Monthly Report – June 2023

June was quite positive for commodities in general, the Reuters–Jefferies CRB Index rose over 2% with livestock, energy and grains leading the way after a disastrous May. The LME Index had a more modest rise but as we have to make a balance for the first half of 2023, things still look pretty depressing if compared to 2022 and year on year performances.

What surely has risen was interest rates across the globe; while the US stood aside this time after multiple increases, other central banks took action in June. *"US Fed hinted at least two more rate hikes this year.* ***Bank of England raised rates by a surprising 50 bps*** *today to fight sticky inflation. Swiss central bank raised rates by 25 bps and promised more to come.* ***Turkey raised interest rates to 15%*** *as worries about inflation pile up.* ***European central bank raised rates by 25 bps*** *earlier this month and promised more hikes as inflation worry surpasses recession pain for the ECB."* (Metal Intelligence Centre)

Mrs. Lagarde's initiative on the 15th of June sent the € to an impressive increase over **1.095 against the USD** which stood until the end of the month. The Dollar Index as a whole had a slip but still on a year high against the Yen. **The Japanese currency slipped heavily against the € as well, falling to a 15 year low**.

In terms of action taken to tackle the economy: "***An extension of tax relief until 2027 for EVs in China*** *was a mixed blessing, as although supportive of some industrial metals in the medium term, the policy may also defer purchases which were intended for 2023, the original deadline for the subsidies.* ***Industrial production growth in China remained relatively constrained*** *at 3.5% yoy, after disappointing the month prior at 5.6% yoy. The Caixin Industrial PMI in the country ticked down to 50.5, 0.4 points lower than in the preceding month. This came as the Chinese renminbi weakened 2.0% against the US dollar, making imports relatively more expensive, while more competitive exports may not have been met with higher demand in the light of lacklustre economic growth in the rest of the world*." (Societe Generale)

The looming tax relief "make up" came just on time to sweeten the bitter present conditions: *"China's consumer-driven recovery is showing more signs of* ***losing momentum as spending slows*** *on everything from holiday travel to cars and homes, adding to expectations for more stimulus to support the economy. Domestic travel spending during the recent holiday for the dragon-boat festival was* ***lower than pre-pandemic levels****, according to official data released this weekend. Home sales figures are below the level in previous years, while estimates for June car sales showed a drop from a year ago."* (Bloomberg)

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Internal demand suffers but the Asian powerhouse is doing worse in the external market:
Poor June trade data marks another red flag for the economy, with ***exports and imports down 12.4% and 6.8%*** *respectively in USD terms. Pressure from weak external demand became more evident as* ***shipments to ASEAN, South Korea, US and several other major trading partner all saw double digit decline in June.*** *Meanwhile, the import data continues to underscore the sluggishness of domestic demand. Further weakness in developed markets is likely to keep weighing on China's exports in H2, whereas uncertainties around recovery of domestic demand (without much policy stimulus) also remain.* (ICBC Standard Bank)

So once again, the picture looks far from positive, PMI figures confirm the bearish May scenario with all **major economies (except China) still below 50 point** and de facto staying contracted since beginning of the year. All indexes and commodities had a similar path with an increasing first half of the month and fall after the 22nd when stock registered the biggest quarterly weekly drop.

"*Financial markets have had one of those switches in the narrative that happen occasionally, and are starting to worry about higher interest rates driving recessions," said Paul Donovan, chief economist at UBS Global Wealth Management. Mirroring concern that higher rates will tip economies into recession****, investors pulled $5 billion out of global equity funds in the week through Wednesday and added $5.4 billion to bonds, seen as safer in a downturn****. US stocks face more downside than upside over the next two months as banks and property firms "still have bad recession vibes," according to the note from Bank of America strategists citing EPFR Global data*". (Bloomberg)

Here is the base metals monthly performance:

	HIGH	LOW
COPPER	$ 8.712 on 22ND	$8.087 on 1ST
ZINC	$2.520,5 on 16TH	$2.244,5 on 1ST
NICKEL	$23.400 on 16TH	$19.925 on 31ST
TIN	$27.735 on 22ND	$25.225 on 1ST

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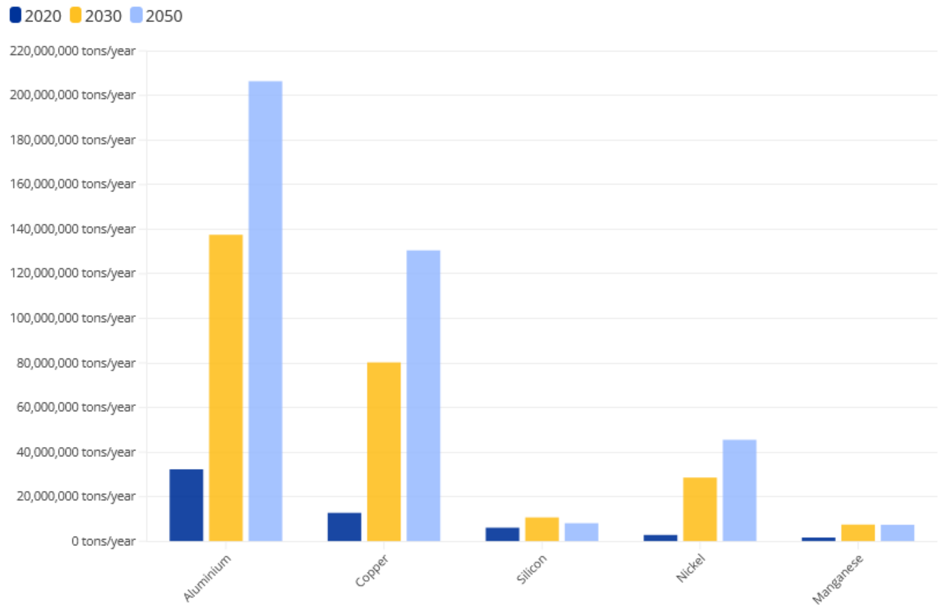
Copper is our beloved metal and we often use it as a benchmark for all other peers. So let's spice up the reading in this hot summer, here are my two cents on the everlasting question: **why are metal prices still high in this deteriorating picture**? In the long term the demand for crucial raw material will stay strong, as an example, the critical raw materials act for the future of EU supply chains defines the importance of the red metal in the EU strategy for future growth, numbers are impressive (see *Material Demand In The European Union* chart below). Most mining companies in the past years have paid dividends rather than invest in new projects, ESG criteria and more consciousness on these factors make it now more difficult to increase or start mining exploration so that output does not keep up with demand even in this bearish situation.
Copper stays strong compared to the beginning of the commodity super circle started a couple of years ago when speculation boosted prices globally.



