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## Today's Market View - Chinese trade data reveals depth of trade war

SP Angel - Morning View - Friday 12 07 19

### Chinese trade data reveals depth of trade war

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ARC Minerals\* (LON:ARCM) - Expect more good copper intersections from the Cheyeza discovery in Zambia

Pan African Resources (LON:PAF) - Strategic shifts deliver gold production above guidance level

#### Chinese trade data to reveal depth of war woes

- China's latest trade data comes under scrutiny, particularly after President Trump's overnight complaint that Beijing hasn't boosted purchases from US farm products, an unconfirmed pledge secured from Xi Jinping at the G-20 summit in June.
- The overall figures are expected to highlight pressure on China's external sector from tensions with the US, with June data having been booked before the two leaders agreed to a détente. Beijing has also reiterated trade talks will resume while stressing that its core concerns need to be addressed.
- Iron ore imports will be in focus following supply disruptions from Brazil and Australia stung Chinese figures, with tumbling port inventories and robust steel output have helped push prices to a 2014 high. Shipments are forecast to have climbed on the month as disruptions settle from the world's largest port.
- In the energy complex, investors will look for signs of stricter coal import controls. With inbound cargoes running almost 6% higher in the first five months, analysts are expecting shipments to shrink over the rest of the year to help authorities cap annual imports at, or below, 2018 levels.
- Inbound shipments of copper and copper scrap products will also be assessed for concerns about demand conditions in the world's largest consumer.
- China June trade data, incl. steel, aluminium & rare earth exports; iron ore & copper imports; soybean, edible oil & rubber imports; crude, gas & coal imports; oil products imports & exports.

#### Dow Jones Industrials

+0.85%

at

27,088

#### Nikkei 225

+0.20%

at

21,686

HK Hang Seng

+0.11%

at

28,463

Shanghai Composite

+0.44%

at

2,931

FTSE 350 Mining

+0.17%

at

20,227

AIM Basic Resources

-0.06%

at

2,089

## Economics

US - Firm June core CPI data released yesterday unlikely to convince the Fed not to cut rates during the July meeting.

- The core CPI that excludes food and energy climbed 0.3%mom, the most since Jan/18, and 2.1%yoy, beating estimates (0.2% and 2.0%).
- General CPI registered 0.1%mom/1.6%yoy increase with energy prices posting a 2.3%mom drop as gasoline prices fell 3.6%mom. Food costs were unchanged.

Tariffs - Experts highlight cost of tariffs to the US (New China news agency)

- US Government data estimated revenues of around US\$20bn dollars to May

- Around US\$8bn came into the US last year though there were less tariffs imposed
- Trump has authorised > US\$25bn compensation to US farmers.
- The data is interesting if somewhat one sided as presented by the New China news and circulated by the China Xinhua News agency as part of their pro-China propaganda.

China - Trade data show a drop in both exports and imports in June as the continuing US/China trade standoff continued.

- Imports from the US dropped 31.4%yoy while exports were down 7.8%yoy.
- On a separate note, money supply numbers released this morning showed a pick up in credit growth in June highlighting authorities' efforts to support the economy through monetary easing.
- Bloomberg estimates GDP growth to have slowed to 6.2% in Q2/19 from 6.4% recorded in the previous quarter with authorities likely to step up support to the economy in order to offset pressure from higher US tariffs.
- Exports (%yoy, US\$ terms): -1.3 v 1.1 in May and -1.4 forecast.
- Imports (%yoy, US\$ terms): -7.3 v -8.5 in May and -4.6 forecast.
- Aggregate Financing (CNY bn): 2,260 v 1,395 in May and 1,900 forecast.

South Korea - The government is rowing back on its election promises for strong minimum wage hikes as the economy struggles.

- Minimum pay for workers will increase 2.9% to 8,590 won per hour in 2020 despite President Moon Jae-in's pledge to reach 10,000 won by 2020.
- Minimum wages increased 10.9% this year and 16.4% in 2018.
- Steep hikes in the first two years drove a widening income gap and job losses in some sectors as firms struggled to accommodate higher employment costs amid weakening economic growth.

Singapore - The export oriented economy recorded the sharpest decline in GDP in Q2/19 further highlighting headwinds in the global growth outlook.

- Singapore, like South Korea, is considered as the bellwether for global demand given its heavy reliance on foreign trade.
- The economy contracted by an annualised 3.4%qoq v 0.5%qoq expansion forecast and 3.8%qoq growth recorded in Q1.

Turkey - The lira is off 0.8% this morning with most of other EM currencies trading higher against the US\$ as Ankara started receiving the first major cargo of S-400 missile defence system from Russia.

