Monthly Report – February 2023

February looked like a prolonged Blue Monday, continuing January's sadness from the very beginning until the end. All markets retreated from earlier gains with some heavy throwbacks in the energy sector (Dutch Front-Month Natural Gas Price dropped below pre Ukrainian war levels down to 55€/Megawatt Hour), precious (-9%) and base metals (-5,5%). The main mover across markets seems to have been the dollar or better said the Federal Reserve Bank, given an anonymous Chinese action after post Golden Week frenzy.

*"Observers are finally beginning to detect improvements that could herald the next leg higher in prices after bulls' faith in **China's** return was tested by **disappointing consumption** in recent weeks. Weekly increases in copper and aluminum stockpiles have slowed "and appear close to an inflection point," said JPMorgan Chase & Co., although the bank notes that the **improvement in consumption "has been relatively gradual with demand clearly not yet firing on all cylinders**."*

The Dollar index rose over 3.5% almost reaching 105 points sending the Euro from its 1.1 to a dull 1.05 towards month end. You could almost compare the Greenback with the inverted base metals' performance:

	HIGH	LOW
COPPER	\$ 9.260 on 1ST	\$8.670 on 27TH
ZINC	\$3.425 on 1ST	\$2.939 on 27TH
NICKEL	\$30.730 on 1ST	\$24.280 on 26TH
TIN	\$29.880 on 1ST	\$24.805 on 28TH

*"**US central bankers raised interest rates by a quarter-point**, moderating their action after a half-point hike in December and four consecutive jumbo-sized 75 basis-point increases. The move lifted the benchmark policy rate into a range of 4.5% to 4.75%. Going into the meeting, money markets forecast interest-rate cuts in the back half of 2023. Since the meeting**, investors had lifted expectations for where rates will peak to around 5.33%** ahead of Wednesday's* (22nd NDR) *minutes"* (The Economic Times).

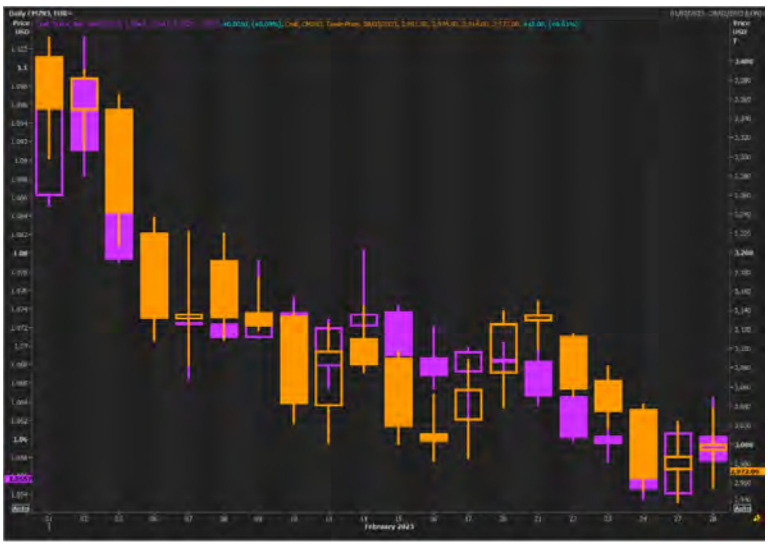
"*It's the **most aggressive Fed tightening in decades** and U.S. retail sales are at all-time highs; unemployment at 43-year lows; payrolls up over 500k in January and CPI/PPI inflation reaccelerating," analysts at BofA noted. "That's a Fed mission very much unaccomplished.*" (Reuters)

Monthly Report – February 2023

Copper was the best amongst our four metals of interest but still weaker than January, the average monthly price, on the contrary, was unchanged at 8350€/ton due to the stronger US$. Speaking of currencies, **the red metal was a copycat of the Euro/$ rate for the first fortnight**, falling from its earlier zenith in the first week then testing daily 8.800$. The trend diverged in the second half of February when the Euro dropped and Dr. Copper surged to 9.200$, a sharp correction at the end of the month put all back to the previous graph mimic. "*Copper retreated from the highest close in three weeks as investors braced for a continuation of aggressive interest-rate hikes from the Federal Reserve. Base metals were lower after economic data suggested the Fed would need to stay hawkish to cool the world's largest economy.* ***The prospect of higher borrowing costs is offsetting optimism that Chinese metals demand is picking up after the ditching of Covid Zero and the ebbing of a virus wave***". (Bloomberg, Feb 22)

Stocks did rise globally although keeping the historic pattern of LME and Comex dropping (11.000 tons each) while Shanghai volumes were higher; even considering the Chinese absence during late January's golden week when fresh inventories surged 100.000 tons, SHFE registered another 25.000 tons inflow.

Zinc almost perfectly matched the €/$ exchange rate (purple in the Reuters chart). **The final balance showed an 11% loss;** the fall started in late January and the descending curve persisted, breaking 3.250$ and 3.000$ on the downside to one of the worst performing months in recent years. Despite a brief retracement around mid-February, Zinc continued to its nadir moved by **positive fundamentals** backed by signs of recovery from the recent production halts. **Two European smelters resumed production** after the energetic "force majeure", also inventories buoyed from the dangerous all time rock bottom record of 15.600 tons of LME stocks. An inflow in Singapore brought the final tonnage to over 33.000; this is the only location with decent material available as Dubai is stuck below 1.000 and Taiwan had an outflow of material lowering its count below 10.000. SHFE added hope reaching again 100.000 tons after nine months and topping 120.000.



Nickel suffered a hefty debacle, **losing almost 20%** and dropping below the 50,100 and 200 days moving average. There were multiple factors that might persist in the Nickel market; **Russian material has not been banned** like other commodities (Nornickel is the biggest producer worldwide) so there is no supply disruption ahead. Moreover, the International Nickel Study Group officialised a **112.000 tons surplus in 2022**, which is almost a decade record despite the voracious Electronic Vehicle demand. Another reason "*may be because the market is uniquely oversupplied thanks to increasing supply of Class II material now flooding the market. In fact, as things stand, around **70% of the current physical nickel supply chain is Class II**, obviously priced at a discount to the LME. These discounts are widening given the surge in Class 2 output and ironically, dragging LME class I quotes lower in the process as well. As Andy Home at Reuters notes: "There is no longer one nickel price, but many". Sensing an opportunity, Fastmarkets launched an index to capture MHP pricing while the CME Group plans to launch a nickel Class I contract settled by prices gathered by UK-based Global Commodities Holdings*" (MAREX).

Tin came in second as poorest performer in February, squaring January's gains with its descent from almost **30.000$ to less than 25.000$.** There were no shocking news, Tin simply followed the metals sell-off and the lack of demand recovery form China. While LME stocks were almost unchanged, Shanghai inventories increased by almost 2.000 tons ending just short of 9.000. The spreads followed accordingly, on Feb 14 "*Cash tin contracts trade at **a $219 discount** to three-month futures on the London Metal Exchange, the **widest spread since December 2007**. Discounts for spot contracts are a common indicator of loosening supply*". (Bloomberg)