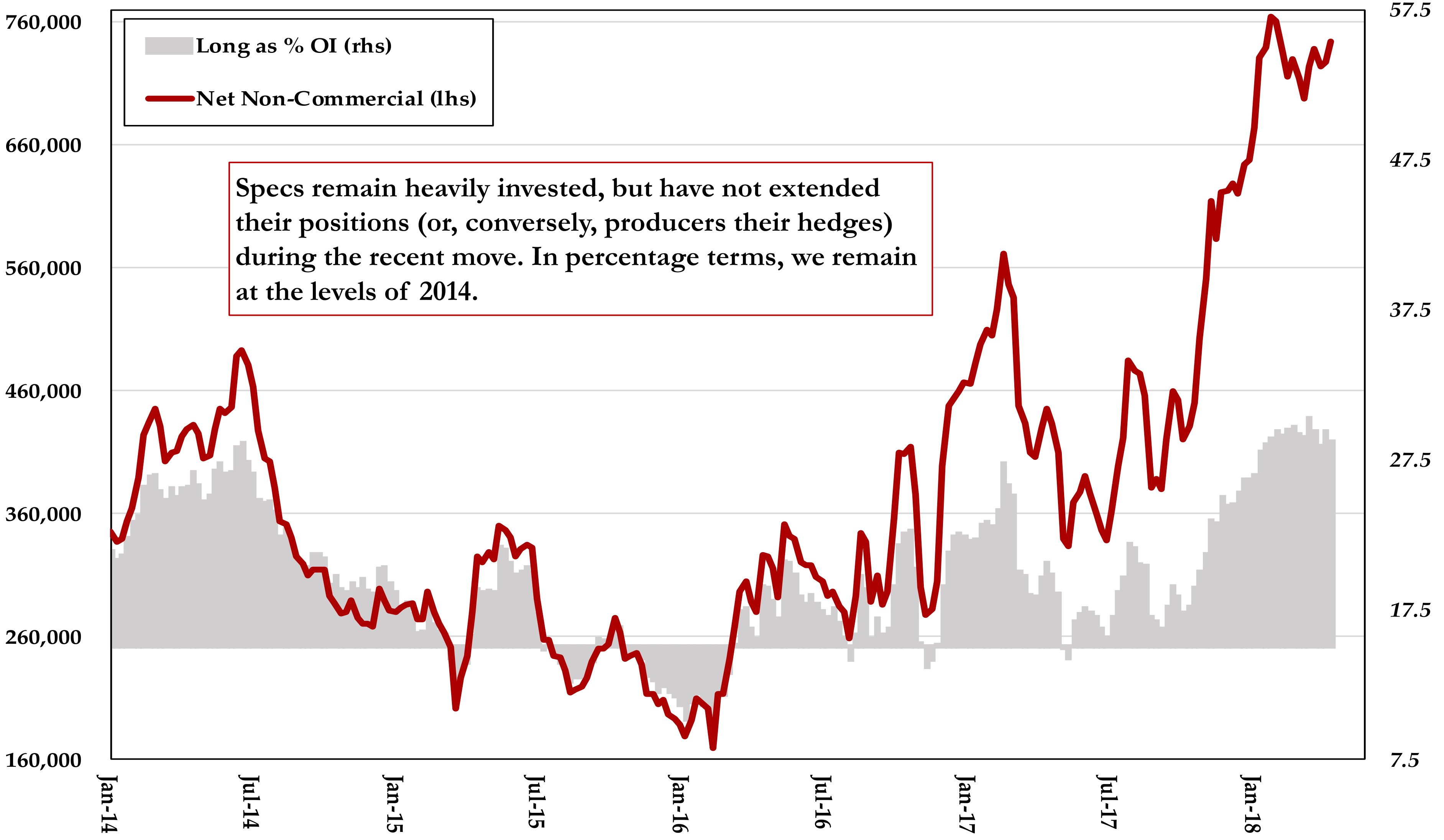
Courtesy of Investing.com

WTI

The move above January highs opens up a Fib retracement of the Shale Oil bust of 2014/16.
The main drivers have been political, viz., Trump's threat to renege on his predecessor's accord with Iran and the ongoing, undeclared war with Russia. While such tensions persist, crude could come close to printing $80/bbl, once more.

WTI

WTI Net Non-commercial positions: *Source - CFTC*



Copper

Copper has been stuck in a trading range for ~6 months but this is at least moving the centre of gravity of the move higher – and hence raising upside projections if and when it does manage to resume its former trajectory.
China remains a potential concern. Initial euphoria over the PBoC's RRR cut proved short-lived, with knee-jerk rallies in, eg, iron ore, and stocks both rapidly fizzling out. Until those doubts are either confirmed or dispelled, the range will probably hold

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Nickel

Palladium

With the latest round of sanctions from the US Treasury, anything Russian-produced – and especially anything associated with the Oleg Deripaska – have become more uncertain in their supply. Norilsk (where he is a minority shareholder) has unsettled nickel while that same company's pre-eminence in palladium has raised concerns, not least that Moscow may itself use its control pf such strategic minerals as a means of reply. Elevated risk requires reduced positioning.

