

# Monthly Report – August 2020



The monthly commentary is back! Sorry to have kept you waiting, the delay was not due to a torrid August' siesta, unfortunately not only the Corona virus caused a pandemic. This issue of metal comments will try to be a joint edition of the past couple of months. For those who have not noticed our absence, there has been little difference from July to August as prices have been in a continuous positive strike with the LME Index, the Thomson Reuters CRB Index and most macro-economic drivers have been in consistent growth throughout the summer.

Common features of this period were **Chinese numbers, post Covid stimulus packages and a weak Dollar.**

The greenback has lived a troubled season with ongoing domestic problems not just connected to the virus and the **US economic sentiment is still negative.** The \$ March plunge, differently from the €, was not recovered while the Dollar Index (the performance against a basket of different currencies) fell sharply in the last couple of months, below recent years' lows. This made all dollar bound commodities cheaper for investors fuelling the recovery, especially in metals.

The late July Relief Fund talks between Republicans and Democrats was timidly welcome by investors although the announced **1 Trillion \$ plan.** Ongoing tensions with China did not help, while Sino – US ties worsened, safe heaven gold reached recent peaks signalling an unstable environment for recovery despite positive Purchasing Manager Index, jobless claims and retails sales.

On the other hand, China played a big part in the global stimulus package to reignite its powerhouse: *“China's factories stepped up activity in July for a fifth consecutive month as the manufacturing **Purchasing Manager's Index marked its highest reading since March.**”*The numbers in China could continue to recover,” said Xiao Fu, head of commodity market strategy at Bank of China International in London. *“Normally during the summer months there tends to be a seasonal slowdown, but this year could be different because companies will try to ramp up as much as they can to make up for lost time earlier this year,” Fu said.*” (Reuters)

In the old continent, despite its recent tensions between frugal and financially stressed countries, an historic decision was taken as *“European Union leaders agreed on a massive stimulus plan for their economies at a pre-dawn meeting while early data from trials of three potential coronavirus vaccines showed positive results”.* (Reuters)

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In statistic terms, here are the last couple of months' price performance:

## JULY High's And Low's

	HIGH	LOW
COPPER	\$ 6.633 on 13 <sup>TH</sup>	\$5987 on 3 <sup>RD</sup>
ZINC	\$1.886 on 13 <sup>TH</sup>	\$1.758,5 on 1 <sup>ST</sup>
NICKEL	\$13.995 on 28 <sup>TH</sup>	\$12.605 on 1 <sup>ST</sup>
TIN	\$18.250 on 28 <sup>TH</sup>	\$16.695 on 1 <sup>ST</sup>

## AUGUST High's And Low's

	HIGH	LOW
COPPER	\$ 6.709,50 on 28 <sup>TH</sup>	\$6226 on 7 <sup>TH</sup>
ZINC	\$2.558 on 28 <sup>TH</sup>	\$2.278 on 3 <sup>RD</sup>
NICKEL	\$15.550 on 28 <sup>TH</sup>	\$13.605 on 3 <sup>RD</sup>
TIN	\$18.030 on 3 <sup>RD</sup>	\$16.795 on 17 <sup>TH</sup>

The recovery in metal is even more evident looking at the rebased graph below, just Aluminium is below 2020's start; all other metals are over performing:



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**Copper** was on a multiyear high and **traded above 6.700\$** a couple of times before the end of August. After spending some weeks in the last couple of months **trying to break the 6.500\$ resistance**, we had a final breakthrough as sentiment kept being positive. China has definitely helped the price recovery with both investment and good PMI; yes, the Asian giant is back with very good numbers and stellar forecasts. Where other nations see stagnating performance at the best, **HSBC forecasts a 2% growth for China**. Demand is there and supply suffers (the recent earthquake in Chile did not move the balance); the actual problem seems the medium-term revamp of mine activity across the world due to Covid related halts.

Even though operations might get back to normal, there is still some thousands of tons scrap shortage. The unavailability mitigated during the pandemic but turned to be a hot topic again as Chinese import halts due to environmental concerns increased appetite for more refined material. Cathodes therefore had a dramatic fall in **LME inventories, decreasing by almost two thirds**, from 210.000 tons at the beginning of July to 88.000 tons at the end of August. Stocks were not just a reflection of the demand/supply ratio; there were a few big players in the market holding vast shares of warrantable metal in LME warehouses causing a dominant position. Simultaneously there has been a steady decrease of material creating a cathode squeeze in the market and making the front leg of the Cash to 3 Months spread very expensive. The light contango at the beginning of July quickly moved into backwardation, the increase of Shanghai stocks only temporarily softened the stock plunge but in the last half of August the backwardation built up to a fresh peak of 30\$.

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**Zinc** has truly outperformed this summer with a **23% price rally in July and August**. China was again the key driver for this success with governmental stimulus generating steel production galore and pushing the galvanising metal to new highs. The average monthly price had an 8% increase, ending just short of **2.040€**. Stockpiling in the Far East giant further fuelled appetite but zinc had a complete different inventory dynamic than Copper. We reached a recent 2-year zenith in mid-August, above 225.000 tons, after an **astonishing 100.000 tons increase in LME warehouses in one month**. Only in the last week of July, these facilities registered record surges in inventories: Port Klang in Malaysia (+12.025), Singapore (+24.150) and New Orleans (+29.500). The supply/demand ratio seemed somehow distorted, as the recent stockpile is *“an ominous sign of the potential mountain of unsold inventory that has accumulated during the lockdown of large swaths of global manufacturing capacity. Investors seem to be unfazed, lifting long positions in both London and Shanghai markets with the focus on the unfolding Chinese recovery story. Rising LME zinc stocks, however, highlight the narrative tension with the rest of the world, which is recovering only fitfully or not at all.”* ... *“Analysts at CRU are looking at a 485,000-tonne surplus over the course of the year, while the median forecast in Reuters' July poll of analysts was a surplus of 403,000 tonnes. It's hard to avoid the conclusion that more metal is likely to find its way into LME warehouses over the coming weeks and months.”* (Reuters)

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**Nickel** was the best performer in August with an 11% price increase **reaching 15.500\$** on the last day of trading, being the highest mark since November 2019. Similarly, to Zinc, the strong steel demand in the Far East boosted prices and **supply concerns** due floods in Indonesia added interest.

*"Stainless steel production in August remains high," said analyst Ellie Wang of metals consultant CRU Group, adding that exports of home appliances from China had also improved. "The electric vehicle sector also resumed (momentum) since June." Construction and home appliances are major end-users of stainless steel, which accounts for about 70% of global nickel demand. "(Reuters)*

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**Tin** was the only metal to post a loss (-1%) in August after a 5 month constant increase with a soft U graph move having rock bottom in the central weeks. Fundamentals saw dropping demand not levelled by material shortage, **"Indonesia's tin production seen down 11% in 2020"** (Jakarta Post, citing ITA end July). The negative outlook on the electronic market generated a **35% increase in LME stocks** in August and the return of contango in a backwardation dominated market since March.