

Monthly Report – May 2023



It was not just a “Sell in **May** and Go Away” ([https://en.wikipedia.org/wiki/Sell in May](https://en.wikipedia.org/wiki/Sell_in_May)) investment strategy that dragged markets down, rather *“Recessionary concerns, higher interest rates, and healing in global supply chains have led to the **largest ever commodity de-stocking** the complex has ever witnessed”* (Bloomberg).

No sector was spared: **Energy was down by almost 10%, Base Metals -7%, Grains – 3%, Softs and Precious Metals lost 2% and Livestock was close to -1%.** Consequently, the Reuters–Jefferies CRB index sunk even below the March rock bottom to a 15-month negative record. The LME index did “better” sliding towards November 2022’ low.

Around the third week of trading, most commodities had reached their nadir (oil started its descend to 68\$ per barrel). You had of course the **US debt ceiling deal** creating uncertainties for the world’s biggest economy but mostly it was the dormant **Chinese giant** to send a deteriorating picture. PMI were lower in May 48.8 from 49.2 and deepening from the 50 points threshold below which the index shows a decline. Moreover, April’s **retails sales, industrial production** and the everlasting problematic **property market were all in decline as well as Chinese equities and the Yuan.**

Changing continent the song remained the same, the European economy was hit hard by low PMI across all countries and officializing its biggest economy, Germany, being in recession. The **€ lost 4%** against the US Dollar, going **from 1,1 to 1,06.**

There seems to be a double narrative in the market, differing from the short to long-term view in base metals. *“Some investment banks revised down their forecasts on China’s GDP growth this year, adding concerns about the country’s copper demand outlook. **JP Morgan lowered its full-year GDP growth forecast for China from 6.4% to 5.9%. Barclays downgraded its China 2023 GDP growth forecast from 5.6% to 5.3%. While others including UBS and Morgan Stanley maintained their 2023 forecast to the possibility of Beijing implementing additional stimulus measures to support the economy.** On the longer-term perspective: “The new energy sector could develop rapidly, which will significantly increase new energy industrial metal including copper, nickel and cobalt. We could see China’s NEV industry maintained its rapid growth even after the central government ended its subsidies to EVs in December last year. **Goldman Sachs expects robust green demand** will lead to mounting deficits over the next few years and push prices to record highs. (ICBC Standard Bank)*

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Back to May, all base metals went into negative territory. Here is their monthly performance:

	HIGH	LOW
COPPER	\$ 8.770,15 on 2 ND	\$7.867 on 24 TH
ZINC	\$2.696,5 on 5 TH	\$2.215 on 25 TH
NICKEL	\$25.420 on 3 RD	\$20.310 on 31 ST
TIN	\$26.851 on 3 RD	\$23.700 on 24 TH

*"In the CESCO Week held in Chile earlier this year, **Copper** industry players expressed their expectation for stronger copper demand in the longer term and concerns about a possible supply gap. A tightening copper market will keep the metal price bullish from 2024 onwards. Goldman Sachs held the opinion that 60% of copper demand growth will come from green needs in the years ahead and forecasts copper price to reach **\$15,000/t by 2025**" (ICBC Standard Bank).*

By the end of May, even the super optimistic investment bank reviewed its forecast on the downside after copper extended losses by over 4% (worst yearly performance) ending at its **lowest since November 2022**. It was a two-step move breaking the **8.500\$ support on the 11th** with a daily 350 \$ slip and then another important drop **below 8.000\$ on the 24th**. The first alarm rung when: *"China's consumer inflation slowed to the weakest pace in two years in April while producer prices fell further into deflation, fueling debate about whether more policy stimulus is needed"*. (Bloomberg)

The turn of tables across markets was massive, if you missed the start of the commentary: it was the **largest ever commodity de-stocking the complex has ever witnessed**.

Dr. Copper, being at the helm of base metals in terms of likeliness with the global economy, was not the worst performer but still losing over 4%. From an inventory point of view, the market destocking sent different signals across the globe. **SHFE warehouses registered an outflow of 50.000 tons while the LME ended 35.000 tons higher**. Considering that the former index is having its own game on stocks since a few months let us just focus on the latter. Increasing inventories moved the Cash to 3 months spreads to an **astounding 66\$ contango**.

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*"The spread shows the market in its **widest contango in data reaching back to 1994**. The widening spread comes after copper slumped to a six-month low last week as global recession fears mount and the first post-pandemic gathering of the Asian metals community urged caution over China's demand outlook. LME warehouse inventories of the key industrial and energy-transition metal have almost doubled in the past month, with US monetary tightening and a disappointing Chinese demand recovery weighing on sentiment."* (Bloomberg)

Funds have turned their back on copper too with the **net position on the LME contract being short for the first time since June 2020** joining investors of the CME, which have been bearish even longer.

