

Monthly Report – September 2020



If you were a fan of astronomy, you would have found an undeniable correlation in equinoxes and the trend in major markets in the last 6 months started with the financial tumble after the Covid outbreak in late March. The end of the rising sunlight phase coincided with the termination in base metals' super cycle, which lost ground in the last ten days of **September**.



The LME Index (in the graph above) was seen last at this level in Q1 2019, only the Reuters/Jefferies CRB Index did better with an over 50% increase but we shall keep in mind that it has been affected by way bigger plunges and still far away from recent highs.

The punctuality of the Base Metals' peak end is even clearer looking at the right column's numbers below:

	HIGH	LOW
COPPER	\$ 6.877,5 on 21 ST	\$6.449 on 24 TH
ZINC	\$2.583 on 1 ST	\$2.354 on 24 TH
NICKEL	\$15.810 on 3 RD	\$14.125 on 24 TH
TIN	\$18.510 on 3 RD	\$16.960 on 25 TH

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In discontinuity with the August commentary, the US Dollar Index rebounded from its 2 yearlong record low and early in September *“was set for its biggest weekly rise in nearly four months, but analysts expect its downtrend”* *“The dollar <file://localhost/reuters/::REALTIME:Verb=FullQuote:ric=.DXY> extended overnight gains and the euro fell, making greenback-traded metals more expensive for buyers using other currencies. “The failure of the dollar to weaken further yesterday **after it hit 1.20 against the euro**, that's just helped take some of the sting out of the rally,” said Ole Hansen, head of commodity strategy at Saxo Bank in Copenhagen.”* (Reuters, Sep 2nd, 3rd)

On the contrary, as a continuation from August, China remains solid being *“**the only country in the G20 to see growth this year, with an increase of 1.8% expected** (as per the OECD). Chinese domestic air travel has now recovered to about 75% of its former capacity and that airline bookings for last week's October break were pretty much sold out. The latest September numbers shows **Chinese industrial output accelerating** by its fastest clip in eight months in August (+5.6% y-o-y), while retail sales grew for the first time this year (+.5% y-o-y). Separately, Chinese banks pushed out nearly \$190 billion of new funds in August, up 29% from July level, as corporate profits continued to improve. China's manufacturing PMI for September came in at 51.5 (previous 51.0 expected 51.4), the seventh straight month of growth and the strongest since March.”* (ED&F Man)

It sounds like it was all fun and games so why did it end? Always looking on the bright side of life had a tragicomic effect like in a Monty Python movie; when signs of slowing demand in China arose and the loss of momentum led to a sell off, suddenly everybody saw again the Covid elephant in the room. President Trump's contagion at the beginning of October was just the icing on the cake for the knock on effect across markets.

Copper ended basically unchanged from the beginning of September, crawling its way to new monthly highs and **going from peak to bottom in a matter of a few days**. Despite a weak start when *“prices pulled back on Wednesday (3rd ED) from a two-year peak after disappointing U.S. payrolls numbers raised doubts about economic recovery and as the dollar firmed”* (Reuters). Despite a weak start, the price ascended along the uptrend channel started in March, adjusting its course **between the 6.600\$ and 6.800\$** range until its zenith and quick nadir as per the price table above. The average monthly price ended just short of 5.700€ with a +3.5% increase from August but the most interesting move was once again the physical market with huge **cathodes traffic in LME location** preceded by **heavy spread action** exactly during the same period of price highs and lows. The perfect storm did not happen accidentally; we had already signalled in the past issues of this commentary the unprecedented low inventories incrementing new records during the summer. Rumor has it that the usual “cathodes big guns” were holding large warranted material, when the concentration grew to dominant position chunks they were forced to free cathodes. A few trading days before such stock increase (Bilbao almost tripled inventories, Rotterdam almost five folded) those players started to shift their hedges on the LME and the cash to 3 months **spread moved from 40\$ backwardation to 12\$ contango!**

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Zinc has been a strange cat in September with wobbly price moves strongly influenced by industrial news. Fundamentals were key in its performance started from almost 2.600\$ on the 1st and **degrading twice below 2.500\$**, once in the first week and then recouping in the middle on the month, tumbling a second time towards the end. The **rock bottom at 2.350\$** was a hard hit, difficult to shake off even if the price showed a bit of resilience. The opening bad news was due to production increase as *“China's August refined zinc output rose 2.8% to 450,000 tonnes from last year, , hitting a record monthly high in nearly five years as smelters boosted production. Zinc output increased by 19,000 tonnes last month compared with the revised July data, sending production for the January-August period to 3.37 million tonnes, up 2.1% from same period in 2019”* (Reuters). Demand picked up and the yuan strengthened in mid-September stimulating Chinese buying, stocks moved along this trend, both Shanghai and LME inventories declined despite increasing inventories in western locations all summer long (the final LME tonnages were 3.5% lower than august) . Zinc was hit once more when the International Lead and Zinc Study Group officialised the market surplus increasing to 12,200 tonnes in July from a revised surplus of 11,700 tonnes. *“During the first seven months of the year, the global surplus was 265,000 tonnes compared to a deficit of 141,000 tonnes in the same period last year.”*

Nickel can be best described by the lyrics of the Jimmy Cliff success: *The harder they come, the harder they'll fall*. The record 11% rise in August was followed by an over 5% fall in September, the uptrend multi month channel was broken on the 8th at **15.000\$**, despite the effort to climb back, the path to the bottom was almost unstoppable. Just in the last trading week the price surged once more to the 14.500\$ area. The outlook on nickel composition is actually still good with Electric Vehicle sales being the only positive driver in the automobile industry but apparently **not enough to boost nickel demand**: *“In the first seven months of the year, nickel posted a surplus of 91,200 tons, compared with a deficit of 35,400 tons in the same period last year.”* (Reuters)

Tin had already posted a loss in August so the 2% price decrease was not a shock. The trend was actually not too bad considering that it halted the 18.000 support line for three weeks straight. The global fall in metals triggered tin as well, on the 23rd it broke on the downside both the 20 and 50 days Moving Average, the 100 days MA was reached on the 25th bottoming below 17.000\$ and trying to buoy losses towards month end.