Monthly Report – August 2021

In the last commentary, we were pointing out signs of bullish outlook on commodities, metals in particular, due to climatic effect on the supply chain and a bright post pandemic market optimism. It turned out that the glass was just half-full and **August** resembled such approach with a V shaped graph that almost symmetrically designed the copper monthly price. **Gold** actually anticipated the shift of investors' excitement changing rapidly its course in the very first week of trading. The safe haven was snubbed on the back of a stronger dollar due to positive US job numbers, but was quickly back on the upside as the global scenario worsened. Oil, notably another good indicator of world's economic, had a similar move as the Dr. Copper but the impact of the Delta variant exacerbated losses for crude, with the **WTI dropping** for more than a week and plunging **below 62$** per barrel before its slowly crawled back to 70$. The plunge on the CRB Commodity Index was therefore heavier than on the LME Index, the former suffered from a broader basket including iron ore dip diving from recent highs and grains extending losses form July, the latter being more resilient in the last week of the month. Once again, fundamentals have played a significant role in August and the influence of China will be heard for quite some time in the "supervision" of supply/demand levels; the State Reserves Administration announced another sell of 30,000 tonnes of copper, 50,000 tonnes of zinc and 70,000 tonnes of aluminium via public auction in the beginning of September. Moreover, "*The main talking point is the fact that **China is going to open up its futures markets to overseas customers** which will trigger a huge move to pricing in RMB which will inevitably **reduce hedging needs in Usd** at the LME and Beijing has also made it very clear it will strictly monitor material in warehouses which in simple terms , in my view, means they will not accept the games played on the LME with cancellation of warrants which however you look at it is no more than a way of trying to influence the price of the metal concerned and certainly does not reflect the underlying physical markets.*" (Kingdom Futures)

Ironically, the latest Reuters Metals Polls were actually showing an increase in Q4 2021 and next year but most metals' forecast were lower than the price of the day they were released:

	2021			2022		
	MEDIAN $ PRICES			**MEDIAN $ PRICES**		
	New	Apr	**Diff**	New	Apr	**Diff**
ALUMINIUM	2.292,80	2.133,80	**7,45%**	2.200,00	2.015,00	**9,18%**
COPPER	9.063,30	8.650,00	**4,78%**	8.590,00	8.283,70	**3,70%**
LEAD	2.071,50	1.987,00	**4,25%**	2.034,30	1.975,00	**3,00%**
NICKEL	17.458,00	16.904,00	**3,28%**	16.500,00	16.904,00	**-2,39%**
TIN	28.666,00	24.812,50	**15,53%**	27.000,00	24.812,50	**8,82%**
ZINC	2.821,40	2.733,00	**3,23%**	2.750,00	2.733,00	**0,62%**

Monthly Report – August 2021

Here is how metals performed in August:

	HIGH	LOW
COPPER	\$ 9.810 on 2^{ND}	\$8.740 on 19^{TH}
ZINC	\$3.059,5 on 2^{ND}	\$2.916,5 on 19^{TH}
NICKEL	\$19.810 on 31^{ST}	\$18.345 on 19^{TH}
TIN	\$35.955 on 12^{TH}	\$31.250 on 20^{TH}

Copper registered a modest decrease from July, all things considered it was quite a success given the troubled waters of the second half of August. The red metal **lost 200\$ daily form the 17^{th} to the 19^{th}** and moved its way back above the well tested **9.300\$ trend line**. The decline was actually the sum of negative ingredients flowing into a siesta like summer market, resulting a severe bearish alchemy. As a starter we had a very strong dollar reaching its 9 month peak against other currencies and making US\$ traded commodities less appealing. Secondly, *"**China's government is determined to slow growth** - they have been flagging this since March - we have a virus that won't go away, and Fed officials expecting to reduce bond buying are hurting commodities," said Liberum analyst Tom Price. Measures to slow growth include **reducing credit and loans, and slowing expansion in total social financing**. China accounts for around half of global consumption of industrial metals. Traders said funds were not only cutting their bets on higher prices, but that many were also positioning themselves for much lower prices"* (Reuters).

Zinc traded sideways during August, ranging between the recent **support/resistance lines of 2.900\$ and 3.050\$**. The month ended with a 1% loss from July while the average price rose 2% to 2.540€ given the stronger dollar performance. Despite overall market losses, zinc was able to recover rapidly on the back of recent **supply issues**, disruptions continued due to wildfires in Canada, power cuts in China and logistic bottlenecks in New Orleans caused by hurricane Ida. These factors will contribute to the ongoing decrease of available material: "*During the first six months of 2021, the ILZSG data showed the market saw a **surplus of 36,000 tonnes, down from a surplus of 385,000 tonnes in the same period of 2020***" (Reuters). Despite the scarcity of material, the price outlook is not positive; China imposed measure to cool of growth and zinc is one of the commodities auctioned by national reserves. "*Combined zinc exchange-monitored inventories continued to stabilise in August, decreasing only 1.1% to 286kt. The SHFE deliverable stocks surged 23.7% to 49kt, while the LME warehouse stock slightly decreased, by 3.5% to 236kt, the lowest since January.*" (Societe Generale)

Nickel pinballed during August around the **18.250\$ and 19.900\$** trend lines showing good resilience regardless the negative metal complex. At the end of the month the total performance was slightly positive with the **average price edging above 16.250€/t**. The choppy price graph was due to on and of signs in supply and demand, starting with easing tensions at Vale's Canadian mine. At the same time prices of pig iron, a low-grade ferronickel invented in China as a cheaper alternative to pure nickel, decreased dragging down its bigger brother also. On the other hand, sentiment got more positive along the month with strong Electric Vehicle market data: "***China's NEV*** (New Energy Vehicles) *output amounted to 284,000 units in July, **a 170% y/y increase**, and hit 1.504 million units for the first 7 months of the year, almost double year-ago levels, this according to CAAM. In Europe, the **BEV*** (Battery Electric Vehicles) *market grew by **147% y/y in the first half of 2021**, with a total of 336,000 units sold, this according to PwC. Germany was the dominant market, accounting for 44% of sales in the 1st half of the year".* (ED&F Man)

Monthly Report – August 2021

Tin showed that also champions exceptionally stop their winning strike every now and then. The topped the recent all time price of July and hit a new record just shy of **36.000$** but also registered an **intraday downturn of 10% on the 19th** of August. Despite the heavy loss, mainly due to the illiquid market nature of tin, the price recouped and still made it back to almost 34.000$, being again an over 10 year record. Supply tightness was still supporting the price increase and a **39% stock decrease** was further buying in this theory. For once, the LME warehouse move actually did not result into further spread tightness; as inventories declined, the Cash to 3 Months differential followed almost simultaneously going **from 1400$ to 300$ backwardation** in three weeks of trading.