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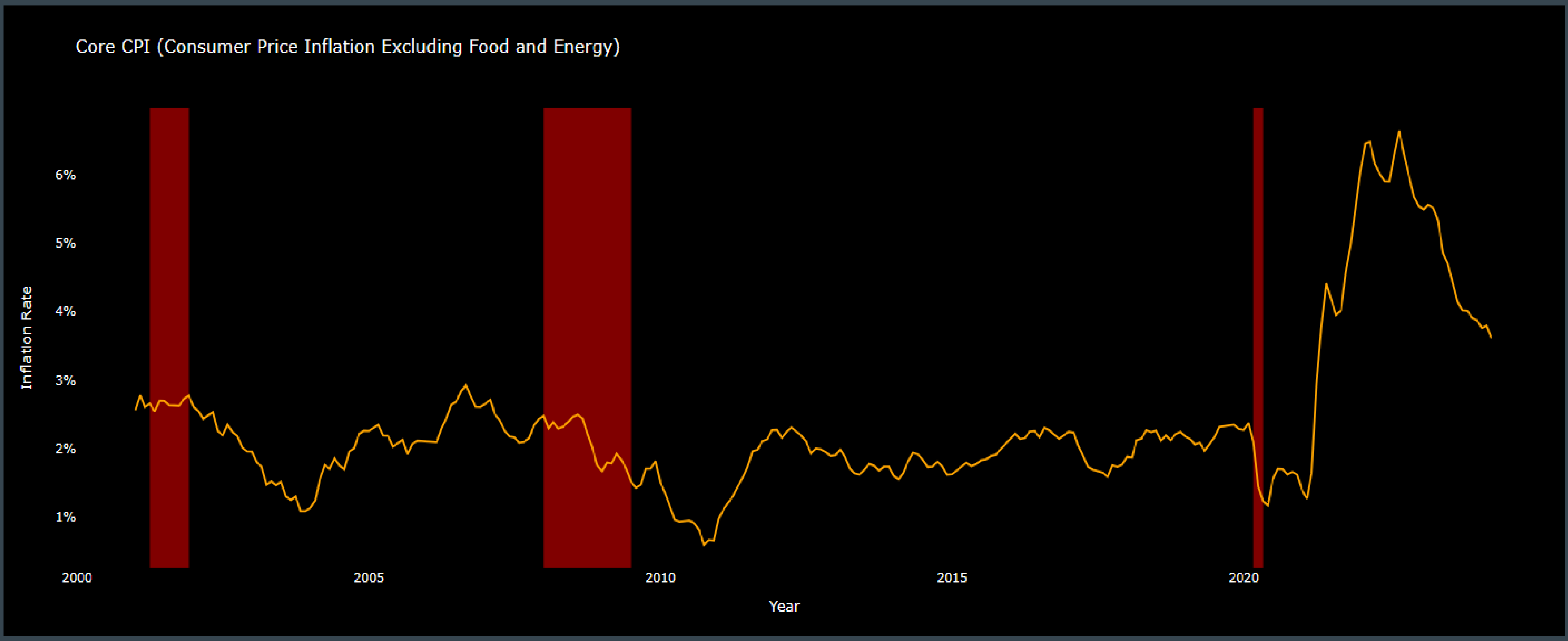
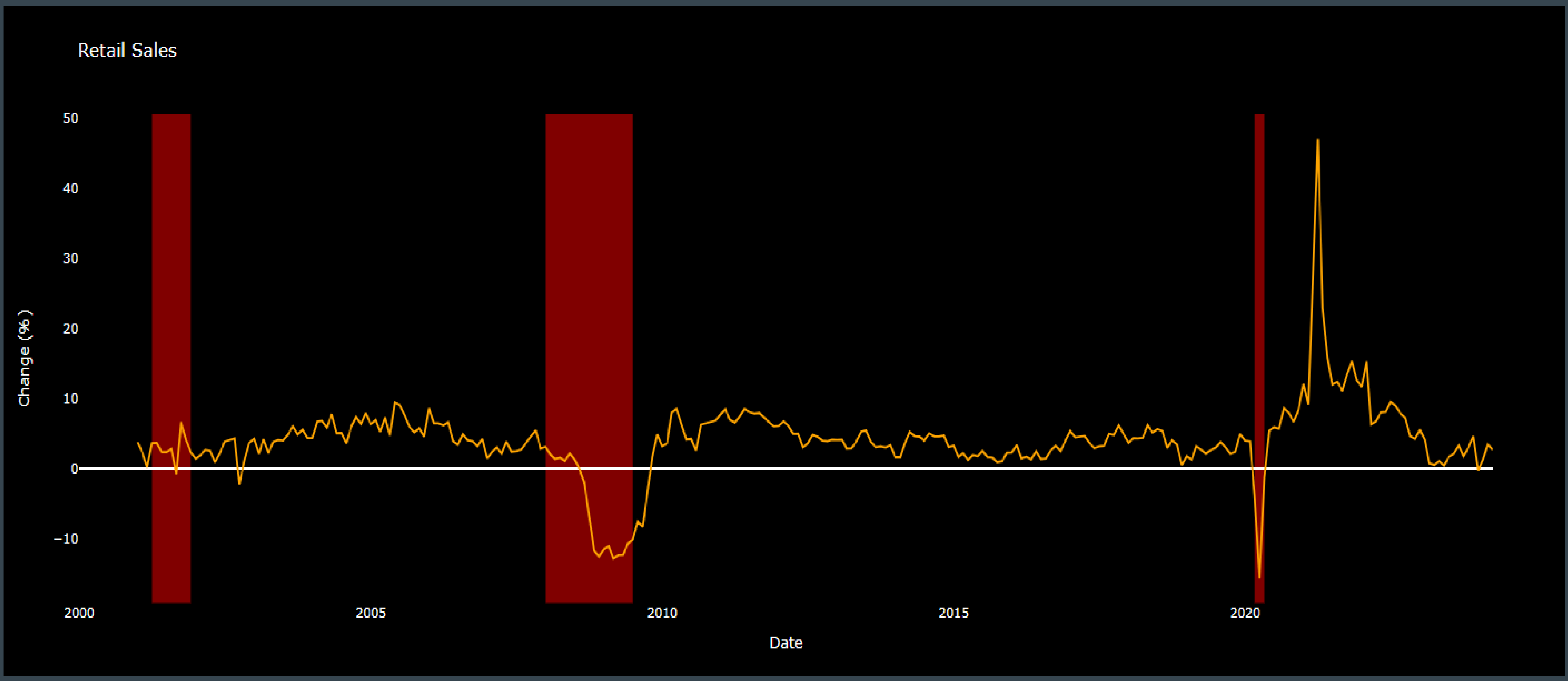
May 18, 2024

