

Trafigura

LME WEEK ECONOMIC KEYNOTE ADDRESS

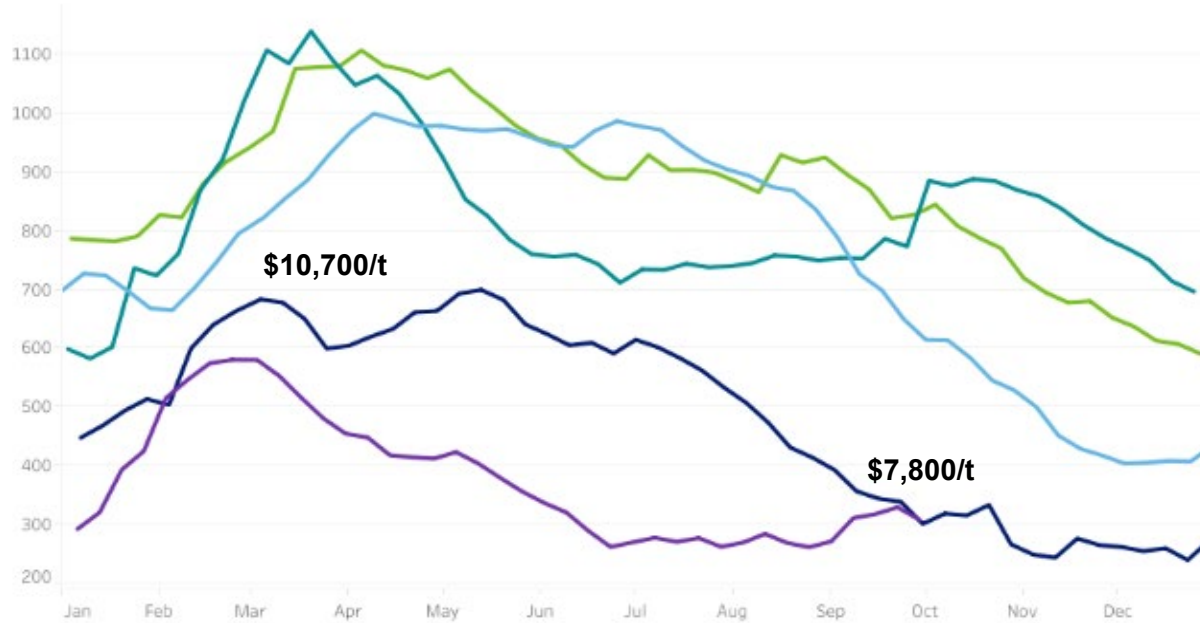
October 2023



Something is amiss in commodity markets

Visible stocks – Copper (global)

Stated as KT



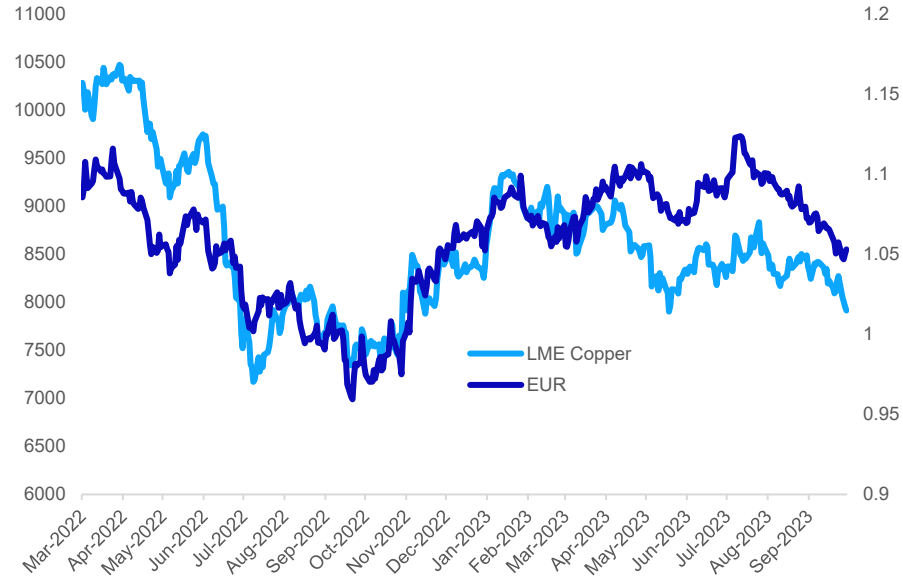
Source: LME, COMEX, SHFE, Trafigura Research

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

EUR vs. Copper

LME 3M Copper USD/tonne

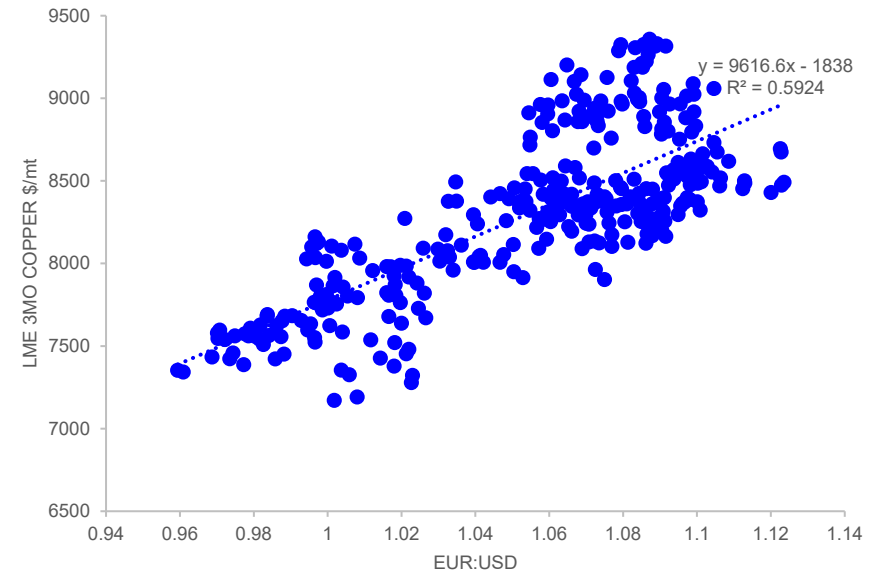
EUR:USD



Source: Bloomberg, Trafigura Research

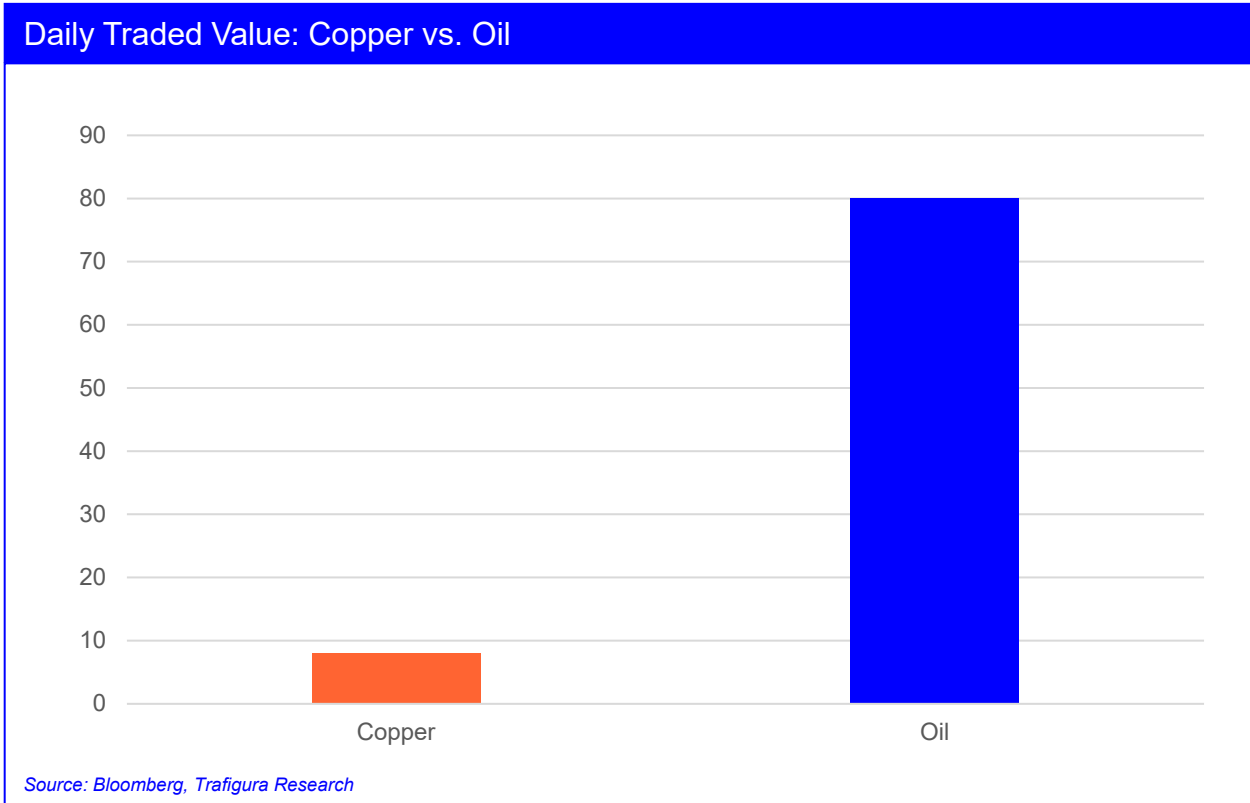
EUR vs. Copper

LME Copper vs. EUR

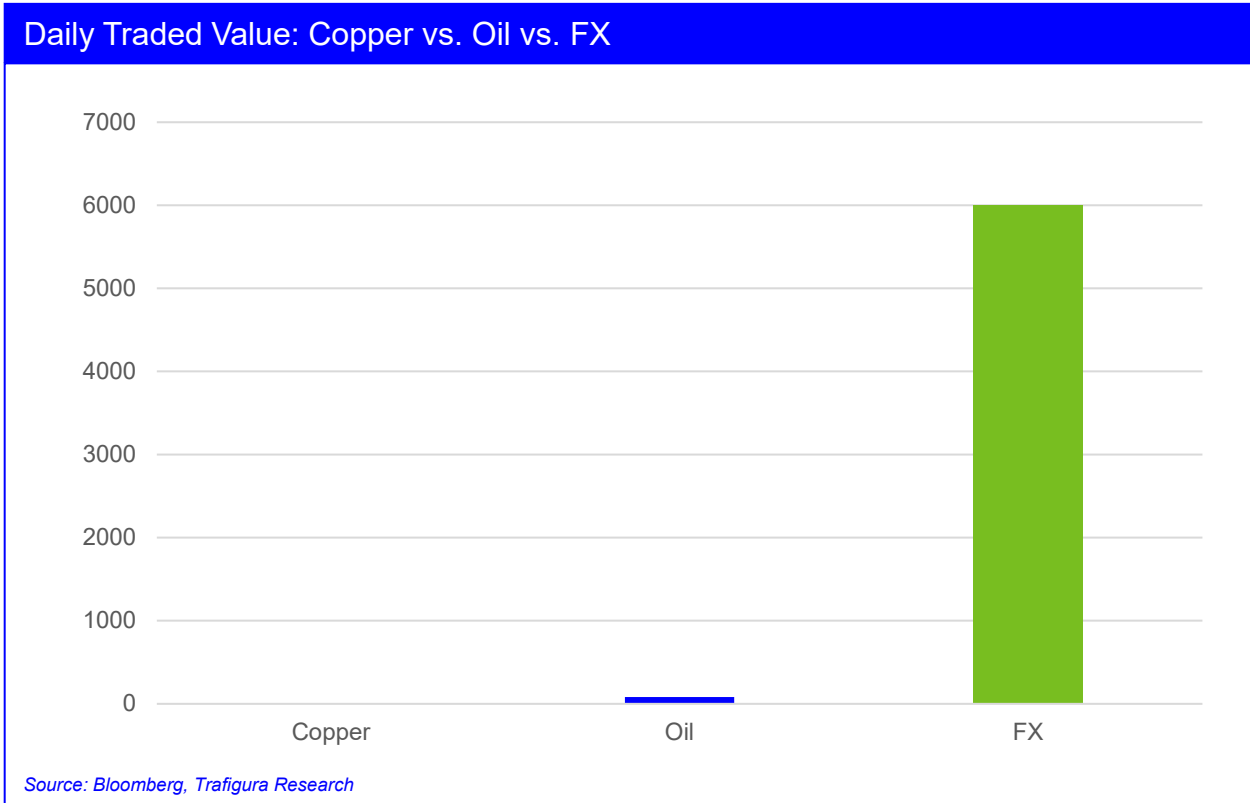


Source: Bloomberg, Trafigura Research

Why does the Dollar matter so much for commodity markets?

