Monthly Report – September 2023

KME

September was another month of big commodity moves and few on the back of real market fundamentals. Hawkish FED interest policy along with good labour data despite strikes and the ongoing shutdown carousel projected the **Dollar Index to a fresh high at 106 points**.

The knock on effect was diverse, on one hand equities fell globally, starting from the US where the Dow Jones lost about 4% to 33.500 points back to May levels; Europe indexes also shed, as the economy is not improving and the German powerhouse is forecasted to be in negative territory until the end of 2023.

Safe heaven **Gold fell** from its 1.900$/oz. comfort zone in a quick slip at month end; **Oil** on the other hand took a robust course **above 90$/barrel** after bulls continued to push prices higher. This happened despite diverging views about future market balance; earlier in summer, Saudi Arabia announced a consistent production cut followed by similar Russian actions. Although stocks were rising and the International Energy Agency lowered its demand growth, **OPEC confirmed its positive view of oil demand also for 2024**.

In the metal market, there has been a "strange" late term frenzy especially in Copper, Zinc and Aluminium, which actually were on their monthly or quarterly lows. As we got closer to the end of September, but mostly to the end of the quarter, some big players had to get numbers in order pushing prices higher only to sell off at the beginning of October. The outcome was an almost **unchanged Reuters–Jefferies Commodity** Index, while the **LME Index lost "just" 3%** considering the above last minute price surge.

More interestingly, we saw a hefty move on the Cash to 3 Months spreads as "*the **US Treasury 10 year yield hit 4.8%** which is a sixteen year high, making the holding of metal stocks a very expensive business let alone the cost to industry as a whole but the bigger warning was the **30 year yield hitting 4.95% for the first time since 2007**. These rates are another reason that some of the metals such a copper are seeing huge contango rates as nobody want to finance the cash hand carry as the risk is generally deemed too high."*
(Kingdom Futures)

Changing continent the tone did not vary, again just political decisions on the plate and little or negative numbers reflecting the real deal: *"**economic readings indicate Chinese economy may have hit the bottom**, but property sector and weak export demand will limit recovery.* Although China released positive September PMI readings above 50 points, *"trade data remained in the red for both exports and imports, readings came in better than expected: **Exports fell by 8.8%** in August which, although still negative, was the first M/M improvement since March 2023. Please note, the reading came in above market expectations of a fall of 9.0% and the July reading of -14.5% (which marked the lowest level of exports demand since the pandemic in 2020). Imports in August reduced their pace of declines to 7.3% (from -12.4% in July), above market expectations of a 9.0% drop."* (Stonex)

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Base metals September performance:

	HIGH	LOW
COPPER	$ 8.599 on 1ST	$8.068 on 17TH
ZINC	$2.664,5 on 1ST	$2.460,5 on 16TH
NICKEL	$21.125 on 1ST and 5TH	$18.555 on 27TH
TIN	$26.650 on 22TH	$23.840 on 29TH

Copper was quoted earlier as the milestone for the most significant move in September so there is not much to be added on top of this, prices were in free fall since early trading days and rightfully so since "o*utlook has remained uncertain over the last several months, with both bullish and bearish arguments splitting market views. Indeed, we've seen this reflected not only in copper sideways trading, but from investor speculative positions, which on key exchanges such as the LME have gross long and gross short positions reaching extreme (but even) levels. As it stands, upon a strengthening U.S. dollar, building concerns over the Chinese's property market and downbeat outlook for near-term demand, sentiment appears to be tilting towards the bears, especially given that the LME 3M-Cash spread has posted* ***its widest contango since 1994*** (breaking 70$ NDR*).”* (STONEX)

