Monthly Report – June 2020

KME

The first half of 2020 is gone and will be hard to forget, talks about recovery are slightly catching up on pandemic debate after months of lockdown, economical and industrial disorder that certainly nobody could have predicted. We have heard all sorts of both pessimistic ***Bear*** and optimistic ***Bull*** market views depending on accrued counts or forecasts for the future; recently another animal has been added to the financial zoo: the ***Kangaroo*** market refers to a new scenario where prices spike and fall rapidly, without any news being the apparent trigger. Ironically the bounces up and down do not only mimic the marsupial jumps but, in a way, may best describe the uncertainty of this period: *"a common myth about the kangaroo's English name is that it was a Guugu Yimithirr phrase for "I don't know" or "I don't understand"* (Wikipedia)

The undeniable fact is that metal prices have recovered towards more tranquil waters, with copper and tin approaching early January values, others still trying to scratch off double-digit losses:

There were luckily no further dips due to the seasonal ***Sell In May And Go Away*** (https://en.wikipedia.org/wiki/Sell_in_May), but is it already Hallelujah time or rather Requiem Mass?

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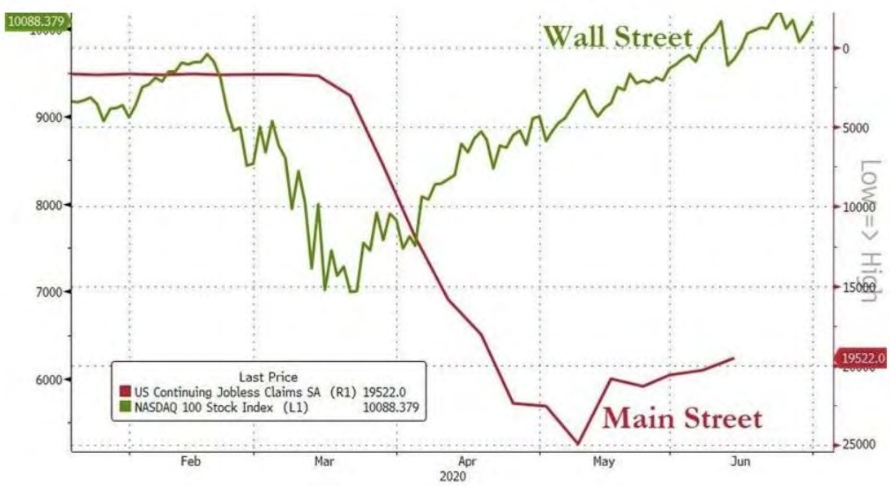
For sure, there are many factors contributing to the positive June trend: optimistic recovery in Chinese industrial activity (although after the first Coronavirus wave, another has already started) and a rally in equity markets. On a positive note, ECB's change of perspective on the pandemic saw Christine Lagarde extending the Anti-Covid QE measures to June 2021 with the **PEPP** (Pandemic Emergency Purchase Programme**) incremented by 600 billion € and now totalling 1.350 billion €.** The former Eurotower tenant is also considering a **Green QE** and the possibility to help the so-called **Fallen Angels** (European companies whose debt ratings reached "junk" status) similar to what the Fed is doing overseas.

Jolly good you would think, if the German Constitutional Court did not judge the Public Sector Purchase Programme (PSPP) exceeding EU competences de facto putting the **ECB** in the absurd position of **losing** de facto **Bundesbank**, its mayor shareholder, on such a crucial decision. Not exactly what you would expect in such a fragile political and economic environment.

Given the animal Hamletic doubt described earlier and having no crystal ball we would rather stick to the kangaroo approach on forecast inadequacy but there are positive sings out there.

We have long debated about the **"Wall Street vs Main Street"** topic and the consequences of the sole focus on financial markets to objectively evaluate the state of global business health. A recent LinkedIn contribution helps to visualize what this means, especially during Covid, in the world's biggest economy:



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A recent Fortune survey amongst the 2020 CEOs of Fortune 500 List showed that almost half of them believe the pandemic accelerated the move towards a **Stakeholder capitalism** (*a system in which corporations are oriented to serve the interests of all their* ***stakeholders****. Among the key* ***stakeholders*** *are customers, suppliers, employees, shareholders and local communities*, Investopedia).