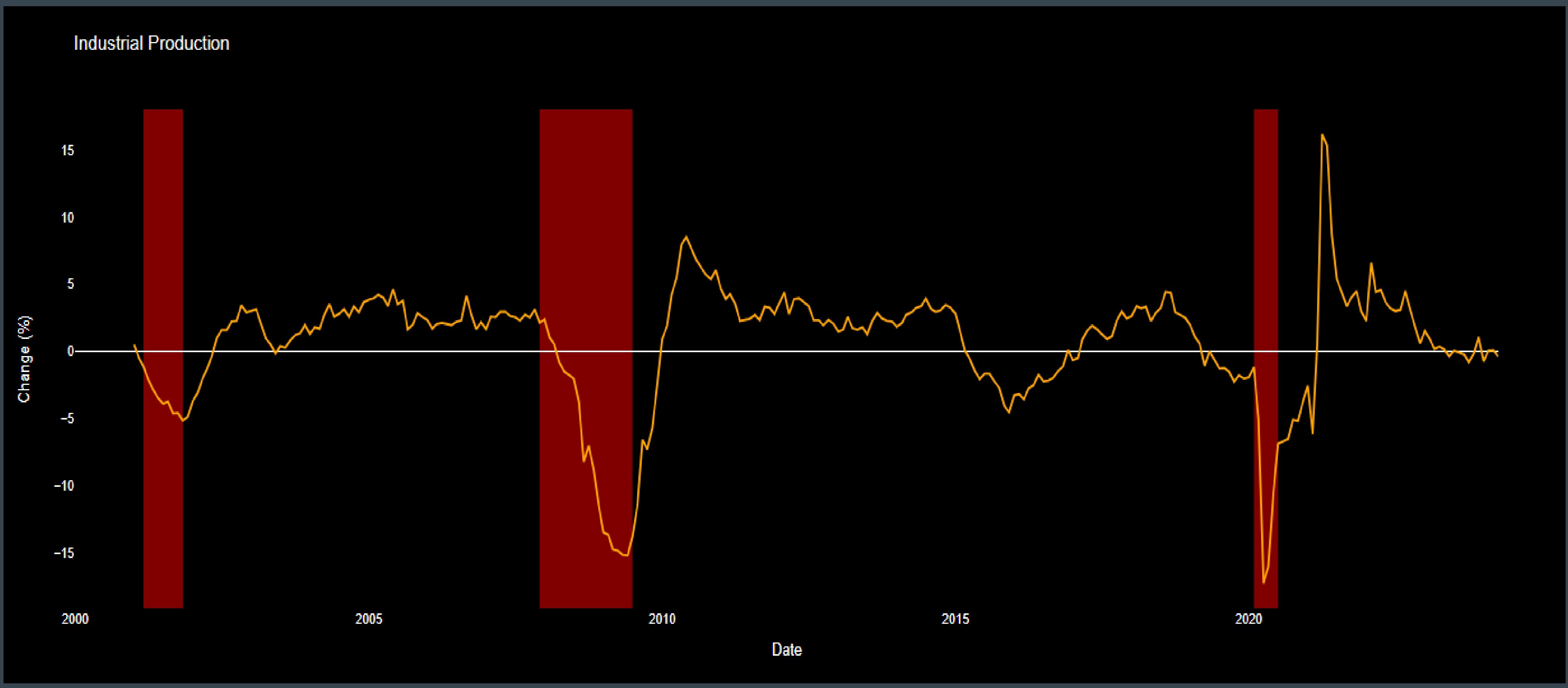
Metal Are All The Hype

The abundance of economic data this week didn't spook the markets. Instead, there was a largely positive reaction, with the S&P 500 and Nasdaq 100 reaching new all-time highs. It is a bullish signal that defensive sectors such as Utilities and Real Estate have been the top performers over the last month without coinciding with a larger pullback. While Tech remains strong, there has been broader participation through the recent drawdown and subsequent rally. During this period, the market effectively shrugged off some overbought indicators. This week's CPI release came in line with expectations. Year-over-year CPI fell from 3.5% to 3.4%, while Core CPI stands at 3.6%. This data neither pushes the Fed closer to cutting rates nor encourages hikes, suggesting more sideways action for the Fed Funds Rate at its current level. CPI has hovered around the 3% level for about a year. However, there remains an upside risk after this period of consolidation, particularly from goods prices. Goods prices, which were in a state of deflation, have recently rebounded slightly. They were a large contributor to the disinflation trend from 9%. With services prices being slow to correct and generally non-cyclical, it will be crucial for goods prices to remain contained. April's retail sales were flat, registering 0% growth, resulting in a year-over-year increase of 2.7%. Real retail sales continue their downward trend, with the last peak observed in 2021. This aligns with the Federal Reserve's Beige Book and statements from CEOs of consumer-facing brands like Amazon, Starbucks, and McDonald's, indicating that consumers are pulling back and only purchasing essentials. This trend is positive for inflation data but poses a potential negative for future hiring. Jerome Powell has emphasized that cracks in unemployment would prompt rate cuts, addressing the other side of their dual mandate. The impact on inflation will depend on the severity of any rise in unemployment. If it impacts the broader markets and induces large pullbacks in consumption we could be looking at deflation but if cuts come on weak headline numbers that don't have a broader impact it will add fuel to the already overvalued equity markets. Industrial production also remained flat. The Federal Reserve Bank of Atlanta's GDPNOW model showed a nowcast of 4.2% for Q2 at the beginning of the week, but after the latest data releases, it ended at 3.6%. While this figure is still strong, there is ample time for growth to weaken as we progress through the quarter.


Core CPI (Consumer Price Inflation Excluding Food and Energy)
Inflation Rate
6%
5%
4%
3%
2%
1%
2000
2005
2010
2015
2020
Year


Retail Sales
Change (%)
50
40
30
20
10
0
−10
2000
2005
2010
2015
2020
Date


Real Retail Sales
Real Retail Sales
230k
220k
210k
200k
190k
180k
170k
160k
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
Date



