

LME Asia: Trends in Copper trading activity

16 May 2023

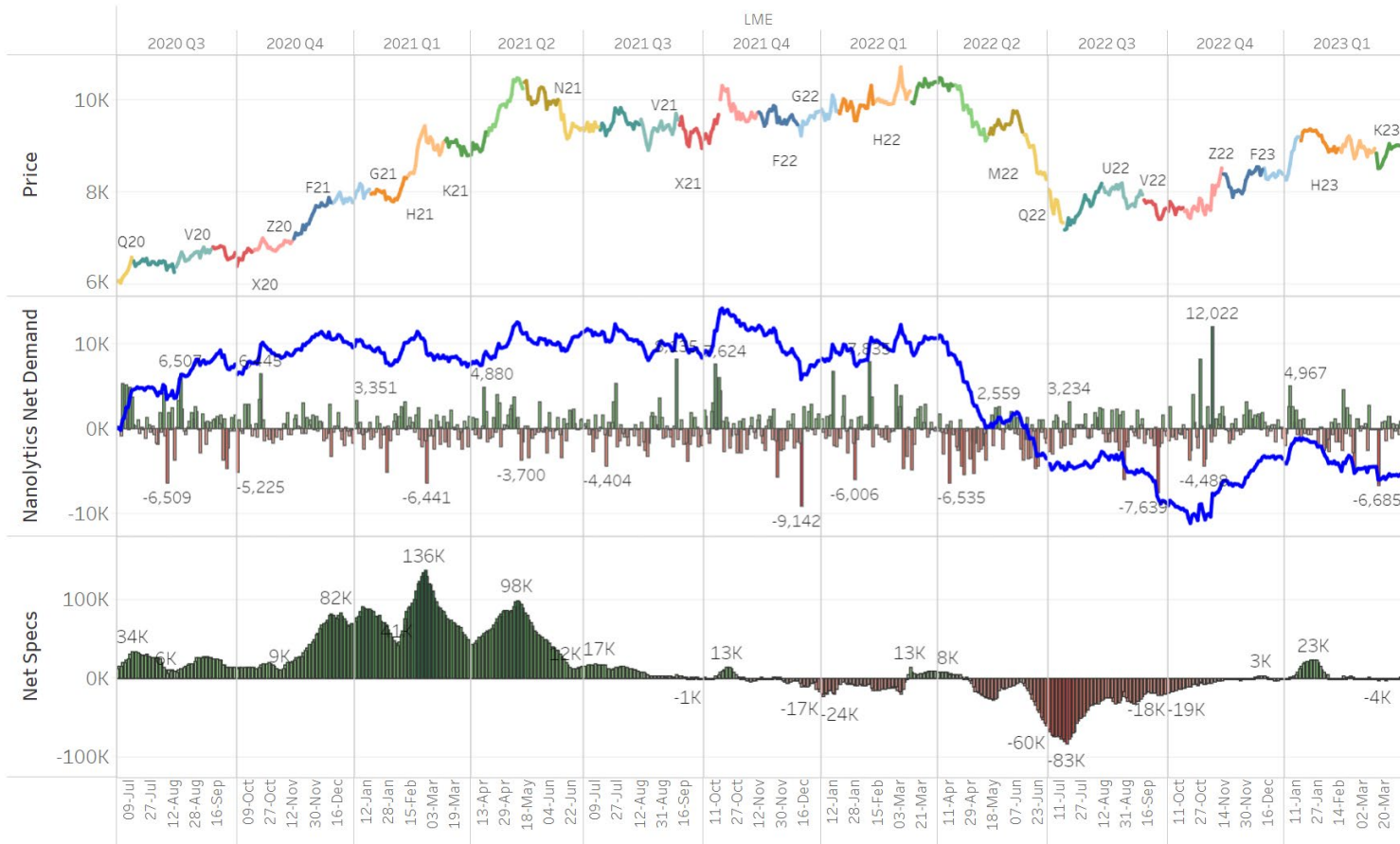
COPPER/COMMODITY THEMES

- Futures vs. Swaps: Bank capital regulations vs. 'closed door' margin/collateral requirements.
- Commodities as an Asset Class: Enhanced-beta and risk premia. Growth of quant as a strategy.
- Interest Rates and Volatility: Significant impact on margin requirements and cost of hedging inventory.
- Geopolitics: End of globalisation and increase in basis risk
- Decarbonisation Agenda: 20+ year impact on supply/demand dynamics for many commodities.