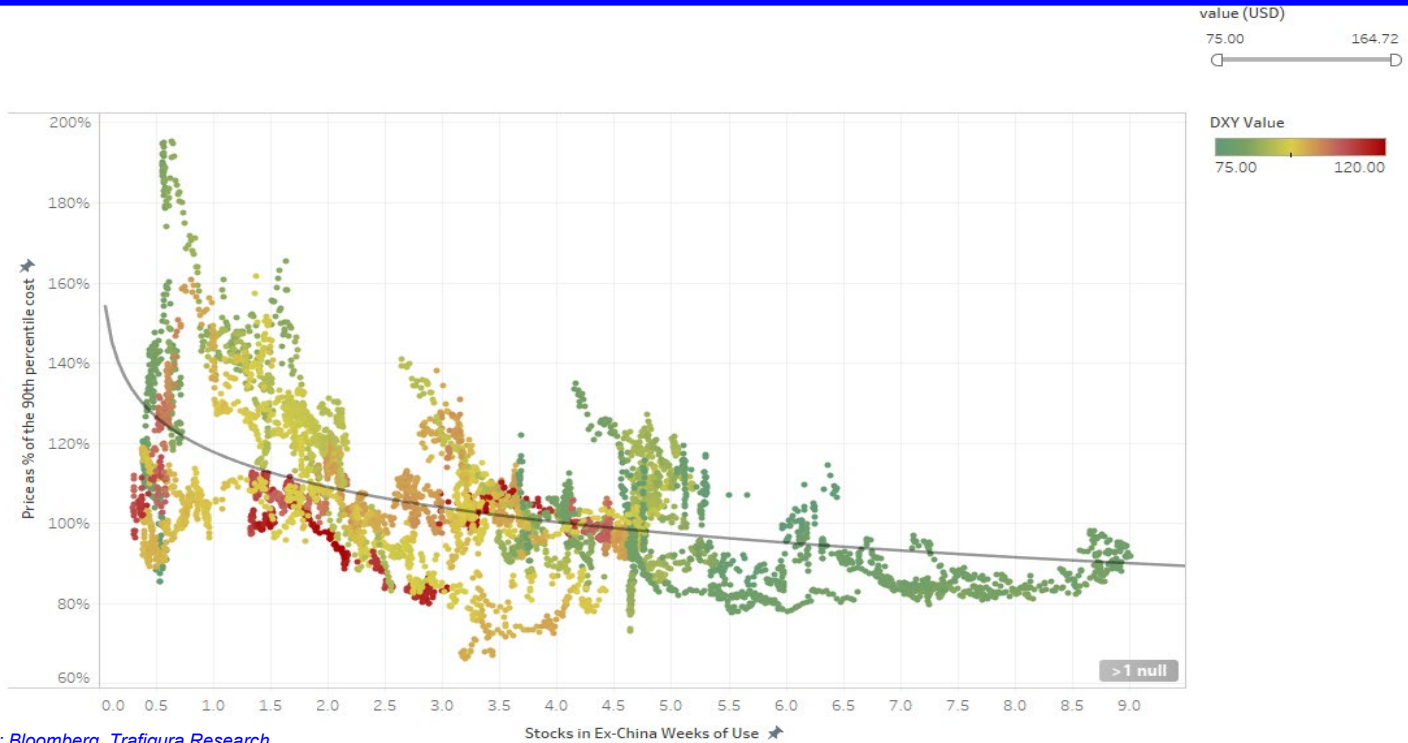


...because it is orders of magnitude bigger than commodity markets



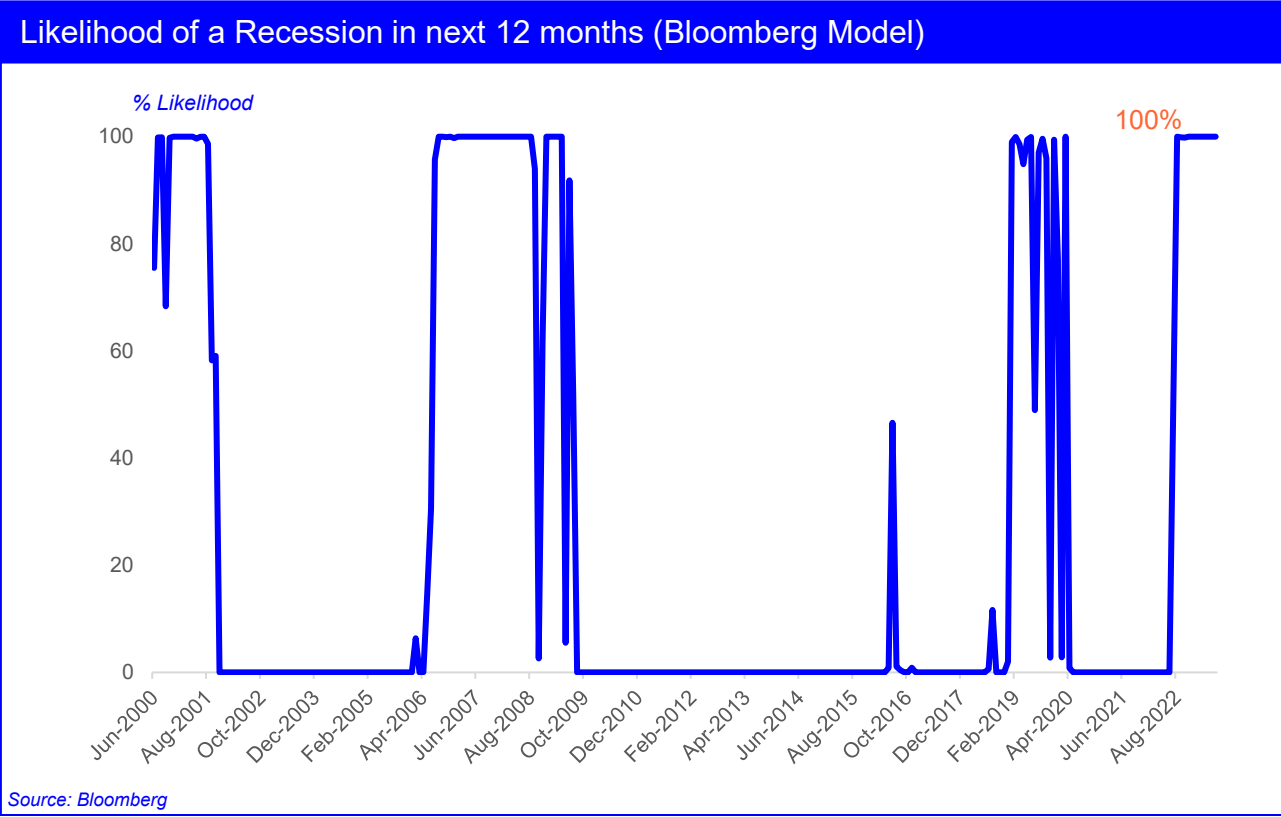
...and so can outweigh even the most compelling fundamentals