Aluminium

Initial concerns about the inability to access Rusal's warehouse stocks led to a big hike in physical premiums while Rio declared force majeure on some of its contracts further up the supply chain. Direction is now politics-dependent but many will be reconsidering their lean-inventory corporate strategies, potentially adding to precautionary demand off-warehouse.

Of course, the major thrust of the US assault has been on Deripaska's Rusal – world No2 in aluminium production.

Embarrassingly for the Americans, the threat of penalties, not just on US counterparties of the Russians, but also on those from third countries, unleashed such chaos that they were forced to backtrack on the most draconian of the measures, in favour of allowing a 6-mnth grace period for suppliers and customers to disentangle themselves, Further, they offered the get-out that it is the man, not his firm, who is the target and hence that if he were to relinquish control, that might be an end of the matter.

For now, however, miners of bauxite, refiners of alumina, as well as smelters of the finished product itself – from Guinea to Guyana and Auginish, Co Limerick to Australia are all suffering severe disruption. Cives Romani omnes sunt, indeed!

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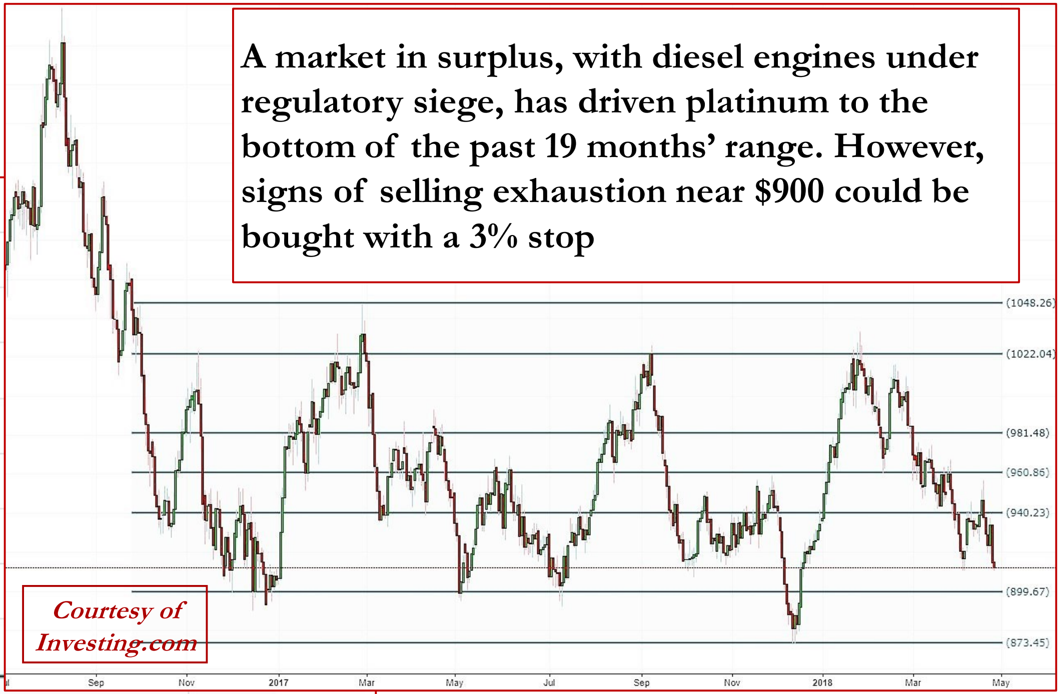
With VIX subdued, credit spreads only modestly higher, yields rising, the USD finding a base & stocks largely holding in, there is little scope for a gold breakout. $1300/70 has held prices since Xmas and look set to continue to do so.

Platinum

A market in surplus, with diesel engines under regulatory siege, has driven platinum to the bottom of the past 19 months' range. However, signs of selling exhaustion near $900 could be bought with a 3% stop



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Though the market has been so glutted in recent seasons that the Ivory Coast government has stopped supplying farmers with better strains of seed and fertilizer, in order to limit the past decade's 2/3 expansion of output, technical factors have driven a sharp rally in cocoa prices in recent weeks, opening up a record gap between the London and New York contracts as they have. Fears that stockpiles of old Cameroon-sourced…

…bags in London will not survive a re-grading exercise have depressed near prices, while differing import duties and contract specs are preventing a proper arbitrage between the two centres. Stateside, an initial burst of short covering by the leveraged crowd has turned into a feeding frenzy, as a 26k pre-Xmas short has been reversed into a hefty 51k long – the highest exposure in 2 ½ years. With talk in the pit being that the large commercial traders have curtailed their activity, dampening influences on such a momentum-rush are much less than they were.

Almost a mirror image of this behaviour is taking place across in the sugar pit, where a 50%+ increase in Indian production, allied to good harvest in Thailand, has pushed the market to a 25Mt surplus which a spokesman for the largest trader, Alvean, estimates will take another 2 years to clear.

As the graph here illustrates, the last 18 months' 55% slump to what are close to decadal lows has turned a record speculative long position into an equally chart-busting short – a shift of some 430k lots, or some 22 million tonnes.

Though such extremes must make us sensitive to the possibilities of an equally violent reaction in the upward direction, it should also be noted that, if 2015's 10c/lb low does not incite some renewed appetite, the last major upsurge in price and volume, came from a level barley half of that, way back at the start of the so-called 'Supercycle', in early 2004

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