FX Monthly Report

June 2021

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Published by:
Sucden Financial Limited
Thursday May 2021

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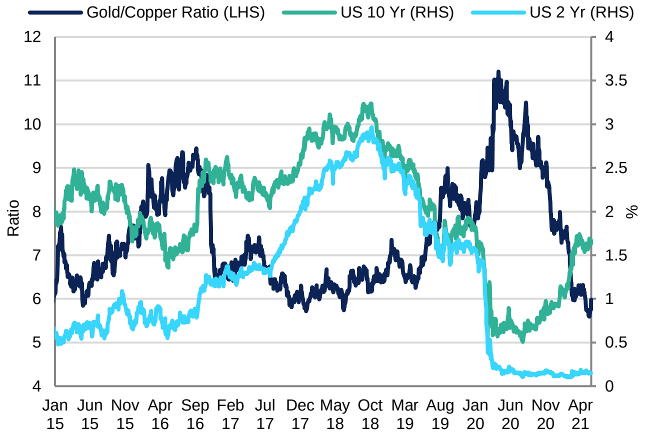
Precious Metals

Gold and silver prices have recovered in recent weeks as investors start to look at the prospect of inflation in the coming years. Risk assets have been well bid as supply and demand disconnects push prices higher. However, YTD gains performance for gold and silver is muted, up 5.8% and 0.3% (as of June 2nd) respectively. Economic data remains supportive for risk assets, but gold has gained 13.5% from March 31st to June 2nd, with silver gaining 17.8%. The 5yr average performance for silver shows June, July and August are all positive months at 3.5%,9.3%, and 3.65% respectively. September, October, and November are months where silver performance is traditionally weaker, working on the 5yr average. Gold performance follows a similar pattern, with the 5yr average suggesting performance for June, July, and August gaining 2.8%,2.69%, and 1.24%, respectively. This suggests that May is traditionally good time for investors looking at the precious metals market and to generate some alpha over the summer months. However, as we know previous performance does not mean the same will occur this year, but as we look at the economic backdrop, central bank balance sheets, inflation and uncertainty, precious metals look set to continue their strong performance since March.

Gold/Copper Ratio vs US 10yr and 2yr yields

The gold/copper ratio has declined in the last 6 months as risk appetite has returned.

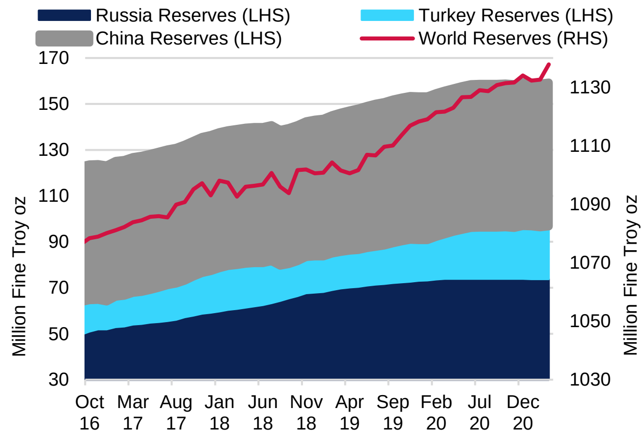


Source: Bloomberg

The correlation between the S&P 500 and gold since the beginning of February is 0.444, which is not statistically significant but suggest a positive linear relationship. The correlation with gold and the VIX in the same period is -0.447, and the VIX is low at 17.85. We expect the S&P 500 to continue to perform in the coming months despite uncertainty, due to the high levels of stimulus and increases in M1 & M2. Growth of major economies is improving, but so are debt levels. We have previously mentioned that higher debt levels are not an issue, in the short run, if the economy continues to growth, and exports also improve. The trade balance in the US, was revised in March to $92bn, and was $85.2bn in April, this could prove problematic if we continue to see this trend in the long run. US 10yrs are holding above 1.60 at the time of writing, with the 30yr at 2.28. The market is not pricing in bond tapering from central banks, especially the Fed, but after weaker than expected employment data, we do not expect a change in Fed policy in the near term. The inflation story continues is prevalent, and higher factory prices reaching a 13 year high in China shows the cost push side of the equation.

Central Bank Gold Reserves

Central Bank gold buying is still strong, Russia is adding to their reserves as they sell their dollars.

