

Monthly Report – May 2020



Welcome again to the third edition of this Covid-age metal commentary. The virus is still out there but as spring nears towards summer, we hope that **May** will pass the positive spirit on to the next month.

*Deprived of root, and branch, and rind,
Yet flowers I bear of every kind:
And such is my prolific power,
They bloom in less than half an hour;*

Probably the above poem “A Maypole” by Jonathan Swift is a bit too optimistic and time efficient, but indeed the trend in base metals was another positive strike from the March lows:



The Reuters-Jefferies CRB Index showed also a positive resurgence but far away from full recovery (oil, a key component of the commodity basket, is still showing WTI at -42% from the beginning of 2020).

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In a broader scenario, the focus on the sole recovery pace is a wild fire, as pointed in past editions of the commentary we have to envision a future where the old rules and settings might not be reality anymore.

There are already signs of deterioration of the European industrial performance in some price sensitive metals as aluminium, lead, steel and zinc. For different reasons a few smelters and producers have not survived the Covid market conditions and the continent's dream of circular and sustainable economy might be at risk.

Andy Home of Thomson Reuters describes brilliantly the sick market dynamics of these times:

“Back in 2008-2009 the global financial crisis accelerated the hollowing out of Europe's industrial metals production capacity.

What Europe lost, China gained. Beijing's massive infrastructure splurge fed the country's booming metals demand over the early years of the last decade. That in turn accelerated China's own strategy of building out its own smelter network.

China was once the world's largest refined metals buyer. Now, it is now the world's largest buyer of metal raw materials to feed its massive production capacity.

Some of China's metals capacity now feeds the rest of the world in semi-manufactured form such as aluminium sheet or as finished products such as lead-acid batteries and air-conditioning units.

COVID-19 has generated just the same toxic combination of weak demand and low prices that hurt European producers ten years ago. A similar outcome this time around would blow a big hole in Europe's green and clean industrial revolution before it even starts. "As world regions begin their recovery from COVID-19 at different speeds, there is a real risk that Europe's import reliance further increases," according to European metals group Eurometaux, writing in an open May 14 letter to the European Commission.

"Recovering economies like China will have a strong rationale to oversupply global markets or engage in strategic stockpiling while their domestic demand remains at low levels," it added. It calls for fair trade conditions, echoing a plank of Europe's new industrial strategy, which stresses the importance of a "rules-based multilateral trading system".

Disputes with China over its aluminium and steel production are long-running and unlikely to be miraculously solved any time soon. Fair trade may have to wait. The more immediate priority for Europe's leaders is how to stop coronavirus wrecking a metals supply chain that is core to the continent's vision of remaining an industrial powerhouse."

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Before starting the metal analysis, here is the metal price performance:

MONTHLY High's And Low's

	HIGH	LOW
COPPER	\$5.464 on 21 ST	\$5.060 on 4 TH
ZINC	\$2.053,5 on 20 TH	\$1.893 on 4 TH
NICKEL	\$12.910 on 21 ST	\$11.800 on 4 TH and 5 TH
TIN	\$15.735 on 21 ST	\$14.820 on 1 ST

Most base metals had their monthly peak in the second half of May after the third consecutive month of recovery from the 2020 Covid driven bottom in March. The pace was good until two factors hit markets hard: Chinese GDP and US-Sino relations on the Hong Kong issue.

The first one was pretty shocking despite the forecasts and outlooks were all but negative at a global level, nevertheless the initial recovery in China pushed prices and progressive industrial reopening across countries fueled optimism. On May 22, China dropped its annual growth target for the first time since the Asian powerhouse started publishing domestic data in 1990.

On the same day *“stock markets and oil also fell as investors feared the prospect of more protests in Hong Kong over tough new security laws and threatened U.S. sanctions”* (Reuters)

The consequence of these tensions was not just diplomatic, the US Dollar Index dropped quickly because of heavy greenback sell off.

The average monthly prices softened the increase because of the more favorable exchange rate and ultimately rose about 3% for all four metals:

	May	April	Difference	Difference
COPPER	4.799,80 €	4.648,00 €	151,80 €	3,3%
ZINC	1.802,30 €	1.743,90 €	58,40 €	3,3%
NICKEL	11.133,50 €	10.821,50 €	312,00 €	2,9%
TIN	14.129,50 €	13.846,60 €	282,90 €	2,0%