

The leap year seemed to have played quite the trick in **February**, superstition might be a part in market dynamics but a heavy load of divination and cultural footprint surely had to be considered in the past month. China was off for about a week for the **New Year** celebrations carrying an exceptional significance as we entered the new moon under the good omen of the **Dragon**, we will see if this new animal will prevail upon the Bulls and Bears out there. As naïve as it might sound, the mythological figure could be a blessing for the current economical hiccups in the Asian powerhouse. For a country of over a billion people that only recently has registered a contraction in the population growth (see previous commentaries), the embedded significance for the Chinese astrology might boost a birth increase and consequent economic revival.

Looking at the rest of the world, we have not witnessed any positive signs, concerns about the global economic outlook prevailed; geopolitical tensions reached a new record of conflicts worldwide that were already **12% higher in 2023 from the previous year, 40% more than 2020!** (Details at <https://acleddata.com/>).

Once again, financial markets seemed to have ignored the main news in February. Global stocks and Reuters Jefferies Commodity Index all increased (**Dow Jones broke a new record above 39.000 points**), which sounds a bit odd considering the weakness of all US data lately. In the first days of March, continuing the positive trend from the previous month, there has been another exceptional event reflecting the gloomy environment. **Gold hit an historic high of 2.100\$ per ounce**, increasing *"5% over the last five sessions, a swift ascent that has taken some in the market by surprise, particularly since there hasn't been any major change in expectations for when the Federal Reserve will lower borrowing costs. Swaps markets show a 66% chance of a cut in June, compared with 58% at the end of February. Lower rates are typically positive for bullion, which doesn't offer any interest. Citi raised its gold forecast for the next three months to \$2,200 an ounce, and upgraded the projection to \$2,300 for the next six to 12months. It cited recession risks in the second quarter, which can favour gold, "especially given the recent equity and credit market rallies."* (Bloomberg)

The **LME index**, on the other hand, was more humble and **slid almost 2%** although witnessing a steep fall and rise in mid-month graph curves. Although the basket was mixed among the different contributors, base metals as a whole registered an underperforming first half of February. The deepening curve started in late January went on for a couple of weeks **below the 50, 100 and 200 days moving averages**. Once metals and the Euro hit their month lows, short covering took place and prices rose, the absence of one of the biggest investors due to Chinese New Year made markets less liquid so that when the Asian powerhouse was back, the bullish spree got more intense.

Monthly Report – February 2024



In the third week of February inventories in Shanghai warehouses rose heavily from previous release on before the break (Reuters database):

	DELIVERABLE			ON WARRANT	
	Change (Tonnes)	%	This week (Tonnes)	Change (Tonnes)	This week (Tonnes)
Copper	+94,803	+109.6	181,323	+73,384	122,909
Aluminium	+68,719	+65.6	173,482	+31,816	61,217
Zinc	+55,018	+163.8	88,611	+26,436	36,526
Lead	+12,419	+32.9	50,142	+10,920	46,501
Nickel	+1,793	+11.2	17,758	-59	13,253
Tin	+1,370	+15.2	10,403	+1,094	9,971

Looking at the price performance, here is how our favourite four metals did:

	HIGH	LOW
COPPER	\$ 8.608,5 on 22 ND	\$8.127 on 09 TH
ZINC	\$2.529 on 1 ST	\$2.278 on 12 TH
NICKEL	\$17.935 on 29 TH	\$15.850 on 6 TH – 7 TH
TIN	\$27.665 on 13 TH	\$24.800 on 5 TH

Copper had an erratic move in February with a 2 billion US\$ bearish flow in the first fortnight, investors went short in the red metal on the back of interest rate cuts rumors and a bearish sentiment towards Chinese economy. The recent forecast below shows indeed serious concerns for copper, which can be used as a barometer for global economic health:

Price forecasts vs forward prices

		2Q24	3Q24	4Q24	2024	2025
LME Copper						
Forward prices	USD/t	8 479	8 533	8 564	8 430	8 586
SG forecasts	USD/t	7 000	7 500	7 500	7 250	9 500
	% diff	-17%	-12%	-12%	-14%	+11%

Average futures prices as of 05/03/2024. Sources: SG Cross Asset Research/Commodities

All was reversed in the second half of the month with the return of Chinese investors bearing very supporting numbers: *"Copper saw its **largest-ever bullish flow at \$3.1bn, with data stretching back to June 2006**. This came from a strong \$2.1bn of short covering, also the largest on record, and contrasts with the previous week which saw copper's money managers' short positions reaching an all-time high in notional terms on the back of an important bearish flow in copper."* (Societe Generale)

We shall see how long the enthusiasm will hold along the course of the following months. At the end of February copper lost over **1.5% in USD** although the average price was stronger from January reaching **7.700 €/ton**.