This follows last year's Business Roundtable release of *"a new Statement on the Purpose of a Corporation signed by 181 CEOs who commit to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders."*

The survey also asked CEO: *When will economic activity return to the level it was before the pandemic*? The answer is less optimistic than financial markets trend and here's how they responded:

Q1 2022 **52.4%** Q1 2023 **25.0%** Q1 2021 **14.3%** Other **8.3%**

Before restarting the tradition of single metal analysis let us take a look at June's price performances:

<u>MONTHLY High's And Low's</u>

	HIGH	LOW
COPPER	\$6.055 on 30TH	\$5.385 on 1ST
ZINC	\$2.093 on 22ND	\$1.956,5 on 15TH
NICKEL	\$13.115 on 8TH	\$12.400 on 1ST
TIN	\$17.240 on 10TH	\$15.300 on 1ST

Copper has crowned metal's performance in June showing that its pace is not probably just price recovery but, hear hear, fundamentals are back on the scene to confirm the numbers. "*Supply disruption, strong Chinese imports and an acceleration of future "green" demand form the bullish cocktail propelling copper's recovery. It's a story investors are starting to pick up on with funds lifting their net long positioning on the CME copper contract to 17,426 contracts last week, the most bullish collective positioning since March last year… Fatalities in the Chilean copper sector underline the viral risk to the supply chain but a resurgence of cases in the United States should serve as a reminder of the risk to demand. Supply-side news makes the headlines. Demand-side dynamics are often less visible* (Reuters). The usage of LME inventories was immediate with stocks tumbling more than 16% or 42.000 tons, the decline was mostly visible in Chinese neighbouring facilities. The supply/demand rapid dynamics axed copper spreads with the Cash to 3 Months differential moving from 30$ to 10$ in just 10 days of trading.

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Goldman Sachs raised its 3-month copper forecast to $6,000/ton from $4,400. *“Metals markets have been the biggest benefactor” from strong policy-induced Chinese demand, a weakening dollar and sharp decline in funding costs, Goldman Sachs analysts wrote in a note. Chinese metals demand from construction and infrastructure has “exceeded even the most optimistic projections,” predicting the country’s copper demand will increase 1.5% this year from an earlier forecast of a contraction. The increase in consumption erases this year’s expected surplus, while the bank also said that mines globally have taken longer-than-anticipated to reopen.* (Bloomberg)

The downside is that euphoria in financial markets might have to deal soon with major demand concerns:
The International Wrought Copper Council, a forum for some of the world's largest copper users, warned at the end of May it was expecting a cumulative surplus of almost a million tonnes this year and next Even China may struggle to absorb such a large amount of metal, particularly if its exports of copper products remain as weak as they currently are. The apparent strength of the country's manufacturing indices belie a continued contraction in both export orders and employment. Throw in copper's seasonal demand slowdown over the northern hemisphere summer months, particularly in China, and there is a lot of present uncertainty to weigh against copper's optimistic take on the future. (Reuters).

Zinc had a less dynamic move than copper and traded most of the month finding support and resistance on the 2.050$ level leaving the average price pretty much unchanged from May both n $ and in €.

More interesting was the stock increase, zinc **inventories** were just short of 100.000 tons at the beginning of June and **increased 23%** throughout the month despite mines suffered shutdowns like for other metals.
The price retreat started on the 8th, which lasted for 3 days, saw on-warrant LME zinc inventories jump by a 10.000 tons daily rate and hitting the highest mark since Q4 2019 and Q1 2020 with Increase spread globally, not just with regional peaks .

“*ILZSG estimates **that despite the mine disruptions, the global refined zinc market was in a surplus of 240,000 tons** in January- April. Refined output increased by 3% y/y (+8% y/y in China, -1% y/y in the ROW) while refined demand contracted by 5% y/y (flat y/y in China, -9% y/y in the ROW). The surplus was reflected in the significant increase in exchange inventories, which we estimate rose by ~154,000 tons (+236%) in the first four months of the year, with roughly two thirds of that being on SHFE. Since then, inventories have declined slightly (-15,000 tons or -6%), due mainly to outflows from SHFE (~40,000 tons), while LME stocks continued to inflate. At the global level, this could suggest that the surplus in the refined market has shrunk slightly (or at least stabilized) since April, but **we still see the market in surplus this year**.*” (ED&F Man)

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Nickel had a strange parable in June with an odd reverse W shaped price evolution, testing various times the **13.050$ resistance** line and basically eroding every second week the gains of the previous one and ranking last in performance amongst its three metal companions.

On the supply/demand side, things were a bit choppy and differently from copper and zinc, **the low price recovery coincided with unchanged inventories**. After seeing an increase of material delivered to LME facilities in Q1 the June growth was flat despite news from Indonesia where the ore ban drastically lowered Chinese imports. Demand, although recovering over the past months, remains sluggish. The INSG estimated that the global refined nickel market from January to April was in surplus of 54.000 tons, while it was in deficit of 23.500 tons in the same period of 2019.

Tin raced in the first fortnight with an almost **2.000$ increase above the 17.000$** mark which was the pre-Covid March zenith. Cash to 3 Months tin hit its highest around the same time moving to **300$ backwardation** and after a constant haemorrhage of material from LME warehouses, we have finally seen an over **40% rise in stocks**. The pattern of supply issues and demand worries also applied to tin.