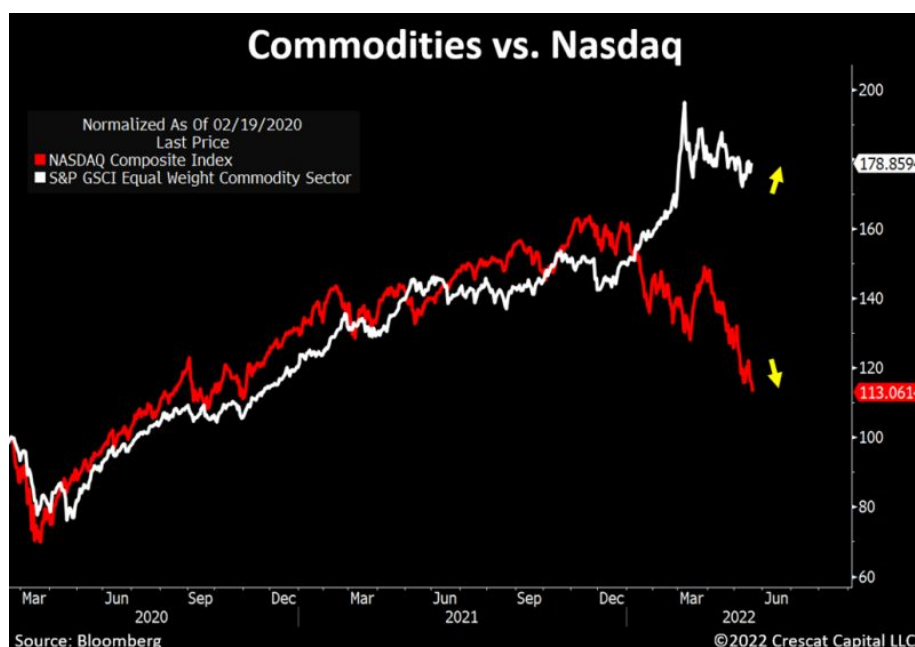


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We witnessed somehow an extreme “Sell in **May** and go away” pattern. The usual investors’ profit taking approach took a sharp turn with base, precious metals and stocks declining heavily while soft commodities (grains, wheat, soybeans etc.) and energy surged although same Ukrainian war scenario but with very distinctive reactions. On top of all this, “the **U.S. dollar rose to multi-year highs** on the 12th as data showed U.S. inflation persistently hot, deepening investor worries about the economic toll of aggressive interest rate hikes to tame it”(Reuters). The safe heaven asset approach to weigh down concerns about the economic outlook and continuing lockdowns in China because of strict Covid policies, fuelled the greenback on top of interest rate FED’s decision. All dollar priced commodities suffered the unfavourable exchange rate but some still taking advantage of the bearish markets and good riddance to rumours of new/old super cycle. Once again, the hard blow to markets showed the frailty of the set up and short term reactions of investors while the medium and long-term outlook do not seem to have changed drastically in the last month.

What distinguishes even more financial markets is the recent divergence of stocks and commodities as per chart below:



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Similarly to NASDAQ, also “the **S&P-500 was approaching bear market territory at one point in late May. What makes this dichotomy interesting is that both markets are looking at the same global economic landscape, but reaching far different conclusions. Equities are heading south on concern about recession risks, elevated inflation and rising interest rates and the impact these will have on stock valuations. Commodity markets are minimizing recession probabilities and see relatively decent demand and strained supply channels as reasons for prices to stay up if not push even higher**” (ED&F Man).

Looking back in history, the performance of commodities find a common narrative to what we are experiencing these days. Likewise increasing inflation during the 70s, metals in particular are a good investment for the future in the fight against purchasing power erosion.

Here is how the fab four did in May:

	HIGH	LOW
COPPER	\$ 9.770 on 5 TH	\$8.938 on 12 TH
ZINC	\$4.065 on 5 TH	\$3.451 on 13 TH
NICKEL	\$32.000 on 3 RD	\$26.050 on 25 TH
TIN	\$40.900 on 3 RD	\$32.100 on 12 TH

Copper registered the second month of price drop after the all-time high in March, sliding **below 9.000\$** which we had not seen in more than 6 months. The average price had a bigger fall with an almost 6% lost from April, **down to 8850€/ton**. Graph wise May was an almost perfect V shaped price move, with its high in the first days of trading, falling through the first half and rebounding as the dollar retraced from its highs on the 12th. The situation changed quite quickly as bearish news started to look less bad, especially in China, with hopes of Shanghai reopening its markets and operations. Alongside this better tone, there was a turn in LME and SHFE inventories, from influx to offset the lack of physical demand to gradual outflow of material from same warehouses (especially in Chinese neighbouring countries). **LME stocks fell more than 6%** to 146.000 tons but looking at the Cash to 3 months spreads move, from 40\$ backwardation to almost 10\$ contango in the second half of the month, this might have been just a move to anticipate future demand rather than real need of cathodes.

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Zinc had a sharp correction in May **losing almost 25%** in a matter of 3 weeks from April's high at 4.540\$ (only outclassed by the "odd" March all time record during the nickel craziness and the 2006 zenith) down to its nadir on the 13th. Despite the hard fall, zinc was quite resilient and made it almost back to 4.000\$ by month end although down 12% to 3.550€ from previous month's average. Despite the negative scenario, zinc's physical markets showed a different picture. LME inventories ended at one third of last year's available ingots in the exchange's warehouses, **down another 12.000 tons** to a new low of 84.000 tons. Production halts due to high energy costs deteriorated the International Lead and Zinc Study Group output numbers and showed an almost 300.000 tons global balance deficit. Premiums for zinc in Europe remained very high and Bilbao is still holding the only lot of LME registered material in the entire European continent.

Nickel was another big loser in May with an over **10% price drop** teaching a hard lesson to all bulls and speculators on the recent squeeze and LME cataclysm in March. Norilsk Nickel was able to continue to export material despite sanctions on Russian companies amongst the Ukrainian invasion, thus feeding the EV battery hungry European market; the company forecasted a **surplus** this year around **40.000 tons** globally this year with more projects and mine capacity from 2023 onwards. On the other hand, China saw a though reduction of nickel consumption because of slowing activity in stainless steel production due to Covid restrictions but the International Nickel Study Group still was robust demand for 2022.

Tin was the worst performer across base metals with its May rock bottom equalling July, August and September 2021's lows. A correction after last year's super performance was came with no surprise but a **16% drop** in a month was not piece of cake and since beginning of the year Tin was down almost 12%. Despite low prices, there has not been lots of buying interest and inventories were quite stable (LME stocks declining but still around 3.000 tons and Shanghai actually moving global numbers to positive inflows). *"Tin's fundamental dynamics are uncertain as a result of disruptions affecting both supply and demand, especially in Asia, which accounts for 70% of global mine production, 80% of refined output and 74% of refined consumption. Between April 8 and May 10, a major port in Myanmar was also closed due to COVID, causing Chinese imports of tin-in concentrates to tumble by 45% between March and April. This in turn impacted domestic Chinese refined production and triggered a surge in refined imports."* (ED&F Man)