

Monthly Report – January 2024



After the season of performance checks in December, **January** embeds the original Latin meaning of the god Janus, “deity of all beginnings, gates, transitions, time, choices, duality, doorways, passages, and endings” (Wikipedia). For the short-medium term view, here is how Reuters’ polls predict the metal world:

	2024			2025		
	MEDIAN \$ PRICES			MEDIAN \$ PRICES		
	NEW	Nov	Diff	NEW	Nov	Diff
ALUMINIUM	2.297,00	2.350,00	-2,26%	2.462,50		
COPPER	8.713,60	8.625,00	1,03%	9.300,00		
LEAD	2.121,00	2.161,00	-1,85%	2.175,00		
NICKEL	16.535,40	19.270,00	-14,19%	17.887,50		
TIN	25.492,00	25.750,00	-1,00%	27.000,00		
ZINC	2.560,70	2.506,00	2,18%	2.647,30		

There is little to cheer for 2024 while 2025 was missing from previous forecast and anyhow it is not so interesting as price forecasts change course rapidly as market conditions evolve. Nickel’s expectations of a price hike were axed while other metals see slight gains or even losses; it is not clear if the institutions interviewed for the poll are cautious over the future, surely investors have temporarily turned their backs on industrial metals while other indexes are at their historic highs. The **Dow Jones breached 38.000 points, Nasdaq broke 17.000 and S&P500 is just short of 5.000** at the time this commentary is being written. The same can be said about bank shares, continuing their 2023 momentum; and above, all the US Dollar.

The greenback started the year strong and somehow not affected by the everlasting global geopolitical crisis. In a very interesting article by Reuters in early January, there are three reason for such vigour:

*“The first is what Fed staff called the “Imperial Circle”. High U.S. rates push up the value of the dollar. **That makes it more expensive for non-U.S. companies to trade.** As a result, global growth slows. Because the U.S. economy is less dependent on the rest of the world - trade volumes were 30% of U.S. GDP in 2022, compared to 100% in Germany and 47% in Japan, according to the World Bank – it fares better than others. That increases the allure of dollar-denominated assets, boosting the currency.*

*The second factor boosting the dollar is that, if the Fed manages to bring inflation down without a contraction in the economy, **rate cuts could prompt a rally in U.S. stocks and bonds**, sucking up demand from the world’s savers. Indeed, the Dollar Index has risen in three of the last five rate-cutting cycles, according to Capital Economics.*

*Third, any external shock, such as a worsening of the already dire situations in Ukraine, Palestine and the Red Sea, would send investors scurrying to **the greenback as a safe haven**. Given the fragility of the global economy – and the dollar’s role as its vital cog –the U.S. currency’s strength is here to stay.”*

In a nutshell, this is how the above US-EU differential translates:



(Financial Times)

The LME index had a U shaped graph move in January; markets were quite slow in the first fortnight, potentially waiting for a rate cut by the FED, which turned out into a Godot like expectation that, in fact, never came. *"The good news is we can forget about any more tightening. The bad news it's 'when', not 'if', they're going to cut rates, and that 'when' has been pushed out to what had been the fringes of consensus," said Art Hogan, chief market strategist at B. Riley Wealth in New York.*" (Reuters)

With no great market movers out there, metals suffered from the lacklustre PMI numbers and deteriorating global scenario *"Prices of industrial metals from iron ore to copper are unlikely to be supported by new policies from China this year, with Beijing **holding off major stimulus even as the property crisis rolls on.** Speaking to leaders at the World Economic Forum, Chinese Premier Li Qiang gave his clearest signal yet that Beijing won't resort to huge stimulus to revive growth, **even after the country recorded its worst deflationary streak since the Asian Financial Crisis.** His comments come as fresh data on Wednesday showed China's property starts down 10% and sales falling 13% in December from a year ago, Citigroup Inc. said in a note"* (Bloomberg).

Indeed, it seems that the heat is on for the two powerhouses across the Pacific Ocean. On one side **China will need to strengthen its domestic economy** while it still relies on its commercial leverage (dominance in metal refining, EV oversupply dumped into western economies); on the other, the **United States will have to reshore production** from the Far East. The European Union, in the meantime, suffers both the political subjection to the US and the economic disadvantage towards China finding itself unprepared for the neighbouring wars. Looking at recent farmers' protests one would doubt that **Brussels' green deal** has been thoroughly considered in its effects and might have just responded to exterior ESG and similar seasonal fashion that now look as mere greenwashing.

On the other hand ***“Clean energy accounted for 40% of China’s economic growth last year, according to the Centre for Research on Energy and Clean Air, potentially giving the sector more political heft in Beijing. The green economy contributed a record 11.4 trillion yuan (\$1.6 trillion) to China’s gross domestic product in 2023, a 30% jump from the previous year, the independent research organization said in a report. Solar power, and manufacturing of panels, electric vehicles and batteries were the main investment drivers, it said”***. (Bloomberg)

It seems that EU institutions took inspiration from the Ramones song,: *“ When I’m lyin’ in my bed at night, I don’t wanna grow up. Nothin’ ever seems to turn out right, I don’t wanna grow up. How do you move in a world of fog, That’s always changing things, Makes wish that I could be a dog, When I see the price that you pay, I don’t want to grow up”*

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

	HIGH	LOW
COPPER	\$ 8.704,5 on 31 ST	\$8.245 on 18 TH
ZINC	\$2.660,5 on 2 ND	\$2.443 on 18 TH
NICKEL	\$16.850 on 2 ND	\$15.895 on 5 TH
TIN	\$27.005 on 26 TH	\$24.115 on 5 TH

