Monthly Report – October 2022

KME

October is by tradition a crucial deadline for base metals as the **145 years old London Metal Exchange hosts its annual main event**. It is the privileged location for industry, traders, mining companies and investors to meet and discuss, among others, contracts for the coming year and business in general; KME has also participated being an historic guest and Category 5 member of the Exchange.

As a personal feeling, in this year's happening it was more the lack rather than the presence of people and positive sentiment that distinguished the LME Week. In a post-pandemic world, the **absence of the Chinese community** showed the rigidity but also the evident limits of the Zero-Covid strategy. I remember the 2012 edition with half of all guests in the Great Room's venue being of Han ethnicity, where Hong Kong Exchange CEO Chris Li addressed the crowd with a first time ever speech both in English and Chinese, celebrating a new era for the LME recently bought for a an astronomic 1,4 billion pounds (2,2 billion US$).

The other elephant in the room was the Ukraine-Russian war. Producers such as Aurubis, Hydro and Alcoa have openly supported a **ban on Russian material**, Glencore and other traders holding big order books with such origin are against it. LME's CEO Matt Chamberlain approach of a market driven decision for such topic was rather diplomatic although a political rather than an Exchange driven action would be more resolute.

Rising energy cost have moved production of Aluminium from closer shores to Middle and Far East, while Eu premiums are higher than ever we hope that Zinc does not follow that route and European smelters and the industry in general will keep its footprint domestically.
Below the October metals performance:

	HIGH	LOW
COPPER	$ 7.879 on 13TH	$7.324,65 on 11TH
ZINC	$3.193 on 6TH	$2.657 on 31ST
NICKEL	$23.200 on 6TH	$21.015 on 3RD
TIN	$20.500 on 4Th	$17.350 on 31ST

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Copper reflected the non-brilliant LME mood with a 1% loss in October on the back of gossip more than real facts. The situation remains mixed with supply constrains counterbalanced by low demand across the various corners of the world. Data from AMT and CRU show that **production forecast for the end of 2022 is slowing, compared to last year, by 2% while consumption is down by 4%**. Blockades in Peru and Canada might cast a shadow on future availability and potential new taxes in Chile likewise would push prices higher. Lowering stocks in LME and Comex warehouses (-29.000 and -8.000 tons form September) would evenly follow such narrative, when you add Chinese numbers the scenario changes completely. Shanghai inventories rose by 33.000 tons confirming that the bearish trend is still strongly influenced by recent propriety market collapse and Maike crisis. "*Q3 GDP rose by 3.9% y-oy, above the 3.4% consensus, but the Sunday release of this report -- deliberately delayed until after the conclusion of the Communist Party conference -- failed to impress. **Markets in China and Hong Kong both fell sharply the next day**, with Hong Kong experiencing its largest one-day decline (6%) since 2008. Investors were rightly concerned by the **lack of pro-growth policies** coming out of the Communist Party Congress given that many of the reformists were sidelined (including Mr. Xi's predecessor who was literally escorted out of the proceedings on live television).*" (ED&F Man)

Zinc had a good start but suffered in the end. The early month price increase was on the back of further supply constrains connected to the Ukraine-Russia war, Glencore announced another **smelting facility shut down in Germany** after the halt of Italian operations due to increasing energy costs. The second factor that shot zinc up to its October's zenith was the **limitation of Russian material** to be delivered into LME locations. *"The exchange won't accept any deliveries of UMMC's "CZP SHG" zinc brand unless it was sold before Sept. 26, when the British government announced sanctions, or unless the owner can prove that UMMC has "no right of ownership and/or other economic interests in respect of the metal"… This comes in response to an extension of **British sanctions on Iskander Makhmudov**, thought to be the ultimate owner of Russian zinc and copper producer UMMC, albeit one obscured by a series of holding companies… There is no Russian zinc in the LME's warehouse system at the moment and exports have almost dried up since a fire at the Chelyabinsk smelter in 2018. The plant was permanently closed with UMMC planning to shift production to other smelters in the Urals. However, Russian exports of unwrought zinc have slid from over 40,000 tonnes in 2017 and 2018 to just 622 tonnes in 2021, according to the International Trade Center."* (Reuters)

So why this 18 month drop by the end of the month? **Demand is sluggish globally**, mainly driven by Chinese weak appetite. Both the steel and the property market were disappointing on the accrued numbers as well as forecasted consumption and supply demand ratio. Despite Cash to 3 Months spreads pinballing along the course of the month, stocks of zinc reflect the same dynamics as copper. LME and COMEX inventories fell again and neared recent historic lows while Shanghai numbers increased, leaving the total tonnage unchanged.

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Nickel showed some gains in October and buoyed the freefall of late September trading session, prices **ranged in a 1.000$ channel between 21.500$ and 22.500$** for most of the month. The Chinese stainless steel production and demand drop combined with increasing mine production in Indonesia were counterbalanced by potential supply concerns: *"The **potential ban on Russian nickel** from LME warehouses more than offset the above drivers. Some nickel consumers are refusing to take nickel from Russia, according to Glencore's head of nickel marketing, speaking at a Financial Times mining conference. The risk for the LME would be that its warehouses fill up with unwanted Russian nickel, creating a disconnect between the LME price and what should be a global market benchmark reflecting global supply/demand. If a ban is implemented, it **would significantly reduce the amount of supply deemed 'LME deliverable'**, as Russia accounted for 10% of global refined nickel exports last year. Another driver that may have helped nickel prices to hold up despite tightening supply and lower demand was brokers being cautious on handling short positions from the world's top nickel producer – this was behind the short squeeze on the LME market in March."* (Societe Generale)

Tin had another very bad month and was the worst performer amongst base metals. The double digit price drop sent Tin towards a **two year low and away from the 20.000$ area**. Poor demand and combined rising inventories drove prices lower sending the **Cash to 3 Months spreads into contango,** which we had not seen in quite some time. **"***But the real problem for tin is demand, mostly reflected in **declining global semiconductor sales** where tin solder demand accounts for up to 50% of total tin demand. According to the latest numbers from the Semiconductor Industry Association, chip sales amounted to $47 billion in September, down 0.5% month on month (a fourth consecutive month of decline). Sales are also down 2.7% year-on-year. Chip companies are all revising their sales numbers lower going forward, something that does not bode well for tin consumption—or prices. Upon further reflection, the slump in chip demand makes some sense in that people have been working from home for more than two years now (at least most of the time) and so have already doubled (or even tripled) up on all the phones and computers they need. As a result, **the current tech cycle needs to age somewhat before people start upgrading their equipment**."* (ED&F Man)