POSITIONING IS FLAT DESPITE POSITIVE SENTIMENT

Copper (LME)

MAREX

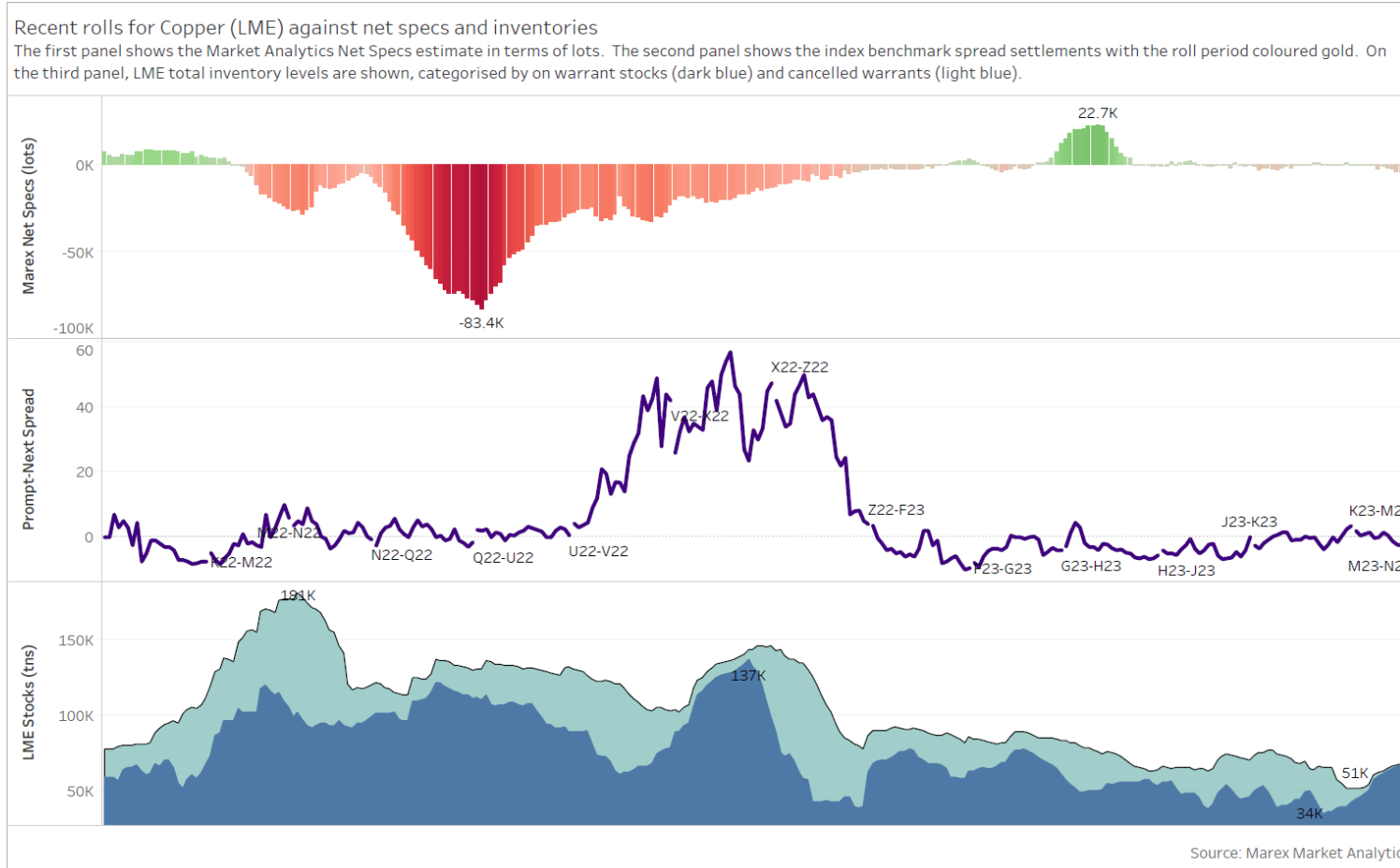


- Higher volatility and absence of long-term trend since 2021 Q2 has reduced positioning.
- Market structure factors such as margin requirements, interest rates also dampen activity.