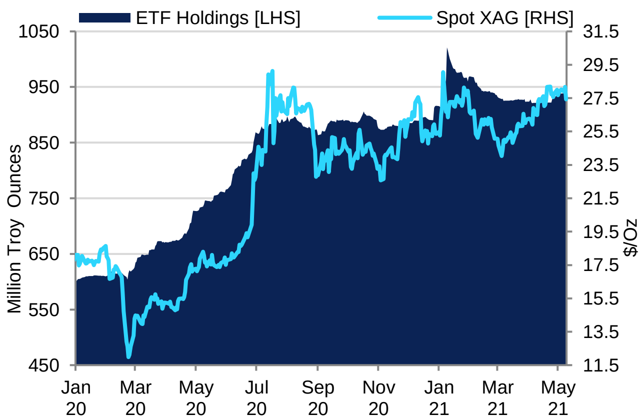


Source: Bloomberg

India's COVID-19 woes has softened demand for gold, this was seen in the decline in gold imports in April and May. Imports last year were low due to lockdown, so compared to 2019 gold imports into India were down 24%, doré inflows into India declined 35% from 2019. In April, imports were 70 tonnes, down from 103 tonnes. April and May is usually a strong period for gold demand due to wedding season, especially from the rural season. We do not expect restrictions to be eased in the near term and gold consumption will remain soft. Refined gold from Doré, and was 19 tonnes in April, the material came from 12 different countries. Softer physical demand from India is likely to be offset by central banks who purchased 100 tonnes in March, Hungary purchase the most adding 63 tonnes to their reserves. The Russian Wealth Fund are selling their dollar assets but are buying gold, euros, and yuan. Russia's holdings of US treasuries dropped sharply in 2018 due to the sanctions and Russia's holdings now stand at $3.98bn. Central bank purchases of gold are likely to remain strong in the near term as they continue to add to their reserves.

All Known Silver ETF Holdings vs Spot Price

Known ETFs have consolidated, and silver looks set to continue to rally in the near term.

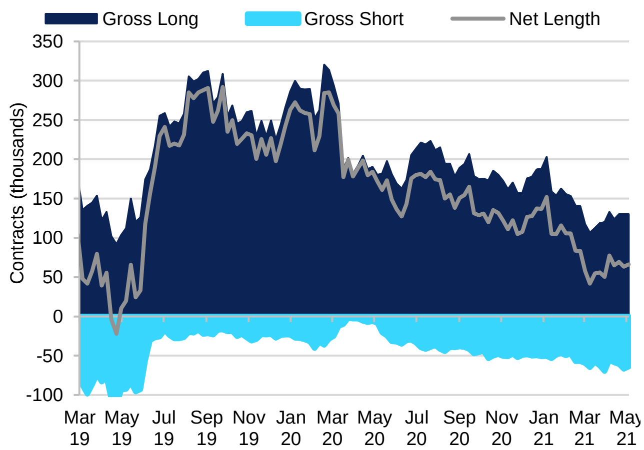


Source: Bloomberg

Silver is set to benefit more and more from industrial demand because of the transition towards renewable energy and solar panels. Silver has outperformed gold this year, as the asset is comparatively cheap but also because of the industrial consumption. Silver is likely to rally in the coming months as investors inflation edges higher due to higher raw material costs, we expect inflation to start to plateau as price action starts to stall. Cost push inflation has become increasingly evident, with construction and manufacturing companies across the globe highlighting higher input costs. Known holdings of silver ETFs have increased slightly in recent weeks to 940m troy ounces, with the managed money position slightly weaker than a month ago but prices and ETF holdings remaining elevated, we expect silver prices to kick higher in the coming month.

Gold Managed Money Net Position

The net position shows a historically low net long, but we expect a moderate improvement in the net length.