US\$ vs. Zinc Stocks

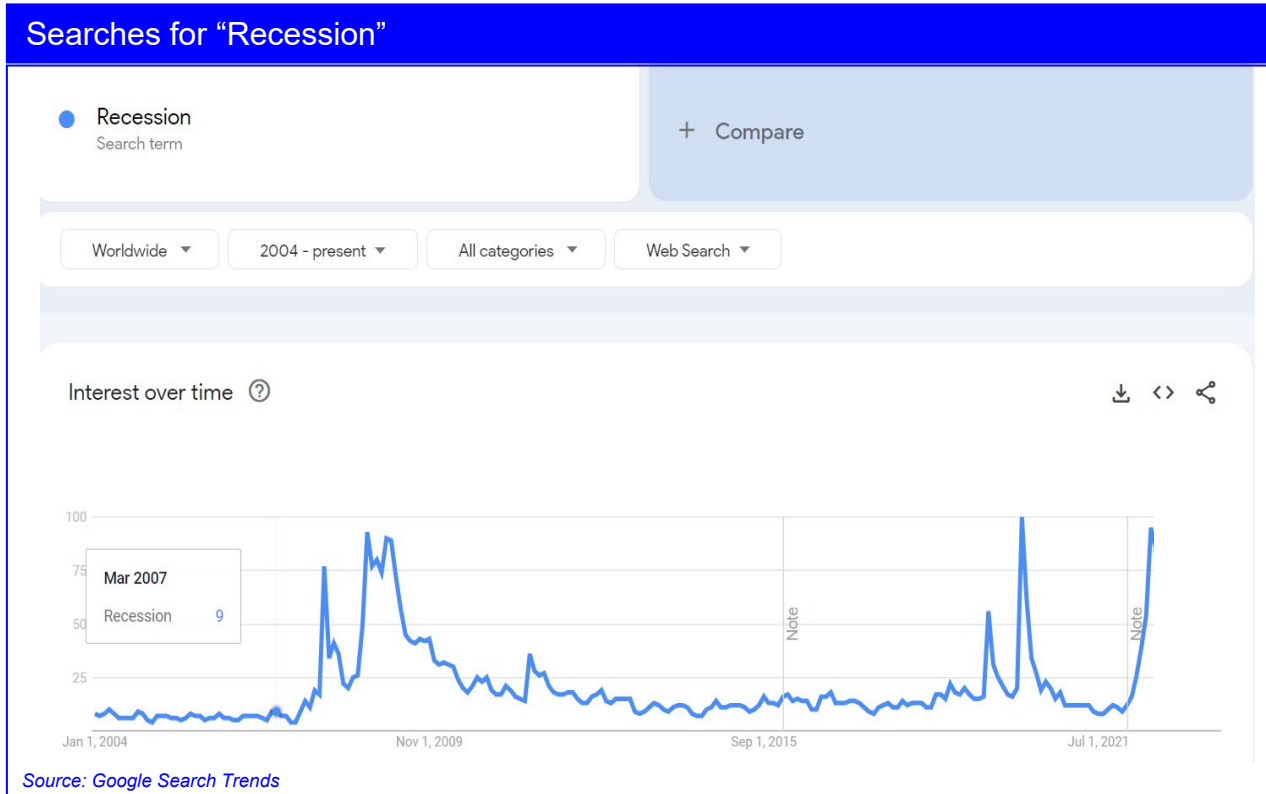


Source: Bloomberg, Trafigura Research

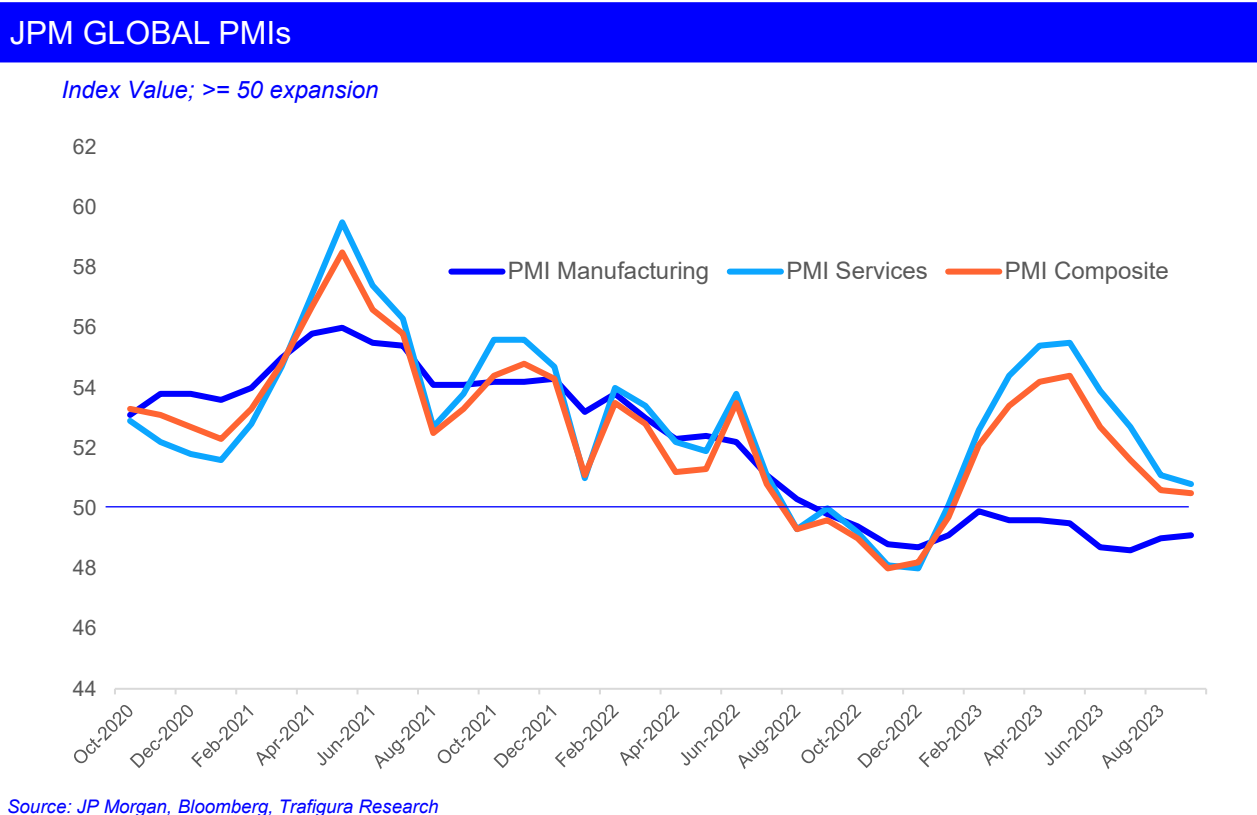
A year ago, it was a certainty we would be in a recession by now