- Russian plane carrying parts for the S-400 batteries is headed to a base near the Turkish capital of Ankara, Turkey's defence ministry said on Twitter.
- US threatened to cancel the F-35 jet order as well as expel Turkey from the programme should Ankara proceed with the purchase of S-400 arguing the use of the Russia missile defence system by a NATO member may allow Russia to collect sensitive data about F-35s, fifth generation fighter jets, that are due to form the backbone of the NATO alliance future air operations.
- Turkey responded that it will protect the security of the F-35 by ensuring that the new S-400 system is not connected to Turkey's wider, NATO-integrated defence architecture, FT reports.

Iran/UK - Iran called on the UK to release its captured oil tanker that was seized by the British Royal Marines seized last week.

- "This is dangerous game and has consequences... the legal pretexts for the capture are not valid... the release of the tanker is in all countries' interest," a foreign ministry spokesman told state news agency IRNA.
- Iran has warned of reciprocal measures if the tanker is not released, Reuters reported.

## Currencies

US\$1.1269/eur vs 1.1269/eur yesterday Yen 108.34/\$ vs 108.08/\$ SAR 13.923/\$ vs 13.946/\$ \$1.255/gbp vs \$1.253/gbp 0.700/aud vs 0.697/aud CNY 6.874/\$ vs 6.864/\$

## Commodity News

### Precious metals:

Gold US\$1,411/oz vs US\$1,421/oz yesterday

- Despite a minor pullback, gold remains on target for a weekly gain as investors weighed comments by Federal Reserve Chairman Jerome Powell with a US inflation reading that topped expectations. During his second day of testimony to Congress, Powell suggested that the central bank has room to ease monetary policy as the tie between the inflation and unemployment rate has disintegrated.
- The strong CPI print offers a potential complication to US policymakers prior to their decision on interest rates at the end of July.
- Yields on 10-year Treasuries slipped following a one-month high on Thursday.
- European Central Bank policy makers were united in June on the plan to stand ready to provide more stimulus to the euro-area economy, a move that could be followed by interest-rate cuts as soon as this month.

Gold ETFs 74.3moz vs US\$74.3moz yesterday

Platinum US\$826/oz vs US\$829/oz yesterday

Palladium US\$1,560/oz vs US\$1,594/oz yesterday

Silver US\$15.17/oz vs US\$15.26/oz yesterday

### Base metals:

Copper US\$ 5,954/t vs US\$5,947/t yesterday

Aluminium US\$ 1,820/t vs US\$1,846/t yesterday

Nickel US\$ 13,140/t vs US\$13,105/t yesterday

- Battery metals tracker Adamas Intelligence reports electric vehicle manufacturers deployed 57% yoy growth of nickel in passenger EV batteries in May, stinging demand for cobalt.
- Tracked across 80 countries, the nickel metal equivalent used in lithium-ion batteries (primarily in the form of nickel sulphate) increased by 69% whereas the amount used in nickel metal hydride (NiMH) batteries (primarily in the form of nickel hydroxide and AB5 nickel-REE alloy) increased by 26%.
- The move follows R&D efforts to improve energy density, with nickel-manganese-cobalt (NMC) compositions moving from NMC111 to NMC622/NMC523 and even NMC811. The market share of NMC811 has increased to 2% worldwide and 4% in China in May, doubling market share in just one month.
- The world's number one carmaker, Volkswagen, is spending more than \$50bn on batteries to start mass

producing EVs by mid-2023 and the Company announced earlier this month that from 2021 it would use the NCM811 composition.

- Falling cobalt interest has pummeled prices, now sitting around \$28,000/t after peaking at \$95,000/t just over a year ago.

Zinc US\$ 2,396/t vs US\$2,406/t yesterday

Lead US\$ 1,967/t vs US\$1,971/t yesterday

Tin US\$ 18,240/t vs US\$18,010/t yesterday

#### Energy:

Oil US\$67.0/bbl vs US\$67.2/bbl yesterday - Oil prices appear to be holding onto new high levels following the attempted seizure of a British oil tanker close to the Strait of Hormuz.

- Iran has threatened that they would retaliate in response to the seizure of an Iranian tanker carrying crude destined for Syria..
- Five Corps of Islamic Revolutionary Guard approached the British Heritage tanker as it sailed towards the Strait of Hormuz ordering it to change course.
- The ship was escorted by a Royal Navy frigate which was observed by a US aircraft which recorded the incident.
- A super tanker was detained in Gibraltar last week on suspicion that it was heading to Syria in violation of EU sanctions.
- The potential for an accidental or non-accidental incident with Iran is significantly higher with this sort of brinkmanship going on.
- We should expect more acts of sabotage in the region against tankers and oil installations with potentially higher oil prices as traders / refineries / nations compete to secure oil supplies should shipping through the Straights of Hormuz be significantly disrupted.
- OPEC cuts might normally help oil prices higher in this environment but booming shale production from the Permian Basin in West Texas is growing without constraint replacing much lost production from elsewhere.

