

Monthly Report – October 2021



Was it Blue Origin's return from its space journey? Was it a pre-Halloween ecstasy? Whatever the cause was, raw materials were blown away by exceptional trading activity in **October**. Old fears of shortages, revamping of production after Covid and rising energy prices played an expensive trick-or-treat.

These factors just faded with the new market frenzy with good riddance of the Evergrande scandal and new pandemic wave fears. It took, again, a draconian decision by **Chinese** authorities to impose **extreme measures** and slow down the bulls, on the 20th the National Development and Reform Commission stepped in to reassure markets and outline a various measures to cool off record energy prices (and speculators). Coal fell sharply and energy hungry metals declined consequently as *"cheaper coal prices and its increasing supply could help ease China's factory gate inflation, which hit record highs in September on the back of a **power crunch** and **soaring commodity prices**, hurting profits of many mid- and downstream factories"* (Reuters).

WTI was on its highs above over 80\$ per barrel by the end of the month with the CRB index surging almost 8% and the LME Index up by 14%. Nevertheless, the latest Thomson Reuters forecast still sees a **rise of metal prices for the rest of 2021 and 2022** form the previous estimate. The flipside is a slowdown from past and current prices probably indicating calmer markets after the recent record highs, also the physical balance sees in many cases a correction of the supply/demand deficit if not a return to surplus.

	2021			2022		
	MEDIAN \$ PRICES			MEDIAN \$ PRICES		
	New	July	Diff	New	July	Diff
ALUMINIUM	2.484,50	2.133,80	16,44%	2.695,00	2.015,00	33,75%
COPPER	9.184,10	8.650,00	6,17%	9.000,00	8.283,70	8,65%
LEAD	2.196,30	1.987,00	10,53%	2.124,00	1.975,00	7,54%
NICKEL	18.156,00	16.904,00	7,41%	18.375,00	16.904,00	8,70%
TIN	30.492,80	24.812,50	22,89%	30.580,00	24.812,50	23,24%
ZINC	2.886,70	2.733,00	5,62%	2.764,00	2.733,00	1,13%

Monthly Report – October 2021



What rose more interest in October however, where not prices per se, but the **Cash to 3 Months spreads**. Our four metals of interest all saw an explosion of the backwardation to all times record like copper; the usual spreads range between 30\$ contango to rare backwardation over 50\$ (a handful of trading weeks in the last 10 years). On the 18th, the backwardation was over **1.100\$!** The London Metal Exchange eventually took action: *“The exchange said members and their clients were prohibited from placing orders in tom-next contracts for copper on any LME Execution Venue at a price in excess of 0.5% of the previous day's cash price. Additionally, members holding short positions in copper unable to fulfil their delivery obligations or to borrow metal at a backwardation of no more than 0.5% of the previous day's cash price, may have their delivery deferred by the Exchange, aided by LME instructions. **These measures are to ensure market orderliness and continued liquidity**”* (Reuters).

Back to prices, here is how our favourite four performed in October:

	HIGH	LOW
COPPER	\$ 10.452,5 on 18 TH	\$8.876,5 on 1 ST
ZINC	\$3.944 on 15 TH	\$2.974,5 on 1 ST
NICKEL	\$21.425 on 21 ST	\$17.705 on 1 ST
TIN	\$38.800 on 19 TH	\$33.200 on 1 ST

Copper registered again the same graph move as in August and September; the price grew during the first fortnight while dropping after the 3rd Wednesday prompt. The **rise above 10.000\$** was quite a shock though and the correction was almost equivalently quick **trading back to 9.500\$**. The average monthly price rose to 8429€/t and was up more than 6% from September. Once again, the interesting point on copper were **spreads and stocks**, backwardation exploded on the back of some unclear inventory moves involving cathode warrants (material earmarked for prompt release). *“**Trafigura Group** was behind a significant proportion of the **orders to withdraw copper from London Metal Exchange warehouses** that have helped trigger wild swings in prices, according to people familiar with the matter. The drawdown has made the trading house the talk of the copper market, helping to **drive available stocks to the lowest since 1974** and pushing a key spread to the highest on record. It's also helped to spur outright copper prices higher, with benchmark futures up about 13% since the start of the month and approaching record highs set in May”* (Bloomberg).

Monthly Report – October 2021



Reuter's comments on China's appetite for the red metal add doubts about the solidness of October's price peak: *"It's worth noting that imports of copper ores and concentrates were 1.797 million tonnes in October, down from September's 2.11 million tonnes, **a reflection of lower demand from refiners amid the power supply crunch**. The soft outcomes for copper and iron ore also reflect a loss of momentum in China's key factory sector, with the manufacturing **Purchasing Managers' Index dropping to 49.2** in October, spending a second month below the key 50 level that separates expansion from contraction"*

Zinc had the biggest increase among its other metal peers, although it started modestly testing the 3.000\$ resistance, **in just a week of trading it rose almost 30%** reaching the **14 year high of 3.944\$** and retreating for the rest of October. The monthly gains were over 12% with the average price breaking the 2.900€ mark. The kick off for the price surge was the latest press release by **Nyrstar**, a major European zinc smelter, which **cut output in different locations by 50%** of its capacity because of increasing power prices after similar short-term actions in September. This happened before the intervention of Chinese authorities to curb coal and energy prices but rumours had already won over hard facts, even the news of Glencore's zinc production halt later in October did not generate any panic. Zinc inventories showed a bit of craziness, Comex is unchanged since beginning of the year, Shanghai warehouses added some tonnages while LME locations dropped to a new yearly low **below 187.000 tons** but adding 14.000 tons in just a couple of days. *"The ILZSG now expects the global market to post a **surplus of 217,000 tons in 2021 and a smaller surplus of 44,000 tons in 2022**. Global refined production is forecast to grow by 2.5% this year and 2.3% next. Global refined usage is expected to grow by 6.2% in 2021 and by 2.3% in 2022. The recent Reuters poll has zinc in a 75,000 ton surplus in 2022 (ED&F Man).*

Nickel registered a steep increase, like its companions the start was off its monthly low on the first day of trading but surged 3.500\$ to its **zenith** on the 21st just short of **21.500\$**. There were a couple of hefty uptrends towards this record high, which was last seen as a quick spark in 2014 and 2012. The power crunch was again behind these rises, both Far East and European producers announced measure to cut output while demand is still very strong for Electric Vehicles and batteries. The price gained momentum on worsening supply outlook because of Vale's Brazilian stoppage at its Onca Puma mine and furtherly to a potential Indonesia tax increase on its exports while LME inventories dropped almost 8%.



*“Supply, however, is expected to surge next year from top producer Indonesia. The global nickel market is forecast to flip from a **62,000-tonne deficit in 2021 to a 78,000-tonne surplus next year.** “We expect Indonesian supply growth to be a key price dampener in 2022, while any further export restrictions from the country could be an upside risk,” said Soni Kumari at ANZ in India” (Reuters).*

Tin strangely was not the best performer this month although close to double digit increase from September, but still playing in a different league with its over **50% increase from the beginning of 2021.** Starting from 33.000\$, tin has **gained 2.000\$ a week** until its (again) all times high just short of **39.000\$.** The metal is still in a squeeze between surging appetite, especially for chips and semiconductors, and lacking material. The International Tin Association forecasted a **7% increase of global demand** while production halts make material less and less available, LME inventories declined to their lowest ever, even less than 2019, and running at 50% from September. Although output shall improve in the coming year, Reuters’ polls forecasted yet another physical deficit of 2.000 tons.