Source: Bloomberg

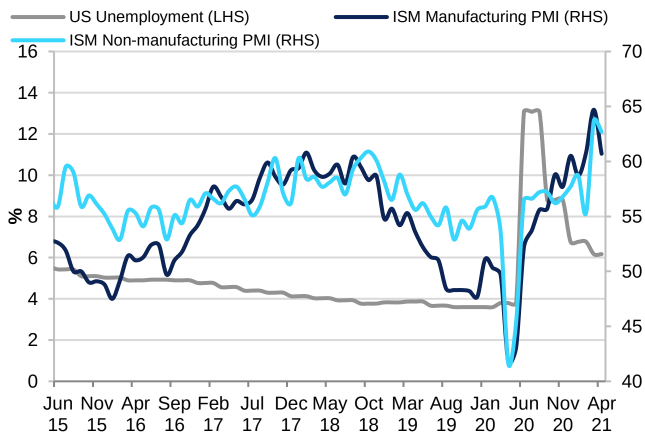
Specs added to their long position in the week to May 25th, the net long reached 126,903, a significant rise from the 41,896 contracts at the beginning of March. This is now above the 3 year above of 119,000 contracts. Total longs for gold reached 162,961 up from 156,180 from the week before. For silver, the net length was down by 45,294 contracts, down from 46,529 contracts the week prior. We saw a decline in long positions, but prices continue to hold at a higher level suggesting a moderate divergence in the specs and price action. Appetite for precious metals are expected to increase in the coming months, input prices are rising sharply especially in the construction and manufacturing sectors. Profits in China are likely to be lower as import prices are greater than export. Companies are not passing these higher prices onto the consumer, preventing higher consumer prices and inflation, this could change in the coming months. The outlook is the same across the globe and therefore we expect to see CPI test central banks resolve slightly, but we know they have suggested they will let the economy run hot.

US Labour Market

The unemployment level globally is improving, and the services sector is showing signs of thawing. This is particularly prevalent in the US, where demand for employment in the services sector is gaining traction judging by traffic on open table and google analytics, bookings on OpenTable between April and May are in line with a 1m+ gain in jobs in hospitality and leisure. Unemployment benefits are generous, health concerns are still high despite the vaccine, and this aids the labour shortage. However, nearly 50% of US states are ending their employment benefits in June or July and this will incentivise citizens to return to work, especially for summer jobs in hospitality. Average hourly earnings are up 0.3% y/y and 2% y/y, in April and May, respectively, with the average weekly hours also rising. To reduce labour shortages, companies could hike wages, but hospitality companies are cannot afford higher costs. We could see another weaker than expected reading for US employment, but then we expect the labour market to improve. The lack of new candidates has prevented some companies from increasing output, this dynamic is expected to continue in the coming months. NFPs have been below expectations for the last two months, due to the above reasons. The labour force participation is at 61.6%, with the unemployment rate at 5.8% as of June 4th.

US Employment vs Non and Manufacturing PMI

The US labour market continues to struggle due to employment benefits.



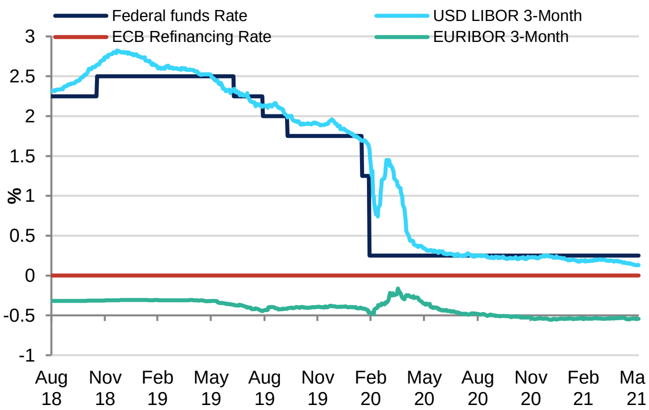
Source: Bloomberg

Euro Desk Comments

Euro was stronger in May helped by a softer dollar, but still trading within our broad range. There is talk ECB could signal a change in guidance for its PEPP this Thursday. However, apart from some short-term volatility, we believe ECB still behind its G10 counterparts for policy normalisation and hence will have limited impact. We expect Euro to continue trading in our broad range 1.235/1.17 till Q4

EU and US Interest Rate vs LIBOR and EURIBOR

US LIBOR has softened in recent weeks, despite refinancing rate holding steady.



Source: Bloomberg

NOK

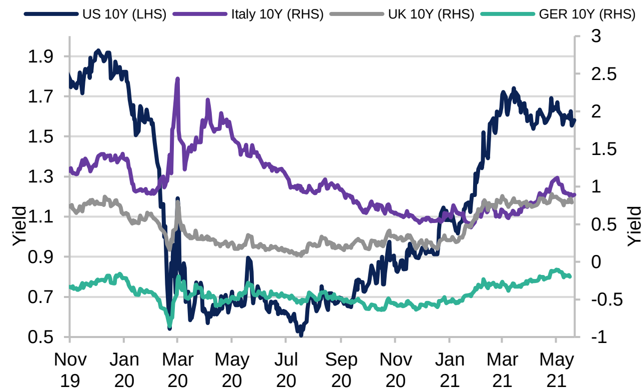
NOK has only been marginally stronger vs USD in Q2 and weakened against EUR despite oil prices rising to 2-year highs and possible rate hikes starting from September 2021. This coupled with a successful vaccine campaign, rising inflation and falling unemployment should see NOK appreciate and become one of the strongest performers of 2021. We expect USDNOK and EURNOK to move lower and break the lows from April.

