Monthly Report – September 2022

September was another bear month with the usual Fed rate hike dominating scenario and overall negative markets except the **super US dollar, reaching 114 points** and getting close to a 20 and over year high at 120. This came at the expense of the usual basket of currencies including the **€ at double decade low at 0.95,** and most especially the British Pound plummeting below 1.034 on the back of the recent 45 billion £ tax cut. Yet it was another English institution to be hit hard, the LME worsened its already precarious reputation after the poor decision making on nickel in March.
Again, this was a decision connected with the Russian/Ukrainian war:

*"The London Metal Exchange is launching a discussion paper that marks **the first step toward a potential ban on new supplies of Russian metal**, according to people familiar with the matter. Any move by the LME to block Russian supplies could have significant ramifications for the global metals markets, as the country is a major producer of **aluminum, nickel and copper**. Fears that sanctions could disrupt Russian nickel exports helped trigger a massive short squeeze on the LME in March… **Launching a discussion paper doesn't mean the LME has made any decisions** about what it will do, but the move marks a shift in approach. The exchange had previously said it did not plan to take any action outside the scope of sanctions, which have for the most part left large Russian metal producers like United Co. **Rusal International PJSC and MMC Norilsk Nickel PJSC** untouched. "The LME continues to take the required action to ensure market stability in response to sanctions," the bourse said in a statement Thursday. It will keep the situation under review as it prioritizes an "orderly market," the LME said.*
The change in the LME's stance reflects a shift in the broader metals industry, the people said." (Bloomberg)

It might be just a coincidence but the three metals involved in this decision/non decision announced by the LME spurred appetite on the market that, up to that moment, was registering the lowest monthly mark (Copper and Aluminium, Nickel was in a descending path) and potentially distorting the natural flow with this "fictional" fundamental news.

Speaking of which, this is how September went:

	HIGH	LOW
COPPER	$ 8.153 on 13TH	$7.220 on 28TH
ZINC	$3.460 on 1ST	$2.791 on 28TH
NICKEL	$25.700 on 21ST	$20.050 on 2ND
TIN	$22.885 on 1ST	$19.750 on 2ND

Copper fell about 5% in September on poor fundamentals. The red metal reflected the global sluggish demand worldwide from the very beginning of the month and, although it did rebound in the first fortnight to its highest mark, the following trading weeks saw prices fall again.

On the 23rd the high-low difference topped 300$ to *"**a fourth straight weekly decline** amid mounting concerns about the level of demand -- especially in crisis-hit Europe. **Tighter monetary policy, weakness in China's economy and Europe's energy crisis** are all undercutting the outlook for consumption. An index of Europe's purchasing managers Friday slumped to its lowest level since 2013, painting a dark picture for the continent's economy as it grapples with an energy crisis. **The manufacturing gauge also slid to a two-year low**. It's outweighing the impact of high power prices, which have idled about a half of aluminum smelting capacity on the continent"* (Bloomberg). On the physical side, we saw combined exchange add around 13.000 tons in bonded warehouses but the LME increased heavily its stocks while Comex and Shanghai went an opposite direction.

More interestingly is the spreads erratic move, started with **Cash to 3 Months at 55$ then pinballing in mid-September to 125$, dropping fast and back to over 100$ in a few days**. The harsh but genuine interpretation of Malcolm Freeman of Kingdom Futures on the 9th of September casts further doubts on the 145 years old exchange: *"The LME is a deferred physical market and thus you would imagine that the prices and market date structure would fairly reflect what is happening in the underlying marketplace but sadly that does not seem to be the case. Yesterday we saw cash to three months copper move into a backwardation of over $100 and quite simply why? **There seems to be a holder of around 70% of all LME warehouse stocks** which would suggest that undue pressure is being put on the market but not for any underlying physical reason, speak to any consumer of copper in the semi-fabricated business area and they will tell you **order books are contracting/collapsing and they are moving physical deliveries forwards** as stocks of unused metal build up and stocks in China on an all locations basis are building up as **the world's biggest consumer sees demand falling**...*
Other global exchanges would stamp on the client or clients that appear to be potentially manipulating the price structure and yet nothing appears to be happening or is the LME working on a new Vegan Nickel contract or some other pointless project, you really get the feeling the market surveillance team could go to Paris and not find the Eiffel Tower."

Zinc had a troubled September, starting in the worst possible way with an over 6% loss on the very first day of trading: *"Industrial metals are taking a beating. **The growth angst is most certainly having a profound impact across markets and reducing risk appetite** once again," said Ole Hansen, head of commodity strategy at Saxo Bank in Copenhagen. Factory activity was weak globally, surveys showed, while Hansen said that an expected increase to interest rates next week by the European Central Bank also weighed on markets. He added that **investors were bailing out of some of their bullish positions in energy-intensive metals** aluminium and zinc, which many analysts had expected to outperform because of production cutbacks in the face of high power prices"* (Reuters). After the slide, prices held between 3.000 and 3.200$ but lost ground again in the last week with the drop below the 20 and 50 days moving average. The slide below 3.000$ and then towards its nadir sent zinc one and a half year back price wise and it was only helped by rumors of LME intervention banning Russian material.

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Production halts are not supportive anymore and the **record monthly fall in inventories (-30% in LME, -40% in Shanghai**) would confirm a very fragile outlook. The international Lead and Zinc Study Group registered a surplus in zinc supply/demand for the first half of 2022 so the forecasted deficit by year-end seems not a possibility.

On the other hand, CRU pointed the attention elsewhere *"Although the markets remain firmly focused on demand weakness, we still consider zinc supply-side risks to be greater than demand risks in the near term. We are expecting this to translate into higher prices in Q4 as market participants gather for LME Week and annual contract negotiations for next year begin"*.

Nickel was a bit of a surprise for the first half of September considering it was coming from a declining late August trend. Somehow with no specific reason SHFE and LME run a relay race with daily increases being passed on to the other exchange on a daily basis with a **6% increase on the 12th above 24.500$ alone. The rally went on until its zenith but rapidly losing steam towards the end of the month. Differently form copper and aluminium, the LME's announcement on potential Russian material ban on the 28th did not help nickel's cause, the brief gains evaporated on the last day of trading with a **1.800$ loss**! Surely there was something off in the physical market, nickel witnessed another 4% stock drop and slipping even below 52.000 tons in the middle of the month; more impressive were the spreads move, **Cash to 3 Months went from 60$ contango to a third in a couple of weeks and jumping to almost 170$ ending September just short of 100$**. The dominant position on the warrants clearly played some tricks on the market.

Tin was down again with yet **another monthly drop (-9%)** continuing its descent and **almost halved last year's price**. Except the first couple of days where we reached both the highest and the lowest mark for September, price moves **moved sideways between 22.000 and 21.000$** for most of the month and dropping lower in the last week of trading. "*Negative macro factors, like dollar strength amid the Fed's tightening and growing fears of global recession weighed on a number of metals, tin included. Glaring weakness in the semi-conductor space was another source of pressure after a number of companies reported disappointing results and cloudy outlooks. Visible inventories were up marginally in September, unusual because we usually observe outflows from warehouses in September as a result of a pick-up in seasonal demand*" (ED&F Man).