Gulf of Mexico - cyclones:

- Storm Barry is developing into a potential Tropical Cyclone II as it heads for land just west of New Orleans.
- The storm has disrupted oil production in its path prompting increased stock drawdown and raising oil prices.
- Storm Barry is a relatively benign cyclone from an oil & gas platform perspective, though its impact may be far more destructive when it makes landfall.

Natural Gas US\$2.412/mmbtu vs US\$2.451/mmbtu yesterday

Uranium US\$24.80/lb vs US\$24.75/lb yesterday

#### Bulk:

Iron ore 62% Fe spot (cfr Tianjin) US\$114.3/t vs US\$114.7/t - Iron ore prices hit \$127.6/t in Dalian, China as consumers seek government intervention to stabilise prices (Reuters)

Chinese steel rebar 25mm US\$616.4/t vs US\$618.6/t

Thermal coal (1st year forward cif ARA) US\$69.1/t vs US\$69.0/t

Coking coal futures Dalian Exchange US\$210.9/t vs US\$201.0/t

#### Other:

Cobalt LME 3m US\$27,050/t vs US\$27,050/t

NdPr Rare Earth Oxide (China) US\$46,916/t vs US\$46,982/t

Lithium carbonate 99% (China) US\$9,165/t vs US\$9,178/t

Ferro Vanadium 80% FOB (China) US\$36.7/kg vs US\$36.7/kg

Antimony Trioxide 99.5% EU (China) US\$5.5/kg vs US\$5.5/kg

Tungsten APT European US\$230-242/mtu vs US\$250-255/mtu

\*Pricing sourced from Bloomberg

#### Battery News

LG Chem is working on a potential new billion-dollar US battery cell factory for electric cars

- The Korean battery producer is already operating a battery factory in Michigan and now it is looking to expand to support the growing electric vehicle market.
- Reuters reports that LG is currently looking into locations for a \$1.7bn factory, "LG Chem, one of the leading EV battery makers in the world that counts General Motors and Volkswagen among its customers, is weighing investing about 2tr won (\$1.7bn) in the plant that could begin production in 2022, one of the people said. Kentucky and Tennessee are among the candidates for the plant's site, the person said."
- LG confirmed that they are looking at ways to respond to the global demand, but they don't have specific plans to announce.
- Volvo, Fiat Chrysler Automobiles, and potentially Hyundai Motor, GM, and Volkswagen are all listed as likely customers for LG's potential new US battery factory.
- The new factory would be coming as the competition between LG Chem and another Korean battery manufacturer, SK Innovation is ramping up.
- SK Innovation is building a new electric vehicle battery gigafactory in the US and it supplies batteries to Mercedes-Benz and Hyundai-Kia Motors.
- Meanwhile, it is being sued by LG Chem over allegedly stealing electric car battery trade secrets.

UK electric cars to store 20% solar-generated energy by 2050

- The latest Future Energy Scenario from UK energy system operator, National Grid ESO, envisions UK net zero emissions by 2050 involving the adoption of 35m electric cars.
- Detailing four energy scenarios, along with the removal of carbon from the atmosphere, more energy efficient homes and low-carbon heating solutions, the report sees a significant role for electric vehicles as the UK transitions to net zero.
- The most widely adopted electric vehicle scenario forecasts 35m cars, with the National Grid estimating 75% of these EVs can be using smart charging systems with vehicle-to-grid technology.
- These EVs will store renewable electricity — with National Grid estimating the millions of cars will be capable of storing as much as 20% of the UK's total solar generation — and deliver it back to the grid when needed.
- The report notes that in its Two Degrees scenario, which achieves the UK's goals mainly through large-scale, centralized solutions... "the electrification of transport and partial electrification of heat increases electricity

demand from the mid-2020s. The large increase in output from wind, particularly offshore, and an increase in solar, means that by 2030, renewable generation could potentially account for almost 80 percent of total electricity output."

- Currently 200,000 EVs are registered in the UK, with sales climbing 60% from 2018 to 2019, according to the Society of Motor Manufacturers & Traders.

## Company News

ARC Minerals\* (LON:ARCM) 4.5p, Mkt Cap £38m - Expect more good copper intersections from the Cheyeza discovery in Zambia

(The Cheyeza project is 66% owned by Arc Minerals through its holding in Zamsort)

- ARC Minerals shares continue to post gains as investors appreciate the significance of recent drill results at the Cheyeza target in Zambia.
- Drilling to date shows:
- 25m of 1.05% copper mineralisation from just 2m depth including:
  - 1.7% copper over 9.3m from 18.5m depth and
  - 13.34% copper over a short 0.56m intersection from 27m depth.
- A further drill hole 200m to the south also shows significant mineralisation.
- The Cheyeza target is estimated to be around 3,000m by 800m in size according to soil geochemistry and geophysics..
  