LOW INVENTORIES MEAN NO SUPPLY BUFFER



SPECULATIVE POSITIONING AND INVENTORIES

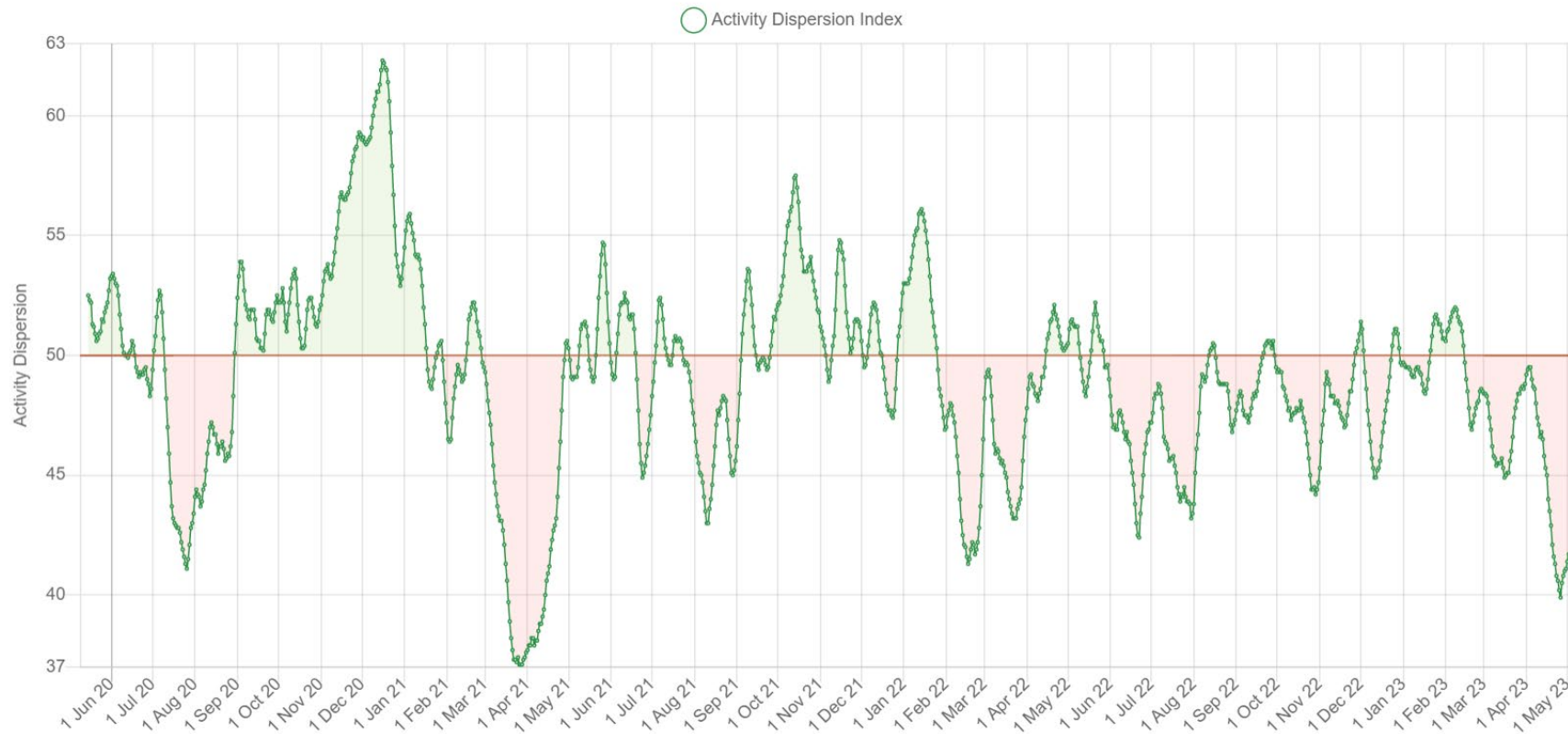


- Higher volatility and absence of long-term trend since 2021 Q2 has reduced positioning.
- Market structure factors such as margin requirements and interest rates have significantly raised the cost of holding inventory.

