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Topic

"In out, in out, shake it all about"

- USA, from advocate of free trade to figurehead of protectionism. Commodity markets are not indifferent to this either. Aluminium, copper and nickel begin to fall. Recovery follows.
- Goldman Sachs thinks the influence of the trade war on commodity markets, with few exceptions, is exaggerated and recommends buying commodities. The US Senate is becoming increasingly nervous.
- The columnist of Metal Bulletin criticises the roll-back of the Dodd-Frank Act in the USA, and especially the Volcker Rule. Some banks are already preparing themselves for it. Sad.
- Sustainability moves share prices, both upwards and downwards. Nothing works without compliance. The London Metal Exchange has announced several new contracts for January 2019.

The "new" US American trade doctrine, as well as turning everything upside down, has shaken up the markets in a totally unproductive way. Whilst volatility can sometimes stimulate business, movements caused by uncertainty are more likely to be unhealthy. This can lead to a risk on-risk off behaviour of market members which tend more to paralyse fundamental activities than to spur them on. It can hardly be believed that the USA, in such a short space of time, can mutate from being a vehement and relentless advocate of free trade into a figurehead for protectionism. But people like to cut the branch off on which they are sitting. Which, looking at the mass exodus of Brexiteers fleeing government, can also be said of Great Britain.

In this situation, base metals could of course not hold their ground, and, along the whole spectrum started in retreat. Certainly, a somewhat weakened demand activity in the summer months also played a part, but most significantly news reports about the trade conflict "USA against the rest of the world" influenced and unnerved traders and analysts. The US government has just let it be known that it will apply 200 billion US-Dollars worth of trade tariffs on products from China. This will apply to goods such as electronic products, textiles, food stuffs, metals and chemicals. Only just very recently, tariffs of 25% had already been applied on goods to the value 34 billion US-Dollars.

Since June, as a consequence of events, copper as fallen from USD 7,300.00/mt to just above the USD 6,000.00/mt level, the 3 month nickel price has slipped from USD 15,600.00/mt to USD 13,700.00/mt and aluminium has fallen from USD 2,350.00/mt to USD 2,000.00/mt on the main exchange, the London Metal Exchange (LME). And it was exactly the US aluminium industry which President Trump wanted to protect in interests of national security. This is certainly not done by deliberately forcing a drop in price. The nickel market, in its downward movement, was showing signs of stabilising, but just at the same time came news that the US administration was introducing new draconian measures once more.

Analysts of the US American investment bank, Goldman Sachs, are basically of the opinion that the "trade war" is being overvalued by the financial markets in regard to the influence it has over commodity prices - with the exception of soya beans: For this reason the bank is recommending its investors to buy commodities. But not all financial institutions see it this way. Morgan Stanley, for example, is more cautious and sees risks of demand decreasing and a weakening in China. Goldman Sachs, however, at least as far as nickel is concerned, is so far in the right. Nickel on the LME is being quoted at the time of writing once more at USD 14,300.00/mt, which is already USD 600.00/mt higher than the low of the previous day.

There is also an increasing sense of uneasiness in US American politics beyond Donald Trump in regard to the operations of the President in the trading arena (and presumably elsewhere). The US Senate, with a phenomenal majority of 88 to 11 votes, has passed a resolution to examine whether it is an abuse by the chief executive to apply tariffs in the name of national security. And also, in the USA voices are being heard about the embarrassment brought on them by intellectual lows of their head of state at the NATO conference in Brussels.

Writing under the pseudonym "Lord Copper", the Metal Bulletin has a regular column specifically for comments about current topics in the world of metals. In one of its last editions the column spoke about a development which could bring about more volatility or even instability to the markets. And could this be anyone else but a well-known individual with the name of Donald Trump, playing a major role beside Mr's Dodd and Frank, along with Mr. Volcker. But first of all, a word about the latter three, perhaps figures already known to some.

After the meltdown of the financial crisis in 2008, US American politicians made the commitment that such a situation should never be allowed to happen again. It had brought the global financial system to the brink of disaster - not for the first time, and unfortunately, probably not for the last time. To achieve this aim, with the Dodd-Frank Act, very important regulatory changes were introduced. The law is named after the then Senate Committee Chair on Banking, Housing and Urban Affairs, Chris Dodd, and the Chairman of the Financial Services Committee of the House of Representatives, Barney Frank.