USD Desk Comments

Over the last few weeks, there has been increasing chatter from FED members about the need to start discussing tapering. However, that does not mean FED are ready to act soon, we believe it will be months before we see any action. There is still ample spare capacity in the US and the FED are more focused on getting employment closer to full capacity /pre-pandemic levels before they contemplate any monetary tightening to calm inflation concerns. The Non-Farms print of 559K jobs created although an improvement from the previous month it still far short of levels the FED would want to see or what the market expected a few months ago; This will also provide ammunition for more cautious members of the Fed to push back taper talks. Therefore, we maintain our rhetoric of softer USD until Q4 before the start of the new longer-term USD appreciation cycle.

US vs UK vs Italy vs German 10-year yield

US yield curve has flattened, and the dollar to soften in the coming weeks.



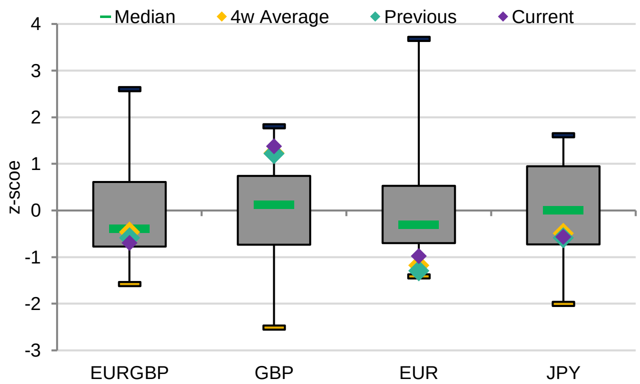
Source: Bloomberg

GBP Desk Comments

Cable finished higher in May for the first time since 2009 remaining resilient despite Covid 19 variant concern as markets expectations for rate hikes are brought forward to the backend of 2022. As the UK economy remains on track to fully open next month we expect a strong consumer-led recovery in the UK, helped by swarms of staycationers who would have otherwise spent their money abroad. The BOE remains well placed to bring policy normalisation in 2022 and are more likely to act sooner if required when compared to the FED. The forward curve for Cable. 3M points trading near 0, levels not seen since 2015. Given the aforementioned reasons, we remain Bullish GBP with our long term view for a rise in cable towards 1.50 by year-end.

Major Currency Non-commercial Positioning

Funds hold a net long in Cable but other pairs hold a net short position.



Source: CME, Sucden Financial

NZD Desk Comments

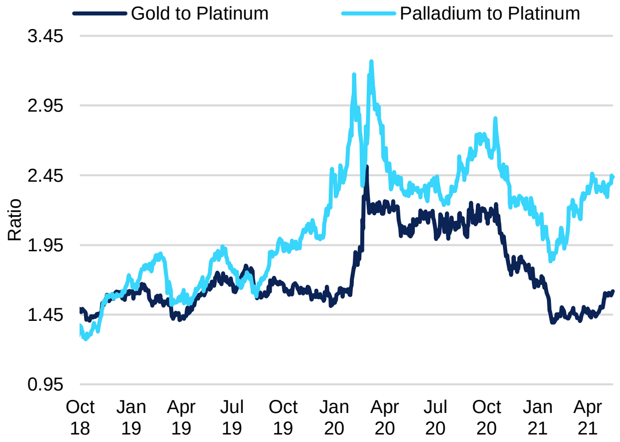
Last month RBNZ also changed its stance, conveying a more hawkish message sighting a strong economic recovery amid rising diary prices and confidence as covid related jitters subside. They project their Official Cash Rate to rise to 0.5% from 0.25% by September next year, although they did iterate this was highly conditional on growth expectations being met. Economic data from New Zealand will be closely watched over the next few months, better data could see the market start pricing in a rate hike sooner rather than later and potentially a steeper rates cycle. We expect the Kiwi to break highs from 2017 @ 0.7578 in the second half of the year. Better trade maybe to go long NZD vs EUR/CHF/ JPY whose central banks remain dovish outliers.

