

Monthly Report – November 2022



November started to show a gloom winter mood; despite the Fed's change of pace on interests increases, easing Covid restrictions in China and the World Cup in Qatar, the economic indicators are not supporting a longer-term bull sentiment. Even if base metal started the month with a steep push upwards, the latest Thomson Reuter's forecast neglects such optimism, apart 2022 which is almost over, 2023 sound all but promising:

	2022			2023		
	MEDIAN \$ PRICES			MEDIAN \$ PRICES		
	New	July	Diff	New	July	Diff
ALUMINIUM	2.688,00	2.783,90	-3,44%	2.412,50	2.700,00	-10,65%
COPPER	8.689,50	8.873,00	-2,07%	7.588,00	8.525,00	-10,99%
LEAD	2.112,00	2.110,00	0,09%	1.967,00	2.000,00	-1,65%
NICKEL	24.548,40	25.314,00	-3,02%	20.250,00	21.000,00	-3,57%
TIN	31.000,00	32.970,00	-5,98%	21.250,00	29.000,00	-26,72%
ZINC	3.500,00	3.487,50	0,36%	3.086,00	3.200,00	-3,56%

The early November euphoria on stock exchanges and weakening dollar was quickly wiped away in the middle of the month when: ***China's home prices fell the most in seven years in October***, underscoring the depths of the downturn that prompted policy makers to bail out the sector. *New-home prices in 70 cities, excluding state-subsidized housing, slid 0.37% last month from September, a 14th straight decline, National Bureau of Statistics figures showed Wednesday. The existing-home market fared worse, dropping 0.47%, the steepest since 2014. The figures gave a reality check to investors, with Chinese developer shares snapping three days of gains in the wake of authorities' moves to shore up the industry.* (Bloomberg)

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Despite the above and the fact that all European manufacturing PMI numbers were down again below 50 points, the LME index was up more than 12% and our four metals of interest were amongst the best commodities. The overall performance stayed strong even with falling prices in the second fortnight; in a sad but true commentary by Kingdom Futures, November ended: *“as the continuation of **the detachment of the metals markets from reality**. The modest easing of some Covid restrictions in China, after many public protests, is being it seems read as the entire Chinese economy will go back to full throttle almost as if nothing has happened not that the new Caixin number of 46.70 believes that thought and the suggestion of the Fed possibly slowing down the speed of interest rate rises seems also to be being taken as everything will go back to the good times. Somewhere in all this euphoria there is the small matter of Russia and the Ukraine and the possibility that mission creep might take events into other nearby former Soviet satellite states. **The German economy which without question is the biggest driver of the Eurozone is in free fall and inflation in some sectors has hit 20% with much of the rest of Europe seeing equally stark numbers.***

*The world of **metals in Europe is seeing orders by consumers for Q1 fall between 20%-40%** depending on the metal you are looking at and the picture is not too dissimilar around much of the western world. Normally and indeed for many years I and many others would expect to see prices fall as demand falls but not in this brave new world where we literally have multiple billions of dollars of investment money that is , much like cryptocurrencies, is being thrown at the market. **It now seems we are in the game of trying to boost prices in a market where the trade participants are either standing aside or have indeed given up on the futures markets due to this detachment from reality for the year end fund valuations.**”*

In the end here is how our top 4 metals performed in November:

	HIGH	LOW
COPPER	\$ 8.600 on 14 TH	\$7.449 on 1 ST
ZINC	\$3.190 on 15 TH	\$2.653 on 3 RD
NICKEL	\$31.275 on 15 TH	\$22.380 on 1 ST
TIN	\$24.695 on 16 Th	\$17.500 on 3 RD

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“Copper surged as much as 6.5% in the biggest intraday rise since the early days of the pandemic, as hopes for a relaxation in China’s Covid policies and mounting worries about supply helped to fuel a sharp rally in metals and mining stocks. Industrial metals from zinc to nickel and iron ore all soared, with copper leading the charge on the London Metal Exchange on optimism that looser Covid policies will fuel a rebound in Chinese demand, and offset pressures on economic growth arising from restrictive monetary policies in the US and other advanced economies.” (Bloomberg)

The above article pictured the start of the bull race on November 4 when markets had a **knee jerk reaction** to what seemed good news regardless of the macro context. From the rise above 8.000\$ to its nadir there seemed to be no stop but on the 14th, ten trading days later, copper along with its peers started to retread and lost most monthly gains in just a week testing 8.000\$ again.

