

Monthly Report – August 2023



August saw a V shaped price move in most markets, the highest mark mostly on the first day of trading but representing the start of the avalanche towards the monthly rock bottom a couple of weeks later.

*“The week ending 15 August saw an **important \$12.0bn bearish flow with a large \$9.1bn short building – the fifth-largest such flow since June 2006** according to CFTC data. This came as economic indicators from China fell short of expectations and pointed to deflation (as noted by our economists in their latest report, available here)... Industrial production growth also decelerated to 3.7% yoy in July, from 4.4% in June. More economic indicators related to activities that are particularly copper intensive further disappointed in the period under review. Indicators in the Chinese property sector seemed to stabilise in July, but at a low level. A real estate crisis has been unfolding in China since 2021 amid high levels of indebtedness at property developers. This disrupted of the industry that directly or indirectly accounted pre-crisis for up to a third of China’s GDP and for 20% of copper demand in the country, according to WoodMackenzie. Last year, China accounted for 54% of global copper consumption according to the consultancy.” (Soc Gen)*

The above extract mainly focuses on China and copper but the two represent a very good benchmark for Global markets and, sadly the core of the current crisis. Not confusing cause and effect, let us start with the elephant in the room chasing the start a few months ago.

*“On 4th July it was reported that China’s largest state banks will offer LGFV (Local Government Financing Vehicles Loans) with ultra-long maturities and temporary interest relief in order to **avoid a potential credit crunch in the \$9Tr debt market**. Please note, traditionally 10-year tenors have been favoured for corporate lending. This move is being taken by the Government in order to boost growth via credit expansion (avoiding defaults), rather than outright mega-stimulus packages. On 21st August it was reported that **the PBoC may set up an emergency liquidity tool with banks**, in order to provide low-cost funds with longer maturities to LGFV. Please note, the IMF has estimated LGFV debt at ~57Tr yuan (\$7.8Tr). Similarly on 21st August, it was reported that provincial-level Governments would be allowed to raise ~1.5Tr yuan (\$206Bn) via special bond sales to repay debt incurred from LGFV or other off-balance sheet items.” (Stonex)*

For all those who were hoping on another special stimulus package these came as very disappointing news hence the bearish flow continuing throughout the third week of August adding energy and precious metals to the black list. Moreover, another piece of news might show that the path for recovery will be bumpy. Chinese administrators confirmed that Russian trade into China slowed in July; the Asian powerhouse has benefitted from sanctioned commodities buying both energy and metals at a discount. Restocking and poor economic outlook paused demand and weakened markets.

Monthly Report – August 2023



While some commodities buoyed the mid-August plunge (gold and oil), metals were less resilient; here is how base metals performed:

	HIGH	LOW
COPPER	\$ 8.860 on 1 ST	\$8.120 on 17 TH
ZINC	\$2.584,5 on 1 ST	\$2.265,5 on 16 TH
NICKEL	\$22.700 on 1 ST	\$19.700 on 16 TH
TIN	\$28.750 on 1 ST	\$24.605 on 15 TH

Copper lost 2% in August on the back of the above bearish narrative and with potential more bad news to follow as per end of the month Bloomberg article:

*"Green infrastructure build-outs and strong electric-vehicle sales have kept China's annual copper-demand growth above 2%, while strong building completions -- up 17% year over year -- have supported property demand. Property starts remain weak -- down 23% year over year -- and unless this part of the economy recovers, the knock-on effect into the other demand sectors such as consumer durables and autos could reduce Chinese copper demand growth to 2% or less in the next few years, highlighting the downside risk to our core scenario of 2.2-3.2%. Under this scenario, **the copper market could shift from being balanced in 2023 to annual surpluses of 300,000-500,000 tons from 2024-26.**"*

The Wall street Journal has already **called the EV market a bubble**, Chinese supply is higher than demand and the favorable yuan will flood the US with imported cars. Similarly, to finished metal products that were dumped in European some months ago, China can get rid of the domestic oversaturated market just as an exceptional measure to curb its lack of demand but for how long?

On the 16th *"Copper prices held above seven-week lows on Wednesday as arbitrage buying offered support while zinc dropped to its weakest in two months after a surge in inventories.*

LME copper has shed nearly 8% since hitting its strongest in more than a month at the start of August, with investors discouraged by the lack of strong stimulus in top metals consumer China. Data on Wednesday showed China's new home prices fell for the first time this year in July, the latest downbeat data pointing to a rapid loss in broader economic momentum. **"We are making up to 200 yuan losses per tonne we sell currently. And if the property woes continue and are exacerbated, we might see demand fall lower in the following months,"** said a copper rod producer in China". (Reuters)

Monthly Report – August 2023



Zinc lost almost 10% in the first half of the month starting from its highest mark at almost 2.600\$. The three day stay below 2.300\$ buoyed the move to the end of August upturn. More interestingly, we registered a massive move in LME stocks while SHFE inventories were almost 20.000 tons lower July.

*“London Metal Exchange (LME) **zinc stocks have more than doubled to 145,975 metric tons** over the last month and are now at their highest level since February 2022. What started in July as a trickle of metal into the market of last resort has turned into an August flood with 76,425 metric tons placed on LME warrant since the start of last week. The sudden appearance of so much zinc shouldn't come as a big surprise since the market has for some time been **signalling weaker dynamics for the galvanising metal**... However, further up the supply chain there are already signs that the collapse in the zinc price is starting to constrain production. After trading in comfortable contango since the middle of April, the benchmark cash-to-three-months spread CMZNO-3 flipped into backwardation at the start of August. The cash premium spiked out to \$36.50 per metric ton on Aug. 9, the tightest the period's been since February. The mini-squeeze has been attributed to Citibank C.N buying up metal for a lucrative warehouse rental deal, the sort of storage play that has not been possible due to low availability in the last couple of years.” (Reuters)*

Nickel lost about 7% during August; again the fall took place on the first day of trading when the metal was on its highest mark since a few months. Ironically, Nickel was the best performer in July but the frailty of the uptrend was evident seeing the price lowering constantly until the mid-month rock bottom below 20.000\$ with recovery being light and not lasting. **The 14th coincided with the highest Cash to 3 Months spread at 304\$ while ending lower than 200\$**, all this despite a basically unchanged LME and Shanghai inventories. On a positive note, *“LME said on Thursday that market feedback it has gathered for potential acceptance of coarse nickel powder as a LME nickel deliverable material was broadly supportive but pointed out challenges regarding the packaging. **The LME is looking to expand the products that can be delivered** against its flagging nickel contract alongside briquette and cathode.*

*The LME also on Thursday said it had received an application to approve nickel brand "GEM-NI1" produced by China's Jingmen Gem Co. Ltd for delivery against its nickel contract. Many producers, consumers and traders abandoned the nickel contract in the aftermath of the 2022 crisis and are yet to come back to it because it no longer represents the bulk of the market. **So-called Class 1 metal - that can be delivered against the LME contract - amounts to only around 18% of global supplies.** (Reuters)*

Monthly Report – August 2023



Tin was the worst performer in August. *“Supply constraints that occurred in H1, are set to give way to growing demand concerns. Please note, tin has been the best performing base metal YTD with a positive price performance of 10% (this was driven on the back of slow export licence approvals out of Indonesia at the start of the year, followed by Myanmar’s Wa State announcement that all mining operations would be halted by 1st August, in addition to summer maintenance outages within China). Please note, weakening demand prospects for tin are highlighted by building global tin inventories, with exchange stocks at their highest level on record.”* (STONEX)