Monthly Report – July 2021

July has been another positive month for mostly all sectors, commodities en-vogue mood amongst investors continues with the only exception of grains. Despite being a mixed bag across the different sectors, the common note was climate (change). As in single metals' commentary below, there were various contributing factors to the rise and fall in industrial prices but the cause of these has partly to do with global environmental issues and will be setting the tone in the near future. July has been potentially the craziest meteorological month in documented history; the wildfires across the world, from the US to Siberia, have generated **343 mega tons of CO2** this season (The Guardian), good look trying to offset these carbon credits! Meanwhile in Europe and China heavy rains caused **severe floods**, among these also KME's plants in Stolberg and Givet while in the other hemisphere, cold winters hit hard in **Brazil** with two sessions of **frost** shattering coffee plantations, sending soft products prices to record highs, and possibly heading towards another devastating **La Niña** blow.

Despite these premises, "*The **Eurozone** manufacturing PMI for June continued to progress, printing at 63.4, **hinting at a strong expansion**. The US remained stable at an elevated 62.1. However, as **China accounts for more than half of global metals consumption, purchase managers see a softer industrial activity expansion** with the Caixin manufacturing PMI down to 51.3. In terms of hard data, the picture is different: industrial production for June is up 9.8% yoy in the US and 8.3% yoy in China according to the National Bureau of Statistics. The strong increase witnessed in the US is mostly due to a base effect from last year when facilities were idled due to COVID restrictions. Conversely, in June of last year, China's industrial sector wasn't significantly constraint by COVID, so its strong June 2021 industrial production growth isn't due to a base effect. However, China industrial production growth slowed for the third month, lagging PMIs. Thus, **market participants expect the bulk of China's industrial slowdown is ahead of us***." (Societe Generale)

Recouping some of June's losses, here is July's metals performance:

	HIGH	LOW
COPPER	$ 9.924 on 27TH	$9.131 on 19TH
ZINC	$3.047,5 on 30TH	$2.904 on 13TH
NICKEL	$19.960 on 30TH	$17.930 on 6TH
TIN	$35.075 on 30TH	$31.075 on 1ST

Copper took a couple of weeks to recover from previous month's losses and **ranged between 9.500$ and 9.300$**. The last fortnight saw much more action with the red metal going from its rock bottom to (again) almost 10.000$ like June's tune. The stronger US dollar was supportive for Dr Copper as the average monthly price stood unchanged **just short of 8.000€** per ton. July's second half increase was mainly due to supply concerns in South America, mayor mines in Peru and Chile such as Las Bambas and Escondida saw unrest among workers and local communities, slowing production and logistic operations. On the other side of the spectrum, China's "*demand also heading into a seasonally slower Q3 as well. In fact, **CRU cut its Chinese refined and total copper demand forecasts** for the year to 2.5% and 4.7%, from 4% and 5.4% respectively, citing weakness in the Chinese tube and wire-rod sectors*" (ED&F Man).

On the stock side, we had a repetition of June's misaligned moves between **Shanghai**, which dropped its inventories again with an over **30% decrease** below 100.000 tons, and the **LME, increasing** by almost 27.000 tons to **238.000**. Now the LME stocks alone are almost double than Shanghai and COMEX combined.

Zinc has been the slow mover in July, despite the return to the **2.860-2.960$** secure range after June's drop, the total gains have been modest even in € terms ending just short of **2.500€** from the previous month average. The supply chain for zinc is squeezed into a bizarre conundrum, production is still closed because of recent floods in West Germany and Belgium while drought in Chinese provinces will undermine hydroelectric power plants and consequently halt output. The lack of supply is globally capped by slowing Chinese demand or more precisely the reduced bullish interest we have recently seen in metals. The National Reserve has put thousands of tons on the physical market to cool down speculation and **SHFE prices dropped much more for zinc than copper**. "*Combined zinc exchange-monitored inventories stabilised in July, decreasing only 1.3% compared to the 17.6% slump witnessed in June. It reached 280kt, the lowest level since January. The SHFE deliverable stocks increased 9.4% from low levels, while the LME warehouse stock slightly decreased, by 2.7% to 244kt, the lowest since January as well*" (Societe Generale).

Nickel ended up second in July's rally with an almost 2.000$ high-low difference; the month started below the **18.000$** mark following June's final streak and it took a couple of weeks to regain steam. A double effect of positive demand and physical tightness sent the price back to this winter's highs and testing, on the last push, the **20.000$** resistance. The recent pickup in stainless steel worldwide was a key factor, having 70% of the total nickel consumption depending on this alone. Meanwhile logistic and production bottlenecks were announced because of further Covid waves, a few months ago expectations had predicted surpluses in the second half of this year, but now shortages are more likely. The Electric Vehicle market is definitely smaller but has been booming again; the Biden Administration will make smart mobility one of the pillar of the US Green Deal and many producers globally are strongly investing into EV transition. Demand picked up and "*Macquarie expects demand to rise to 2.8 million tonnes this year, a rise of 16% from 2020, and a deficit of 83,000 tonnes. In March it had predicted nickel demand growth at 10.6%*" (Reuters). **LME stocks have decreased 18.000 tons and SHFE inventories are at their lowest levels in five years.**

Tin, what else? You do not need George Clooney to wonder who the best in the industrial metal world is. The rise above **33.000$** marks an all-time high **overtaking the 2010 record**, fundamentals are backing the bullish mood as lockdowns in Indonesia and Malaysia are halting both mine extraction and smelting capacity. "*Tin's ascent continues its path driven* ***by shipping logistical issues*** *and* ***supply pressures*** *from Myanmar, etc," said Alastair Munro at brokerage Marex. Myanmar, the world's third largest tin producer, is struggling to contain rising cases of COVID-19 and a political crisis. Rwanda, another producer of tin, has asked its businesses to cut staffing by 50%, a move that has affected miners. "**It's a list of never-ending events that keep hitting the tin market**," said Adam Slade, an analyst at Roskill, a Wood Mackenzie business, citing a series of capacity closures this year. The re-opening of some smelters will ease tightness in the market but prices are expected to remain above $30,000 per tonnes with a firm floor of $25,000, Slade said*". (Reuters)