Monthly Report – February 2022

KME

This past **February** will probably be one of the gloomiest we will remember, unfortunately worst is yet to come, when hatred supersedes reason there is little room left to analyse things rationally.

Europe is at war after more than 70 years and so it will be difficult to consider and study markets when guts and no brains are behind somebody's choices. Sparks of the tragedy were already in full sight but markets seemed not to consider the escalation as a viable circumstance, on the first day of trading all the attention was still on inflation and interest rate hikes. "*U.S. stocks drifted after the **biggest two-day rally since April 2020**, as solid economic data rekindled speculation over the pace of the Federal Reserve's pivot to more restrictive policy. Treasury yields rose and the dollar was weaker. The S&P 500 was little changed after adding 4.4% in two sessions that capped an otherwise bleak January for equities. Data on job openings and manufacturing showed a resilient economy that the Fed is trying to cool after inflation spiked to the highest in four decades.*" (Bloomberg) Ten days later it was the same narrative to turn markets : ***" U.S. stocks turned lower** in choppy trading amid a renewed rout in Treasuries following **data showed inflation accelerated to a four-decade high in January**.* "(Bloomberg)

When the war drums were clearly heard, panic hit markets with stocks plummeting and raw materials taking off. The € had basically the entire second half of month on the downside, given the closeness to the war zone and its neutral but not centralized policy. We went from a **monthly record high** close to **1.15** against the US dollar, towards a poor **1.11 last seen in June 2020.** The fear of future scarcity of Russian exports, from energy to metals, propelled commodity prices. **WTI hit 95$** per barrel at the end of February **and Brent passed the 100$ mark**, both close to an almost 10 year high; safe heaven **gold was above 1.900$** per ounce to a more modest 13 months high. Fear is a bad counsellor, both in politics and in business, unfortunately both are bound thigh when it comes to the commodity market.

As for February's performance, here is how the month went:

	HIGH	**LOW**
COPPER	\$ 10.289 on 10TH	\$9.505,5 on 1ST
ZINC	\$3.744,5 on 10TH	\$3.546 on 22ND
NICKEL	\$25.705 on 10TH	\$22.280 on 1ST
TIN	\$45.880 on 24TH	\$42.195 on 1ST

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Copper had an impressive swing in February following the early stages of US stocks euphoria, as per above introduction, moving fast from January's rock bottom below 9.500$ towards its high on the 10th. A day earlier Dr. Copper roared with a 300$ intraday move on the back of intense buying coming from China after the New Year closure. On the 11th , the situation turned upside down and "*Copper lurched lower,* ***hit by profit-taking and risk-off sentiment in wider financial markets on worries about surging inflation****. Global stock markets fell after U.S. consumer prices showed the biggest annual increase in 40 years, which is expected to prompt tighter monetary policy from the U.S. Federal Reserve. "Today it's really risk-off sentiment in financial markets and the dollar is up based on yesterday's CPI. There's also likely some profit-taking after the run-up we've seen," said Julius Baer analyst Carsten Menke. "****In terms of the bigger picture, there's a general cooling of the economy in China. Infrastructure and property are both key in terms of driving metals demand and we do not expect a quick reversal in either****"* (Reuters). Regardless of the fall, prices kept testing the 10.000 mark on the back of ever falling LME inventories (rock bottom of 70.125 tonnes was reached in the second week of the month, **same level of end of 2005!**), on the contrary Shanghai warehouses quadrupled form January at almost 160.000 tonnes.

Zinc was a bit calmer compared to copper but showed good resistance along the month. Starting from the 3.500$ area, little happened form a fundamental point of view, the price just followed the overall momentum to its zenith. After the fall on the following week, the surge above 3.700 was constant. Although the Cash to 3 Months spread had a bit of a roll coaster, but still remaining in a backwardation, it had little to do with physical inventories, we hit an 18-month low on LME warehouses while stocks almost doubled in Shanghai

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Nickel and **Tin** were on steroids in February. The two metals are suffering in normal times of geopolitical knock on effects and the war in Ukraine made it even worse. We have hit new historic high in Tin and a 20-year-old price level is back on tin. It gives hardly any more information adding statistics or other numbers. Markets will need to live with these crazy levels for some time still.