It was not just the unfavourable financing patter on the back of the strong dollar; there is a lack of appetite for cathodes. The LME added over 60.000 tons in its inventories worldwide touching a remarkable record considering recent levels but *"three months back, on 13-Jun-2023, more than half of Copper's inventories sitting in LME warehouses were marked for withdrawal. Over the next two weeks, the withdrawal request grew to 68% (also called warrant cancellation ratio) of the total stocks. This suggested a strong demand for metal.* ***Today, only 300 mt of Copper has been listed for withdrawal; this is nearly 0% of LME warehoused stocks.*** *Further, the demand for Copper from LME warehouses has remained* ***nearly zero for 16 consecutive days, the longest streak since November 2009****, when the world was recovering from the global financial crisis."*(MIC)

Zinc was the best performer in base metals continuing its positive strike since hitting rick bottom in mid-August, bouncing on and off the 2.450$ trend line and skyrocketing over 2.600$ in the last two days of trading. The reason for such a big move seemed to be a mix of two factors/news released at month end; "*The* ***global zinc market surplus narrowed to 17,400 metric tons*** *in July from 75,900 tons a month earlier, data from the International Lead and Zinc Study Group (ILZSG) showed. During the first seven months of the year, the global surplus was 495,000 metric tons compared with a surplus of 199,000 tons in the same period last year.*" (Reuters)

Moreover, LME warehouses registered a drop of over 50.000 tons, which is **the largest outflow in the last 8 years**, while **Shanghai was down 30%** of its inventories. On warrant stocks halved in September to a new low at 57.000 tons, yet another multiyear decline.
"*Industrial metals led by zinc are defying the general risk off sentiment that is currently being driven by rising energy, bond yields and dollar," Ole Hansen, head of commodity strategy at Saxo Bank told Reuters. "Any sign of pickup in demand as signalled by cancellations on LME may give prices a bigger than expected boost," he added. The cancellation of LME warrants - title documents conferring ownership of metal - indicates the intention to remove metal from the LME system. The metal can be re-warranted. Top metals consumer* ***China starts a week-long holiday to celebrate its mid-autumn festival and National Day from Sept****. 29. "These kinds of big (zinc) cancellations ahead of Chinese holidays will amplify the impact on prices, as LME will have an entire week free of Chinese algorithms," a trader said."* (Reuters)

The speculative gist behind the big moves might be confirmed by the evolution of the Cash to 3 Months spread. The notably backwardated market had a brief turn in late August after the spring/summer contango season. Depleting stocks did not matter in the first fortnight of September when spreads actually got to **new record of 35$ contango** but quickly bounced to **6$ by month-end** along with the sudden price increase.

From the best to the worst, here comes **Nickel** with a fresh negative record coinciding with a yearly low. Despite a positive first week above 21.000$, the metal tested 20.000$ on the downside the following week, once slipped below there was just one direction downwards. Both outlook and current economic situation were ruthless with the Far East dominating the scene; there seems to be an **excess of material** based on the **sluggish demand** from the steel and EV market. We have already debated about the new mix in high and low grade availability especially Nickel Pig Iron, the bottom line was a September with increasing Indonesian smelter capacity with almost zero Chinese imports of refined nickel. The physical reaction was quite evident with **LME stocks rising over 13%** to 6 months high above 42.000 tons, while **Shanghai inventories almost doubled** with a fresh 15 months record just shy of 7.500 tons.

Tin is still the only base metal to register a gain so far this year despite the 1.400$ intraday negative move on the very end of the month. The metal pinballed between 25.000$ and 26.500$ until its collapse below 24.000$; except this last mark, Cash to 3 Months spreads had a similar move with global inventories basically unchanged, LME was up while Shanghai declined almost by the same size. *"Notably, the final trading day of September was especially tough for tin due to cascading long liquidations, with a single-day decline of 4%, but we are seeing a somewhat steadier tone going into October.* ***The September decline was exacerbated by resumed shipments of tin concentrate from Myanmar's Wa region to China****. The gradual reopening of this key processing facility started on September 10th, but the "all clear" has yet to be given and so the exact timeline for a resumption of full-scale mining is still up in the air."* (MAREX)