Price action in the markets on Friday shifted everyone's attention to the metals space. Gold has been on everyone's radar after breaking out of a multiyear head and shoulders pattern a few months back, but you have also had Silver, Copper, Uranium, Platinum and now the miners outperform.

Gold formed a textbook bull flag after its runup to ~$220 (GLD). It has now decisively broken out of that to make a move higher. On the daily RSI it is also not yet overbought.

Silver has outperformed Gold to the upside and is overbought after gapping higher Friday. You are at risk of a pullback or consolidation after the large move but the trend is higher from here.

The Gold/Silver Ratio has broken to the downside meaning silver is performing better than Gold. In our previous paper titled *State of The Market* we highlighted that the metals tend to trend and when Gold gets moving, Silver moves in multiples of Gold. It also indicates the belief of a higher inflation environment as investors move to the metals when there is more dollar liquidity (weaker USD) and lower yields. So, the move could be a front running of a forced Fed move.

Copper prices have been on an upward trajectory for over a month now, following a breakout from a multi-year consolidation pattern. Known as a barometer of global economic growth, copper's recent rise is indicative of recovery in several major economies that have emerged from periods of slower growth. This resurgence in economic activity is one of the key tailwinds along with major Central Banks getting ready to cut rates, propelling the metal higher. China, a significant player in the global copper market, has recently experienced deflation, exacerbated by the defaults of numerous property developers. In response, the Chinese government announced a policy last week aimed at stimulating the housing market by allowing buyers to put down lower down payments. Given the high correlation between the Chinese stock market and overall economic activity, a rebound in growth is expected to drive copper prices even higher.

Uranium was the first of the metals to move over a year ago and then began to consolidate. Friday it gained over 3% on the highest volume its seen over the past 3 years. It remains in an uptrend and the introduction of Nuclear Energy is fundamental support for higher demand.

Platinum is another metal of this long list that has gotten moving. This all plays into the ongoing narrative of the massive underinvestment in the metals space over the last few years. Most of these metals are crucial to data centers, solar panels, wind turbines and Ev's. While governments have been pushing for a transition, the inputs to create the actual products to allow the transition, have been ignored. This has created a supply/demand imbalance.

The Gold/Platinum Ratio is testing its uptrend line after a long period of Gold outperformance. A break is confirmation of broader participation in the metals space.

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