

Monthly Report – July 2023



July saw a stellar growth in all commodities; energy in particular (with the only exception of natural gas) had double-digit gains. **The Reuters–Jefferies CRB Index rose over 8% while the LME Index was 2% behind**; despite the good news, the spark for the surge was “forged” by Saudi Arabia’s announcement of a prolonged voluntary **1 Million Barrels per Day production cut in August** (around 10% of its capacity).

This early month decision fueled markets but the fairy tale took a bad route a couple of weeks later when “China’s financial regulator asked banks to respond to a bearish research report on the sector by analysts at Goldman Sachs Group Inc., underscoring heightened sensitivity **in Beijing toward negative market** commentary as the economy slows” (Bloomberg).

Pretty soon **China’s GDP indeed showed a lower than expected growth at 6.3% against the forecasted 7.1%**, along with retail sales and the everlasting critical property market. Another political decision spurred markets in the last week and kept both above mentioned indexes at their highest mark of July when: “a meeting of China’s top decision-making body flagged **more help for commodities**, but stopped short of unveiling any big-bang stimulus that would have given markets a sharp jolt” (Bloomberg).

Once again, the party had to be disappointed by late month’s gloomy outlook in the world biggest economy as Fitch removed the US long-term AAA rating to AA+. In the same week, Reuters gave the double whammy for metals with the newest 2023 and 2024 price forecast, clearly in negative territory:

	2023			2024		
	MEDIAN \$ PRICES			MEDIAN \$ PRICES		
	NEW	MAY	Diff	NEW	MAY	Diff
ALUMINIUM	2.314,90	2.447,10	-5,40%	2.419,10	2.600,00	-6,96%
COPPER	8.557,50	8.942,50	-4,31%	8.875,00	9.400,00	-5,59%
LEAD	2.093,50	2.113,10	-0,93%	2.096,80	2.112,20	-0,73%
NICKEL	22.365,50	23.600,00	-5,23%	20.750,00	22.425,00	-7,47%
TIN	25.362,00	25.100,00	1,04%	26.000,00	25.625,00	1,46%
ZINC	2.657,00	3.008,00	-11,67%	2.560,00	2.999,20	-14,64%

Despite the positive July, the LME index is still running lower from beginning of 2023, global PMI numbers are far from good and stuck into a dog chasing tail whirl. Weak western economies (The Economist’s questioning title “Is Germany once again the sick man of Europe?” is self-explicatory) dragged Chinese export down and the lower Dollar Index (plunging below 100 point in mid-July) did not support price recovery long.

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As for July's performance, here is how our favourite four did:

	HIGH	LOW
COPPER	\$ 8.846 on 31 ST	\$8.236 on 6 TH
ZINC	\$2.578 on 31 ST	\$2.336 on 7 TH
NICKEL	\$22.580 on 25 TH	\$20.220 on 5 TH
TIN	\$29.875 on 27 TH	\$26.805 on 3 RD

Copper was a bit of a strange cat in July, the price rally was indeed illusory compared to economic and industrial indicators. The red metal had a mid-month hiccup **breaking 8.700\$** and sliding immediately after while it steadied towards its highest mark **above 8.800\$ on the last day of trading**.

The first half of the month followed the bullish narrative with stocks going to a three months low below 55.000 tons but registered heavy inflows afterwards. Despite seasonal production halts and an exceptional one by Boliden, inventories grew not just in LME locations but mainly in Comex warehouses while Shanghai decreased; the **global tonnage ended higher above 174.000 tons**. Demand was still down while mining activity grew with the result of copper spreads increasing from a few bucks towards **Cash to 3 Months over 40\$**, most of which on the nearby leg.

Zinc had an almost identical graph move as copper although the month performance was higher ending at 7%. A distinctive feature was the second July half showing simultaneous increase of LME stocks and contango contraction. Although this would sound as a healthy market reaction, the metal is still suffering from a bad conjunctural global situation.

*"Zinc's broader market dynamics remains relatively bearish. For starters, the tight stock picture is improving; LME zinc **stocks rose to nearly 100,000 tons** by month-end, up from a low of roughly 15,000 reached as recently as February. In addition, the front-end of the curve has been **in contango since mid-April, a stark divergence from last year** when there was a persisting backwardation following European smelter shutdowns. A further sign of easing comes from the physical market, where zinc premiums have stayed mostly dormant in both Europe and the US, as the traditionally quiet summer period sets in. The latest ILZSG estimates have the global refined market in a sizable surplus of 267,000 tons during the initial five months of 2023."* (MAREX)

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Nickel was the best performer in July bearing in mind that the metal started from a multi-month low in late June below 20.000\$. *"This seems to follow sector-wide expectations surrounding Chinese government stimulus measures and announcements of support to the EV industry. This came despite a rapidly balancing Class 1 nickel market. **Possibly in a sign of the increasing supply**, July saw the first new metal source to be successfully accepted for delivery on the LME since late 2020. Supply from Huayou, a Chinabased mining company, **was accepted as LME deliverable for 36.6ktpa of nickel cathodes**. This follows a commitment made by the exchange late last March to increase stock and liquidity on its nickel contract by introducing a fast-track listing approach and fee waiver for new nickel brands, according to a statement from the LME. This suggests that further metal could be accepted for delivery on the exchange before the year-end."*(Societe Generale)

Tin had a clean rising price curve topping previous months and reaching almost **30.000\$** last seen in February. Inventories grew both in **LME and Shanghai warehouses**, the two reached **15.000 tons** combined which is the highest since over three years. On another statistic note, Cash to 3 Months returned to a slight contango for the first time since April. *"It is clear **the physical supply chain has refilled over recent months**, thanks to producers recovering from COVID-19 disruption and demand from the soldering sector remaining subdued. The LME squeeze appears to have been more a clash of positioning in what can at times be a relatively illiquid market. Fund managers turned bullish on tin in May and the net long position flexed out to 1,067 contracts in June, the largest collective bull bet since March last year. The buying has helped three-month tin gain a foot-hold above the \$28,000 per metric ton level, and is likely to have forced short position holders to cover, contributing to the cash tightness."* (MAREX)