Monthly Report – July 2022

July felt like a copycat of June and May as we continued to witness falling prices to new **multi-year lows** and extending losses across markets. The only exception this month was live cattle and a solo outperformance of natural gas because of rumours of operation halts in a major hub. Although the IEA executive director said that "**the world has never witnessed such an energy crisis**" because of the ongoing Ukraine-Russia war, the sector had no change as a whole, "We may not have seen the worst of it yet, this winter in Europe will be very difficult." The **US dollar Index** reported another astonishing month reaching **108 points** corresponding to a 20 year high record and sending the **€ below breakeven at 0.995**.

All indexes and commodities had a freefall until mid-July, on the 18th "***bearish investors bought back** positions on news about **government support for the economy in top metals consumer China**. "This is still a bear market bounce, and it's too early to predict whether this will turn into consolidation and a recovery," said Ole Hansen, head of commodity strategy at Saxo Bank in Copenhagen. "**The market was increasingly oversold**, where short-sellers were looking for an excuse to cover shorts and they found that today with the China story and the weaker dollar*" (Reuters).

This oversold sentiment was definitely felt in the latest Reuters Metals Polls. Clearly, the euphoria of April's previous polls was somehow exaggerated so that the new set of forecasts made no prisoners…

	2022			2023		
	MEDIAN $ PRICES			**MEDIAN $ PRICES**		
	New	Apr	**Diff**	New	Apr	**Diff**
ALUMINIUM	2.783,90	3.300,00	**-15,64%**	2.700,00	3.000,00	**-10,00%**
COPPER	8.873,00	10.000,00	**-11,27%**	8.525,00	9.000,00	**-5,28%**
LEAD	2.110,00	2.253,00	**-6,35%**	2.000,00	2.190,00	**-8,68%**
NICKEL	25.314,00	27.042,50	**-6,39%**	21.000,00	21.875,00	**-4,00%**
TIN	32.970,00	40.900,00	**-19,39%**	29.000,00	35.250,00	**-17,73%**
ZINC	3.487,50	3.694,00	**-5,59%**	3.200,00	3.200,00	**0,00%**

Below the July price moves:

	HIGH	**LOW**
COPPER	$ 8.256 on 1ST	$6.955 on 15TH
ZINC	$3.320,50 on 29TH	$2.824,5 on 15TH
NICKEL	$23.947 on 29TH	$18.230 on 15TH
TIN	$27.010 on 4TH	$23.265 on 15TH

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Copper continued its oversold mood from June with ongoing RSI below 30 and was the only declining metal in the industrial basket, reaching new lows **beneath 7.000$**. Looks like ages ago when the red metal reached almost 11.000$ in March, now **China' gloomy economy** is spooking the market. The Evergrande saga jeopardized the **SHFE August copper contract with an 18-month low** but its negative effect spread outside Asia. The real estate sector got axed in July and the state backed response on property lending helped the course of Dr Copper and economy in general to buoy the record nadir although only time will tell how effective and long term this action will be. The strong dollar made things worse for the average monthly price, the **12% fall equalled 1.000€ with a final 7.500€ mark**.

On the physical side, the LME registered a slight increase while COMEX and Shanghai stocks lowered, all exchanges combined were down 25.000 tons. On a longer outlook: "*global copper **market supply could fall far short of historic levels of demand by 2035** and the severity of the deficit will largely depend on the industry's ability to expand capacity as energy transition-related applications are expected to boost overall copper demand to about 50 million mt in that time frame from the current 25 million mt, an S&P Global report said July 14. "We have **two scenarios**, one being the 'rocky-road' scenario, which is business-as-usual with a continuation of current trends where we are," S&P Global Vice Chairman Daniel Yergin said during a virtual panel discussion the company hosted, "but then we have the 'high-ambition' scenario, in which everything goes right, and we are at the very outer bounds of what is realistic in terms of supply growth."* (Reuters)

Zinc won the silver medal for best performing metal. Despite the **12 month low close to 2.800$** registered in mid-July, zinc was very resilient and quickly edged over 3.000$. Very little happened except these price moves but *"On the demand side of things**, China's construction activity remains weak** due to the hot weather, lacklustre buying interest in June and July and generally poor macro readings could be offsetting the production issues we are seeing. In addition, on the trade side, **typically China is a net importer of zinc, but so far this year it has been a net exporter** of 60,000 tons over the first half, this despite a 15% export tax (similar to ali). China's imports have fallen by 82% to 49,000 tons during the half, with the surge in European premiums one of the reasons that metal is not coming in"* (ED&F Man). From a stocks point of view, there has been another decline on both the LME and SHFE. Total **inventories were almost 30.000 tons down** from June with backwardation jumping from 45$ to over 100$ in a few days and the return of several dominant positions of warrant holders.

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Nickel had a V shaped price move in July being very resilient after **collapsing to 18.230$**, ending its course **just short of 24.000$**. Fundamentals were a bit of a mixed bag but market seems to stay bullish on the back of a few positive news. Matt Chamberlain, CEO of the LME hopes to restart nickel trading in Asian session after activity has been reduced on the back of the March catastrophe. Furthermore, the Exchange has announced the implementation of **OTC reporting**, this shall help to prevent off-market positions to cause force majeure, on top of the **15% price move limit** started some months ago. On the physical side, "*The nickel market is going through a dislocation with a large surplus of **nickel pig iron** (NPIs), which is used mostly by the Chinese steelmaking industry, and a tight market for **nickel Class 1 products** that are fit for EV batteries. The global benchmark, the LME, is based on Class 1 nickel, which explains while prices were supported despite the overall nickel market's 160kt surplus expected this year due to large NPI supply. Indonesia, by far the largest nickel miner representing almost one-third of global mine supply, plans to commission 350kt of new NPI production capacity this year. This will increase the country's capacity by 29% compared to last year given the ban on nickel ore to incentivise more value-added transformation within Indonesia's borders. Regarding NPI demand, demand from the Chinese steel mills is clouded by two drivers. First, high energy prices could reduce mills' operating rates this winter and second, the dire situation of the Chinese real estate developers paints a bleak picture for domestic steel demand for construction. On the other end, the supply of Class 1 nickel is constrained as many NPIs were produced in advance, diverting nickel ore. And demand for Nickel Class 1 is strong as EVs continue to beat estimates for adoption and sales."* (Societe Generale).

Reuters Metal Polls showed global nickel market in surplus of 23.000 tons this year and 50.000 tons in 2023. July's combined inventories on the other hand, dropped 13% with almost exact tonnages down both in LME and Shanghai warehouses.

Tin was on its fifth consecutive month of decreasing prices, although its lowest was not a fresh record (so far 22.980$ in June is the rock bottom of the past 15 months) it was the worst performer across base metals. Fundamentals were not supportive for the price, the low LME inventories dominating past months were gone and stocks escaped the quicksand to a **multi-year high close to 4.000 tons**.

"*Not surprisingly in view of the poor demand picture, imports have also dropped in June; **China imported 2,757 tons in June, representing a 50% decline** m-o-m… The ITA also says it is hearing of widespread slowdowns/shutdowns in Indonesia because off low prices and sees a drop off in July exports (vs. June) and expects a much bigger export decline in August as well. All in all, lower production ex China could offset weaker demand and provide some price support, but for now, we are expecting any price fireworks on tin. **In the physical market, premiums across the globe were largely unchanged in July, reflecting muted business activity**."* (ED&F Man)