

## Monthly Report – April 2023



**April** saw a heavy sideways move in commodities with yet again Base Metals suffering alongside Energy and Grains. Considering that Dr Copper and Oil are the two raw materials which epitomize best the industrial sentiment, it surely gave some headaches to see how both went sideways dragging the rest of the basket along. **The LME Index had a U move** in the first fortnight and was above 4.000 points when yet another slide occurred **on the 18<sup>th</sup> sending the complex down 5%** towards month end, below the single performances:

	HIGH	LOW
COPPER	\$ 9.183 on 14 <sup>TH</sup>	\$8.426 on 27 <sup>TH</sup>
ZINC	\$2.9250 on 3 <sup>RD</sup>	\$2.584,5 on 25 <sup>TH</sup>
NICKEL	\$25.950 on 20 <sup>TH</sup>	\$22.335 on 6 <sup>TH</sup>
TIN	\$28.440 on 18 <sup>TH</sup>	\$23.280 on 12 <sup>TH</sup>

The Reuters-Jefferies CRB index was actually in a bullish spree as **OPEC announced a daily 1 million barrels production cut** to begin in May; everything tumbled on the 18<sup>th</sup> as well. Oil anticipated the trend by a week, after topping a 5 month high, the **WTI slipped below 80\$** and was losing more than 10% towards the end of April.

Although recent financial collapses seem to have affect commodities too much, there is an opaque view on the near-medium term outlook with mayor geopolitical and economic topics far from being solved. In the most recent Reuters Polls, the situation remains bitter sweet:

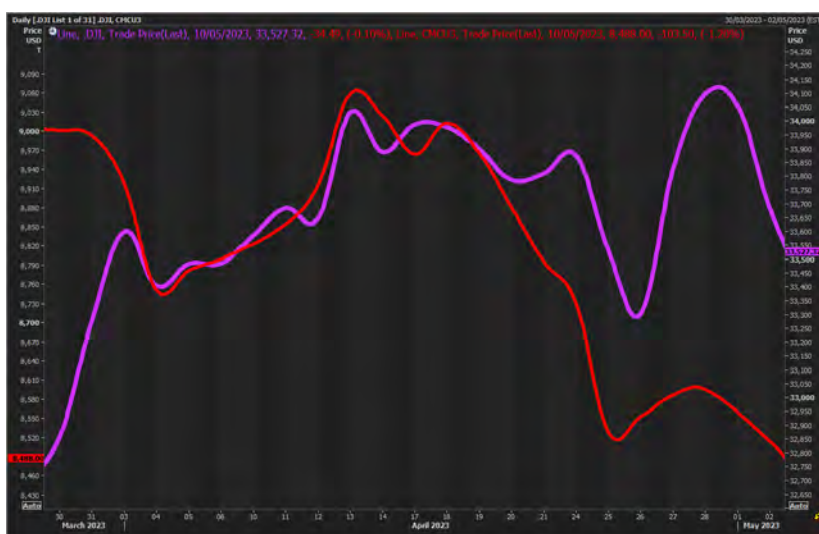
	2023			2024		
	MEDIAN \$ PRICES			MEDIAN \$ PRICES		
	NEW	JAN	Diff	NEW	JAN	Diff
ALUMINIUM	2.447,10	2.488,00	<b>-1,64%</b>	2.600,00	2.600,00	<b>0,00%</b>
COPPER	8.942,50	8.625,00	<b>3,68%</b>	9.400,00	9.200,00	<b>2,17%</b>
LEAD	2.113,10	2.116,40	<b>-0,16%</b>	2.112,20	2.040,00	<b>3,54%</b>
NICKEL	23.600,00	24.000,00	<b>-1,67%</b>	22.425,00	22.000,00	<b>1,93%</b>
TIN	25.100,00	23.670,00	<b>6,04%</b>	25.625,00	25.250,00	<b>1,49%</b>
ZINC	3.008,00	3.140,00	<b>-4,20%</b>	2.999,20	3.042,40	<b>-1,42%</b>

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In general terms, we have witnessed a **shift in the Chinese Manufacturing and Services Indexes**. Although growth stays, it is set lower than in the roaring years, the Asian powerhouse has focused on the domestic rather than export markets; Services Business Activity's PMI is rising while manufacturing is low. China is keeping its imported commodities for internal consumption rather than exporting finished products. Since beginning of the year ***"Global freight movements continued to dwindle as manufacturers and distributors struggled to reduce excess inventories and cope with rising interest rates and increased caution among buyers. Container flows fell further in January and February compared with the same months a year earlier, showing the inventory-liquidation cycle was not over yet... In the spot market, the cost of moving a box from China to the West Coast of the United States by sea has tumbled to just over \$1,000 per forty-foot equivalent unit (FEU) down from almost \$16,000 a year ago. The spot rate from China to North Europe has fallen to less than \$1,400 per FEU from almost \$14,000 a year ago, based on the Freights Baltic Exchange index. Most shipping containers are moved onwards inland by road or rail so there has also been a sharp drop in the number of units transferred."*** (Reuters)

**Copper** deepened March' losses with a -4% despite a promising start. Apart from the usual statistics, an interesting fact is the almost identical **correlation between the Dow Jones and Copper** in April (copper in red in the chart below).