...driving consumer fears

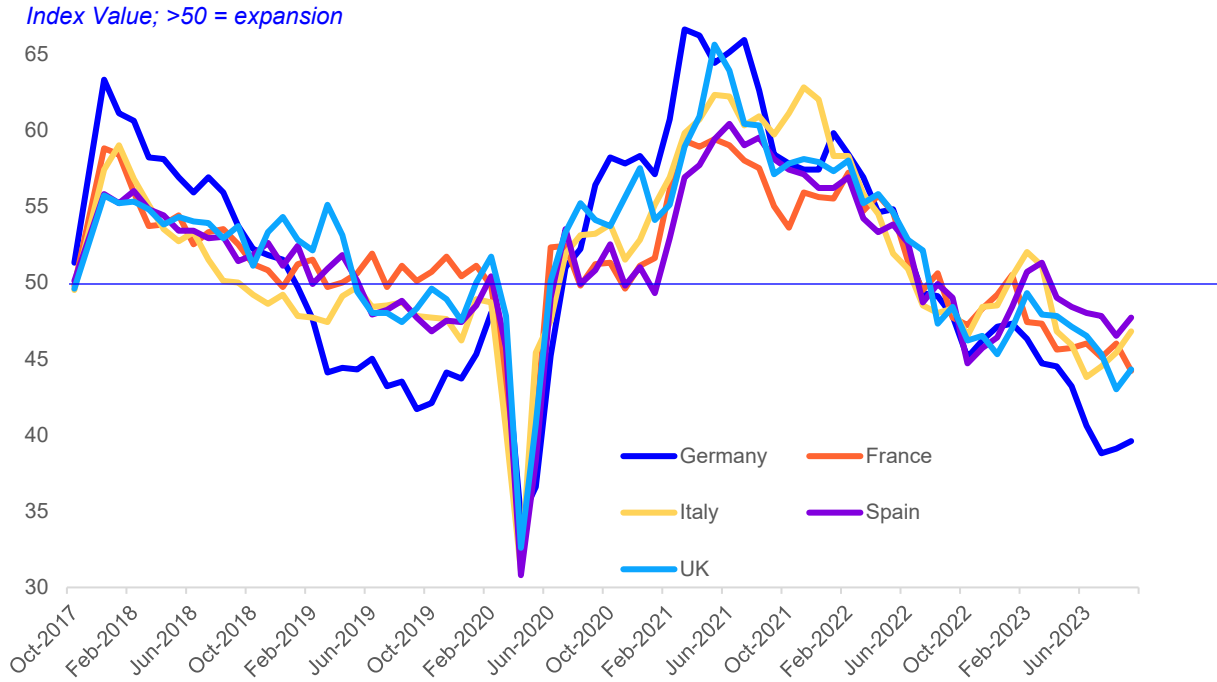


Globally, Manufacturing is in contraction, while Services have held up



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

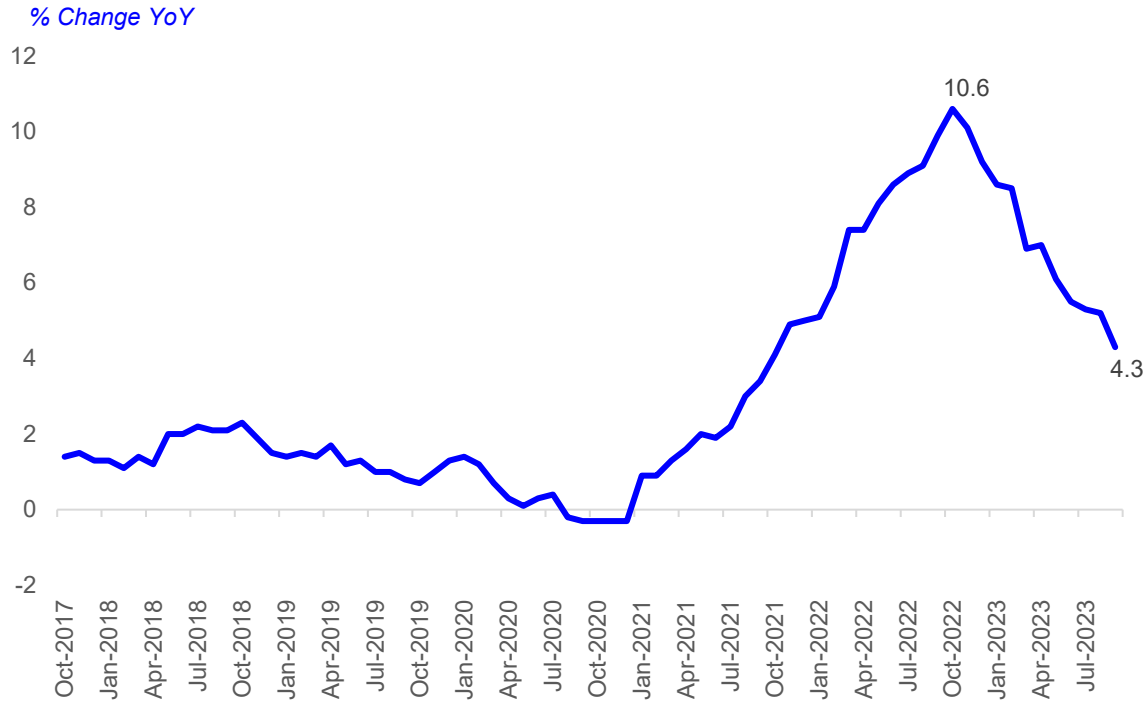
European Manufacturing PMIs



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

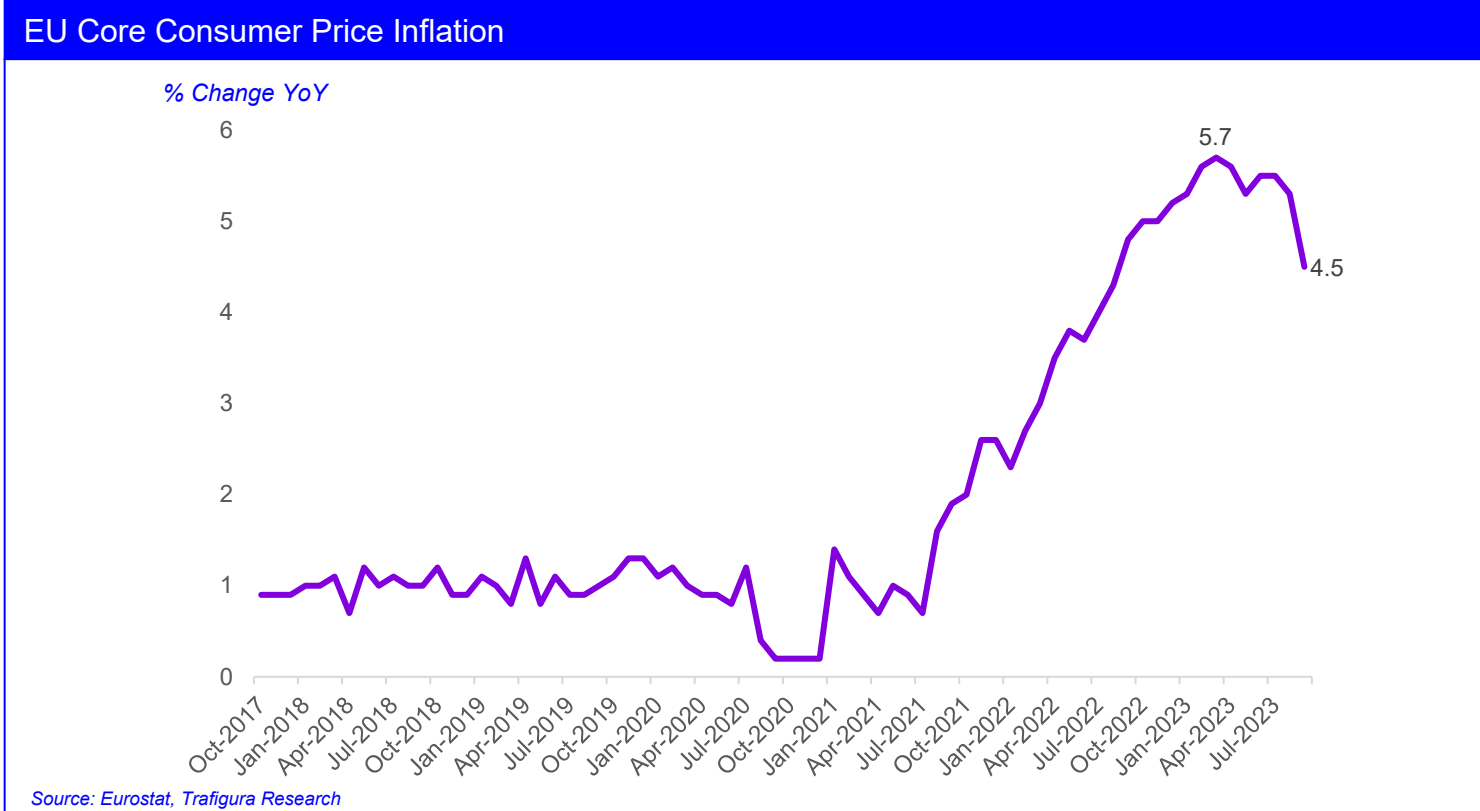
EU Inflation at least has dropped sharply

EU Consumer Price Inflation

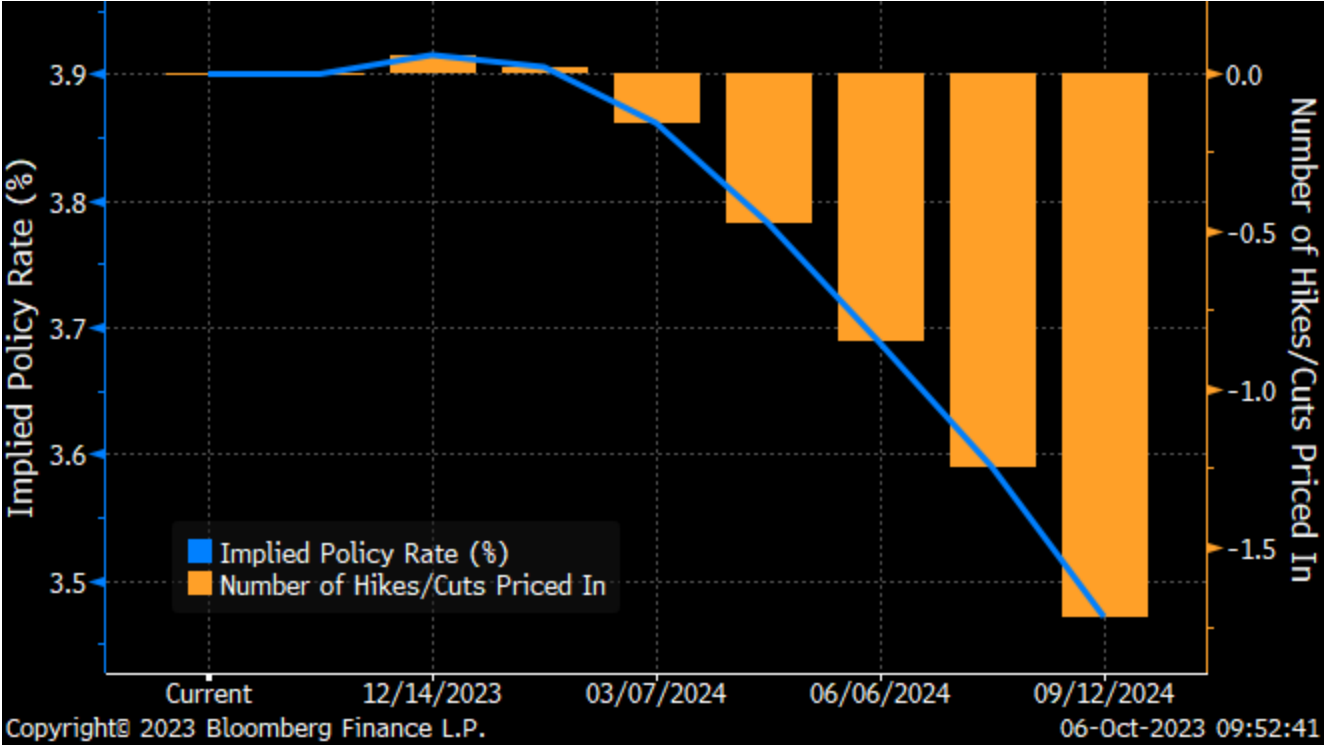


Source: Eurostat, Trafigura Research

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



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



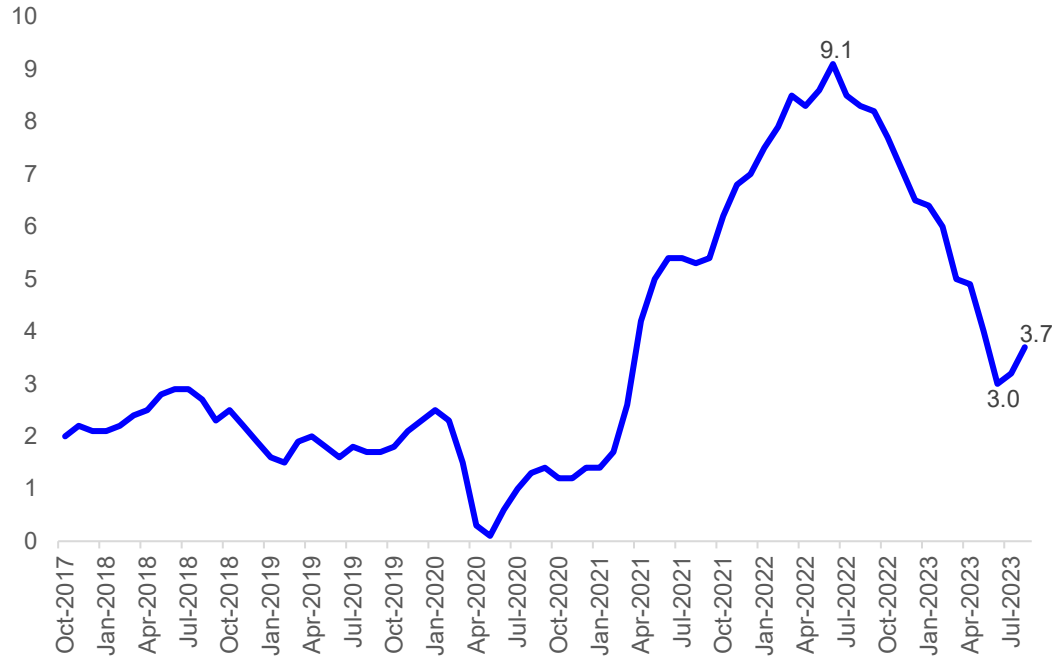
Slow growth + no yield differential = weaker EUR



