Monthly Report – December 2021

December is not just the last month of the year but show time for statistic's lovers. You do not have to scratch your head too much in the base metal sector, 2021 has been just great! Indeed, we registered the **biggest annual gain since 2009**, the **LME index was up 32%** slashing 2020's "modest" 20% growth. We have long debated in previous commentaries throughout the year on the various factors that drove prices wild: pandemic waves shaping the economics of worldwide markets, global warming and its effects on raw materials, political instabilities and so on. The bottom line in this exquisite performance is tight supply and increasing demand, normalisation is still not in sight but hope is up for a more stable market situation with fewer disruptions along the recent production and logistic bottlenecks.

Just for an explicatory peep in the base metal sector's rally:

Tin	+84%, 20-year record growth rate
Aluminium	+38%, biggest increase since 2009
Zinc	+26%, biggest increase since 2017
Copper	+22%, little short of 2021' rate
Nickel	+19%, biggest increase since 2019
Lead	+12%, biggest increase since 2017

The greenback also had a lot to party about with the **US Index gaining almost 7%**, quite specular to the loss of the Euro against the Dollar.

Not wanting to play the Grim Reaper of the New Year's good intentions but: "*analysts see trouble ahead. "China has been a primary source of demand for base metals since 2003, but we think this trend has started to come to an end," said Justin Smirk, an economist at Westpac. "With the decline of investment and production as key growth drivers, this will see diminishing incremental economic growth and a reduction in materials demand as a share of output," he said.*" (Reuters)

On a lesser time scale, here are December's ups and downs:

	HIGH	**LOW**
COPPER	$ 9.795 on 31ST	$9.135 on 15TH
ZINC	$3.557,5 on 23RD	$3.114 on 6TH
NICKEL	$20.820 on 31ST	$19.030 on 15TH
TIN	$39.890 on 9TH	$37.780 on 15TH

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Copper is as a landmark for global economy and so December showed a bit of both above arguments on future outlook. The month stared buoying end of November's decline and topping almost 9.700$ but lost all in the second week of trading on **less than expected inflation US numbers** and another round in the **Evergrande** soap opera; the (ex) property giant and one more Chinese real estate company, **Kaisa**, were downgraded to "**restricted default**" by Fitch. The fall ended, again as in previous months, on the third Wednesday prompt, breaking the **9.300$ support** and down to another historic **trend line at 9.135$.** Copper gained momentum from mid-month on, new production halts in South America as well as good economic figures in Europe stared the fire, with the red metal breaking the 20, 50 and 100 days moving average to finish at its zenith, just short of **9.800$**. Some fresh deliveries to both LME and Comex warehouses helped stabilizing the recent poor inventories and secured a return of stable spreads, Cash to 3 Months was up to 40$ at the most in December.

Zinc found support in the recent energy cost spike climbing back towards record October's highs, the mixed bag outlook of last month privileged the production concerns also in December. The price graph had a **3 step move**, from the sluggish lows in the first week it broke upwards through the **3.250$ trend line** and with the mid-month jump above the 20 days moving average it finally got comfortable at **3.500$**. The average monthly price increased 4% to over 3.000€ and indeed most of the action was concentrated in the old continent; the zinc price and physical premium for the European market started rallying as plant closures continued. The deficit driven by the potential **supply disruption** was even more exacerbated by the news of Nyrstar to place French operations into maintenance. *"Citigroup raises its near-term zinc price forecast to **$3,700** a metric ton from $3,350 previously … The bank also sees rising likelihood of even further European smelter disruptions as the power crunch continues to worsen, analysts including Oliver Nugent say in a note to clients"* (Bloomberg). In Asia things took a very different turn, as the Evergrande scandal threatens the construction and real estate business, Chinese steel prices fell in December putting a dent in zinc's demand for galvanized products. LME inventories would comfort such view, in Europe there is a scarcity of material in bonded warehouses, mostly in Bilbao, while the entire increase in stocks (+27%, just short of 200.000 tons) is coming entirely from recent 50.000 tons intake in Singapore.

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Nickel had a graph move similar to most metals in the first half of December, worsening pandemic and poor steel demand out of China made the price fall to **19.000$** and below the uptrend channel started from the ashes of 2020's Covid outbreak. The following fortnight could not be on a different tone, on the 22nd, Nickel made it up above **20.000$** to a non-stop rise until its peak on year-end. Supply issues were again the reason for such momentum, stocks ended at their 2021 lowest level both on the LME and Shanghai warehouses (101.000 tons and 5.000 respectively). *"The tight supply is set to continue into next year. According to Fastmarkets research, the nickel market saw a **deficit of 115,000 tonnes in 2021**, and analysts believe that will ease to **78,000 tonnes in 2022**. Higher prices due to the tight supply and strong demand, paired with potential price increases in relation to environmental regulations could push some EV manufacturers to move away from nickel-rich batteries in favor of cheaper alternatives. In 2021, there has been a significant increase in the adoption of alternative battery chemistries such as lithium iron-phosphate (LFP) batteries. Many EV producers in China now prefer LFP batteries and Tesla announced that it would be using LFP in all standard range vehicles globally. However, participants in the nickel market are still bullish about the role nickel will have in batteries, since nickel-rich batteries offer greater energy density, and therefore longer ranges and faster charging times, which may be appealing to Western consumers."* (Metal Bulletin)

We left **Tin** for the end, not as a palate cleanser but as the most succulent dish of the New Year's party. There has not been another all record high but made its point in keeping the performance close to the **40.000$ mark**. Luckily for us mortals in the industrial sector there were no additional bad news from the supply side to stimulate another price increase, on the other hand, demand is still peaking. LME inventories namely increased after November's quicksand and the month ended with an over **2.000 tons of stock**. Simultaneously, looking at the Cash to 3 Months spreads the situation seems also calmer, backwardation remained around 500$ with no erratic moves.

Looking at the future: "*The International Tin Association (ITA) expects the tin market deficit, the difference between tin production and consumption at 18,000 tonnes. Taking into account stock draws the **deficit** is still likely to be 9,000 tonnes in a global market the ITA estimates at **380,000 tonnes this year**. "To escape structural deficits and total depletion of above ground global stocks will require brownfield expansions or the emergence of new sources of supply that are not currently in the balance," Macquarie analysts said in a note. "There is **no evidence to suggest there will be any major easing of the tin supply situation in the near term**," said Tom Mulqueen, an analyst at Amalgamated Metal Trading. Shipping disruptions have also meant a **large premium for tin on the physical market**, paid above the LME benchmark contract particularly for consumers in the United States and Europe."* (Reuters)