

# Monthly Report – October 2023



**OCTOBER** is traditionally the time of the year when the London Metal Exchange hosts its old fashioned LME Week, a global event where the biggest player gather to discuss, trade, negotiate metal. KME also joins the event for such purposes and as my personal but broadly shared point of view, **it was yet another rather discouraging year**. I remember participating in one event in 2022, which started with a minute of silence to reflect on not just the most recent Russian invasion of the Ukraine but also, all the other conflicts: Syria, Yemen, Ethiopia, Sudan and so on. **This year's LME week started with yet another escalation of long lasting tensions** on the Israeli-Palestinian front. Besides the humanitarian tragedy, hopefully to end as soon as possible, there were quite long faces in the metal community.

The latest Reuters Metal Polls confirm a negative outlook for the end of this year and an even worse 2024:

	2023			2024		
	MEDIAN \$ PRICES			MEDIAN \$ PRICES		
	NEW	JULY	Diff	NEW	JULY	Diff
ALUMINIUM	2.270,00	2.314,90	<b>-1,94%</b>	2.350,00	2.419,10	<b>-2,86%</b>
COPPER	8.514,90	8.557,50	<b>-0,50%</b>	8.625,00	8.875,00	<b>-2,82%</b>
LEAD	2.145,00	2.093,50	<b>2,46%</b>	2.161,00	2.096,80	<b>3,06%</b>
NICKEL	22.075,70	22.365,50	<b>-1,30%</b>	19.270,00	20.750,00	<b>-7,13%</b>
TIN	25.998,00	25.362,00	<b>2,51%</b>	25.750,00	26.000,00	<b>-0,96%</b>
ZINC	2.637,00	2.657,00	<b>-0,75%</b>	2.506,00	2.560,00	<b>-2,11%</b>

Another negative takeaway in the weeks following the LME gathering is the drastic change in the Net Speculative Investor Position (Comex, LME, SHFE):

	Copper	Lead	Zinc	Tin	Aluminium
Pre-LME Week	- 25,942	19,627	16,522	1,322	19,507
Post-LME Week	- 42,396	- 465	1,359	1,104	10,201

Increased net short    Flip to net short    Decrease net long    Decrease net long    Decrease net long

Positions move increasing bearish

Source: Bloomberg, StoneX

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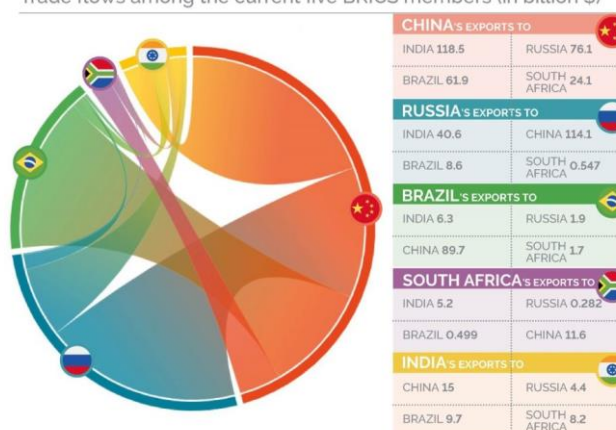
Ironically, as tangible old-fashioned Base Metals lost ground while the impalpable and obscure, once futuristic and financially messianic Bitcoin resurged from its lows with an impressive performance. *“Base metals finished October on a down note, with tin being the only complex to eke out a modest gain. The weaker tone was attributable to **rising metal inventories, widening LME spreads and generally lackluster metals demand**. A stronger dollar and higher rates that were in place for much of October did not help and neither did sagging US equity markets and ongoing weakness in China’s economy”.* (MAREX)

Energy was in negative territory although with some exceptions between the different products (Natural Gas was up 1.4% due to seasonal pickup), financial indexes were also down globally (Shanghai Composite was off for the Golden week and lost almost 3%). Agriculture and Precious metals registered gains (safe heaven **Gold moved from 1.800\$ to slightly over 2.000\$ per ounce** at month’s end).

At a macro level, it seems that markets are suffering also from the mounting polarization across continents starting from the **UN weakness from a political point of view, one-sided approach for the energy transition, new BRICS** and so on. As for metals, there is a lot of talk about ESG and low carbon or zero-carbon products, great idea but not such great application. Countries as South Africa have closed coal power plants with the aim of shifting towards more sustainable resources, for the time being the country is suffering from power shortages while it has increased export of coal towards Germany where the old energy source has revamped in lieu of the now bad and dirty atomic energy. **Where is the benefit for the industry, households and final consumer?** Talking to a Dubai based trader I could witness myself the scepticism of this neo-colonial view by emerging countries; African and Asian companies prefer to do business with each other or via the Middle East rather than with western countries. **The new BRICS + will represent almost half of the world’s population and over one third of the global GDP.** Looking at the chart on the left it seems clear who will be at the helm of this superpower.

