

Monthly Report – February 2021



What do expect of **February** if it coincided with the new Chinese year of the Ox? And not just a random one but the very year of the **Metal Ox**, needless to say markets went bullish! It has been a month with multi-year highs and outstanding performances as if it was, indeed, a magical force driving the bull race; from livestock to energy all commodities except precious metals were on the rise. The LME index rose 12,5% while the CRB Index's performance was a little less impressive standing at + 9%. The latter suffered from having in its basket both **WTI** (over **14% rise** on Oil cartel decision of production cuts and snowstorm's power outages in the US) but also **Gold** (almost **-7%**) which, along with other precious metals, has seen all vessels departing safe havens for more lucrative waters.

Investors' galore found its peak on February 25 while on the last trading day, as the Lunar New Year was celebrating the pinnacle with the Lantern Fest, markets started to correct downwards.

Once again, it is very difficult to give readers a comment on these moves, as there is little or no "common sense" approach on such markets, the bottom line is **pure speculation**. It has been even more evident during the Lunar Year public holiday when the biggest player globally was absent between February 11 and 17. Indexes were calmer in terms of volume but were pushed anyways higher: *"equity markets are charging on, not least in Asia, where **Japan's Nikkei is at three-decade highs** and Chinese blue-chip stocks a whisker off 2007 peaks. **European and U.S. shares have rallied 50% and 80% respectively from March 2020 lows**. Markets are oiled, of course, by plentiful monetary and fiscal stimulus. But if vaccine rollouts and falling COVID case loads unleash pent-up consumer demand, economic recovery will follow. Those hopes have lifted copper, a reliable growth barometer, to eight-year highs"* (Reuters).

When China came back, the ground for the bull charge was perfectly set and its run was all the way up!

Back to metals, here's our favourite four performed

	HIGH	LOW
COPPER	\$ 9.617 on 25 TH	\$7.712 on 2 ND
ZINC	\$2.952,5 on 22 ND	\$2.546,5 on 2 ND
NICKEL	\$20.110 on 22 ND	\$17.465 on 4 TH
TIN	\$27.500 on 25 TH	\$22.525 on 1 ST

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Copper, what else? The red metal did not hesitate to follow other markets' frenzy and skyrocketed in February **gaining an average 1 % daily** until its second last day of trading. Indeed the 25th marked almost exactly copper's 100% increase compared to last year's **low in March 2020 at 4.371\$**. The monthly increase from January stood just short of 7.000€ with a 7% increase. As formerly reported there is no fundamental reason in economic terms and all lingers in post Covid recovery hopes, just to name one interesting fact fully ignored: *"Euro zone industrial production shrank more than expected in December under the weight of falling output of capital and non-durable consumer goods, data showed on Monday, confirming the euro zone's economic contraction in the fourth quarter"* (Reuters, Feb 15). Despite this *"Base metals set fresh multiyear highs in a number of complexes during February on account of the usual factors: strong industrial demand, limited supply, low inventories and elevated freight rates. Fund buying also played a key role; we saw this play out most clearly in copper after a Chinese player reportedly accumulated a whopping \$1 billion long position in the four days following the Chinese New Year, sending prices to an 11-year high (ED&F Man)."*

Zinc's rally was steady from the beginning, actually starting at its lowest levels since the last week of January. Despite the **8% increase**, the metal was the worst performers amongst its peers in the first 2 months of 2021, once it broke an old **resistance at 2.890\$** there has not been a vertical rise but a smooth correction instead. More interesting moves happened on spreads and the physical side, Cash to 3 Months was stable at 24\$ contango had a sort of M move halving its value then doubling it. *"Combined exchange-monitored inventories increased by 14% to reach 385kt, the highest level since June 2017. This was exclusively due to a 157% increase in SHFE zinc deliverable stocks to the highest level since last May. This surge in Chinese exchange inventories shows that the market was bullish on the future potential for reduced refined production. Over the same period, LME warehouse stocks dropped 7.9%, helping to support the global benchmark price. (Societe Generale) "*

Nickel continued its slow pace still being bound in an uptrend channel started months ago, breaking 2019's high and on a multi-year zenith. The break above **19.500\$** lasted a few days and sharply corrected towards the end of February. *"...according to the latest INSG figures, the global refined nickel market was in a surplus of 123,000 tons in 2020, the first annual surplus in five years. Although mine production contracted by 5.4% last year, refined output growth remained solid, at +5.3%. However, apparent refined usage dropped by 1.3% in 2020 after 3.3% growth in 2019. Worryingly, the refined supply-demand balance for December showed a large surplus of 14,600 tons, the largest monthly excess since February 2020 (15,100 tons)" (ED&F Man).*

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Tin ended second amongst the base metals best performers, registering a 12% increase and with its booming **27.500\$** high marking another record with levels seen last in 2011. Given the “special” nature of the metals described in past commentaries, we have yet to report more about the speculative moves rather than the physical news. Tin stocks have been in constant decline since October last year although clear numbers about the actual levels are not possible having very few holders of metals and dominant positions on warrant holders as well. As LME Inventories reached their new lows towards 775 tons (close to historic ever nadir of 2019) backwardation rose as you would normally expect following supply/demand dynamics, then all lost sense... On the 15th the Cash to 3 Months spread reached **6.300\$ backwardation** (one fourth of the actual metal value) while it traded around 300\$ in January. Even with LME stocks doubling in a matter of days, the situation hardly got back to normal.