- West Lunga: The team have also identified a 6km long exploration target with anomalous copper at its West Lunga target near by.
- Arc has also raised its interest in West Lunga by 5% to 47.5%.
- New shareholders: we noticed new buying from Karl Erik von Bahr a Swedish entrepreneur this week and expect to see a number of new expert investors come into this stock on the realisation of further positive copper / cobalt assays.

Conclusion: We await assays from further drilling at Cheyeza and are looking forward to seeing further evidence to support a meaningful copper discovery on this target.

We also look forward to further evidence of the discovery at West Lunga. The targets appear prospective supporting the discovery of a potential new district for copper mining at western end of the Zambian copper belt just south of Kolwezi in the DRC which lies on the hugely-rich Katangan Copperbelt.

\*SP Angel acts as nomad and broker to Arc Minerals.

Pan African Resources (LON:PAF) 11p, Mkt Cap £245.8m - Strategic shifts deliver gold production above guidance level

- Pan African Resources reports that its strategy to move away from high-cost underground mining at the Evander mine and concentrate on tailings retreatment helped contribute to a 54% increase in year to 30th June 2019 gold production to 172,442oz exceeding its previously announced guidance of 170,000 oz.
- At the flagship Barberton mine complex production increased by 9.6% to 99,363oz during the year, with approximately 75% (75,356oz) coming from underground mining and the remaining 24,007 oz coming from the tailing retreatment operation which increased its contribution by 37% compared to 2018 partially as a result of ".improved tonnage throughput and recoveries following the successful commissioning of the BTRP regrind mill in May 2018".



- The Barberton mine reached a milestone 2m fatality free shifts during June 2019 although the operation continues to experience "a number of lost production days due to its roadways being blocked and the destruction of mine property by protestors demanding employment and commercial concessions from the mine" where the company is working with the police to protect its employees and assets.
- We note that the Barberton operations are not the only South African gold mines to experience serious levels of criminality with reports in South Africa's Carletonville Herald newspaper last month reporting criticism of the South African Police response to violence, including murders, involving illegal miners (known locally as zama-zamas) and others at the recently refurbished Blyvooruitzicht gold mine near Carletonville.
- The successful commissioning of the Elikhulu tailings retreatment plant resulted in production of 46,201oz of gold from the processing of 10.85mt of material and the company comments that "The production figures include the 200,000 tonnes per month throughput from the Evander tailings retreatment plant ("ETRP"), which was incorporated into Elikhulu with effect from January 2019, which increased Elikhulu's processing capacity to 1.2-million tonnes per month".
- Remnant mining and other surface sources at Evander Mines contributed a further 26,878oz of production. The company expects that extraction of the shaft-pillar at the Evander No.8 shaft will "contribute an additional 20,000oz to 30,000oz per annum for the next three years."
- The company reiterates its previously announced 2020 production guidance of "approximately 185,000oz" implying around a further 7% production growth during the current financial year.

#### Analysts

John Meyer - 0203 470 0490

Simon Beardsmore - 0203 470 0484

Sergey Raevskiy - 0203 470 0474

James Mills -0203 470 0486

#### Sales

Richard Parlons - 0203 470 0472

Jonathan Williams - 0203 470 0471

Abigail Wayne - 0203 470 0534

Rob Rees - 0203 470 0535

#### SP Angel

Prince Frederick House

35-39 Maddox Street London

W1S 2PP



\*SP Angel are the No1 integrated nomad and broker by number of mining brokerage clients on AIM according to the AIM Advisers Ranking Guide (joint brokerships excluded)

+SP Angel employees may have previously held, or currently hold, shares in the companies mentioned in this note.

## Sources of commodity prices

Gold, Platinum, Palladium, Silver

BGNL (Bloomberg Generic Composite rate, London)

Gold ETFs, Steel

Bloomberg

Copper, Aluminium, Nickel, Zinc, Lead, Tin, Cobalt

LME

Oil Brent

ICE

Natural Gas, Uranium, Iron Ore

NYMEX

Thermal Coal

Bloomberg OTC Composite

Coking Coal

DCE

RRE

Steelhome

Lithium Carbonate, Ferro Vanadium, Antimony

Asian Metal

Tungsten

Metal Bulletin

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Contact us +44 (0)1202 770386 [action@proactiveinvestors.com](mailto:action@proactiveinvestors.com)

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