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

US Consumer Price Inflation

% Change YoY

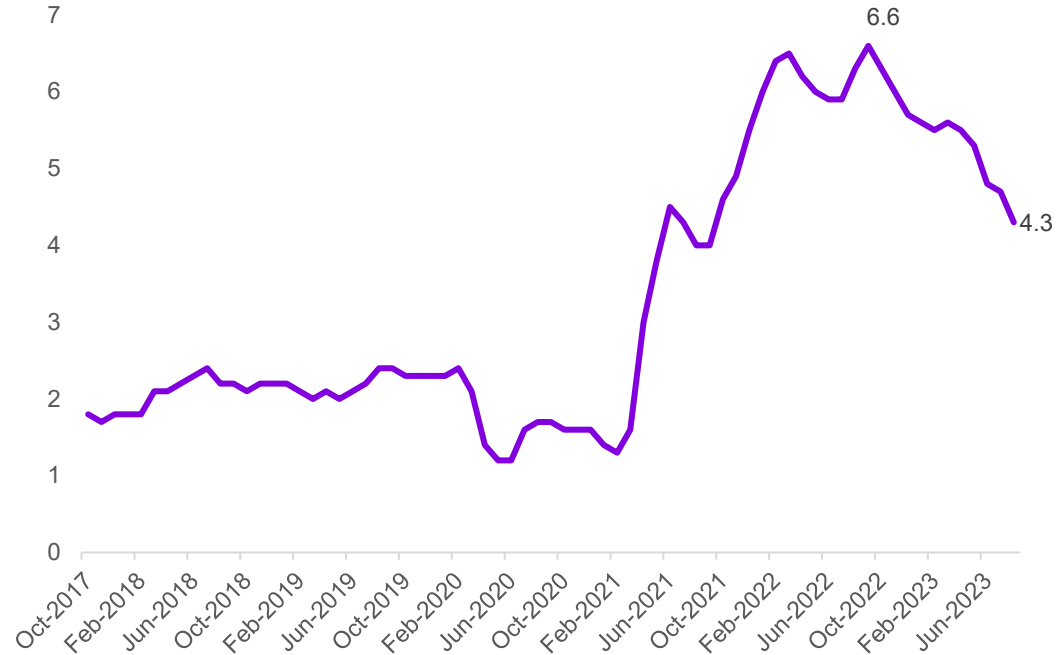


Source: Bureau of Labor Statistics, Trafigura Research

...and Core is coming down sustainably

US Core Consumer Price Inflation

% Change YoY

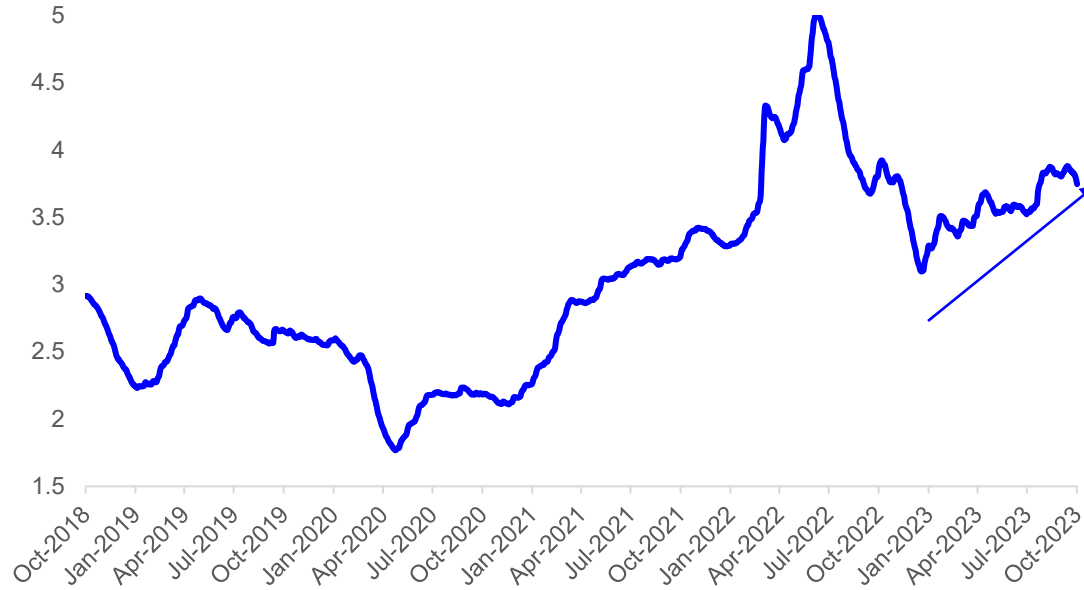


Source: Bureau of Labor Statistics, Trafigura Research

...but rising gasoline prices are a risk

US Retail Gasoline Price, Nationwide Average

\$/gallon

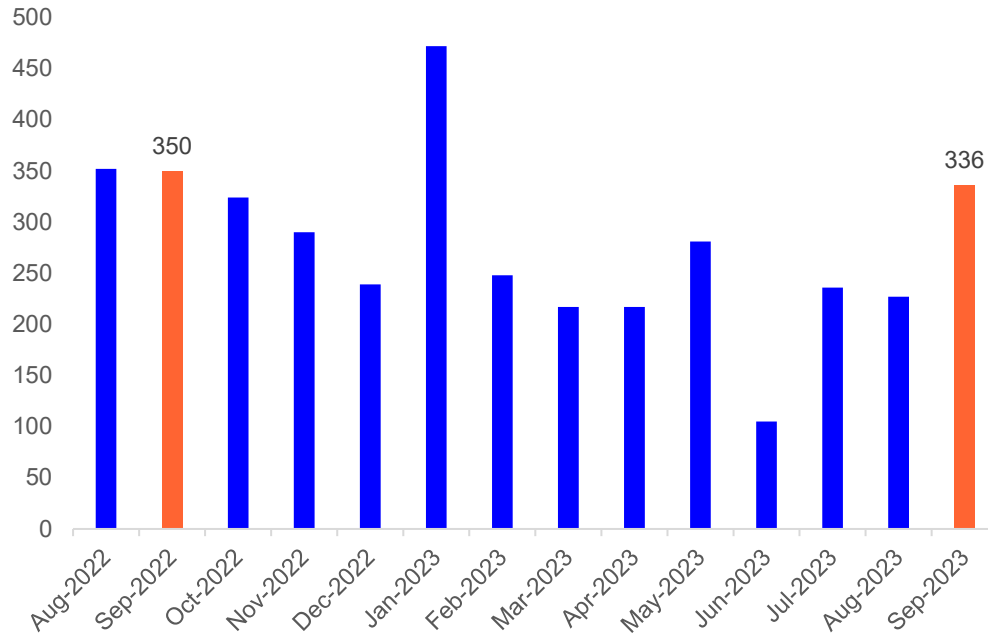


Source: AAA, Bloomberg, Trafigura Research

...and job growth is too hot

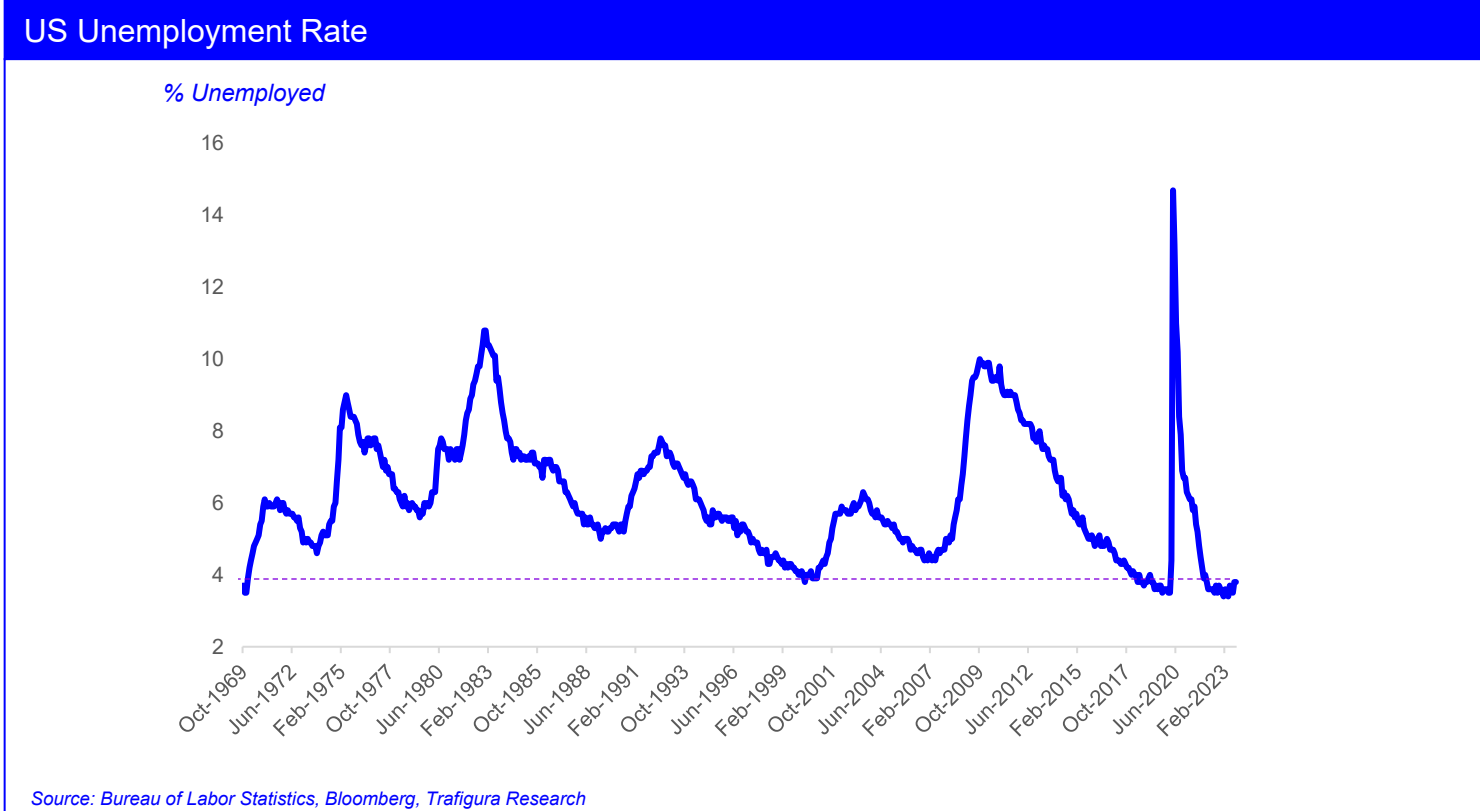
US Nonfarm Payrolls

'000 Net Change MoM



Source: Bureau of Labor Statistics, Bloomberg, Trafigura Research

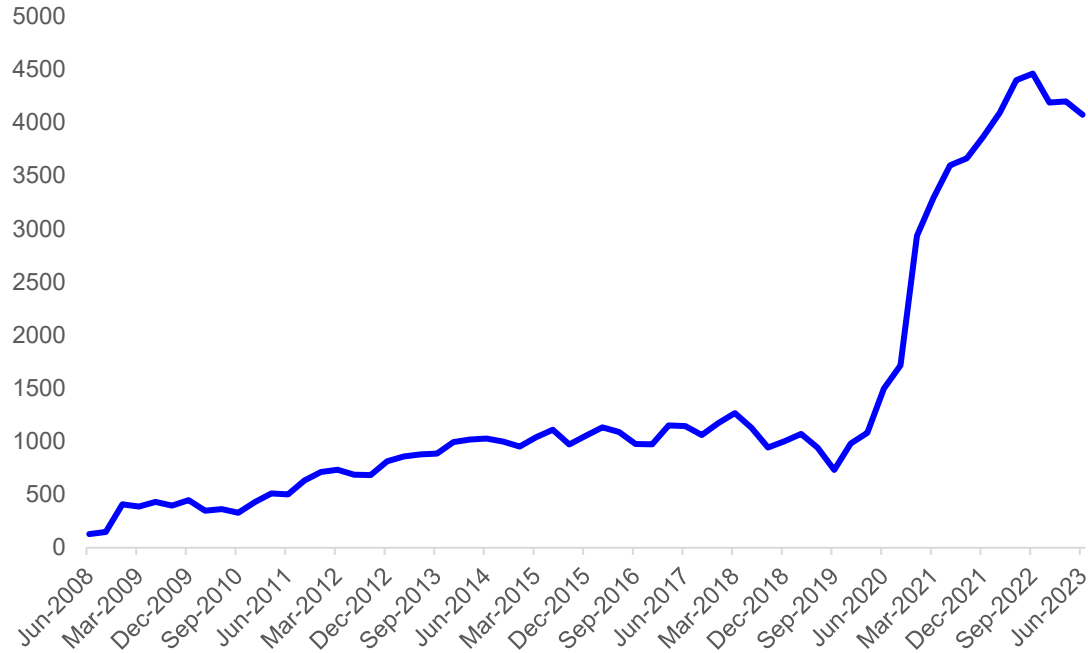
The Fed has managed to bring inflation down without causing unemployment



