

# Monthly Report – November 2023



**November** was a very good month for stock markets in the western hemisphere with both European and US indexed registering strong gains after a sluggish October. Despite economic uncertainty and political frailty remains in all continents, markets seemed to have found some solid ground for recovery, or may be just a “not as bad as” situation for once. November marked also the death of heavy weight personalities of the 20<sup>th</sup> century, Berkshire Hathaway’s vice chairman Charlie Munger and Henry Kissinger both died this month, for those out there wanting to interpret signs this would look like the end of a geo-economical era.

A big mover in European and US indexes was the **halt of ECB on interest rates** hike, being left unchanged for the first time in ten months; the improving inflation scenario made markets rally and the **Euro registered a new high at 1.1017** against the greenback although it seems that just part of President Christine Lagarde’s was taken into consideration. She indeed also commented: *“we have to be steady”, “the fact that we are holding doesn’t mean to say that we will never hike again”. “Sometimes inaction is action. A decision to hold is meaningful”*.

In a recent publication by Societe Generale, accrued numbers and outlook for 2024 do not impress positively in the Euro area where there has been **“falling goods consumption, due to food and energy”**, *“energy inflation largely responsible for the decline in headline inflation”*. The ghost spooking markets especially in the old continent is **STAGFLATION**. *“Next year, we expect sluggish/sub-potential growth (1.2% p.a.) and high inflation, but with a shift in the growth drivers and drags compared to 2023. We have seen a tug of war between bearish business surveys, PMIs in particular, and positive fundamentals, but we are of the latter view. Given the underlying economic conditions, we think that supply, not demand, remains the main drag on the economy: In many sectors, business surveys continue to indicate that output is not constrained by demand, but rather by staff and equipment shortages. The current backdrop of sluggish growth, high corporate margins, robust pricing power, a strong labour market and elevated domestic inflation, supports this view.”*

Overseas the FED Staff recently addressed **concerns over the US financial environment**:

*“The credit quality of businesses, households, and municipalities continued to show signs of deterioration in most sectors, as delinquency rates rose. The credit quality of nonfinancial firms borrowing in the corporate bond market remained sound overall, albeit with pockets of deterioration.”*

More bad news came from the Far East, Zhongzhi Enterprise was the new kid on the financial scandal’s block. *“The privately held conglomerate that sold high-yielding wealth management products yielding 7% (and more) to high net-worth individuals and companies but has now suspended making payments. The company said last week that it was insolvent and had at least \$31 billion more liabilities than assets. Zhongzhi is on the brink of becoming one of China’s biggest corporate failures in years. The firm’s collapse could deal a major blow to investor confidence at a time when China’s economy is still struggling to return to health ”*(Bloomberg).

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To top it all off there were some more headaches for China as a déjà vu **increase of respiratory diseases** can only remind us in a Comet Halley fashion way that some things keep coming around. As for the hard facts, **Foreign Direct Investment dropped by almost 10 %** between the month of January and October compared to the same period in 2022. A ground where China is definitely uncommon in respect to other economies is the power to program ahead. The Baltic Dry Index, which provides a benchmark for the price of moving raw materials by sea, had a record increase in November with iron ore back to last year's import numbers after a period of slow inflows and sluggish inventories.

*"The depleted level of inventories suggests that iron ore imports may remain at robust levels in coming months, especially if steel mills and traders gain more confidence that the worst is over for the property sector. Overall, both fundamentals and sentiment have shifted in favour of iron ore in recent weeks, and the only thing standing against higher prices, or at least a maintenance of recent gains, is stronger moves by Beijing. **History suggests that the authorities can cool iron ore prices, but only for a relatively short period, especially if the market conditions are supportive for stronger prices.**" (Reuters)*

Considering that Arcelor Mittal has stopped production in many European foundries, this sounds like a bold move by China to be ready to flood the old continent, once again, with its own steel once demand will pick up again. In terms of planning and vision, the Asian powerhouse stroke another long-term deal: *"MMG Limited announced that it has entered into a Share Purchase Agreement (SPA) to acquire the parent company of the Khoemacau Copper Mine in Botswana, for an effective **Enterprise Value of US\$ 1,875 million. Khoemacau is one of the highest quality new copper mines globally.** The transaction aligns to MMG's strategy to build a portfolio of high-quality mines supplying the minerals most important to a decarbonised world."* (Company Website)

Speaking of metals, here is their monthly performance:

	HIGH	LOW
COPPER	\$ 8.500 on 29 <sup>TH</sup>	\$8.020 on 10 <sup>TH</sup>
ZINC	\$2.667,5 on 15 <sup>TH</sup>	\$2.400,5 on 1 <sup>ST</sup>
NICKEL	\$18.495 on 6 <sup>TH</sup>	\$15.840 on 27 <sup>TH</sup>
TIN	\$25.500 on 15 <sup>TH</sup>	\$22.900 on 27 <sup>TH</sup>

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**Copper** gained 4% in November and the only one to be out of the recessive quicksand of 2023, the red metal is in positive territory compared to beginning of the year-rebased price.

