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WEEKLY REPORT

OVERBERG MARKET REPORT

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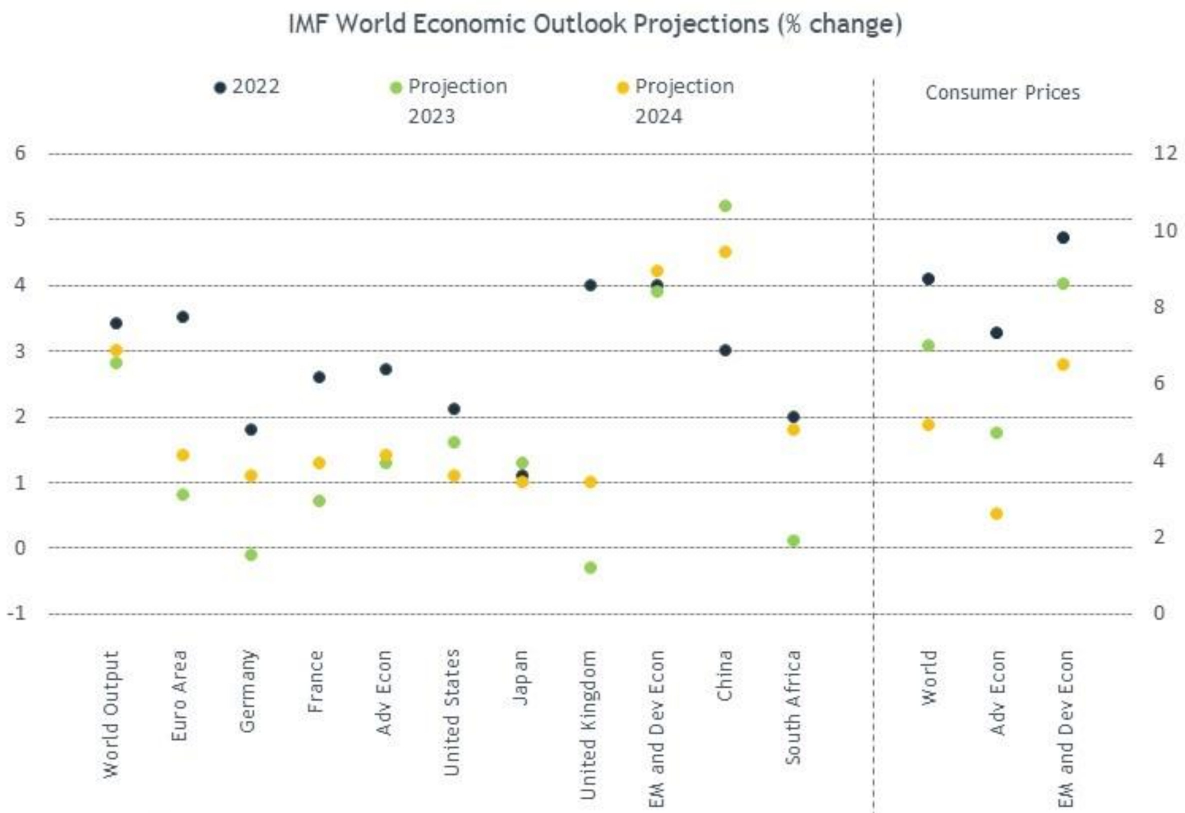
Global Report

Carel la Cock

International Monetary Fund World Economic Outlook

The global economy is expected to experience a gradual recovery, but there are potential challenges that could derail the advance, according to the latest International Monetary Fund's (IMF) World Economic Outlook, released last week. The forecast for world economic expansion has been tempered for both this and next year by 0.1 percentage points. World output is on track for a steady recovery from the pandemic and Russia's war on Ukraine, with China's economy rebounding strongly, and supply chain disruptions unwinding. The IMF predicts that global growth will bottom out at 2.8% this year before rising modestly to 3% next year, while inflation is expected to ease, although more slowly than initially anticipated, from 8.7% last year to 7% this year and 4.9% next year.