The path is symmetrical until the famous 18<sup>th</sup> when the general risk aversion mood took over. **The red metal has historically paired with the US dollar** but since a few months, the correlation has diverged. Of course, there are mayor factors contributing to this situation, namely Fed's policy on curbing inflation.

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This move of Dr. Copper's likeliness towards the Dow Jones lately fuels doubts about the recovery in the macro scenario. The narrative was consistently positive after Covid easing policies in China despite the war in Ukraine, time seems to be telling another story. **Commodity prices stayed high as an investment** rather than the reflection of a "normal" raw material industrial indicator.

*"The Chinese imports of refined Copper and products have been contracting for the last 5 months by an average of 13%. The import-arbitrage window stays shut and physical premiums are ruling at \$15-30/mt, near the bottom of the deck. Goldman Sachs, in its recent report, warned about Copper's LME stocks falling to zero if Chinese demand stays strong. The data show that it is not the case."* (MIC)

It is renowned that commodities are a good deal in inflationary periods, it appears evident looking at the trading volumes in late April. When both Dow and Copper were on their lows, the red metal had a massive sell-off almost doubling the average daily tonnages for the month. While shares recovered and investors sought opportunities elsewhere, metals remained low.

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**Zinc** was the worst performer in April **losing 10%**, ending its slide to an average price just short of 2530€/t. The mid-month recovery lasted a few days and the downfall found a **support level at 2.600\$** in the last trading sessions. There were multiple factors to this decline: first off, the end market of zinc is slowing, Chinese steel production is low on the back of everlasting propriety crisis and falling automotive numbers. Moreover, new concentrate **treatment** charges were agreed, rising **fees from \$230/t to \$274/t**; *"The higher treatment charge benchmark, combined with still elevated premiums for refined zinc in the physical market, **should generate a burst of higher metal production this year.** It's why analysts are generally downbeat on zinc's prospects. Reuters' poll of analysts at the start of the year captured a median expectation for prices to decline in both 2023 and 2024 as mine surplus is converted to metal surplus over the course of the coming months."* (Reuters)

From a stock point of view, the situation was mixed with inventories declining globally by 20% mostly attributable to **Shanghai (-38%) while LME warehouse rose almost 8.000 tons gaining 17,5% from March.** These moves changed the course of Cash to 3 Months spreads that saw the **brief return of contango** after four straight months of backwardation.



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**Nickel** remained a split market also In April, rising almost 2% but showing a double narrative.

*“Although the global **nickel market is still flooded with metal**, nickel remains a tale of two products. While for LME grade (Class 1) there is still a nickel supply deficit outside China, for Class 2 (NPI and ferronickel) the market is still working through the overhang generated last year in China and in Indonesia. **By contrast, LME grade Class 1 nickel, which is a key battery raw material, remains in tight supply outside China**, reflected in LME stocks continuing to draw though April. Over the month, LME nickel bucked the trend across the complex and finished up 1.73%.”* (Societe Generale)

The International Nickel Study Group (INSG) forecasted a **surplus of 239,000 tonnes**, a 10 year record and rather odd if combined with the “disappearance” of available material following the 2022 LME trading suspension scandal which brought global inventories 86% lower than the average stock (-5.000 tons approximately in April, mostly in LME warehouses).

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**Tin** revealed once more its importance in the future green transition; the scarcity of this metal reflects a **very susceptible market** when it comes to fundamentals. Price wise it was losing ground and dropped below 24.000\$ then a single news made tin **rise almost 3.000\$ in a daily session** on the 17<sup>th</sup>.

*“The sudden upswing during the 2nd half of April was precipitated by news that Myanmar’s government plans to **halt tin mining operations** from August 1st in order to conserve the country’s remaining mineral resources and until “mature mining conditions are in place” (whatever that means). The announcement – which triggered a 10% move on the day it came out – could have serious implications for the refined supply outlook. Myanmar has been the biggest supplier of tin ore to China in recent years, accounting for nearly 80% of the country’s imports and so any change here could be difficult to replace and will ultimately exert upward pressure on both prices and premiums. The news also comes at a time when tin’s fundamentals are already tight, with deficits projected well into the coming decade.”* (MAREX)