Monthly Report – March 2021

KME

It took just a dent in the commodity super cycle to make prices tumble in **March**. The layers of speculation, forecasts, hopes and bets cumulated in February revealed their frailty when the house of cards broke down in the first week of trading after prices had reached recent peaks. “*Industrial metals plunged on Thursday* (the 4th NDR*) as a **collapse in nickel prices and a jittery mood among investors on wider markets** combined to drag down copper by almost 5%. Benchmark copper CMCU3 on the London Metal Exchange (LME), which hit a 10-year high of $9,617 a tonne last week, was on track for its worst day since October as it lost 4.2% to $8,720 by 1224 GMT. Nickel, meanwhile, tumbled for a second day. Having reached a seven-year high of $20,110 last week, it traded at $16,175 a tonne, down 7.1% and set for its biggest one-day loss since 2016. "**It's been a long time coming**," said Saxo Bank analyst Ole Hansen, pointing to a huge influx of speculative investment that drove all industrial metals to multi-year highs. "**The trigger was the nickel sell-off. Now we are seeing correction at full throttle**."* (Reuters)

Could be just sheer coincidence but February’s bright sky and sunshine could be obscured by dark clouds, the scenario of European Banks and financial institutions in general have been recently hit by a series of scandals.
*Felix Hufeld, president of German financial regulator BaFin, said that although the country's banking sector may be robust, **some banks that were very weak prior to the onset of the COVID-19 pandemic may not survive the crisis**, Reuters reported Jan. 19. Low interest rates and tough competition since the 2009 financial crisis have eaten into German banks' margins and kept profitability low, **with lenders now preparing for a wave of nonperforming loans expected to materialize** as the government withdraws aid for businesses, the news agency noted. German banks could face multiple waves of problem loans, Hufeld warned.* (S&P Global)
It is not just Germany and the Wirecard scandal; others could face a surge in corporate insolvencies like the *“twin crises engulfing Credit Suisse. First is **Archegos** Capital Management, a hedge fund that defaulted on margin calls last week. Credit Suisse may also take losses on loans in funds linked to collapsed financier **Greensill** Capital. Though the size of the double hit is unclear, **investors wiped 23% off Credit Suisse**’s shares in March – equivalent to 7.2 billion Swiss francs ($7.9 billion) of losses. That scale of a blow could push the bank’s common equity Tier 1 capital ratio as low as 10.7% according to a Breakingviews calculation, below its 12.5% target. It might need to suspend dividends and buybacks or even raise capital.”* (Reuters)
On a separate note, in respect of what you might hear or read regarding Greensilll and KME: “***We have nothing to do with Liberty**,” said Ulrich Becker, CEO of KME Group. “We haven’t traded with them in the past, we don’t trade with them now, and we won’t trade with them. We are copper producers and we don’t even know what we would have bought from them. “*
Back to metals, here is how our favourite four performed

	HIGH	LOW
COPPER	$ 9.288,5 on 2ND	$8.570 on 4TH
ZINC	$2.899 on 23RD	$2.627 on 4TH
NICKEL	$18.890 on 1ST	$15.665 on 9TH
TIN	$26.575 on 12TH	$22.875 on 1ST

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Copper had a rest in March from previous month, slipping in the first days of trading to its **nadir below 8.600$**. From a graph point of view, the red metal headed back up following the route of the 20 days Moving Average, first on the upside testing the **9130$ resistance**, then duck diving underneath the MA until the end of the month. Given the more favourable exchange rate, the monthly **average price surged 8% from February to over 7.560€/t** but more action occurred on the stocks and spread market. LME Inventories almost doubled, buoying the ongoing historic lows, reaching 143.000 tons. While inflow in warehouses grew globally, backwardation dropped from the multi digit Cash to 3 Months spread registered in late February, towards more reasonable differentials and even went into contango for a few days.