Zinc was the second worst performer in February dropping over 4% as investors turned their backs on the metal in a **deteriorating supply and demand balance**. Funds shortened their positions to a multiyear record, almost simultaneously with the increasing global inventories. *"Trafigura is delivering (in Singapore) for rent deals," one of the sources said, adding that Glencore too had been sending zinc to LME warehouses in Singapore. "There's a lot more zinc waiting outside (the LME system)." So-called "rent deals" are agreements under which LME warehouses share their fees or rental income with companies that deliver metal to them. **Weak demand for zinc - used to galvanise steel, particularly in top consumer China where the property slowdown has hit buying - makes rent deals possible, as less material is feeding through to consumers and more is in need of storage.** The firm that delivers the metal to a warehouse does not retain ownership under the rent deals, but still gets a share of the rent as long as the metal stays in the warehouse, and the fees are paid by the new owners of the metal."* (Reuters) All exchanges registered inflows of metal, even "Sleeping Beauty" COMEX saw volumes skyrocketing (Baltimore went from zero to over 10.000 tons in a single week of trading) while Shanghai and the LME had copious volumes sending the global levels to historic highs.

The International Lead and Zinc Study Group certified **2023 in a 200.000 physical surplus and forecasted 2024 with double numbers**. Prices quickly dropped below 2.500 \$ and found the monthly nadir below the historic trend line of 2.280\$, last seen in August and June of 2023 with the **Relative Strength Index dropping below 20** and trying to turn for the rest of the month with a slow growth. The negative scenario moved heavily the contango as the **Cash to 3 Months differential went to a multiyear record breaker of 46\$ which dates back to 2008**.

Nickel just for a change was the best performer with an amazing **9% increase** after being in constant decline for quite some months and light years away from troubled historic highs in the March 2022 scandal.

Differently from zinc where fundamentals dictated the price fall, Nickel's hike was mainly due to political decisions. Several western companies are closing shop in Australian and New Caledonian operations and might be back in business only after state intervention. We have already commented in previous editions about the Nickel Pig Iron (NPI) "dumping" the purer LME product's price.

"The costs of making a low-grade product, nickel pig iron (NPI), in China will be key for nickel prices, which fell by 45% on the London Metal Exchange (LME) in 2023 and face further pressure, Macquarie said on Thursday. In past years, NPI prices were set by the price movements of the LME nickel contract, against which high-grade nickel, known as Class 1, can be delivered. This relationship weakened in 2022 as different low-grade products made the market more fragmented and now, according to Macquarie, has reversed due to the arrival of large capacity to convert NPI into matte and then into nickel sulphate or metal. "Oversupply in NPI capacity is so large that NPI prices will now set the level of LME prices. The bad news for LME prices is that NPI costs are still falling" Lennon said." (Reuters). The front on the price drop was fought with cutting production and towards the end of March another political intervention moved nickel to an almost **four months high** when rumors had US authorities to ban further Russian metal products after the death of Alexei Navalny.

Tin was more resilient than its peers in recouping the early days' price fall with a **3.000\$ move from its February low to high**. When all others buoyed losses, Tin went its own way with another drop but still holding above 26.000\$ and ending the monthly performance with a 1% increase. ***"The enduring strength of prices is largely attributable to pivotal developments in Indonesia. The electoral triumph of Prabowo Subianto heralds the continuation of the nation's strategic resource management policies but is also making the market nervous at the same time. This policy approach centers around unpredictable schedule of export bans, resulting in long delays. January tin exports for example, saw a staggering 99% y-o-y reduction."*** (MAREX)