Monthly Report – January 2023

January saw a remarkable excitement for the New Year, not once but twice. Commodity prices had a boost since early sessions, the **LME index was up 11%** and the **Reuters-Jefferies CRB Index rose 3%** (Natural Gas and Livestock dragged the complex lower) . Most of all moves were linked to **China** with bulls putting pressure on the Asian powerhouse for 2023 on the back of recent reopening "**business as usual**". "*Oil experienced a second week of gains (**9-24 January Brent March contract increased 9.6%**) following optimism over stronger demand arising from China reopening. The world's top crude importer, which **recently abandoned its zero-COVID policy**, has been building up its inventories. Last week, the trading arm of the state refining company bought 18 cargoes (equivalent to 9m bbl) of Abu Dhabi's Upper Zakum crude for March delivery*" (Societe Generale). The second wave of price moves happened along the **Lunar New Year** readjusting previous increases. It will be interesting to see who was right in the end; the multi-million domestic travels for the annual festivity will surely have an effect on the contagion counts after the masses have gone back and forth across China.

The latest Reuters Metal Polls for 2023 and for 2024 were in line with the bearish sentiment of the last chunk of January; the medium term outlook showed the third decrease in metals since August 2022.

	2023			2024
	MEDIAN $ PRICES			**MEDIAN $ PRICES**
	New	Nov	**Diff**	New
ALUMINIUM	2.488,00	2.688,00	**-7,44%**	2.600,00
COPPER	8.625,00	8.689,50	**-0,74%**	9.200,00
LEAD	2.116,40	2.112,00	**0,21%**	2.040,00
NICKEL	24.000,00	24.548,40	**-2,23%**	22.000,00
TIN	23.670,00	31.000,00	**-23,65%**	25.250,00
ZINC	3.140,00	3.500,00	**-10,29%**	3.042,40

One could interpret the above as a consequence of an unclear scenario, despite the recent positive numbers in China there are many threats to potential new growth. The population has not risen last year, "***that marks the first drop since 1961**, the final year of the Great Famine under former leader Mao Zedong, and coincided with figures showing **China's economy expanded last year at the second-slowest pace since the 1970s***" (Bloomberg). Covid apart this deepens the crisis of the construction market where the Evergrande Group puzzle is far from being solved. Again, Metal Polls would confirm such view with the physical market balance forecasts showing increasing surplus in most metals (Lead and Tin not available).

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Also from a financial point of view, the graph by Metal Intelligence Centre (MIC) showed most recent Commitments of Traders Report having fewer bulls and more bears across the LME.

"The data summarised within the COTR is a representation of the daily open positions… is designed to reflect the nature of the predominant business activity that LME members and their clients are involved in using the following classifications: Investment Firms or Credit Institutions, Investment Funds, Other Financial Institutions and Commercial Undertaking" (LME).

As for the January performance, here is how metals moved:

	HIGH	LOW
COPPER	\$ 9.550,50 on 18TH	\$8.188 on 4TH
ZINC	\$3.512 on 26TH	\$2.947 on 4TH
NICKEL	\$31.975 on 3RD	\$25.815 on 11TH
TIN	\$32.680 on 26Th	\$24.765 on 6TH

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Copper had **an impressive couple of weeks rising over 1% daily** from its low and breaking soon the 9.000$ level, pushing the Relative Strength Index over 70 points. Supply still looked threatened by recent political unrest in various South American countries (see December commentary); Codelco announced a slowdown in mine activity as well but overall levelled by Rio Tinto higher output for this year. The outflow of cathodes from **LME and COMEX warehouses** (-15% at 75.000 tons and -18% just short of 26.000 tons) could look as a natural result of using such inventories as an alternative to "normal" market's availability. On the other hand thought, we have already seen in the past that large amounts taken from various locations (cancelled warrants totaling over 20.000 tons in Rotterdam only) by mayor players who play around with spreads in following months. The news reported by Reuters in mid-month come, as such, without great surprise: "*commodity trader* ***Trafigura is planning to take large amounts of copper from London Metal Exchange*** *registered warehouses, two people familiar with the matter said, adding that the metal was likely to remain in Europe.*" The Cash to 3 Month copper rose to a **slight backwardation** in the third week of January from **26$ contango** in first. Prices and spreads eased when China got back, markets took a breath and Shanghai inventories, not actualized for weeks because of the festivity, ended at 226.000 tons (the count before Christmas was just short of 55.000!).

Zinc was January's best performer, on the 9th alone the price touched historic resistance levels on the upside at 3.045$ and 3.245$ continuing towards its **zenith 3.500$**. There seemed more fundamentals in these price moves, although the narrative of supply problems is shared with copper, there seems to be less speculation. The decline in **LME Stocks deepened to a new low of 17.000 tons** but looks reasonable as major European smelters have not yet resumed production after the energy "force majeure" of the past months. Hopes are that the recent drop in natural gas prices and European storage data looking encouraging with a few month of winter left could see smelters reopening business. Once again, Chinese inventories flipped the global warehouse numbers; **Shanghai increased its tonnage to 90.000 more than quadrupling the count at the end 2022.**

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Nickel had a very different path than its peers, the price started on its highest mark for the month, dropped immediately below 30.000$ and landed on its rock bottom in mid-January, slowly climbing back to its original level. *"Nornickel, the world's largest nickel miner, stated in December that the world nickel market could be in a potential surplus of around 110kt in 2023. However, these surpluses are almost entirely due to nickel pig iron (NPI) production in Indonesia and China. These nickel products are used in stainless steel production and are categorised as Class 2 nickel, while the LME accepts only Class 1 nickel for delivery. This was the reason for rising LME prices late last year. This came to an end in January as* ***Tsingshan****, the world's largest nickel smelter,* ***is planning to repurpose struggling copper smelters in China to produce refined Class 1 nickel****. Combined nickel inventories at exchange-monitored warehouses dropped 10.3% in January to reach 52.0kt by the end of the month. SHFE deliverable stocks increased 5.6% but in tonnage terms this only represents 1.4kt. This was dwarfed by a 11.0% decrease in LME nickel warehouse stocks which left* ***exchange inventories at 49.4kt by the end of January, their lowest level since September 2008"***. (Societe Generale)

Tin rebounded to a seven months high **rallying from 25.000$** in early trading days to its highest January mark **above 32.000$** then slipping below 30.000$. Production halts in South America surely played a role for the supply sensitive metal "*however, arguably more significant to market dynamics has been the* ***strength of China's import appetite****. Last year's price collapse reflected a robust post-COVID supply recovery coupled with a drop in solder demand from the electronics sector after the lockdown boom of 2020 and 2021. Chinese buyers have scooped up much of the resulting surplus metal, leaving the rest of the world more finely balanced than expected. The flow of unwrought metal was two-way. China also exported 10,733 tonnes of tin, mostly to Asian neighbours. But 2,025 tonnes were also dispatched to the Netherlands, attesting to the lingering tightness in parts of the physical supply chain outside of China. However, the heavy volumes of inbound shipments meant that net imports of 20,380 tonnes were also the highest in a decade. With Chinese tin demand also taking a lockdown hit last year, the strength of imports suggests a major restocking exercise into a falling price environment.* ***Tin's subsequent sharp price recovery will be a test of China's continued hunger for imported units****."* (Reuters)