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

Currency held in Checking Accounts, US Households & Nonprofits

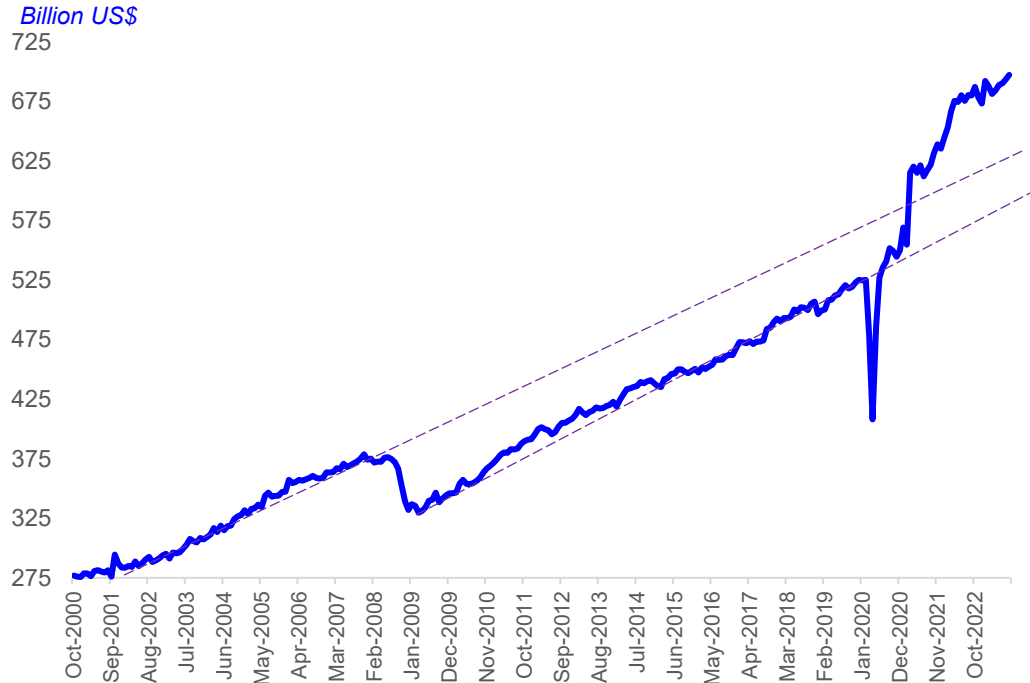
Billion US\$



Source: Federal Reserve, Bloomberg, Trafigura Research

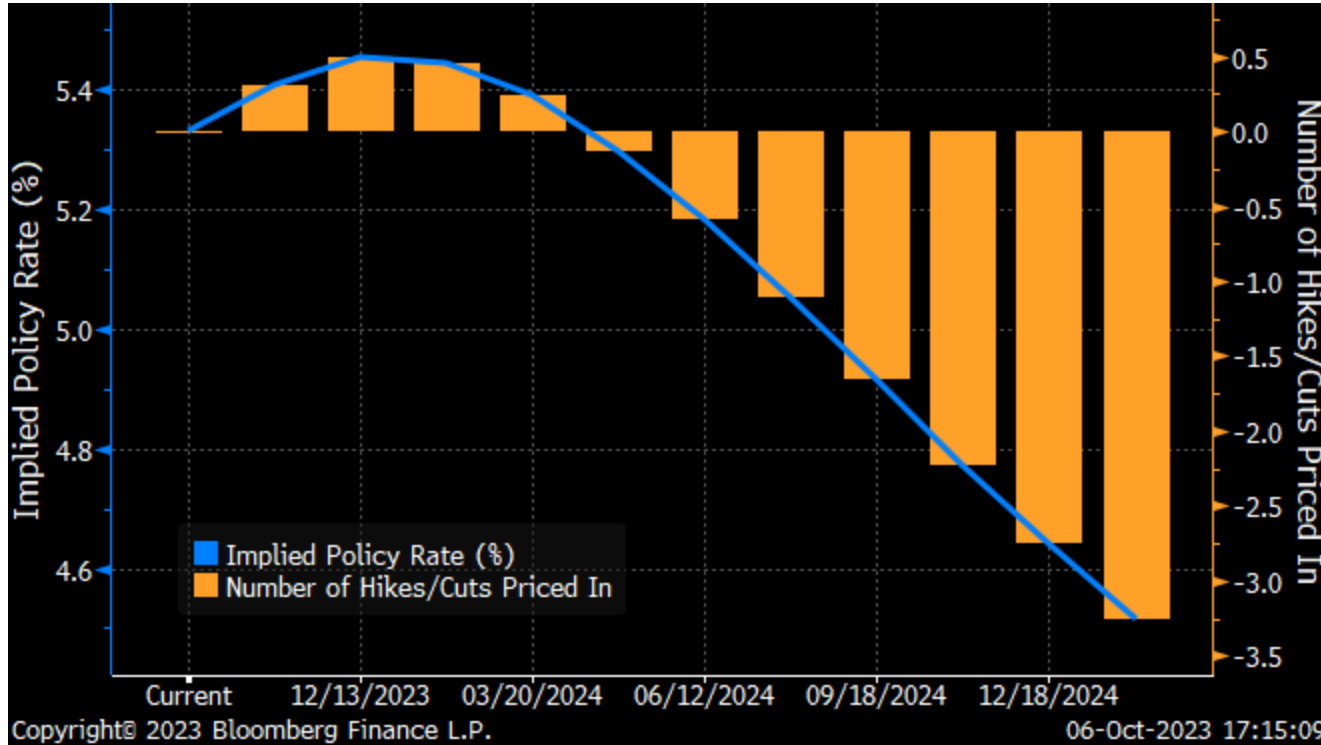
...and continue to spend heavily

US Retail Sales, Monthly



Source: US Census Bureau, Bloomberg, Trafigura Research

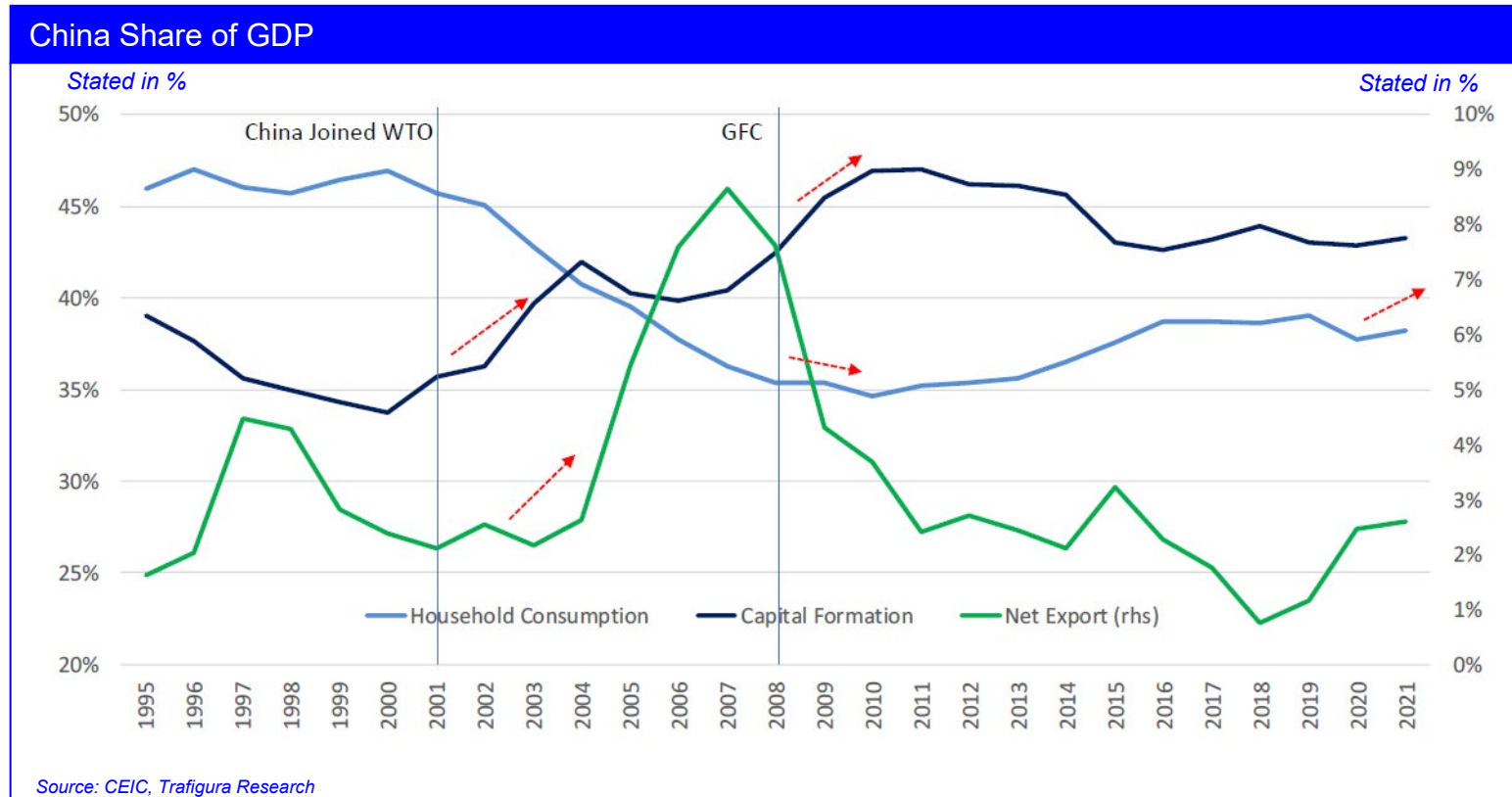
All this means the Fed might still hike 1-2 more times, and not cut until late 2024



The move in rates is now going to be painful



China is facing challenges in executing an economic transition

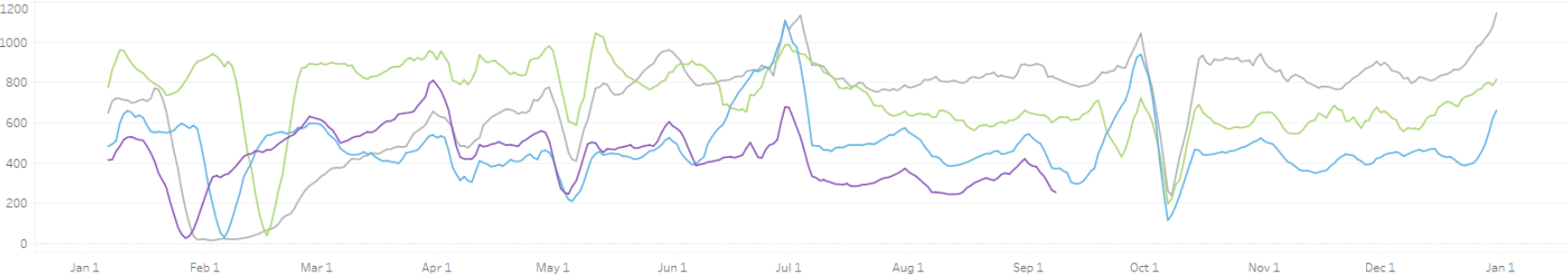


Property has been extremely weak this year

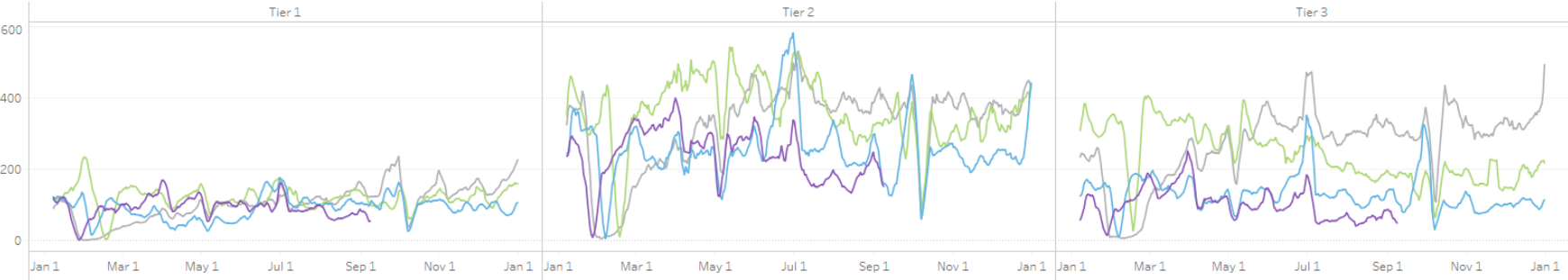
Demand | Housing Sales

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

Housing Sales | Primary Housing Market ('000 m3)

