

Monthly Report – June 2021



June came in with a delayed “sell in May and go away” mood. The investment strategy for which the period from November to April is the right time to buy and the start of May the moment to cash in, felt like there was a continuation on the selloff for another month but not moved solely by investors’ tactic.

The **LME index** had quite a downturn from the previous record scoring period, across mid-June it **lost almost 7% in just a few days** of trading. The Reuters-Jefferies CRB index also slid but had a better recovery, metals were a mixed bag (Aluminium, Nickel, Tin and Lead actually ended higher, but zinc and copper went the opposite direction). The composite index benefitted from other contributors like energy products that were all on their highs, although precious metals lost their pace significantly.

Here below is metals’ performance in June:

	HIGH	LOW
COPPER	\$ 10.365 on 1 ST	\$9.011 on 21 ST
ZINC	\$3.099 on 2 ND	\$2.810 on 21 ST
NICKEL	\$18.600 on 28 TH	\$17.085 on 17 TH
TIN	\$31.850 on 14 TH	\$29.280 on 18 TH

All started pretty early in the month with positive numbers coming from the US, **the weekly jobless claims dropped below 400,000** since the COVID started and the “*U.S. non-manufacturing activity index rebounded to 64 last month, the highest reading in the series' history, from 62.7 in April*” (Reuters).

It did not take long for markets to realize that an **economic rebound** could be upon us soon with consequent rising inflation; the **Federal Reserve Bank** was indeed quick to consider **tapering** its bond-buying program. Action replaced talks in the second half of the month when it announced that it would attenuate the \$120 billion asset buying and on top of this, the Fed also increased interest rates “*which in turn turbocharged the dollar, sending it to a three month high in just days. US interest rates firmed initially as well in the wake of the announcement, but unlike the dollar, rates faded over the course of the month, especially on the long end*” (Edward Meir, ED&F MAN).

Another significant driver of the base metals downturn was further action taken by the **Chinese government to curb prices** or, better said, speculation in prices. First, the Assets Supervision and Administration Commission implemented stricter compliance and reporting regulations for state owned companies with respect to exposure on commodities markets, both domestically and abroad, in order to control risk. Moreover, China's National Food and Strategic Reserves Administration will sell part of its national reserves of metals and other commodities to improve logistic bottlenecks recently generated by soaring prices and demand. Although the quantity of commodities to be sold through public bidding will not be huge and this might not look like the definitive solutions, China has shown again its will to limit speculation and seek market stability.

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Copper registered the worst performance since March 2020 when the pandemic hit markets. The crisis started quite early with the 3 Months **price dropping below the 10.000\$** and struggling to cross that resistance in the following weeks. The largest bearish move happened on the 15th when copper plunged 4% in a single day of trading, showing to be the most sensitive metal when economic policies took place. The **slide towards 9.000\$** was quick but the red metal did show some recovery climbing above the **9.300\$ level**; also in Euro terms a psychological barrier was broken with the average monthly price **losing 5%** from May **ending below 8.000€/t.**

An interesting matter on the price decrease was the reflection on the physical market. **Shanghai inventories were down by one fourth**, while the **LME saw a 75% increase** ending just short of **212.000 tons**. As prices lowered, the previous scarce and costly metal became less desirable and markets opted for safer facilities. *“On top of that, LME cancelled warrants for copper hit the lowest level since September 2011, down to 5,000t on 21 June. A cancelled warrant is, by definition, a metal owned by a market participant that is waiting to be delivered out of a warehouse. Their levels are considered as a gauge for metal demand across the market as consumers turn to exchange inventories to source their metal as a last resort”* (Societe Generale).

Zinc was second last in June, not as bad as copper but still registering its worst performance since late January. Although the significant **3% drop on the 3rd** recalled the red metal’s decrease, zinc was able to buoy the **fall below 3.000\$** and kept this level as a resistance for a couple of weeks. When Chinese authorities took action to control risk, the price fell significantly and was sent to its monthly **rock bottom close to 2.800\$**. Fundamentals backed the recovery in the last week of trading, the drought in Yunnan province led to **hydropower shortages** in the midst of demand recovery in mainland China, the International Lead and Zinc Study Group registered a **slight surplus of 31.000 tons** in the first 4 months of this year compared to the much more abundant 250.000 tons of 2020. The effect on physical was significant: Shanghai stocks halved reaching 32.000 tons, the lowest level since January. The LME warehouse stock decreased almost 10% to 253.000 tons, which is also the lowest since January.

“On a side note, zinc was not classified as a strategic metal in China. The state's reserves that will be released in the next few months have been fortuitous to some degree. In 2009 and 2012, local producers needed help from the State Reserves Bureau (SRB) due to low prices. The SRB supported them by buying up surplus metal between 2008 and 2013, accounting for 354kt, which is what the market assumes is the quantity of zinc in the state reserves” (Societe Generale).

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Nickel had an erratic price move, holding end of May's level above 18.100\$ in early June on the back of supply concerns due to strikes in Vale's (the world's biggest nickel producer) Sudbury mine in Canada. The already tight market shrunk even more with **LME stocks reaching 231.000 tons (6% lower)** with a consistent drop despite the **mid-month 8% sell off** followed by a price recovery to previous levels. The Chinese government's attempt to control market exposure had a softer impact on nickel in the end, the rebound sent the price to its **zenith at 18.600\$** because further economic policies took place. Russia also tried to calm inflation with a 15% tax increase on export goods; being second on the global nickel production podium, this move sent world's inventories to new lows. Shanghai's deliverable stocks extended their slide ending June at 6.000 tons, the lowest since 2015 when official statistics were released. *"The INSG estimates the market to be in a **18,800 ton deficit in Q1**, including a 16,200 ton shortfall in March – the largest since March 2018. Refined usage growth (+18.9% y/y) outstripped refined output growth (+7.9% y/y) in Q1. For its part, **CRU sees the market in a 40,000 ton deficit in Q2** (from a previous balance) but is calling for a surplus in Q3. However, CRU notes that nickel's downside will be "limited given investors' enthusiasm for metals that will be important for the decarbonisation of the global economy" (ED&F Man).*

Tin was basically unaffected by the whole macroeconomic scenario described so far, despite the slide in the second week of June, the metal gained over 2% to become the best performer across its LME peers. This increase sends Tin at a 55% price increase from beginning of 2021. Despite its continuing desirability, LME inventories actually rose at a more than double rate from May. Even with the fresh high at 2.000 tons the **International Tin Association sees the deficit to rise 2.500 tons** towards 12,700 from this year's forecast.