

Monthly Report – January 2020



"When America sneezes, the world catches a cold" the old saying goes. In **January**, it was for sure China setting the example for the proverb both metaphorically and in reality.

Panic in global markets eroded efforts of the just finalized US Sino tariff war, with all indexes and stock exchanges plummeting on **Corona virus** fears inside and outside mainland China taking prices and shares on a time travel back before Christmas and even more. The Chinese New Year is usually not just a week of holidays and market closure but also an important boost for the economy with shopping galore giving good indications of the state of health of the Asian powerhouse. The combination of virus and the festivity during the same period had a vicious mutual knock on effect with the former circulating freely during the holiday week before the quarantine took place and the latter ruined by contagion fears with gift purchases, restaurant and frill's spending being axed.

The situation puts the debate on **economic growth** to a heated stage. *"How soon will China "allow" GDP to drop below the psychological 6% level, and when this happens, will it make much of a difference in the real world? **China's GDP growth slipped to 6.0% year-on-year in the third quarter**, down from 6.2% in the second, and the softest outcome since the first quarter of 1992. Much of the blame has been put on the ongoing trade dispute with the United States, but there was also evidence that the economy was losing steam before the tit-for-tat tariffs started in earnest in the middle of last year. Given that even the partial, so-called Phase 1, resolution of the trade dispute seems to be a 50-50 bet currently, it's likely that the Chinese economy will continue to labour under the weight of the tariff war with the United States for some time to come. This may make it inevitable that GDP growth drops below 6%, but this could actually be a blessing for the authorities in Beijing. They have a perfect excuse as to why GDP growth has dropped, and can use their control of the domestic media to hammer home a message that weaker growth is all the fault of U.S. President Donald Trump. In some ways it would probably come as a giant relief for Beijing to finally acknowledge weaker growth."* (Reuters)

This article from late November was already highlighting difficulties in Chinese growth before the Coronavirus, now all analysts see **GDP well below 6%, some more pessimistic even less than 5%**. Waiting for the World Health Organization and the Chinese government to come up with a solution to the disease it will be interesting to find out at last who followed Baron Rothschild's maxim to **"buy when there's blood in the streets, even if the blood is your own."**

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In the meantime, Reuters released the latest metal polls. Forecasts apparently did not consider the recent bad news so it is just worth for statistics:

	2020			2021		
	MEAN \$ PRICES			MEAN \$ PRICES		
	New	Oct	Diff	New	Oct	Diff
COPPER	6.226,00	6.030,40	3,24%	6.358,20		
NICKEL	15.567,80	16.273,20	-4,33%	16.606,10		
TIN	17.632,70	17.993,50	-2,01%	18.554,60		
ZINC	2.285,80	2.303,10	-0,75%	2.305,40		

A bit more interesting figures are January's metals' price performance:

MONTHLY High's And Low's

	HIGH	LOW
COPPER	\$6.343 on 16 TH	\$5.533,5 on 31 ST
ZINC	\$2.459, 50 on 22 ND	\$2.163 on 31 ST
NICKEL	\$14.435 on 16 TH	\$12.510 on 29 TH
TIN	\$17.900 on 21 ST	\$15.690 on 30 TH

Copper had an ascending sprint with the New Year despite the first couple of trading days were not that good. The price hit an old resistance line at **6.300\$** which was tested for about a week on the back of strong Chinese trade data sending the red metal to an **8 months high** before the landslide happened, from the 16th onwards, it has been a quick collapse **below 5.500\$ losing almost 13%** in 2 weeks. The average monthly price was **5.550€ virtually unchanged** from December thanks to the **stronger dollar** which, along with gold, was the only main gainer in this bloodbath. Global inventories quickly reacted to falling prices and jumped back to November levels, in far eastern LME warehouses and Trieste they doubled in a matter of a few days while in New Orleans the fall continued, while contango halved in the second half of the month.

The **RSI** (an indicator of the current and historical strength or weakness) sunk drastically and fell **below 20** flying another red flag on Dr. Copper's health status; a confirmation of the feeble situation comes from another technical analysis. In the beginning of 2016 commodities were under huge pressure and rock bottomed to multi year lows, copper found a supportive channel never broken until this summer.

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The fact that since then the price has navigated up and down this support level did not raised much suspicion given the heavy geopolitical influence on markets but the duck dive once again in late January will cause investors extra head scratches for quite some time. What probably will be more interesting rather than forecasting short and medium term price trends is to figure out the bigger picture: we registered a dangerous bifurcation (see graphs below) correlating copper with the Chinese index and the Standard&Poor 500, same can be seen with those indexes and Oil. The fact these key commodities that usually indicate the pace of global (not only) industrial performance are incoherent with the financial markets portray a dystopic future.



(Bloomberg / Zerohedge)

Zinc “prices hit the highest in more than five weeks on Wednesday as worries eased about further Iran-U.S. military escalation but concern grew about short-term supplies of the metal mainly used for galvanising steel. Selling on stock markets paused as hopes grew that the United States would stop short of strong retaliation for Iran’s attack on U.S.-led forces in Iraq” (Reuters, January 8). So it seemed that Zinc was set to exit the recent price quicksand and got really close to the **2.460\$ resistance** line a few days later copper’s avalanche, likewise with its cousin the **drop** was close to **13%**. The nadir at **2.163\$** represents another multiyear low record while the **average price** mitigated by the exchange rate with the US dollar actually **rose** almost **4%** just short of **2.125€**. Differently from copper, inventories were almost unchanged with just a 3% decrease although this meant a reduction below **50.000 tons**, which embody an **historic record low** never seen before while backwardation dropped quickly as the price started to fade.

Nickel suffered from the military tension in the Middle East for a couple of weeks before the pandemic fears hit markets. The price ranged about 300\$ up and down 14.000\$ but nothing could stop the free fall towards an 18 month low, even the € equivalent lost almost 2% hitting **12.200€** from December’s average price. Last month we also note the inversely proportional trend of falling prices and increasing stocks, this

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inclination continued in January with Chinese neighboring countries adding inventories especially in Singapore and Taiwan. The over than 40.000 tons increase took LME warehouses another important step away from recent decennial lows. Just for cold comfort but positive news was seen in the accrued yearly mine production: *“Nickel ore poured out of Indonesia last year as miners in the top producer ramped up output and sales before a blanket ban on overseas sales was brought forward to kick in from this year, roiling the global market. Exports of raw ore surged 50% to 30.2 million tons from a year earlier as production more than doubled to 52.8 million tons, according to Energy and Mineral Resources Ministry data. The shipments compare with quotas of 30.8 million tons, said Yunus Saefulhak, mineral director at the ministry (Bloomberg).”*

Tin had put quite an effort in recovering the bad 2019 performance and the price **steadied towards 18.000\$** but lost all energies on market fall. **The low beneath 15.700\$** close to the September record nadir was quite frightening and showed an RSI below 30, stocks also decreased from the recent multiyear peaks. The only consolation comes again from mines: *“Indonesia's exports of refined tin in December rose 23% to 6,447.15 tonnes from the corresponding month a year earlier, Trade Ministry data showed on Friday. On a monthly basis, exports increased 40%, the data showed.”* (Reuters)