Monthly Report – March 2023

Considering that we just ended the **first quarter of 2023**, things still look pretty good all things considered; the LME index was up 1.6% while the Reuters-Jefferies CRB index ended with an almost 1% loss. **March** saw a continuation of the downtrend registered in February with both indexes slowing by almost 2% and 1.3% each. January was super bullish as the world looked with excitement at the Chinese return to normality, which soon vanished once the Asian powerhouse was back from its Golden Week. (Actually, the reopening and adjustment of zero Covid policy took place only after copious and unprecedented protests)

March could have been a double whammy for the bearish sentiment considering that it was not juts market morale deteriorating but real money being lost by investors.

Silicon Valley Bank and **Signature Bank** are history now; **First Republic** seems to follow the same path while in Europe, **UBS Group** bought in extremis **Credit Suisse** via a government-backed deal after the latter went bust. The cost of insuring bank's debt against the risk of default raised sharply and other institutions including **Deutsche Bank** registered severe losses.

All this translated in the first March' fortnight of risk aversion and disinvestment in commodities, all sectors were down except precious metals (almost +9%) which naturally act as a safe haven in moments of crisis.

The Fed has been criticized and partially played the scape goat for the banking crisis as interests rate rises were mismanaged by large bond holders; despite market' resilience, the outlook remains uncertain as other heavyweights might be at risk soon.

Earlier in December 2022 : "***China tells four state-owned banks to provide offshore loans to aid developers in repaying overseas debt****, Reuters reports, citing three people familiar with the matter. Orders are in the form of 'window guidance' with no paper trail. Dec. 10 set as the date to make the loans secured against domestic assets. The banks are Bank of China, China Construction Bank, Industrial and Commercial Bank of China and Agricultural Bank of China. Each bank will process three to four offshore loan proposals. The People's Bank of China and the China Banking and Insurance Regulatory Commission did not immediately respond to Reuters' requests for comment*" (Bloomberg).

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The Belt and Road Initiative, called within China the **One Belt One Road** is an enormous project that should revive the old Silk Road, improving supply channels and timing of Chinese export worldwide. Some of the countries involved registered very high inflation and structural financial problems both pre and post pandemic. Reuters recently reported that "***China spent $240 billion bailing out 22 developing countries*** *between 2008 and 2021, with the amount soaring in recent years as more have struggled to repay loans spend building Belt and Road infrastructure*." The belt risks to be really tight if things get out of control.

The Dollar index fell quickly along the evolution of the bank's swan song. The exchange rate against the **Euro** was recent highs but moved from the bottom **1.05 in mid-March to over 1.09** towards month end. Despite losses on the greenback, commodities did not gain momentum as we can see from the base metals' performance below:

	HIGH	LOW	Q1 2023
COPPER	$9.135,35 on 1ST	$8.442 on 16TH	+7.4%
ZINC	$3.143 on 2ND	$2.939 on 16TH	-2%
NICKEL	$25.505 on 1ST	$22.074 on 23RD	-20,7%
TIN	$26.240 on 31ST	$21.605 on 17TH	+4%

Copper was the winner in the Q1 performance and came second in March with a slight decline of 1%. Similarly to most metals, the rock bottom corresponded to the climax of the banking crisis while it previously held the **8.800 – 8.900 $ area**; the price rebounded slowly but steadily after the fall, **returning above 9.000$**. More interesting should be the future evolvement of the red metal once the market' fog and frenzy will clear; fundamentals look strong but a bit too enthusiastic if we widen the short-term perspective. The return of the backwardation after draining the contango makes sense looking at inventories; LME and Comex were almost unchanged from February while **SHFE stocks declined by some 90.000 tons "*or 36% in March***, *representing the most significant net outflow since May 2020 as demand from Chinese fabricators rose.*

China's import demand also picked up in the latter half of March, as the arb improved, leading to a stronger tone for Chinese cathode premiums. However, the arb reversed back to negative at month-end, taking some of the pressure off. Physical conditions improved in ***Europe as well, although consumers remain well-covered****.* (MAREX)

Global Manufacturing registered a 7-month contraction, China' revamp brought output back to last year's levels but the drop in Shanghai stocks was not a sign of market improvement; as prices declined, scrap dealers were less eager to price metal so supply turned to cathodes. There is surely a turn in the Chinese import/export balance that will put pressure on some commodities; we will further investigate on this topic in the next monthly commentaries.