The slowdown is concentrated in advanced economies, where growth is expected to fall to 1.3% this year before increasing modestly next year. By contrast, emerging market and developing economies are already pushing ahead, with fourth quarter growth expected to accelerate to 4.5% from 2.8% last year. China and India are both earmarked for steep rebounds in the last quarter for the year, expanding by 5.8% and 6.2% respectively compared to the same quarter last year. Not all emerging economies will experience the same tailwinds as South Africa will effectively flatline this year because of ongoing loadshedding with a modest recovery off a low base of 1.8% by the fourth quarter of 2024.

Serious financial stability-related downside risks have emerged, and the situation remains fragile. The first downside risk is that inflation is much stickier than anticipated even a few months ago. While global inflation has declined, this reflects mostly the sharp reversal in energy and food prices. Core inflation, which excludes energy and food prices, has still not peaked in many countries. It is expected to decline to 6.2% this year, still well above target. At this stage in an interest rate tightening cycle, the IMF would expect to see more signs of output and employment softening. Instead, both output and inflation estimates have been revised upwards for the last two quarters, suggesting stronger-than-expected global demand. This may call for further monetary policy tightening or to stay tighter for longer than currently anticipated.

There is little evidence of an uncontrolled wage-price spiral. Nominal wage inflation continues to lag price inflation, implying a decline in real wages. But labour markets are still very tight in many countries, suggesting real wages should increase, and the IMF expects they will. Corporate margins have surged in recent years. This is the flip side of steeply higher prices coupled with only modestly higher wages and firms should be able to absorb much of the rising labour costs on average. If inflation expectations remain well anchored, as they are now, that process should not spiral out of control.

More worrisome are the side effects that the sharp policy tightening of the last 12 months is starting to have on the financial sector. The financial sector had become too complacent towards maturity and liquidity mismatches following a prolonged period of muted inflation and low interest rates. Last year's rapid policy tightening triggered sizable losses on long-term fixed income assets and increased bank funding costs. The brief instability last autumn in the United Kingdom's gilt market and the recent banking turbulence in the United States illustrate that significant vulnerabilities do exist, both among banks and non-bank financial institutions.

In both cases, financial and monetary authorities took quick and strong action, and so far, have prevented further instability. Broader markets have remained calm, and volatility has been contained, including for emerging and developing economies. Increasing funding costs and the need to act more prudently, however, may push banks to cut down lending further. The IMF explored such a scenario and found that it would lead to an additional 0.3 percentage point reduction in output this year.

The financial system may well be tested even more. Nervous investors often look for the next weakest link, as they did with Credit Suisse. A sharp tightening in global liquidity followed by a risk-off event could also have detrimental implications for emerging market and developing economies' public debt and stock markets as capital flows to safe havens. The corresponding dollar appreciation and decline in global activity in such a scenario will knock down global output to a meagre 1% this year, although the probability of such a scenario remains low at this stage. Policy makers will need a steady hand and clear communication to bring inflation down, but also stand ready to respond quickly if financial

stability demands actions. The silverling in such a scenario is that policy rates could come down sooner than previously thought which would be a fillip to global equity markets.

Local Report

Gielie Fourie

Why Copper is Considered an Economic Leading Indicator

INTRODUCTION: Copper is the third most widely used metal in the world. Copper, or the red metal in miner's jargon, is often considered as an economic leading indicator due to its widespread use in various industrial sectors, as well as its sensitivity to global economic trends. Increased demand for copper typically indicates a growing economy, just as a drop in copper demand can suggest an economic slowdown. Because of its use across many sectors, copper is seen as a leading indicator of economic health. After all, it is used practically everywhere – in homes and in factories, in electronics and in power generation. And in recent years, copper's role in growing electric vehicle production has further boosted demand for the metal. Because of this, when demand for copper increases, it typically indicates a growing economy, while a decrease in copper demand can portend an upcoming economic slowdown.

Here are five reasons why copper is considered as an economic leading indicator:

INDUSTRIAL DEMAND: Copper is a key component in various industrial applications, such as construction, electronics, transportation, and manufacturing. Therefore, changes in copper demand can reflect changes in industrial activity and provide insights into the health of the economy. For example, during periods of economic expansion, increased demand for copper may indicate rising industrial production and economic growth. On the other hand, a drop in demand for copper may suggest slowing industrial activity and a potential economic slowdown.