## Intra-BRICS Trade Is Far from Even

Trade flows among the current five BRICS members (in billion \$)



Source: Trading Economics

ISPI

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China has already benefitted from recent conflicts (Taliban's joining the Belt and Road after US retreat from Afghanistan, buying metals and energy at a discount after bans on Russian raw materials), despite the recent focus on the domestic market, it wants now to play a role in global diplomacy as well. South China Sea is so far a journalistic uninteresting hot spot despite war drums resonating in resource rich Spratly, Paracel Islands with recent violation of maritime international law and cannoning of a Philippines' vessel; Beijing – Taipei tensions look like the prelude to a potential invasion of Taiwan, once again we cannot help but wonder: **Cui prodest?**

In the base metals area here below is the October performance:

	HIGH	LOW
COPPER	\$ 8.331 on 2 <sup>ND</sup>	\$7.856 on 23 <sup>RD</sup>
ZINC	\$2.675 on 2 <sup>ND</sup>	\$2.452 on 17 <sup>TH</sup>
NICKEL	\$19.040 on 2 <sup>ND</sup>	\$17.825 on 27 <sup>TH</sup>
TIN	\$25.690 on 18 <sup>TH</sup>	\$23.355 on 2 <sup>ND</sup>

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**Copper** suffered from all the above mentioned conjunctural factors and even widened the contango with a **new record of Cash to 3 Months spread of 81,50 \$** on the back of increasing LME inventories just short of 175.000 tons (after surging above a two year record of 190.000 tons in mid-month). **The latest 2024 Reuters forecasts see the red metal in a 302.500 tons surplus** (112.000 tons in 2023); other more bullish sources also saw a big market move *“on the demand side, the ICSG has world apparent refined copper usage growing by about 2% in 2023 and 2.7% in 2024. 2023 growth is largely attributable to a robust Chinese apparent usage growth of +4.3%. Conversely, world ex-China usage for 2023 is expected to decrease by about 1% due to declines in the EU and North America. The ICSG sees a market deficit of 27,000 tons for all of 2023, in contrast to its previous number of 114,000 tons.* (MAREX)”

This last view by the International Copper Study Group seems to have been a bit too bullish as the latest news post LME Week contradict the Asian powerhouse supposed renewed appetite. Just as a reminder, China is responsible of around half of global copper demand, which is estimated around 26 million tons for 2023 with more than 40% of the world's biggest producer, Codelco, going to the Chinese market.



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*“Codelco has cut the premium it charges Chinese clients for refined copper sales next year by 36%, reflecting the lackluster state of the country’s metals industry, which has been hit by a tepid economic recovery. The world’s biggest copper producer set the surcharge at \$89 a ton over the price for immediate delivery on the London Metal Exchange, down from \$140 a ton for this year. The premium for this year was the highest since 2008 and reflected optimism at the end of last year over the outlook for China’s economic recovery from the pandemic, which has since fallen short of expectations. China is also expected to import less refined copper because of rapid growth in its smelting capacity, which means the country will still buy copper supplies overseas but they will be largely in the form of ore.” (Bloomberg)*

On the other hand, Chile’s state owned company left the **European premium at 234\$** still taking advantage from the supply chain disruption in the old continent after Russian invasion of the Ukraine, making Moscow’s material a taboo (the EU imported more than 800.000 tons in 2021, more of one third coming from Russia NDR). Similarly, Aurubis left its premium unchanged at 228\$.

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**Zinc** was the victim of its own late September luck. Supply/demand worries and inventories declines had sent the metal over the roof but prices **U turned** quickly from the 2.675\$ zenith to previous levels around the 2.460\$ trend line where they stayed for the rest of month. This made Zinc the **worst October performer** with a disappointing -9%; although the narrative continued with LME stocks lowering another 20.000 tons back to summer inventories, this did not help further price recovery. Indeed the **ILZSG forecasted a 367.000 tons surplus** (it was 17.400 in the last outlook!) **in 2024; despite good Chinese demand, European production premiums slumped on the back of low demand from the steel industry** for which zinc is used.

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**Nickel** did not perform well in October with another negative month although not that bad as September. The price held 19.000\$ just for a few days and stood below that for a couple of weeks while finding support on the downside at 17.900\$ in the last days of trading, overall nickel is still trading below 40% compared to beginning of 2023. *“Despite the monthly decline being smaller than that in September (-3.6% vs -8.3%), the factors behind the decline were similar. Weakness in the complex added to growing surplus in class 1 nickel, which continued to weigh on the metal’s price, with growing LME exchanges being the visible consequence. LME warehouse inventories grew 2.7kt to 44.9kt at the end of the month. SHFE deliverable stocks also increased 1.8kt, to 9.4kt.” (Societe Generale)*

On top of this, Indonesia’s smelting capacity has increased and the International Nickel Study Group expects a **market surplus of almost 240.000 tons**; no surprise that funds extended their bearish outlook on nickel betting the metal to lower prices

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**Tin** had a basically flat performance in October, also the average monthly price stood unchanged just short of 23.850€. The price was on its lowest at the beginning of the month on the back of late September's crash but it buoyed consistently towards its peak above 25.500\$ while registering again the worst session at month end. *"Examining fundamentals, **tin experienced a tightening over the previous month.** A key indicator was the substantial reduction in global visible tin stocks, including those on the LME and SHFE, which **declined by nearly 1,300 tons (9%)** in the last month, marking the largest net outflow since August 2021. This situation is closely tied to the halt in mining activities in Myanmar's semi-autonomous Wa state. The cessation of activities in Wa has led to a reduced supply to China's smelters, with China's tin concentrate imports falling to 7,300 tons in September, a 55% decrease compared to the same period last year and the lowest import rate since February 2019. However, Antaike notes that China's overall tin production is still up 6% year-over-year, meaning that the Chinese are either replacing lost Wa ores from other origins."* (MAREX)