Zinc was less resilient than other metals and despite buoying its nadir in mid-March, **prices remained below 3.000$** with the **monthly average at 2.760€ close to -6%** and with a similar performance in dollar as well. Chinese zinc production rose by almost 5% in Jan – Feb compared to the same 2022 period (Antaike) while Shanghai stocks decreased in March by 21.000 and LME inventories were up almost 12.000 tons. Half of the latter quantities were registered in Singapore with weekly increases, the rest all happened with a daily intake of over 6000 in Port Klang, Malaysia were warehouses were "empty" in previous months. You would think that the balance is thus still on the sunny side as if there was indeed appetite for the metal but **stocks** are actually **up almost 5 times in Shanghai** and almost **doubled in LME locations** since beginning of 2023. It seems that the most interesting parts of the zinc stories are the ones not told.

"*In fact, most downstream Chinese industries that consume* ***zinc have experienced negative growth*** *this year, whether this is coming from new construction starts or vehicle output, both of which are down by-9.4% y/y and 14.5% y/y in the first two months of 2023, respectively. Recent manufacturing PMI numbers have not been that inspiring either. In the US, there has been a pickup in consumption as the winter season draws to a close,* ***but this is doing little for premiums or prices****. Physical demand in Europe is also muted,* ***with Rotterdam premiums dropping to their lowest levels in a year***" (MAREX).

From LME's weekly COT report in late March, providing the speculative positioning of bulls and bears in base metals, zinc fell from 2.1 to 1.5 showing that investors are reducing their bets on zinc as well.

Staying on the subject of COT report, **Nickel** was the only one in March to slip into "negative" territory with bears gaining over bulls. The metal came in as second worst monthly player at -4% but the worst by far in the year to date performance with an **impressive -20%.** Nickel was set to a descendent **path** since early February, March also followed the downtrend channel beginning just short of 25.000$ and losing almost 3.000$ to its rock bottom (close to 30 points RSI) climbing back up only towards month-end. Although this sounds all but good, this could be a turning point and like the legend of the phoenix, Nickel could arise from its ashes. Compared to last year's spring super circle and repeatedly suspension of trade on overbought market, the metal **lost 70% volume on the Shanghai exchange and halved LME trades**. The latest scandal involved "fake" material in various locations as ricks and other debris was used to fill material earmarked for delivery. *"The incident comes one month after Trafigura took a **$577 million charge against cargoes of nickel that turned out to be steel**. The trading company alleges "a systematic fraud" and is pursuing* legal action *against companies associated with Indian businessman Prateek Gupta. A spokesperson for Gupta has said that they were preparing "a robust response" to the allegations."* (Reuters)

Investigations by the LME on the alleged misconduct of trade cancellations in March 2022 and the overexposure on OTC trades over registered contracts is just a part of what Reuter's journalist Andy Home calls a market reboot.

Firstly, the LME will waive listing fees for Class I brands and include nickel powder as a deliverable product. Secondly, the 146 year old exchange wants to launch spot contract on the sister venue Qianhai Mercantile Exchange (QME), on other types of nickel that are not Class I.

*"The LME is committed to **rebuilding liquidity in LME nickel** and, alongside reopening Asian hours nickel trading earlier this week, is today introducing a fast-track listing approach and fee waiver for new LME nickel brands," its statement said. The **introduction of a "class 2" nickel** spot market in China is because only about 21% of global production, about 650,000 tonnes, can be delivered against the LME nickel high-grade contract. "More significant may be the LME's admission it is "proactively working" with mainly Chinese and Indonesian operators to look at listing metal from new plants capable of converting intermediate materials directly into Class I form" (Reuters).* Ironically Tsingshan Group, the company that started the market collapse last year is the top candidate for such new adventure.

Tin had a perfect **V shaped price move** in March and was the only one to post gains with a **2% increase** from February although the average monthly price stood at 22.400€ , 11% lower from previous count. The price increase in the second half of March was partly due to supply disruptions in South America who prevailed the less satisfying "***Global semiconductor sales**, a barometer for tin usage in soldering, fell by **18.5% YoY in January**, according to the Semiconductor Industry Association. Semiconductor demand was also weak last year, in turn explaining the .6% contraction in global tin demand (as per the ITA) we saw then. However, over the last week, a number of semiconductor manufacturers (like Micron) have expressed optimism about a pickup in chip demand going into the 2nd half of the year and also highlighted falling chip inventories that need to be replenished."* (MAREX)