Zinc lost 15% in May and was on the fifth negative month. Prices started to fall in mid-January sinking to an almost **3-year low**. Despite a positive start of the month, the fall was consistent and broke 100\$ levels weekly to reach almost 2.200\$ while the average monthly price fell below 2.300€ (almost -10% from April).

We have commented previously about the zinc crisis; despite production halts in Europe on the back of the energy crisis after the Ukrainian war, the situation has not changed lately.

*"Zinc, used to galvanize steel and for metal castings in a range of industries, **is a good proxy for the automotive and construction sectors**, particularly in China. Prices have dropped 20% since early April. Aside from a pandemic-induced slide in 2020, **it's close to the lowest level since 2016**. Even broad commodity bull Goldman Sachs Group Inc. recently switched to a bearish view on zinc — now forecasting **an oversupply** this year from a previous deficit. The bank sees a **historic 659,000-ton surplus in 2025**."* (Bloomberg)

Staying on this subject, the dominant narrative of material scarcity sent prices higher and higher over the past years. At the beginning of the pandemic, zinc was at a 5 year low and because of Covid related lack of demand; stocks started to build massively going from **50.000 tons in early 2020 to almost 300.000 a year later**. As restrictions eased and markets picked up again, a hefty misalignment took place; even with price corrections in 2022 stocks went lower nonstop to reach an all-time 15.600 tons negative record. There has been (and is still ongoing) a dominant position of warrant holders on the LME in the last 3 years, one and at times **two major players were holding between 50 and 80% of the global material** earmarked for delivery; the unreality of these mysterious moves was unfolded once again in late May.

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There are just 3 LME warehouses holding zinc ingots, all of them are in Asia; in just two days, Singapore and port Klang in Malaysia had an “inflow” of 30.000 tons increasing global inventories by 60%, sending the Cash to 3 Months spreads to a yearly record of 19\$ contango.

Nickel managed to do even worse than zinc with an over **15% loss** and doubling the score in terms of year to date performance. It was a steep slide from its high towards the end of the month, breaking continuously 1.000\$ levels on the **downside to almost 20.000\$**. It was just bad news for Nickel, dragging down the entire index and with little hope for immediate recovery.

*“Profits at the London Metal Exchange fell to the lowest in eight years in 2022, as the massive short squeeze that brought the nickel market to a juddering halt in March took its toll on the exchange. The **LME’s annual profit fell 27% to \$56.1 million**, the lowest since before a hike in trading fees in 2015, according to its annual report. The drop was primarily due to lower volumes, which fell 7.5% as traders stepped back from the exchange following the week-long suspension of the nickel market, as well as increased expenses for legal and other professional fees.”* (Bloomberg)

In the last week of May, there was also the news of falling Chinese refined nickel products to a 20-year low: *“The country's stainless steel mills now prefer nickel pig iron (NPI), an intermediate form of the metal that was rediscovered when the nickel price spiked to \$51,800 per tonne in 2007. The largest supplier is Indonesia. **China's burgeoning electric vehicle battery sector doesn't need high-purity Class I refined metal** either. It is importing ever-growing volumes of other intermediate nickel products, also mostly coming from Indonesia. The two countries are reshaping the global nickel landscape. Indonesia is ramping up production of Class II products such as NPI and ferronickel, allowing China to physically decouple from the Class I refined metal market.”* (Reuters)

Negative sentiment kept coming from South East Asia; Indonesia put a potential export tax on hold thus not supporting price recovery and an analyst at Macquarie predicted that: *“The nickel market could see a surplus of 142,000 tonnes this year, up from 111,000 tonnes in 2022 when the world saw a record supply growth. **The surplus is expected to expand to 187,000 tonnes in 2026 before easing to 40,000 tonnes in 2027**, with most of the supply increase in lower-grade “Class 2” nickel, Lennon told the SMM Indonesia Nickel-Cobalt conference in Jakarta. The International Nickel Study Group (INSG) also saw a big primary nickel surplus this year, estimated at 293,300 tonnes, up from an overhang of 105,200 tonnes in 2022, INGS research director Ricardo Ferreira told the same conference.”* (Reuters)

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Tin was off just 2% in May, being the first slip in three months and sounding like a joke compared to its peers. **Its year to date performance is slightly positive**, *“the relative price resilience can be attributed to **supportive supply side factors**. In this regard, the government of Wa State, Myanmar, last month published a comprehensive implementation plan for the planned suspension of all mining activities beginning August 1, 2023. The document reaffirms the government's determination to end unsustainable mining practices that have led to resource waste, environmental contamination and worker safety concerns, but importantly, it does leave the sector with an “out” if mines clean up their act. Since China heavily relies on Myanmar as its primary tin ore supplier (accounting for nearly 80% of its intake), the restriction —if it were to happen — could be serious for the market, especially after all the on-hand concentrate reserves are worked off.”* (MAREX)