

Monthly Report – February 2020



How shall we describe the fine **February** just passed? It was not for sure a happy Valentine's festivity, not a day has gone by without (dis)information about the Coronavirus. In 1939 in preparation for World War II the British government produced the motivational poster "Keep Calm and Carry On" which became en vogue again recently, unluckily just for fashion, we shall keep that refrain in mind more often. Apart from personal perception about the "plague", our hopes are to reach soon an end of this illness for our both safety and stability. Reason seems to have left us for quite some weeks now and the **outbreak on financial markets has contaminated the real economy**.

*"The Caixin China General Manufacturing PMI plunged to 40.3 in February 2020, the lowest level since the survey began in April 2004 and well below market consensus of 45.7. Output, new orders and employment fell the most on record, as firms extended Lunar New Year shutdowns due to the COVID-19 outbreak. In addition, **export sales dropped at one of the fastest rates in the series history on the back of shipping restrictions and order cancellations**. Supply chains were also hit heavily, with average delivery times increasing at the quickest pace on record, leading firms to increase their use of current stocks. On the price front, input prices rose only modestly, while factory gate prices fell for the first time in three months due to efforts to boost sales. Finally, business sentiment hit a five-year high, amid expectations of a rebound in output once restrictions related to the virus are lifted."*

(Trading Economics)

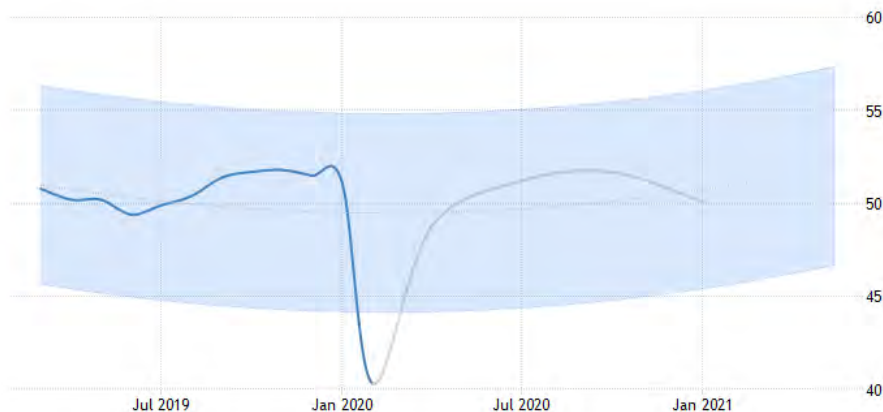


(Refinitiv Datastream)

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We should not stop at the first part of the graph and article above, indeed there are signs of recession if compared to previous index disrupts but a **rapid recovery is forecasted** in the coming quarter.



(Trading Economics)

Politics, both locally and nationally, have rather sought a short term and close by targets to blame, even menacing to **revoke the Schengen Treaty** instead of a common strategy to fight the situation. Now that not just one or two countries registered cases of Coronavirus and the entire continent has infected citizens the mood seems not to fade. The US have adopted extreme measures (raising **Level 3 notice** for its citizens that travelling to some countries outside mainland China, including Europe, is a high risk) and **cutting interest rates** by 50 points as an emergency move, it is the first time of a non-scheduled US Central Bank trim since the 2008 financial crisis!

We shall be respectful for the victims and who is currently facing the contagion but **we should have respect for our economy, our industry, our intelligence**. We could not confine the virus, we shall confine the fear; empty shelves in supermarkets, closed restaurants, cancelled trips and holidays will have a tremendous knock on effect. Stigmatizing and isolating the countries involved in the virus outbreak is not just a shortsighted approach but denotes ignorance of the global supply and demand dynamics.

*“Chinese exports accounted for almost 20% of gross domestic product in 2018, down from a 2006 peak of 36%, World Bank data shows. **China’s export orientation is not far above the United States (12%) and well below Britain and France (30%) let alone South Korea (43%) and Germany (47%).** Its imports accounted for 19% of GDP in 2018, down from 29% in 2006, and not far above the United States at 15% (“World development indicators”, World Bank, March 2020). Nonetheless, despite its increasing domestic orientation, China’s economy plays an increasingly central role in the world system because it is both very large and growing rapidly. **While it may not be particularly reliant on imports or exports, its sheer size means it is capable of sending shockwaves across the globe.** China accounted for almost 30% of all global output growth between 2013 and 2018, International Monetary Fund data shows. China’s contribution to global growth was bigger than the next two economies, the United States (12%) and India (12%), combined (“World economic outlook”, IMF, Oct. 2019).*

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In cash terms, China's merchandise imports increased at an average annual rate of 1.8% per year over the five years from 2013 to 2018, more than twice as fast as import growth in rest of the world at 0.7%. On the services side, China's outbound tourism increased by almost 11% per year or a total of 70% between 2012 and 2017, according to the World Tourism Organization. By contrast, outbound tourism from the United States grew by 8% per year and from the United Kingdom by just 6% per year over the same period.

