Monthly Report – January 2022

January passed by almost with an unchanged mood from December. The End of the year indigestion ended although on the **27th when the Federal Reserved announced potential interest rate increases**. *"Jerome Powell made clear the Federal Reserve would act as needed to cool the* ***hottest inflation in almost 40 years****, endorsing interest-rate liftoff in March and opening the door to more frequent and potentially larger hikes than anticipated. Investors took the comments to mean the* ***Fed would be more aggressive in tightening than previously expected****. As Powell spoke during a 55-minute virtual press conference, stocks erased gains, bond yields surged and the dollar advanced. The S&P 500 index posted a back-to-back drop after rallying more than 2% earlier in the day, while the two- year Treasury yield had the largest one-day increase since March 2020."* (Bloomberg)

The winner in this market tumble was the Euro, or better said the loser was the US$: *"During January, the Euro traded between a* ***20-month low*** *of 1.1215 reached on the 28th (shortly after the Fed meeting) and a high of 1.1485 reached on the 14th. It ended the month at 1.1234, down 1.1% on the month. For months now, the* ***ECB kept its monetary policy unchanged****, insisting that price spikes will recede and pointing out that unlike the US, European wages were not racing higher… ECB chief Christine Lagarde turned out to more hawkish at her news conference*." (ED&F Man)

The real gains happened in the energy sector, still biased by geopolitical tension expanding from the Ukrainian/Russian border to neighbouring countries complicating the checkboard display. So far, metals are out of the scope of potential sanctions if the situation escalates; more in the long-term vision, it remains uncertain how increasing energy costs can cope to mixed economic news of anti Covid measures to be lifted and a slowdown in global demand. From the Far East, the answer waits to come as we entered Chinese Lunar New Year and Winter Olympics in Beijing.

The Reuters' Commodity Polls somehow reflected this cautions feeling, with the only exception of Aluminium and Nickel, for which we will go into detail in the next section:

	2022			2023	
	MEDIAN $ PRICES			**MEDIAN $ PRICES**	
	New	October	**Diff**	New	**Diff**
ALUMINIUM	2.780,00	2.484,50	**11,89%**	2.642,00	
COPPER	9.370,00	9.184,10	**2,02%**	8.700,00	
LEAD	2.155,50	2.196,30	**-1,86%**	2.089,00	
NICKEL	18.925,00	18.156,00	**4,24%**	19.921,00	
TIN	31.307,50	30.492,80	**2,67%**	34.880,00	
ZINC	2.900,00	2.886,70	**0,46%**	3.225,00	

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

	HIGH	LOW
COPPER	$ 10.072 on 12TH	$9.458 on 31ST
ZINC	$3.681,5 on 20TH	$3.473 on 10TH
NICKEL	$24.435 on 20TH	$20.175 on 6TH
TIN	$44.200 on 21ST	$38.220 on 4TH

Copper was a mixed bag in January with a very choppy graph move and intraday quick highs and lows. The price reflected the now bullish then bearish news from around the world pushing the red metal to **test a few times the 10.000$ mark**. While negotiation between local communities and the government progressed in Peru, supply worries eased at Las Bambas mines; on the other hand in **Kazakhstan, protests** against energy prices increased worries over production halts in the metal rich Asian country which is strategic to Chinese' supply. The biggest market movers were actually macroeconomic decision across the globe, the first of which created the first spark moving copper to its zenith: "*Industrial metals were also buoyed by easing concerns over economic growth in top metals consumer China. The focus in **China is moving away from worries about the property sector slowdown** to increased signs that they are going to provide **stimulus and support to the economy**, some of which will benefit industrial metals"* (Reuters). The monthly rock bottom was reached on the last day of trading as a remaining bit of the Fed's decision described above which dragged various commodities. **Average $ and € prices ended 2% higher** compared to the previous month but there are worries ahead concerning physical material; copper inventories registered their lowest level in December since March. Although Comex and Shanghai inventories rose, LME volumes added 15.000 tons in the first two weeks and then lost all inflows in the second fortnight down to 86.500 tons.

Zinc continued the bullish move started in December and still profiting from the energy crisis, the refining industry is not coping with **European TTF gas price increasing more than 400%** from the previous five years. Price wise we registered another surge although slow but constant and January finished **above 3.600$**. Physical premiums doubled in the meantime but there was no trade-off to cope with higher production costs; following past months' closure, Nyrstar put its Auby smelting facility in France on maintenance and putting **availability of zinc in Europe down by 260.000 tons**. Interestingly, there was a diverging narrative on exchange inventories: *"Combined exchange inventories decreased 3.8% in January to 248kt, after rising 15.4% in December. The divergence between SHFE zinc deliverable stocks and LME zinc warehouse stocks was astonishing. **The Chinese exchange saw a 59.4% jump** in inventories, while the **LME saw a 22.1% drop**, to the lowest since July 2020, as worries of European smelters output cuts are rising"* (Societe Generale). Even inside LME inventories, most of the material available is in the far east, this difference casts the light on a very dystopic situation where doubts about the industrial sector in China will certainly remain for the future, awaiting another chapter in the property giant Evergrande' saga.

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Nickel was the outperformer in January with an over **10 year record high** price both showing the strength and frailty of a commodity scenario dominated by political driven supply worries, global tensions and, for what is worth, the only real market driven levy is the never-ending appetite for the metal. The journey to the top started with the Indonesian government announcing **potential export taxes** of nickel's "poor cousin" pig iron. Later on, the metal saw "***gains over two days reached more than 10%*** *at one point as Chinese lenders lowered borrowing costs for a second straight month after the central bank cut policy loan rates and pledged more easing to spur the economy." China's property sector -- a pillar of metals demand -- had been under pressure from tightening credit conditions. Tensions over Ukraine also raise the potential for disruptions to exports from Russia, a key nickel producer, Morgan Stanley said. "In addition to the latest liquidity easing from China, extremely tight metal supply is a key driver of the rally," said Wang Yue, an analyst with Shanghai East Asia Futures Co. In nickel's case, "****demand from electric-vehicle batteries is so strong that immediate supply can't keep up****"* (Bloomberg). Last resource' exchange inventories saw "battery tsar" **stocks down by 50%** in the past five months on the LME , below **90.000 tons**, Shanghai warehouses were close to the record low of 4.000 tons of this summer. Two days after its **zenith at 24.000$**, the price dropped heavily when the biggest steel producer announced it was shipping the first cargo of Indonesian nickel to China to alleviate the hunger of EV material.

Tin seems to be now riding solo for a few months in a row and January was not different. Indonesia's administrative **problems of export permit** sent the price to yet another record with a "*milestone of* ***$44,200*** *per tonne on Jan. 21 before suffering a bout of vertigo at the start of this week. It has since regained its bull composure, last trading around* ***$42,500, still more than double the price this time last year****. Cash metal continues to command a hefty additional premium. Tin is experiencing scarcity pricing, having been in the grip of a prolonged supply-chain crunch since the start of the coronavirus. Lockdowns boosted demand for home electronics, all containing tin solder, and simultaneously disrupted a small, globally concentrated supply base. The resulting squeeze on availability has generated unprecedented degrees of tightness both on the LME and in the physical market. This should be the year that the supply chain starts to heal but it could be a slow and painful process.*" (Reuters)