To describe it briefly, the regulation had the goal of ensuring the stability of the financial markets of the United States of America. The most important aspects were an increase in responsibility and transparency in the financial system. The existing de facto obligation in practice of government bail-outs of financial service companies should be neutralised ("too big to fail"). The Volcker Rule of this legislature, named after a former President of the American Federal Reserve, contained quite vital restrictions on proprietary trading for banks, which, in its disproportionate nature at the time was not an insignificant factor in the crisis.

At this point, it may be worth remembering the once proud broker MF Global. Under the legendary leadership of Jon Corzine, a former CEO of Goldman Sachs, Governor of New Jersey and US Senator, MF Global was declared bankrupt on 31st October 2011, ironically quite timely. At the time, the talk was that Jon Corzine, due to broker business being "boring", became the driving force for proprietary trading with government bonds.

The columnist of Metal Bulletin, Lord Copper, has now reported that not only did Donald Trump make the announcement in his campaign that he would roll-back the Dodd-Frank regulation, but he has now actually already begun to do this. Threshold values at which financial institutions have a mandate to be rigorously examined have now been raised quite significantly. And also the Volcker Rule should now be relaxed thus allowing financial institutions with lower capital to once more partake in higher volumes of speculative proprietary trading.

According to Lord Copper, this has already been manifested by certain banks having begun to contact teams of traders to entice them away from their present employers. Groundhog Day. Unfortunately nothing is ever learnt. At least this sad recognition inspired the columnist to become almost prosaic about the issue by using the words from the popular dance Hokey Cokey: "In out, in out, shake it all about".

Reports in the Financial Times, in The Guardian and in many other media outlets fit in well with the ongoing discussions made here about sustainability. They report that at the beginning of July, it was announced that the Anglo-Swiss commodity producer and trader, Glencore, had been requested by the US Ministry of Justice to submit documents and records in connection with money laundering investigations. Even if this is not directly concerned with the sanctions imposed by the US Administration, the named countries could be described as being a main focus of the sanctions regime: the Democratic Republic of the Congo, Nigeria and Venezuela. All of them not quite the best of democracies or to use the somewhat familiar words of the former Chancellor of Germany, Gerhard Schröder, not "democrat through and through".

Now it is probably purely statistical or in human nature that the company which maintains mining activities is asked, and has been frequently asked in the past, about their activities in certain countries. But the attitude of society and politics has fundamentally changed in this area in the last few years. The benchmarks for responsible trading are very specified, not least by pressure by regulatory bodies. Also the enforcement of compliance of these values is, in the meantime, a clear matter. Parallel to this, commercial banks are operating, under extreme pressure, above all also from the United States of America, as an extended arm of the executive.

The reaction of investors about the news very clearly shows that the debate about sustainability is not just a vision of do-gooders. Glencore's share price fell over the last few weeks by more than 20%.This has, however, led to the managing directors thinking about a stock buyback policy since the share price movement is considered as being somewhat exaggerated. Of course, the presumption of innocence should always be made before the opposite is proven.

The London Metal Exchange (LME) has let it be known that the Exchange plans the introduction of 15 new contracts for the January 2019. A new cobalt future is planned as well as a contract for hot rolled steel. It has also recognised that because of increasing protectionism and introduction of tariffs on, for example steel and aluminium products by the USA, there is a need for a bigger regional differentiation. Inevitably, this would indicate the necessity for regional premium contracts in order to reflect the expected market price differences.

Also the trend is moving from physical contracts which can also be delivered with approved qualities, to such which are purely transacted in cash. As well as cobalt, other metals which are connected with electro mobility, have also come under the scrutiny of the LME, lithium for example. But since these are very small markets, it is difficult to establish a proper physical market. The LME will, therefore, increasingly fall back on price references from third parties. This is already the case, for example, for the LME steel scrap contract which refers to the monthly average index price TSA HMS 1/ 80:20 CFR Turkey of Platts, a price information service.

LME (London Metal Exchange)

LME Official Close (3 month)

	July 12, 2018		
	Nickel (Ni)	**Copper (Cu)**	**Aluminium (Al)**
Official Close 3 Mon. Ask	14,175.00 USD/mt	6,192.00 USD/mt	2,057.00 USD/mt

LME stocks in mt

	June 18, 2018	**July 12, 2018**	**Delta in mt**	**Delta in %**
Nickel (Ni)	275,712	**263,730**	-11,982	-4.35%
Copper (Cu)	294,275	**262,750**	-31,525	-10.71%
Aluminium (Al)	1,139,575	**1,134,600**	-4,975	-0.44%