Following the above S&P 500 vs Euro stocks lead, **Copper** saw further divergence between financial and industrial worlds, comparing the red metal and the US equity index. Since 2020 there has been a correlation between the two, being a good benchmark (along with oil) for the economic global performance; **since the final quarter of 2023, stocks took while Copper fell**. Similarly to the LME index, the graph curve was also U shaped as the downtrend started in late December continued throughout January in a consistent mood **breaking the 20, 50 and 100 days Moving Average**. Once it went below this last trend line and reached the dangerous lows of the previous month, some countermoves took place on the 19th and Copper gained some steam: ***“Base metals extended Thursday’s gains as investor risk appetite returned and the dollar weakened. Metals from copper to aluminum were higher as global stocks advanced, boosted by a rally in technology companies. The dollar declined, making commodities cheaper for buyers in other currencies. The oversupply in industrial metals is gradually disappearing as a growing number of producers are halting or reviewing projects. Disruptions at copper mines overseas have reduced the amount of ore available for processing in China, threatening output at some smelters”*** (Bloomberg). The min – max intra month 500\$ move looked more like technical short covering, PMI figures remain low across the globe and other factors are signaling recession. While stocks lowered in LME locations, the same amount increased in Shanghai warehouses, the fact that **contango reached another historic level at 108\$** on the Cash to 3 Months differential dating back 1992, did not give hope to the market.

Despite **Zinc** was the champion in the Reuters Polls, early 2024 has been rather disappointing **having lost over 5% just in the first calendar week**. Although it found some support below the 2.460\$ area, the slide continued towards its monthly nadir showing less resilience than copper in being able to stay afloat.

On the 17th it was the worst performer giving back its cautious gains, the supply side story of Nyrstar closing its Budel smelting facility on maintenance in mid-January did not translate in a price hike.

Yet another production halt followed by several in 2023 reveals the **frailty of Zinc being very much dependent on energy costs and ongoing geopolitical evolutions**. Even the 11% LME stocks decrease (while it was almost unchanged in Shanghai locations) was not supportive, visible warehouses inventories are only in Klang and Singapore where “usual suspects” moved their material around and played with spreads.

Contango was at 26\$ on the 8th and suddenly dropped to almost flat towards the end of the month without apparent significant reason.

Nickel stayed loyal to the end of the year mood, although being torn into pieces in the Reuter’s Metals Molls (see above), prices moved in a 1.000\$ range touching dangerously the **recent low of 15.840\$** which is an almost three yearlong rock bottom record. The average monthly price slipped almost 2% ending at 14.750€, the overall scenario is all but supportive suffering from a conjunctural vicious circle. We have long discussed about the green bubble that has recently popped, especially in the Electric Vehicle sector in which Nickel plays a big part. Carmakers have already found an exit strategy to the Chinese EV price dumping, seeking new hybrid hydrogen powered engines. Yes, we did have the LME March 2022 scandal with prices rising and falling and adjustments of the trade cancellations; we did witness the divergence between class A material and Nickel Pig Iron; whatever the narrative, **the market is just lacking demand!**

If there was not enough evidence, stock rose above 70.000 tons in LME locations and Shanghai broke the 15.000 tons level with a three-year high record.

January started on a bad note: *“Nickel fell for a fifth straight session as rising inventories pointed to lackluster demand, and the latest hawkish comments from Federal Reserve policymakers hit wider sentiment. **The market has been flooded with a wave of new material from top producer Indonesia** at a time when demand growth has faded. Wider risk appetite also faded on Thursday after the latest Fed minutes indicated officials want to keep interest rates at elevated levels for longer, although are likely to start cutting at some point in 2024”* (Bloomberg) .

As a result, **BHP is considering mothballing of its Australian operations** and other mining giants might follow if the French state will not back the New Caledonian mining activities.

The only game changer for the price disruption was the announcement by Chinese authorities that the Reserve ratio requirements (**RRR**) **for banks will be cut by 50 basis points** from early February, having an over **1 trillion yuan knock on effect** on financial markets and making **nickel return above 16.000\$** and close its monthly high again.

Tin started the year in a negative mood breaking the 20, 50 and 100 days Moving Average on the downside and the 25.000 recent support level, reaching quickly its monthly nadir. The metal gained quickly momentum with an **increase just short of 7% towards its January peak before stabilizing around 26.000\$**; where Nickel lacks, Tin profits. The green transition is not only related to cars and the above news about China's step up in renewable energies gave surely a boost in expectations of future massive-scale solar panel projects. The semiconductor sector should pick up again as vital areas in neighbouring countries of the Asian powerhouse will be put under pressure. **Taiwan** and its chip making dominance will be at the center of the South China Sea future geopolitical strategies and **Myanmar's** Wa region might act as an influential metronome in the sourcing capabilities of China to keep up with its physical demand. Also, *"Short-term support for tin prices could come from **Indonesia**, the world's second largest producer of refined tin after China."* Over the last few years, we have seen Indonesian tin exports slump in the early months of the year due to export licence renewals," Citi analysts said in a December note. Longer term, investment in and sales of electric vehicles and solar panels will see tin consumption pick up pace. **"Tin demand from the green sector could more than double by 2030, potentially topping 70,000 tons per annum equivalent to a fifth of current consumption,"** Averion said. *"This suggests that fundamentals are set to remain strong and the focus will be on the supply side and the extent to which producers will be able to meet this additional demand."* (Reuters)