

Monthly Report – October 2019



October has been in the last few years a key month hosting the London Metal Exchange week. We witnessed the (may be) final stage of Brexit and saw further progress in the trade talks with President Trump announcing a truce with China, delaying additional tariffs that were due in this period.

“Each year when we go to the LME, we come back with a distinct impression of whether participants are bullish or bearish going into the following year. But this time, we did not get a clear sense as to what people are expecting for 2020, as trade-related and macro uncertainties were cited as variables clouding the outlook. The cloudy view spanned across different roles, from short-term LME dealers who were reluctant to take on large overnight positions ahead of a tweet-storm coming out of Washington, to producers and consumers, who were also reluctant to stake out large investments ahead of possible changes in US trade policy.” (Ed Meir, ED&F Man)

These words sound prophetic as a few days before the end of October the new Reuters Metal Polls were officialised and the forecast for 2020 is all but positive:

	2019			2020		
	New	July	Diff	New	July	Diff
COPPER	5.999,20	6.186,50	-3,03%	6.030,40	6.417,80	-6,04%
NICKEL	14.219,00	12.537,00	13,42%	16.273,20	13.274,40	22,59%
TIN	18.762,00	19.912,10	-5,78%	17.993,50	20.377,80	-11,70%
ZINC	2.526,60	2.632,30	-4,02%	2.303,10	2.494,90	-7,69%

In general terms October has been quiet, actually signaling some improvements amongst metals after the last couple of months with the only exception of Nickel which had a stop after the recent astronomic rise.

On a Year to Date scale there are a few winners in the base metal basket, Tin is on a negative 15% performance, Aluminum -5%, Copper – 1.8%, Zinc looks better at +1.4%, Lead +7.3%, super Nickel +56.8%.

Both LME and Thomson Reuters CBR Index were up from September’s bipolar move and ended at similar levels seen during summer. On a yearly base other commodities look better: WTI Oil +32%, Gold v+13%.

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MONTHLY High's And Low's

	HIGH	LOW
COPPER	\$5.941,5 on 29 TH	\$5.588 on 1 ST
ZINC	\$2.555 on 29 TH	\$2.261,5 on 3 RD
NICKEL	\$17.820 on 7 TH	\$16.790 on 22 ND
TIN	\$17.240 on 17 TH	\$15.950 on 1 ST

Copper rock bottomed **below 5.600\$** on the very first day of the month and was close to this level till the 4th when it started to pick up slowly. The red metal **recovered** in October the poor September performance although it still seems a short term reaction from the everlasting Sino-US trade talks. *“The problem is that **demand is weakening almost as fast as production**. The ICSG, which was forecasting in May a 2% increase in global apparent usage this year, estimates that usage actually fell by 1% in the first half of the year... Apparent usage in China was up by 3% in the first six months of 2019, according to the ICSG. But bank analysts are skeptical. Both JP Morgan and Morgan Stanley are looking for Chinese demand to rise by just 1.5% this year, while Goldman Sachs is anticipating even weaker 0.5% growth. The problems are multiple, ranging from weakness in the automotive sector to lower-than-expected investment in the power grid and the much-discussed gap between new housing starts (positive for steel) and completions (positive for copper) (Reuters). “The **average monthly price** was little short of **5.200€**, unchanged from September and stocks also had a small move with a 1.5% decrease. The fragility of these “speculative” upward move and Andy Home’s doubts in the Reuters’ article above did have their epiphany on the very last trading date when weak economic data from top consumer China made the **price fall over 200\$** and erode most of the monthly gains.*

Zinc had a similar price move as copper with the lowest reached in the early days of October and the **2280\$ resistance** line tested for about a week with an upward jump on the 10th on the back of CTA buying which set the tone for the rest of the month. The ascendant march broke another trend line at **2460\$** and kept going till reaching its zenit not just for October but also the highest mark for 6 months at **2.555\$** having the RSI indicator in the overbought position, the positive mood made the average price surge 5% above 2.200€. On the physical side we have seen quite a lot of action with the usual players moving stocks and a major holder of warrants throughout this period, LME inventories fell to a **new record low at 54.500 tons** (just as quick comparison they were **10 times higher 4 years ago!**) and increasing backwardation. It is not clear yet how the market will evolve, the big question mark is still China, whose *“refined zinc and zinc alloy production increased by 1.5% in September from the previous month to 453,000 tonnes. The September total was also up 21.5% year-on-year and the highest ever for that month, according to a survey of 48 smelters”*. These look like positive factors for a return on the demand side but *“anomaly is the lack of build in visible Shanghai exchange stocks. At 70,172 tonnes they are up 50,000 tonnes from a very low*

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base at the start of January but some way off the year-to-date peak of 124,000 tonnes in March. Which begs the question of where all the metal is going, given zinc demand is not immune to ongoing weakness in China's automotive and manufacturing sectors. The lack of visible stock build may be the reason for the third curiosity, namely China's continued strong imports of refined zinc. These have risen 23% to 449,000 tonnes so far this year, with August's tally of 67,600 tonnes the highest monthly total since April. The largest part of those August imports, 43,000 tonnes, went into bonded warehouses, which might be the very first sign that China's appetite for imported zinc is fading. "(Reuters)

Nickel finally corrected its summer bullish move and went **below 16.000\$** in Mid October, recouping and testing 17.000\$ towards the end of the month. Also on the € side the price slid below 15.500€ from 16.000€ in September but most of the action took place not price wise: "The exchange sent an email to members asking for more details of "significant client activity" in nickel warrants since Sept. 1. The LME also asked members to identify the client and business reason for the transactions, as well as steps taken to "ensure that the client's activity is not conducive to an abusive squeeze or other pattern of market abuse/disorderly market conduct. (Bloomberg)" The Indonesian ban won't cool off and with that the Nickel fever is sending panicking signals: LME stocks have halved in October since September to 66.000 tons (haven't been so low since November 2011) sending the backwardation to 214\$ at the beginning of the month with the spread moving quickly and collapsing when it dropped below 100\$.

"China's refined **Tin** output in January-September dropped 9.5% year-on-year to 116,450 tonnes and is seen falling further until November, an International Tin Association (ITA) said. "Due to the continuous decline in tin ore imports from Myanmar and a reduction in domestic mine production, domestic refined tin production continues to fall," said Cui Lin, chief China representative for ITA late on Thursday. China's refined tin production in September was about 126,000 tonnes, down 0.8% month-on-month and down 17.6% year-on-year, according to ITA's latest survey, with September being the third straight month that output has declined, Cui told Reuters. China's output is likely to drop further in October and November and tighten domestic supply again, following some production shutdown at top refined tin producer Yunnan" (Reuters)