Monthly Report – October 2020

KME

We started last commentary with the shocking news of President Trump's Covid contagion, well he definitely recovered but the election result will be much harder to get over.

Focusing on **October**, we can appreciate a positive outlook on metals with the latest Reuters Metal Polls for 2020 and 2021 showing a solid encouraging sentiment. The previous one, officialised in July, was inhomogeneous across the different base metals and from year to year, this one shows an overall bullish forecast.

	2020 **MEDIAN $ PRICES**			2021 **MEDIAN $ PRICES**		
	New	July	**Diff**	New	July	**Diff**
ALUMINIUM	1.666,00	1.599,80	**3,97%**	1.775,00	1.700,00	**4,23%**
COPPER	6.043,00	5.709,90	**5,51%**	6.800,00	6.228,00	**8,41%**
LEAD	1.817,00	1.763,70	**2,93%**	1.900,00	1.875,00	**1,32%**
NICKEL	13.514,20	12.727,50	**5,82%**	15.156,50	14.200,00	**6,31%**
TIN	16.874,50	16.185,00	**4,09%**	18.400,00	18.250,00	**0,82%**
ZINC	2.204,60	2.041,00	**7,42%**	2.350,00	2.100,00	**10,64%**

All metals woke up on the wrong side of the bed though, starting the month on the unpleasant news of the President's health issues. As time went by the situation stabilized metals regained strength, then in the last days of trading and approaching the campaign's deadline prices slid, see performance below:

	HIGH	LOW
COPPER	\$ 7.034 on 21^{ST}	\$6.269 on 2^{ND}
ZINC	\$2.596,5 on 23^{RD}	\$2.282 on 2^{ND}
NICKEL	\$16.310 on 28^{TH}	\$14.045 on 2^{ND}
TIN	\$18.875 on 20^{TH}	\$17.155 on 2^{ND}

The US election might shuffle things in the future given the very different approach in political economy between Trump and Biden on infrastructure, renewable energy and commodities in general. The US Dollar on the contrary had a choppy move bottoming in the third week and rallying towards the end of October, Equity markets and Oil moved in a reverse U graph. The positive sentiment on metals was confirmed by the LME Index topping September's performance and reaching its highest since H1 2018; the Reuters/Jefferies CRB Index on the other ended lower from its starting point give the more diverse mix of commodities in the basket. Another key factor for the new congress will be the future US Sino relations that steered global markets in the past with severe hiccups.

Copper was a good example of the LME index performance described above, the red metal continued its positive strike and **topped the mid-2018 price** average levels buoying the early October nadir and climbing up the price graph with a **rush above the 7.000$** mark on the 21st. The average monthly price was basically unchanged from September give the choppy €/$ rate and stood little short of 5.700€/ton.
On the physical side, much action was seen on the back of miners-union relations and Covid driven production halts. South America suffered the most as the continent's ore rich but poor labour countries are still hurt by Corona virus and lacking containment measures. "*Output at BHP's Escondida, the world's biggest copper mine, fell 8.6% to 92,200 tons, the lowest since April 2019 * Production at Collahuasi and Los Pelambres both rose slightly in August from July, helping lift Chile's country-wide output to 481,700 tons from 462,000 in July*". (Bloomberg)

Shifting to the Far East, China is setting once more the pace for the coming years with two important milestones: **5-year plan** and the **international copper contract on Chinese exchange**.

Rumours had Chinese authorities to stockpile huge amounts of commodities, copper being one of the most important along with oil, as growth expectations are still high and the Asian powerhouse seems to have emerged from the Covid related GDP plunge heading to conclude the year on a positive note. **The country imports 80% of its annual copper consumption** (estimated 13 million tons) and **consumes 50% of global refined copper production**; such strategy is not new and has been used to either secure fundamental commodities or profiting from low prices but *"China's stockpiler is behaving differently this year (*to avoid potential disruptions? ED) *. Copper prices had recovered by May, but from the import data, it looks as if the state has been buying into September," said Macquarie metals strategist Vivienne Lloyd.* (Reuters)

"Next month's launch of an international copper contract in China comes at an opportune moment, as the world's largest importer and consumer of the industrial metal shows once again just how much it dominates the market discourse. While a China copper contract is already traded on the Shanghai Futures Exchange (ShFE), ***the new derivative will be open to trade by foreigners and should offer a much easier path to get exposure to China's copper market****."* (Reuters)

Zinc has been very resilient in October considering that the September unsteady performance led to a rock bottom below 2.300$ right at the beginning of the month. The pace to recovery was steady and the last fortnight saw the price surge to almost **2.600$ with an over 13% increase.** Looking at the other currency the price stood still with a monthly average at 2.070€, for FX reason described earlier, also stock wise the situation is rather calm with LME inventories around **220.000 tons for the third consecutive month**, more than twice the amount in spring-early summer and seemingly out of the physical squeeze registered in the last couple of years. Confirming the positive trend Reuters reported other bullish news as: *"China's refined zinc production rose 4.2% year-on-year in September to 471,000 tonnes"* while according to the International Lead and Zinc Study Group *"global demand for refined zinc forecast to fall by 5.3% to 12.98 mt in 2020 and to rise by 4.2% to 13.52 mt in 2021"* and *"Global refined zinc production forecast to increase by 0.9% to 13.60 mt in 2020.*

Monthly Report – October 2020

Looking at the **Nickel** price graph there was a "V" move in September-October with the rock bottom exactly on the 2nd of October being the turning point from the descendant into the incremental channel and showing a 16% growth with the price soaring to an **11-month high above 16.000$.** The surge is even more evident as the average monthly price increased by more than 2%, above 12.900€, being the best performer amongst the base metals in our commentary. The physical demand is behind this increase and seems here to stay; the Reuters Forecast is higher for 2021 than 2020 and seems confirmed by consistent future appetite and narrowing production surplus. "*Global demand for nickel is expected at 2.52 million tonnes in 2021 from 2.32 million tonnes this year, the International Nickel Study Group (INSG) said last week. It said that expectations are for an 117,000 tonne surplus this year and a surplus of 68,000 tonnes next year*" (International Nickel Study Group). The sentiment got carried away when the news of production halts hit in late October and Electric Vehicle demand does not fade, boosting further sunny outlook on Nickel, running now on a more than 50% price increase since its plunge in March.

Tin had similarly to Nickel a very good October, reaching its 16-month zenith and testing for almost a week of trading the **18.700$** resistance. Again strong demand and low supply got the price going; the metal is a top shelf material for advanced technological products, from EV vehicle to robotics, renewable energy and the latest 5G infrastructure as well. *"China has been the world's largest producer and consumer of tin for some years. If lack of domestic resource is a key determinant of a metal's criticality, the country doesn't appear to have a problem. But China has grown heavily reliant on imports of raw material from the tin mines in the Wa area of Myanmar. Imports peaked at over 470,000 tonnes bulk weight in 2016 but have been trending ever lower since amid speculation that easily accessible reserves are being exhausted.*

This year has brought another sharp decline, due first to COVID-19 restrictions at the China-Myanmar border and more recently, the ITA says, to severe flooding at some of the mines. That in turn has caused the world's largest producer to turn net importer of refined tin so far this year." (Reuters)