Platinum

Platinum remained range-bound in the last three months as investment demand remained lacklustre. The platinum market is well supplied, but prospects of improving fundamentals could support prices in the near term. The industrial surplus is set to remain more than 1moz this year, and the demand for autocatalysts is now forecast to grow both by weight and as a share of total PGM usage in emission-treatment systems worldwide. Even tighter emissions standards could boost platinum use in Europe.

Gold/Platinum Ratio vs Platinum/Palladium Ratio

Gold platinum ratio has started to improve but remains near multi-year lows but the palladium/platinum ratio is continuing to rise.



Source: Bloomberg

In addition, major producers in South Africa have some material that was not refined last year owing to smelter outages, at least some of which should be processed over the course of this year. This is expected to be greater than any drop in production in Russia following the temporary closure of two mines owing to flooding. Therefore, market tightness is expected to ease, and the prices could pull back later in the year. Further sideways-to lower price action is possible, as seasonally, the price tends to fall over the latter part of the year.

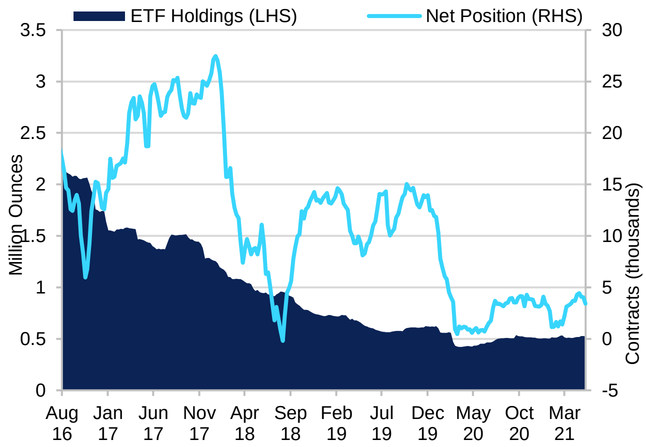
Palladium

Palladium rally stalled in May after the flood taking place in two of the Nornickel mines, resulting in a lower expectations of palladium output; strong demand from the recovering automotive industry continues to support precious metal's prices from the downside. In the medium term, while disruptions in Nornickel's mines seem to be normalising, the deficit is set to widen to 0.9moz in 2021, and stricter environmental rules in China and Europe are likely to support automakers demand for the precious metal.

Estimates of the disruption to car production this year from missing semiconductor parts have now reached 2.5m units in H1 2021. However, it is not so clear that this will result in much lower PGM demand. Best-selling cars are being prioritised, and some manufacturers are removing non-essential systems that are missing chips from models to keep cars available. Overall, strong automotive demand, despite chip shortage impacts, and constrained mine supply are likely to keep the palladium market in deficit this year, and hence their prices elevated.

Palladium ETF Holdings vs Palladium Net Position

ETF holdings have been declining for years, the net position is also low, but prices have rallied 15.85 YTD.



Source: Bloomberg

Technical Charts

GBPUSD

GBP broke out of the descending triangle and tested highs from February. On the upside a break above resistance @ 1.43 (50% fib of the move from 03/16 to 03/20) and at 1.4382 (High from April 2018) will lead to next leg higher towards 61.8% fib / 1.50 psychological level. This view remains intact while downside support @ 1.35 holds. A sustained close below 1.35 would lead to a larger pull back to 1.32.

EURUSD

EURUSD is trading in a broad range within a Wedge with a potential head and shoulders pattern forming. On the downside a move below lower trend line could see market test last month's 1.1702 level and then support @ 1.16. On the upside a close above upper trendline could pave the way to test highs from start of the year @ 1.2349. A sustained close above 1.2349 could see EURUSD push higher and test highs from 2018.

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Coffee Investment Research

This report drills down into the detail of the coffee market and is produced three times a year, we also produce shorter more concise updates. We undertake a macroeconomic assessment of major consuming and producing regions before analysing the recent earnings reports from Starbucks, Nestle, Luckin Coffee, Dunkin Donuts, and Costa. This helps us highlight new sales and marketing techniques and any consumption changes, which has been particularly popular during COVID-19. The largest chunk of this report is where we assess the Supply and Demand outlook using our primary data for the coffee market and where we apply our fundamental models. We showcase our crop forecasts and highlight any changes before providing prices forecasts and trading strategies with futures and options.

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