The speculative scenario described earlier, finds a common ground with the recent copper boost and in an interesting article by Bloomberg, worries over future disruption are clearly pointed out:

Copper's ascent to nine-year highs has caused more pain than gain for some of the smelters in the world's biggest market for the metal. China's vast copper processing industry, which supplies over half the world's refined metal, has seen its inventories of finished product hit record levels after the surge in prices gave customers pause and deterred purchases. ***Weaker demand from factories is likely to prove an anchor on the rally given the centrality of Chinese demand to the market's fortunes****. Stockpiles of copper cathode held at smelters, used in everything from electric wiring to the pipes in air-conditioners****, rose to over 90,000 tons last month, according to Shanghai Metals Market. It's the highest level in data going back to 2010****. At the same time, some Chinese investors are pulling in their horns as consumption sputters. Shanghai Dalu Futures, a brokerage that built a* ***bullish copper position worth more than $1 billion in February****, has cut that bet by almost a fifth in recent days. After ending February on a high, the market has since been caught between optimism that the world's economic recovery and transition to green energy will cause a shortage of the metal, and the realization that China's government intends to trim its spending on measures to stimulate growth now that the rebound from the pandemic is all but assured.*

Zinc was a bit choppy in the first week of March, starting from a steep decrease in late February when the International Lead and Zinc Study Group announced a "***surplus of 35,000 tonnes*** *in December from a revised surplus of 18,100 tonnes a month earlier.* ***For 2020, the global surplus was 533,000 tonnes*** *compared to a deficit of 229,000 tonnes in 2019"* (Reuters). Despite initial resilience, zinc dropped over 150$ in a single session to its March rock bottom at 2.627$, trying to climb up again in the following days.

The fundamental scenario became more positive in the second week when China's zinc and zinc alloy production number came out showing February's **output fall by 60.000 tons** from previous month. The metal rose back to recent **resistance of 2.890$ ending March above the 2.800$ area**.

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Nickel was the one that started the snowball effect that turned into an avalanche. The recent over performance resulting in multi-year highs heading towards 20.000$ made the fall even bigger.

*Nickel tumbled after a major Chinese producer's unexpected plan to add supply eased concerns about a **structural deficit** for the material that Elon Musk has said is **the biggest concern for Tesla Inc. batteries**. Tsingshan Holding Group Co., the world's top stainless steel producer, will soon start supplying nickel matte to Chinese battery material producers and plans to expand its nickel investments in Indonesia. Matte is an intermediate product made from concentrate that can be further processed into battery-grade chemicals. Benchmark nickel prices were trading at a six-year high as recently as last week on expectations surging demand from the electric-vehicle sector would spur a shortage. Musk said in February that nickel was Tesla's top concern for scaling lithium-ion cell production and was behind a shift to using iron for some EV batteries instead. Nickel-pig-iron producers can now make nickel matte by slightly adjusting the manufacturing process, said Celia Wang, an analyst at Mysteel. **This will "substantially ease" concerns of a shortage of battery materials**, she said. While the upside in nickel prices will be capped until October, when Tsingshan is set to start deliveries, the market will monitor progress as there's the possibility of setbacks considering the new technology, Wang said* (Bloomberg). The news hit markets like a bazooka, **nickel lost 15%** in just two days dragging down all its peers. The price drop was hard and never made it up again finding **support at 15.800$** trading from here into 16.400$ range throughout the resto of March while the average monthly price dropped 10% towards 13.800€/t

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Tin was the most resilient metal. The initial drop anticipated in timing its colleagues but tin was able to buoy losses and fill in the gap with previous uptrend path remaining the best performer in 2021 with a **24% increase**. Given the scarcity of material and dominant positon on the physical market, tin was able to maintain high price levels and despite an initial fall early in the month, backwardation kicked back to four figures in no time. "*The consensus is that global tin production will bounce back after a year of COVID-19 disruption, but it's evidently going to take quite some time to refill a depleted supply chain with shipping constraints a continuing complication. **This super-squeeze looks set to continue. It's a major wake-up call for tin producers**. Tin is already set to be a major beneficiary of what is dubbed the fourth industrial revolution. It is also undergoing a period of intense research and development, translating into a lengthening list of potential new uses for the bronze age metal. Yet historical investment in new tin mines has been patchy at best. The biggest increase in mined supply over the last decade was an unpredicted tin boom in Myanmar, where output appears to have already peaked. Events this year clearly demonstrate what happens when the supply chain is caught out by the strength of demand. There's a bigger challenge coming*" (Reuters)