China accounts for an increasing share of global final demand, so when its economy is hit by a recession, credit tightening or epidemic, the consequences are inevitably transmitted to firms and employees around the world.
(Reuters)

Once the Asian giant will awake from its lethargy, will the "made in EU" recover at the same pace?

MONTHLY High's And Low's

	HIGH	LOW
COPPER	\$5.828 on 17 TH	\$5.527 on 3 RD
ZINC	\$2.249, 50 on 3 RD	\$1.970 on 28 TH
NICKEL	\$13.345 on 14 TH	\$12.160 on 28 TH
TIN	\$16.800 on 21 ST	\$16.000 on 30 TH

Copper LME prices were almost unchanged in February in \$, with the graph showing a reverse U move, initially rebounding from the multi month low on the 3rd, peaking at mid-month and then losing ground again. In € the story has been different for all metals and dollar linked commodities with the greenback retracing against other strong currencies on the back of falling US equities and treasury rates. The average **monthly price stood at 5215€**, over 4% lower than January and Shanghai prices also ending 8% lower. *"Like most base metals, copper's fundamentals have deteriorated this past month, with the fluctuations in global exchange inventories being key evidence of this. In this regard, **LME and SHFE stocks have collectively surged by about 256,000 tons or 94% y-t-d** (including a massive 193,000 ton increase in February). The rise was mainly driven by SHFE inflows (+151% increase on the year), further reinforced by a 69,000 ton of LME metal (+46% on the year). The inflows are not surprising; in an environment where Chinese businesses were literally frozen in place for much of the month, producers found it much easier to deliver into the exchange — and get paid promptly to boot."* (ED&F Man)

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Zinc had a different price evolution than copper, one-way down to another record low; February ended at mid-2016 levels. Even with the softened effect of the favorable exchange rate against the US\$, zinc was the worst performer landing below 1.950€/t in February, -8% percent from previous month. The demand-supply disruption that caused the surge back then persisted until this past year but in a less effective way as the global lack of material was still happening but moderately. It's all history now with **fundamentals shifting from deficit to surplus**, the International Lead and Zinc Study Group expects the global refined zinc market to move **from -189.000 tons in 2019 to +192.000 tons this year** because of collapsing demand especially from China. Same as for copper, all the metal not sold physically was stored in LME warehouses adding 25.000 tons to January's inventories (+51%). In Shanghai stocks skyrocketed from 40.000 tons before the Chinese New Year to over 160.000 tons at month end.

Nickel was the gold medalist in 2019 for price performance but despite the title it has fallen from last September's grace by over a third and rock bottomed to almost 12.000\$.

*"China's refined **nickel production in January fell by 33.4%** from the previous month to 10,650 tonnes as the coronavirus outbreak hits consumption of the metal, research house Antaika said on Thursday. Output of nickel pig iron, a raw material for stainless steel producers, fell by 4.8% to 44,000 tonnes of metal equivalent, Antaika, the research arm of the China Nonferrous Metals Industry Association, said. Many Chinese stainless steel plants have postponed their return to work as regional governments look to contain the spread of the virus... Mills stocked up before the Lunar New Year holiday from Jan. 24 but transport restrictions will likely mean disruption to raw material supply and outbound deliveries, Antaika said. Nickel smelters will also face ore shortages if the epidemic situation prolongs, it added... Demand for battery-grade chemical nickel sulphate has also been hit as **automotive firms postpone work**, Antaika said; a senior Tesla TSLA.O executive has said deliveries of its Model 3 cars from Shanghai will be delayed."(Reuters)*

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Tin was able to contain the price fall in February and just lost 2% ending little short of 15.100€ from previous month average. In \$ the price curve actually showed an increasing trend from January's nadir, being able to move from dangerous areas close to 2019's rock bottom. **"Tin tumbled from \$17,900 per tonne to \$15,690 over the last week of January as fears over the economic fallout from coronavirus chilled the entire base metals complex. A weak rebound ran out of momentum around the \$16,750 level and prices are once again heading south with LME three-month metal touching a low of \$16,000 on Friday morning (28th) . LME stocks hit a near five-year high of 7,595 tonnes on Tuesday thanks to the warranting of another 250 tonnes at Los Angeles, hot on the heels of the 1,000 tonnes that appeared at the same port on Feb. 17. Los Angeles is a highly unusual location for LME tin stock movements, which tend to be concentrated on Asian locations such as Singapore and Malaysia. Indeed, the last time Los Angeles held any LME-warranted tin was in April 2004 when total inventory was a single lot, or 5 tonnes.**

Absent any obvious pull from LME spread tightness, the influx of metal on the U.S. West Coast looks worryingly like a reaction to backed-up Asian supply chains. LME time-spreads, often prone to rolling backwardations, are currently relaxed with the cash-to-three-months period CMSNO-3 closing Thursday valued at a contango of \$22 per tonne. Tin, like other industrial metals, is highly exposed to the freeze on supply chains caused by the multiple quarantine measures being imposed by governments to contain the virus. The city of Wuhan, the epicentre of the original outbreak, is a hub for high-end manufacturing, including semiconductors. Tin is used as a soldering agent in semiconductors and the sector accounted for almost half of total demand in 2018." (Reuters)