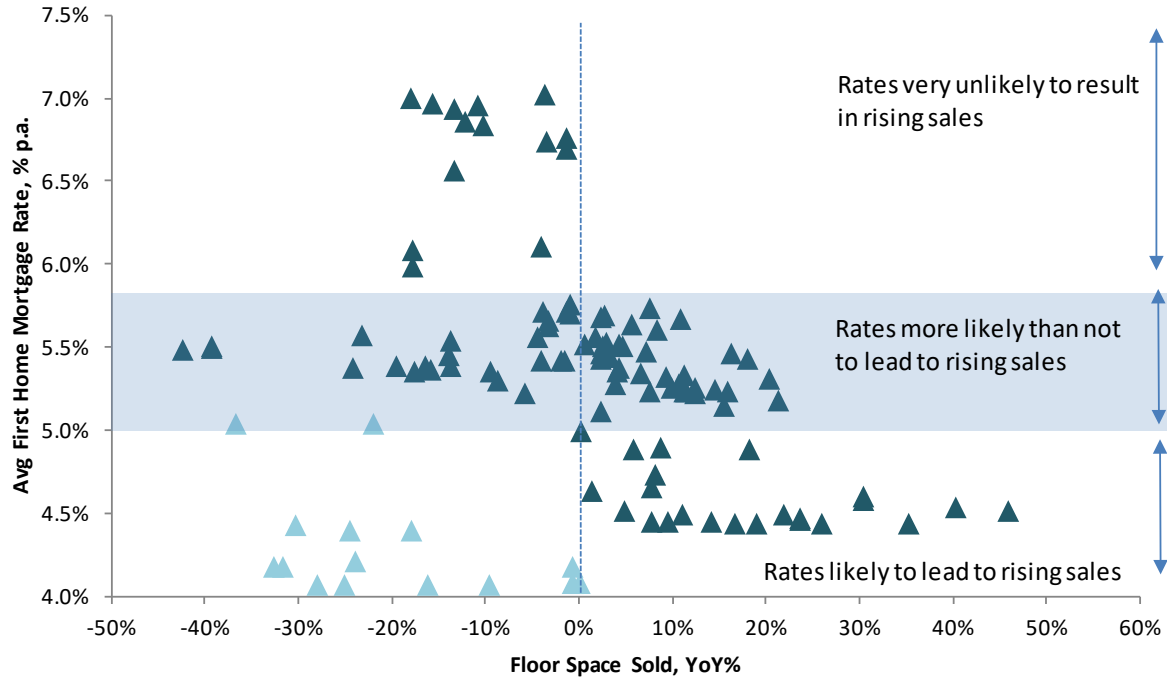


Housing Sales | Primary Housing Market ('000 m3)



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

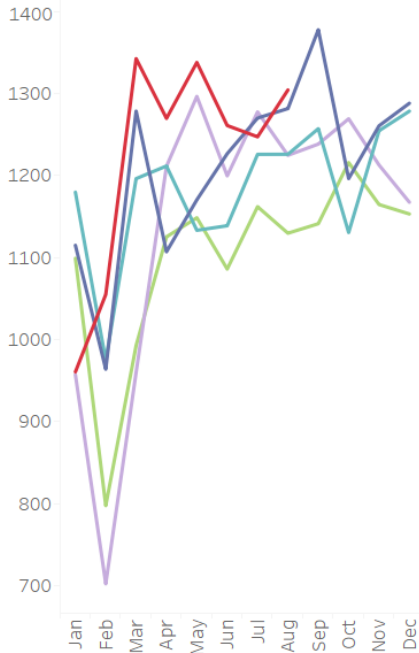
Property Sales & Mortgage Rates



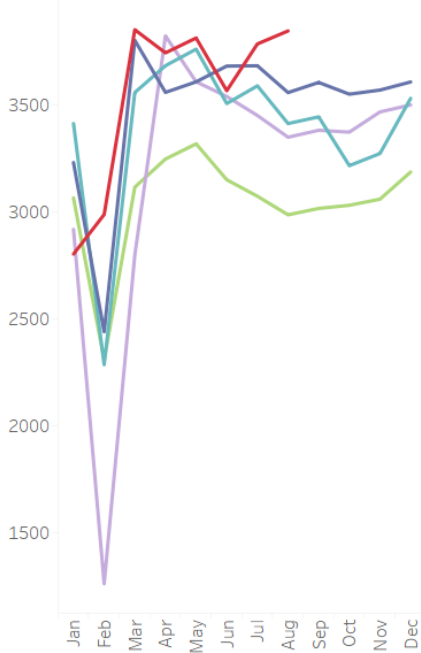
Source: CEIC, Trafigura Research

Despite bearish sentiment on China, record demand across commodities

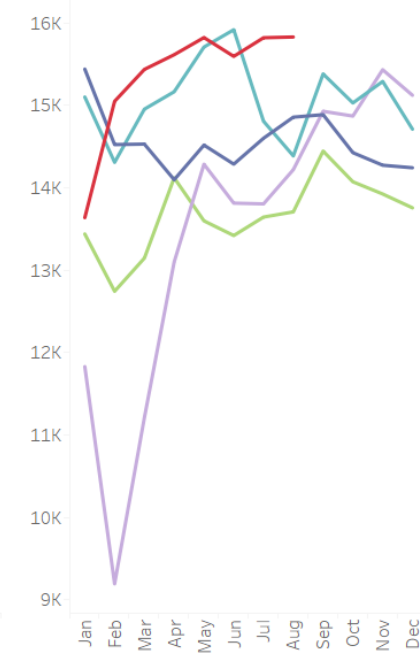
Copper Semis Demand
China



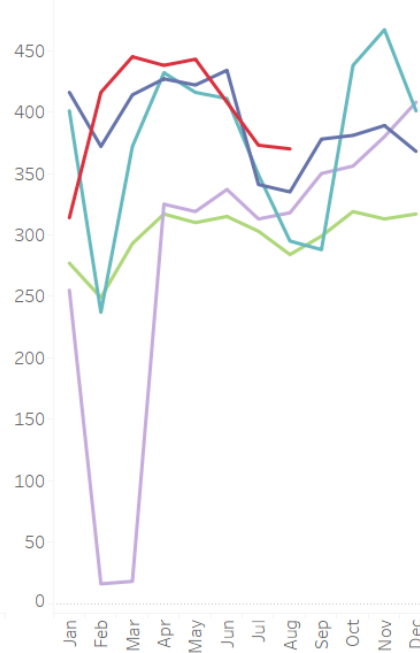
Aluminium Demand
China



Oil Demand
China



Gas to Industrial Sector Demand
China



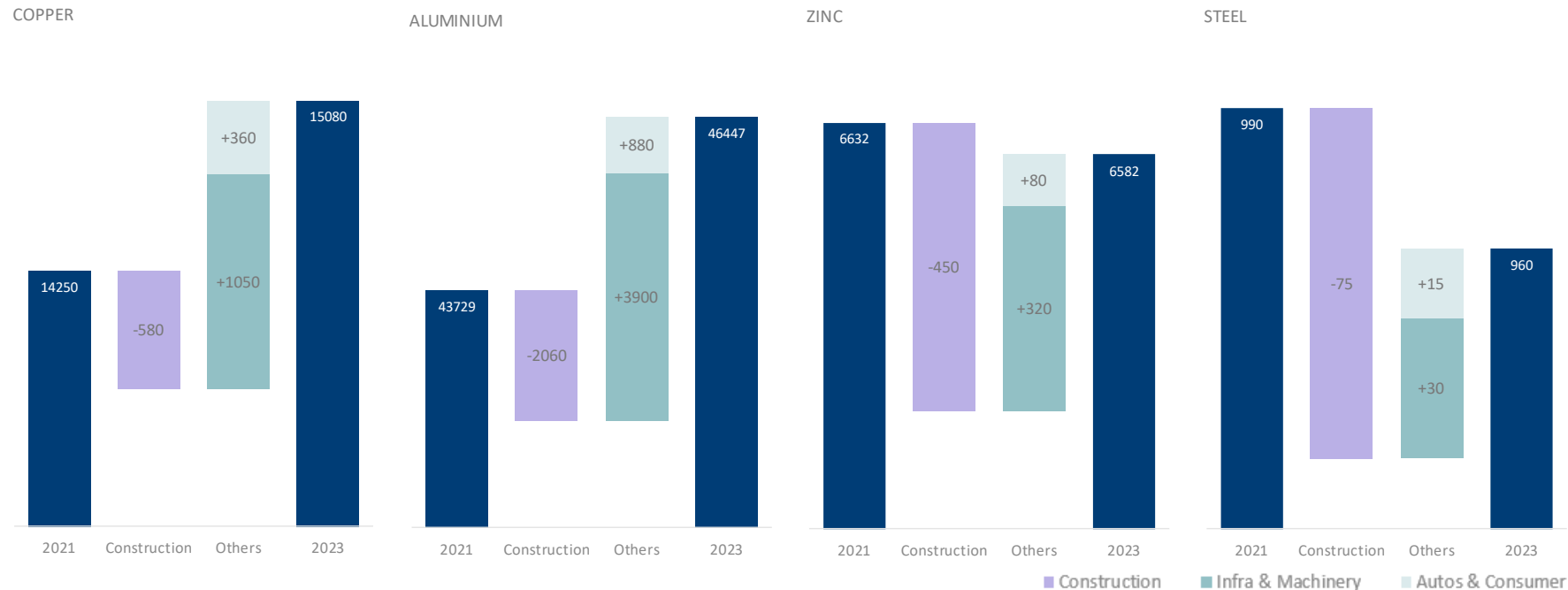
Source: China Customs, SMM, Trafigura Research