The price move had a false start, despite the increasing late October spree, copper bounced downwards on the **first week of the month nearing the 8.000\$** mark to its nadir. A few days later *"Copper prices climbed to a one-week high on as the dollar fell after data showing slowing inflation in the United States bolstered hopes the Federal Reserve had come to the end of its tightening cycle. Funds and traders reversing bets on lower prices after the data pushed copper prices on LME to \$8,255, the highest since November 6. "Although the inflation numbers were a pleasant, but by no means a huge surprise, they were enough to **turbo-charge a number of markets**"... Also a plus was a plan by top consumer **China to provide at least 1 trillion yuan (\$137.2 billion) of low-cost financing** to the nation's urban village renovation and affordable housing programmes, reported by Bloomberg News."* (Reuters)

A week later, the sentiment remained positive with another record increase: *"**The week ending 21 November saw a \$3.4bn bullish flow\* in the commodity space. With a \$2.2bn bullish flow, copper was one of the main commodities to support the move.** This came as several mine disruptions were reported, with the **Cobre mine in Panama announcing it would suspend production amid protests** in the country that prevented normal operations and logistics efforts. The same day, workers at the **Las Bambas copper mine in Peru announced an indefinite strike** to start on 28 November, a considerable escalation after a previous two-day strike earlier in the month. These are significant developments since the two mines together account for about 3% of global supply.* (Societe Generale)

So the fundamentals moving the copper price might show a healthy momentum but news might be good just speculator and short terms investors. The physical side of the story has another sound to it, demand remained subdued and despite the relatively unchanged combined inventories, **contango** hit another record exceeding **100\$** at month end which is the highest level since April 2013.

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**Zinc** was able to win back part of the October heavy losses and **gained 2%** with an early sprint as the price rose **from 2.4000\$ to almost 2.600\$ in just one day** when news came out from Nyrstar Middle Tennessee Mines temporarily pausing production on the back of low prices and rising costs. The journey steadied towards the month record on the 15<sup>th</sup> although there is plenty of material and production capacity out there: *"**Glencore is considering restarting its Nordenham zinc smelter**, a facility that has been on care and maintenance for more than a year now. A decision on a fall restart will be made during the course of next year. Nordenham produced about 165,000 tons of zinc and zinc alloys per year before it shut down on account of eroding margins."* (Marex)



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Ironically around the middle of the month inventories doubled in one single day to over 133.000 tons: *“Reuters reported later that **Citibank delivered 60,000 tons of zinc through a rent-sharing deal** and so it is good to see at least some banks getting back into the warrant financing business in a more public way. (Citi put through a similar zinc deal in August and also engineered an aluminum trade for 100,000 tons earlier)”*. Fundamentals kicked back in again when **stocks skyrocketed on the 22<sup>nd</sup> to over 210.000 tons**, most of the inflows happened in Singapore, and from there on prices started creeping down to where the journey started. The latest 2024 Reuters forecasts indeed shows the zinc market in a 238.000 tons surplus.

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**Nickel** declined 8% to with an almost continuous drop below 15.900\$ marking its nadir at month end with a fresh one and a half year negative record. The only good news was the *“**win for the LME who have been fighting a legal battle brought by hedge fund Elliot Associates and market maker Jane Street Global since 2022**, in which they demanded \$472M in compensation after the exchange cancelled \$12Bn in trades as prices jumped over \$100,000/t in March 2022... High Court Judges: “It seems obvious to us that everyone involved was aware both that the suspension and cancellation decisions were momentous, and of the likely effects on all market participants including those in the position of the claimants”. “It is difficult to think of anything more likely to make the nickel market disorderly. Further, it would not only have affected the nickel market; the failure of an LME member, let alone a clearing member, would have had a serious impact on the global commodities market more broadly”*. (Reuters)

The positive judicial update did not spark nickel prices although it recouped severe losses and halted 17.000\$ until the end of November *“benefitting somewhat from an SMM report that the Indonesian Nickel Miners Association signed a memorandum of understanding to create an Indonesian nickel price index. Although such an index is sorely needed given the disconnect between the LME contract and the growing supply of Class 2, we fail to see how its creation will have an impact on prices one way or another. **Still, the nickel market is in desperate need of anything positive and this story seems to be it today.**”* (Marex)

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**Tin** was down almost 4% despite the positive start of November pulled prices away from October’s low. The comparison with the previous month continued with a reverse U graph pulling tin down in the second fortnight from riches to rags, registering a **9-month low**. Being a sensitive metal it was not clear what moved markets, there were mixed news shuffling fundamentals, the price increase might depend on **Chinese tin ore imports rising heavily** in October and decreasing stocks in Shanghai warehouses. The Eastern appetite was counterbalanced by the 12% volume surge in LME locations and wobbly Cash to 3 Months spreads with **contango pinballing across the month from 300\$ to 200\$**.