CONSTRUCTION AND INFRASTUCTURE SPENDING: Copper is widely used in construction and infrastructure projects, including electrical wiring, plumbing, and communication and transportation networks. As such, changes in copper demand can provide an indication of construction and infrastructure spending, which are important drivers of economic growth. Increased demand for copper may signal higher construction and infrastructure spending, while decreased demand for copper may indicate reduced construction and infrastructure activity.

Chili is the top producer of copper in the world – it accounts for over one third of the world's copper production, while China is the top consumer of copper globally. Strong credit growth in China underscored the country's authorities' intentions to stimulate infrastructure construction, which will increase demand for copper. In the meantime, data from the London Metal Exchange last week showed inventories fell to 56,000 tonnes, the smallest amount since 2005. To add, Chile's state-owned Codelco Copper Mining said the output in 2023 is estimated to sink as much as 7% after the 10.6% decline in 2022.

GLOBAL TRADE AND MANUFACTURING: Copper is a globally traded commodity, and changes in copper prices can reflect shifts in global trade and manufacturing activity. For example, increased demand for copper may suggest higher manufacturing activity as it is used in the production of various goods.

Similarly, decreased demand for copper may indicate reduced manufacturing activity, which can be a leading indicator of economic slowdown.

INFLATION AND MONETARY POLICY: Copper prices are also closely monitored by policymakers as an indicator of inflation and monetary policy. Copper is often used as a hedge against inflation due to its historical correlation with changes in consumer prices. Rising copper prices may signal potential inflationary pressures, which could prompt central banks to tighten monetary policy, such as raising interest rates. Conversely, falling copper prices may suggest deflationary pressures, which could prompt central banks to implement stimulative monetary policies, such as lowering interest rates.

INVESTOR SENTIMENT: Copper prices are also influenced by investor sentiment and market expectations. As a widely traded commodity, changes in copper prices can reflect investor sentiment about the overall health of the economy and expectations for future economic conditions. In this case as well, rising copper prices may indicate positive investor sentiment and optimism about economic growth prospects, while falling copper prices may signal negative investor sentiment and concerns about economic weakness.

COPPER NOT A LEADING PREDICTOR OF THE STOCK MARKET: Though copper's demand has had a direct correlation to economic activity, it has not been a leading indicator of stock market performance. Over the last 40 years, there has actually been an inverse correlation between copper prices and S&P 500 returns. Perhaps the most recognizable example of this inverse correlation came between early 2011 and early 2016. Over those five years, copper fell nearly 60%, and the S&P 500 nearly doubled over the following four years. Though this overall correlation is inverse, it is anything but steady over time.

While copper has historically been used as an economic leading indicator due to its close correlation with economic activity, it is not a perfect predictor. Given the current inflationary fears, rising interest rate environment, and the possibility of a global recession, economists and investors will continue to closely monitor copper prices as an indicator for the health of the economy. However, it is important to use copper prices in conjunction with other economic indicators to form a well-rounded assessment of the overall economic conditions. Economic conditions are complex and can be influenced by a variety of factors, so a comprehensive approach is necessary for a better understanding of the economy.

BOTTOM LINE: As the world becomes increasingly focused on clean energy and sustainable infrastructure, copper has emerged as a vital commodity for the modern economy. The demand for copper has surged in recent years, yet somehow, the copper industry as a whole is coming off from a decade of underinvestment in exploration, while many operational copper mines have dwindling reserves. In short, supply is dropping while demand is increasing. This widening short supply gap has many analysts suggesting that a bull market in the red metal is inevitable and likely imminent. Supply and demand imbalances led Goldman Sachs to project a global shortage of visible copper inventories by September. Depleting stocks worldwide drove key commodity trader, Trafigura, to forecast copper prices at a record high this year. Several forecasts are pointing to price targets of $10,500 – $13,000 USD per tonne in the coming years. The current copper price is $8,200.00 per tonne.

It is an almost consensus view among miners that copper is one of the most promising commodities. Around 19% of Anglo American's earnings is derived from copper. Glencore is the world's third largest producer of copper. We hold both these shares in our portfolios. Please use this information as a

reference only, rather than as a basis for making investment decisions. If you are interested investing, please contact one of our investment consultants.

Source: Reuters, Trading Economics

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