■ 2023 ■ 2022 ■ 2021 ■ 2020 ■ 2019

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

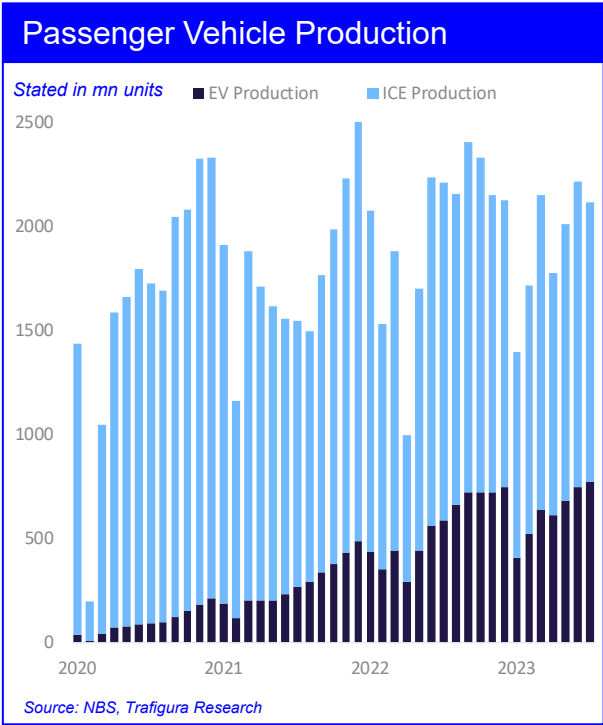
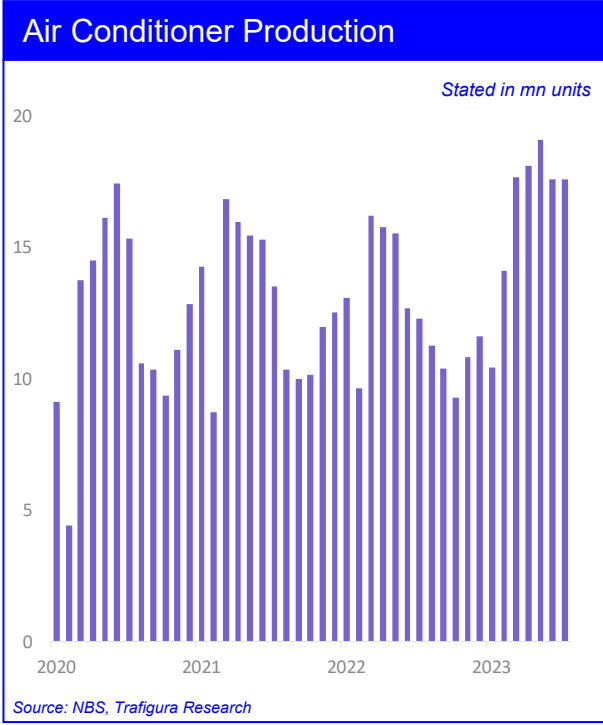
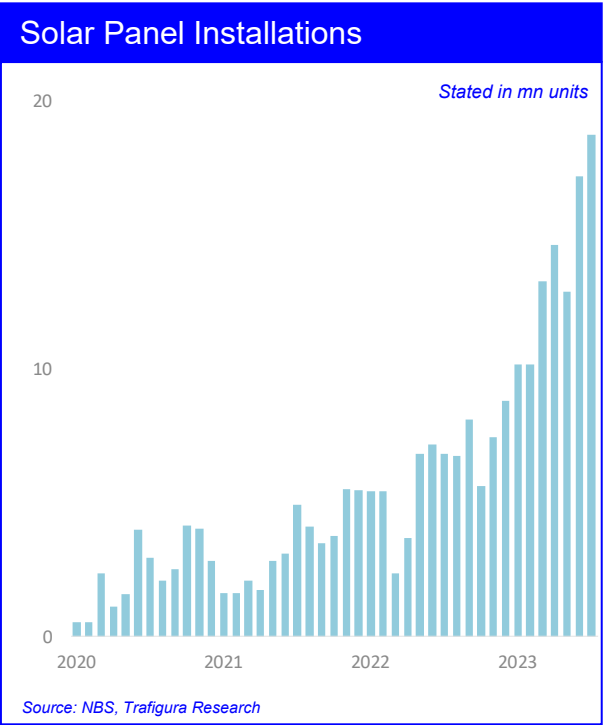
Commodity Demand Change, 2023 vs. 2021

'000 tonnes



Source: Trafigura Research

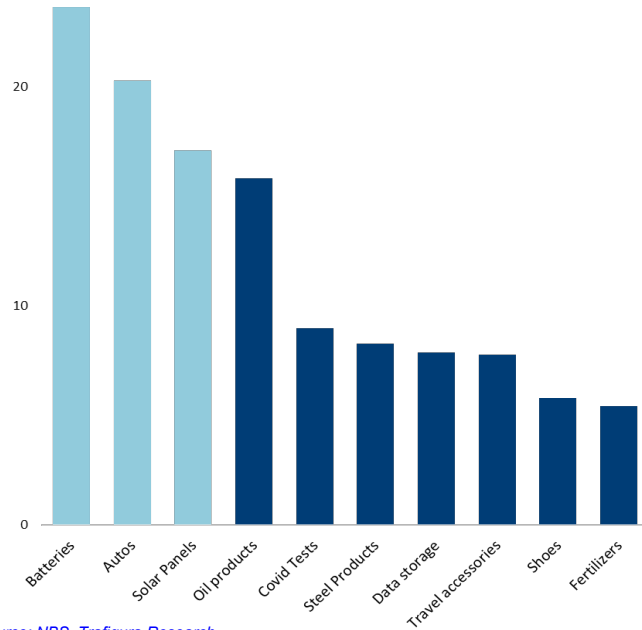
Solar installations, air conditioner output and EV production running at high levels



China is looking to utilize capacity via increased exports

Top 10 Fastest Growing Exports

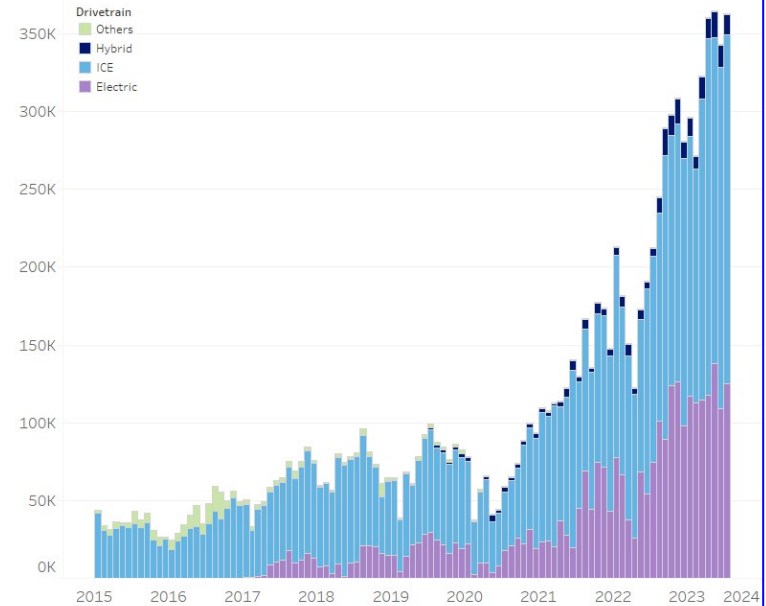
Billion US\$ YoY Change



Source: NBS, Trafigura Research

Passenger Vehicle Exports

Number of Vehicles

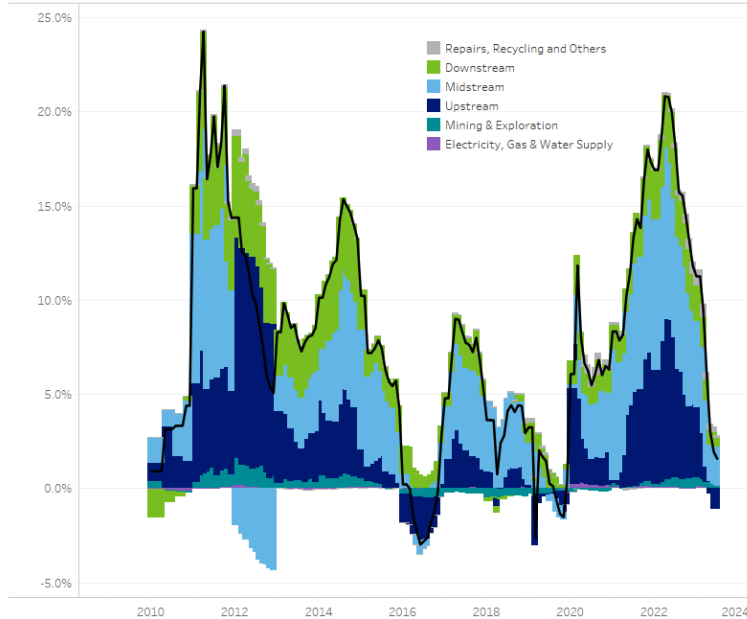


Source: Customs Data, Trafigura Research

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

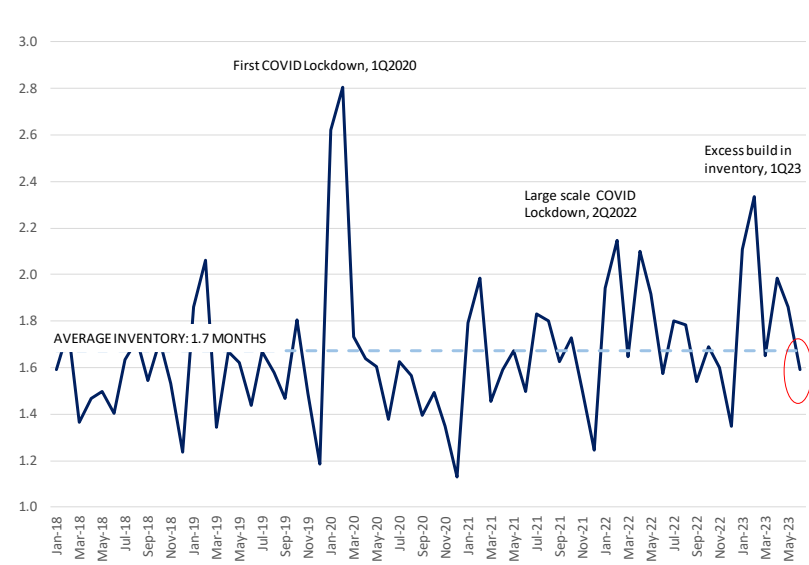
Industrial Inventory

Stated in YoY%, Nominal



Industrial Product Inventory—Midstream Sectors

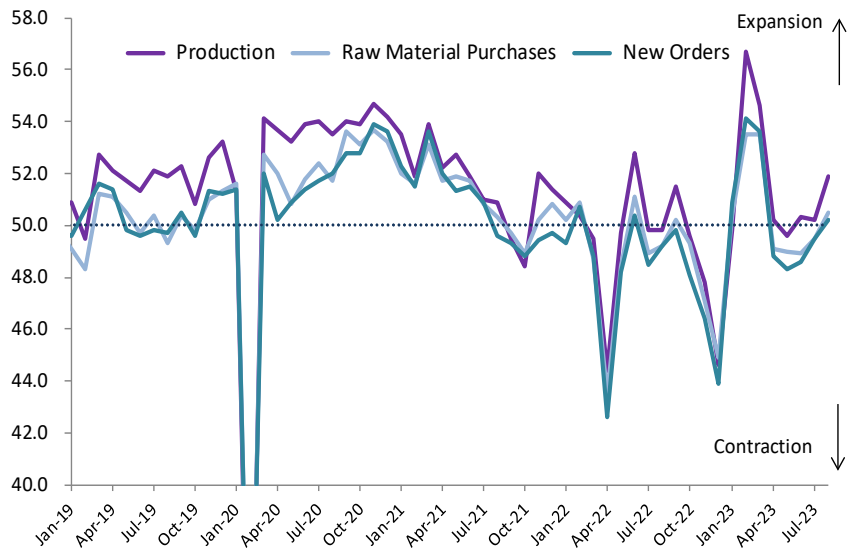
Months of Inventory



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

KEY MESSAGES

- 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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