

## Monthly Report – May 2019



Our previous commentary started off quite pessimistic as we took into consideration the beginning of **May**, that note throughout the month did not sweeten but got from bad to worse. The LME Index was down almost 200 points and dangerously close to the end of last year's low, the Reuters Jeffries CRB Index was less impacted but just on safe heaven gold skyrocketing towards the end of the month. From a Trump perspective it was all fine at the beginning with the Dow Jones on its highs like in April but soon reality had to be faced and the index collapsed along with SP500 (both lost more than 6%), so it was soon time for another round of tariff threats, this time against Mexico, before flying out to the UK to stir up another fragile equilibrium.

### MONTHLY High's And Low's

	HIGH	LOW
COPPER	\$6.443 on 1 <sup>ST</sup>	\$5.804,35 on 31 <sup>TH</sup>
ZINC	\$2.845,5 on 1 <sup>ST</sup>	\$2.504,50 on 23 <sup>RD</sup>
NICKEL	\$12.495 on 24 <sup>TH</sup>	\$11.725 on 13 <sup>TH</sup>
TIN	\$19.845 on 1 <sup>ST</sup>	\$18.585 on 25 <sup>TH</sup>

**Copper** was one of the metals most hit by negative sentiment losing almost 10% in May, the long strike since the FED's comments on the 1<sup>st</sup> continued towards an almost new low of the year. The price graph showed a couple of rebounds in the historic resistance levels at **6.200\$ and 6.000\$** but could not resist another hit on the 31<sup>st</sup> when disappointing Chinese PMI dropped to 49.4 and copper fell **below 5.850\$** while the average monthly price dropped 6% since April just short of 5.400€/t. Macroeconomic data were actually supportive but the move seemed purely "speculative" as the Relative Strength Index was running most of the month around (and sometimes below) 30 showing that there was an oversold market. From a fundamental point of view the tendency should be actually opposite, LME warehouses had another fall in inventories to 211.800 tons or 6% less than the previous month. Although the data is questionable another source of supply constraints came from recent strikes in South America with mines halting production on wages negotiations and the International Copper Study Group still having a negative outlook on the physical market in 2019 with an increasing supply deficit of 190.000 tons.

**Zinc** was hit hard with the high and low (see above) registering a 12% slide from the first to the last trading day of May and the average monthly price dropping 6% to 2.460€/ton. *"Zinc is sinking again with shorter-term funds attacking a deteriorating technical picture in London and bears seemingly massing in Shanghai."* (Reuters) We have long commented how the metal has been of strong financial interest in the past years but this drop has a similarity with last June's price dive when the sell off also was speculative driven. The fundamental data shall be a bit more supportive although the International Lead and Zinc Study Group forecasted the demand for refined zinc metal to rise modestly in 2019 after the long lasting phantom of market deficit. The issue lies in the cash to 3 months differential with the **backwardation** hitting a new record of **161\$** towards the end of May as the inventory rise of the first two weeks faded. LME volumes rose in the first half and helped stock to rise 15.000 tons month on month but new outflows and a likely very short futures market made the carry of the nearby position more and more expensive.

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**Nickel** had an interesting month and yet another funny move on the Cash to 3 Months spread. *“(Bloomberg) -- The nickel market is starting to feel the pinch of a four-year drop in London Metal Exchange stockpiles, with spreads jumping as traders pay a premium to secure dwindling supplies. The inventories serve as a last-resort supply for physical traders and a backstop for investors and industrial hedgers who need to close out expiring short positions. So when stockpiles run low, buyers are often forced to pay steeper premiums to encourage metal owners holding long positions to sell. That’s what has been happening on the LME in recent weeks, with the June contract’s discount to July futures flipping to a premium of as much as **\$50 a ton**. The move highlights the increasingly tight supply on the bourse as freely available inventories sit near their lowest in almost seven years. The drop in inventories on the LME and the Shanghai Futures Exchange as well is helping underpin bullish sentiment, with **prices up 12% this year to \$11,960 a ton**. “For all the stock that has come off the exchange, a lot of it is now just being stored off-warrant,” Oliver Nugent, a metals strategist at Citigroup Inc., said by phone from London. “We started the year fairly conservative on nickel, because we thought the deficit wasn’t as big as it looked. On our numbers, it looked like more metal had been shifted off-warrant than the market thought.” Tighter spreads can be a problem for those holding metal privately too, as they’re exposed to losses when looking to roll forward short hedges against inventories. Buying back positions can then push spot contracts into even steeper backwardation. “This kind of short-term volatility is something the nickel market should probably get used to,” Nugent said.*

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If you had not enough backwardation thoughts you’ll love **Tin** in May. The price continued its spring downtrend and drifted to a 6 month low. The trade tensions played a big role but fundamentals had their share too: Indonesia’s refined tin exports in April rose 43% year-on-year and LME inventories tripled to a new multi year high of 3.185 tons.

*“Cash tin contracts trade at a **\$340-a-ton** premium to three-month futures on the London Metal Exchange, the biggest spread since September 2015. The spread has been rising for past five days, indicating strong demand for spot metal, even as available inventories on the bourse have rebounded from a record low. Inventories have climbed after hitting 555 tons in mid-May, lowest level on record in data going back to 1997. While inventories have rebounded, a large portion is held by a single entity, according to data from the bourse. **One party held a position** in stockpiles and cash contracts equivalent to 90% or more of live inventories as of May 21.” (Bloomberg May 23<sup>rd</sup>)*