SAVANT – Copper smelter activity



Activity Dispersion: Global



- Global smelter activity picking up from low level, led by China.
- Precedents of Jul 2020, Mar 2021 and Feb 2022 suggest bullish near-term outlook for copper.

EVOLUTION OF QUANTITATIVE INVESTING IN COMMODITIES

Quant involvement in commodities is not new but it does evolve.

- 1970's onwards. CTA's, Turtle Traders, Momentum Strategies.
- 2000 onwards: Passive long-only indices. S&P GSCI, BCOM.
- 2010 onwards: Optimal roll yield long-only: 'Dynamic Roll' or 'Roll Select'
- 2016 onwards: Risk Premia: Carry-extraction from term structure and volatility.
- 2020-onwards: ?

Quantitative strategies also come back in a different form having 'learned the lesson' of the previous cycle.

RV TRADING AN INCREASINLY IMPORTANT TYPE OF FLOW

RISK PREMIA RV POSITIONING



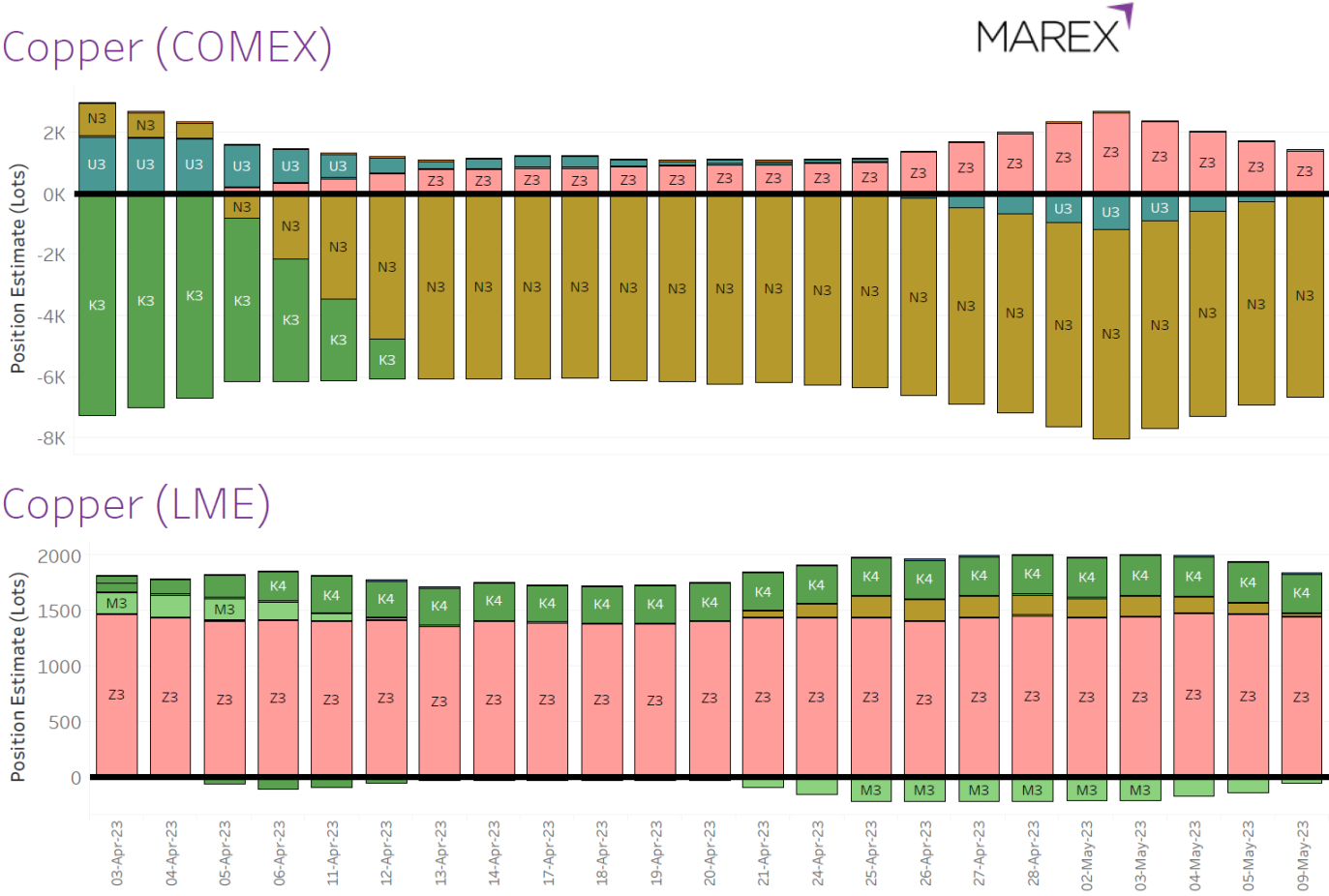
Current risk premia distribution

		Apr																May									
		3	4	5	6	10	11	12	13	14	17	18	19	20	21	24	25	26	27	28	1	2	3	4	5	8	9
Energy	Brent Crude (ICE)		-3.5				-3.5					2.9					5.7					6.1					-2.1
	WTI Crude Oil (NYMEX)		-3.6				-3.6					5.2					9.1					7.1					-3.3
	Gasoil (ICE)		0.5				0.4					0.4					0.2					-0.5					-2.3
	Heating Oil (NYMEX)		0.4				0.3					0.4					0.0					-1.7					-2.4
	RBOB Gasoline (NYMEX)		2.3				2.6					5.6					4.3					1.0					0.4
	Nat Gas (NYMEX)		-6.8				-7.0					-7.1					-7.3					-6.9					-6.7
Ags & Meats	Corn (CBOT)		5.2				6.5					3.2					0.9					-2.4					-2.5