Source: European Commission

From a physical point of view, the recent stock decrease supported this view; cancelled copper warrants (cathodes earmarked for delivery) have increased. **On-warrant material fell over 60%** while LME inventories as a whole dropped to 73.000 tons sending the cash to 3 Months spread to over 30$ backwardation towards the end of June. Shanghai stocks sunk to an even lower tonnage and similarly to the LME, also **SHFE spreads almost doubled**. Only US inventories rose, most of the increase happened in Tucson adding around 4.000 tons.

Zinc finally had a positive performance after the multi month slide started at the end of January. **The 6.5% increase awarded the gold medal for June but it is still at -20% from beginning of the year.**
The price rally followed Boliden's announcement to close its Tara mine in Ireland for maintenance, from this point of view, zinc shows a perfect example of demand and supply relationship without all the “financial” white noise like its peers.
European demand is still slow and not showing any sign of recovery, despite recent facility closures due to high energy costs, the International Lead and Zinc Study Group officialised a **138.000 ton surplus** between January and April. Global stocks followed the lead totalling 140.000 tons (+4%), although LME inventories were lower after the massive inflow in May, Shanghai volumes increased significantly.
A strike in the Newmont Mexican mine stirred things up pricewise while the Tara closure **might delay over 300.000 tons of production**. Inevitably, prices rose but the weak outlook could harm zinc’s momentum especially if more bad news come from China. High operational costs and low prices could trigger more mine closure as mining companies reach breakeven.

Nickel had a good start of June but paired gains with losses towards the end of the month, although the -15% registered in May makes the metal the worst performer for the first half of 2023. Unluckily for nickel, most of the hot news are still linked to lawsuits around the world. A few days after reaching the price high, Trafigura Group was sued by the Reuben brothers. Although the trader itself is a victim of the massive nickel fraud allegedly perpetrated by Prateek Gupta, the two brothers accuse Trafigura of delaying inspections of those cargoes resulting not filled with nickel.

On the major topic of last year’s contract halt in May, the saga for the LME goes on: “*Exchanges are in an uncomfortable wait for the outcome of a lawsuit by two financial firms against the London Metal Exchange for voiding nickel contracts, worried about possible curbs on their ability to react in crisis situations if the LME loses. Whichever side wins, in the case that wrapped up three days of hearings in the wake of a chaotic spike in nickel prices in March last year,* ***the stakes are huge for London's status as a major global financial centre****. If the LME wins the argument,* ***there's potential for angry investors to move their business elsewhere*** *- less convinced by London markets and their governance. Several trading firms and investment funds are rooting for U.S.-based hedge fund Elliott Associates and market maker Jane Street Global Trading in their $472-million lawsuit, seeing the case as a key test of whether markets in London are fair. "****If the LME loses then it is going to send shockwaves everywhere****" said a regulatory source that declined to be named. Even if the LME wins, its reputation has been dented, having been forced to expose its inner workings to outside scrutiny during the course of the legal process, experts said.”* (Reuters)

Back on the physical side, the situation does not improve and spooks a lacklustre, to say the least, scenario for the coming years: "***There is simply too much nickel around***, *especially emanating from massive amount of "nickel intermediates" that have come into the market. All this is taking a toll on Class I and we see this manifest in part through China's nickel trade flows. In this regard, CRU notes that "in contrast to the strong growth in China's NPI/FeNi imports, primary nickel imports fell to only 3,200 tons in April, levels not seen since 2004. Imports for the first four months of this year totaled 23,000 tons compared to 67,000 tons for the same period in 2022.*" (MAREX)

Tin is the only metal to register a price increase for the first half of the year and the 5% June growth keeps momentum high. The foreseen supply shortage due to Myanmar's export ban starting August got tin going for the first fortnight with the Cash to 3 Months reaching an 18 month **record high of 1.700$ backwardation** on the 21st of June, a day before its monthly price high. The consistent influx of material after that date, mostly in Port Klang Mayasia, almost **doubled LME stocks totalling 3.500 tons** sending the backwardation below 700$. "*Meanwhile, China's total refined tin production in May 2023 was estimated at 14,400 tons, a m-o-m decrease of 8.3% and a y-o-y decline of 12%. Global visible tin inventories are providing something of a cushion against supply issues. At the end of June, LME and SHFE stocks stood at approximately 12,000 tons****, nearly 40% higher than the 5-year rolling average****. However, if there is a sustained tightening of supply caused by Myanmar's ban, renewed supply disruptions in Latin America, or a recovery in consumption, visible inventories could draw quickly, leading to significant pricing appreciation*." (MAREX)