If the true outlook was not bad enough, Societe Generale gives a bitter comment on the recent price evolution: *“Our China economists do not expect a clear-cut exit signal from the Chinese authorities before next spring. That timeframe would broadly coincide with our expectation for a **mild recession in the US and a strong slowdown in EU** economic activity at that time starting to hit copper demand. In China itself, the **increase in copper demand on reopening should be mitigated by the housing sector’s** long-term decline and little scope for infrastructure capex. Amid a mixed but rather gloomy picture for demand, the main driver of our bearish view is the **large mine supply of 330kt and 570kt in the next two years.**”*

Inventories declined globally by 12.000 tons (LME -18.000, Shanghai +6.000) but more interestingly the Cash to 3 Months moved from a heavy **65\$ backwardation to 43\$ contango** in three weeks and ending November at 12\$ contango. Seems that there is not so much interest from a physical point of view either.

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Zinc was less performing than copper but luckily for European consumers the stronger € sent the average monthly price 5% lower to 2865€/t. *"The fundamentals in zinc are similar to what we are seeing in other metals — stocks are low and continue to decline on both the LME and in Shanghai, with the decline in Shanghai holdings being particularly notable this past month (October NDR) (down by 30,000 tons vs. only 3,400 tons on the LME.) The tight stock picture and ongoing production shutdowns, particularly in Europe and in China (where three Chinese smelters went offline last month on account of environmental restrictions) are keeping premiums high. While this is not good news for consumers, it is at least partially insulating producers from the sharp decline in flat pricing they have experienced since the summer. For the year as a whole, CRU downgraded its 2022 demand forecasts for both Europe and China and now sees 2022 global demand contracting by 3.1% y/y. European zinc demand is expected to have its worst Q4 since 2009, with CRU seeing offtake there off a whopping 19% q/q as several steel mills remain offline due to high energy prices and weak demand."* (Marex)

Similarly to Copper, Zinc Cash to 3 Months spread had a strange move considering the 10.000tons inventory drop. The starting 26\$ backwardation moved quickly to 16\$ contango ending at 12\$ back.

Nickel suffered heavy speculative moves in November (+22%) on the back of CTA buying and strike call options at 40.000\$ and 50.000\$, twice the trading level. All this despite the fact that the London Metal Exchange presented its defense on the cancellation of Nickel contracts in March that would have led to 20 billion USD margin call that would have made the market sink. Waiting on the response from the lawsuits of Elliott Investment Management and Jane Street, the exchange has proven little action on this crazy market. *"Prices jumped 15% on Monday (14 NDR) to their highest since May as funds and traders reversed bets on lower price in an illiquid market ahead of contract settlement on Wednesday, traders said. Benchmark nickel CMNI3 on the London Metal Exchange was up 2.4% at \$27,565 a tonne at 1108 GMT after earlier touching \$30,960 a tonne, the highest since May 5. Low volumes and lack of liquidity have been a feature of LME nickel trading since March, when prices rose to a record above \$100,000 a tonne in disorderly trade on expectations that large short positions holders would have to cut their bets. The LME on March 8 canceled all nickel trades and suspended trading for more than a week. "LME nickel is still a broken market. Volumes are still extremely compared low compared with before the chaos in March," a metal traders said. "The short covering has been going on since last week." Nickel volumes crashed after the March debacle as participants fled an increasingly volatile market. Average daily volumes dropped 40% in September after tumbling 50% and 42% in August and July, respectively."* (Reuters)

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Tin “jumped by nearly 30% in November for its biggest monthly gain since January 1989 and its first advance in nine months. But despite this massive gain, the metal remains the worst metal year-to-date, down 42%. While we were overall constructive on tin in November, we underestimated the upside. Prices moved from an intra-month low of \$17,500/ton on the 3rd – in line with our low – to an intramonth high of \$24,695 per ton on the 16th – well above our high of \$20,600/ton. Prices have seen renewed buying going into the first few days of December as well, with values currently at \$24,450 as of this writing. Refined inventories have tightened and could explain some of the advance, with on-warrant stocks down nearly 1,000 tons or 26% in November for their biggest decline since December 2020. **The front-end of the LME tin curve also remains tight, with the c/3s spread averaging around \$1,000 back over the past month.** That said, LME nearby spreads loosened in the 2nd half of November after China, supply tightness eased, evidenced by a marked increase of 1,700 tons or 72% in SHFE stocks.” (Marex)