	Wheat (CBOT)		-4.5				-4.4					-4.4					-4.2					-4.0					-4.2
	HRW Wheat (KCBT)		0.9				2.1					1.4					0.2					-0.7					-0.8
	Soybeans (CBOT)		7.3				3.6					1.1					1.1					0.9					1.0
	Soybean Meal (CBOT)		1.1				0.6					0.6					0.6					0.5					0.5
	Soybean Oil (CBOT)		-2.2				-2.5					-3.6					-3.5					-1.8					-1.9
	Lean Hogs (CME)		-2.4				-2.4					-2.3					-2.4					-2.5					-2.3
	Live Cattle (CME)		6.4				5.0					3.4					3.2					3.3					4.9
	Sugar #11 (ICE)		10.8				11.1					10.9					13.1					13.2					15.2
	Coffee (Arabica) (ICE)		-2.7				-2.4					-1.8					-1.7					0.7					5.0
	Cotton #2 (ICE)		-2.1				-2.1					-2.1					-2.0					-2.1					-1.7
Metals	Copper (COMEX)		-1.9				-8.1					-9.2					-11.1					-11.2					-11.2
	Aluminum (LME)		-6.5				-6.4					-6.4					-5.9					-6.0					-2.7
	Nickel (LME)		-2.9				-2.9					-3.0					-3.1					-2.4					1.3
	Zinc (LME)		-4.5				-4.3					-4.3					-4.1					-4.2					-4.3
	Gold (COMEX)		7.6				11.4					3.4					0.4					8.0					12.6
	Silver (COMEX)		1.2				5.9					5.9					6.4					5.8					7.3

Source: Marex Market Analytics

- Copper RV positioning is currently maximum short.
- With length exiting energy, that could cause a relative improvement in copper flows.

FORWARD LIQUIDITY IS LME-ONLY



- Marex Risk Premia models expect the Dec 2023 position in LME Copper to move to Dec 2024

Source: Marex Market Analytics

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