Monthly Report - October 2018

October commodity market has gone from an optimistic start of the month, prolonging late September's uptrend, towards Andy Home's article with a mix of bearish clouds ahead quoted in our previous Metal Commentary. Reuters' analyst was considering mainly copper's dynamics which got indeed negative but not so bad compared to the broader market scenario. The action happened all at once on renewed U.S.-China trade tension, seems that it has become a tradition now, can't have tariff duties menaces less than once a month and all metals slip although most lows and losses were seen elsewhere. The Thomson Reuters Commodity Index fell sharply and went below the 2.900 points resistance line mainly driven by oil (WTI lost over 13% across the month) and equities losing ground. An exception to this situation is the Dollar Index helped mainly by European tensions with the Italian government and its 2019 provisional budget act dragging down EU bourses pushing the €/$ again below 1.3 and close to August 2018 and mid 2017's historic nadir.
In metals the wind flew like this:

MONTHLY HIGHS AND LOWS

	HIGH	LOW
COPPER	\$6.393,5 ON 4^{TH}	\$5.984 ON 31^{ST}
ZINC	\$2.728 ON 2^{ND}	\$2.477 ON 31^{ST}
NICKEL	\$13.020 ON 9^{TH}	\$11.475 ON 31^{ST}
TIN	\$19.415 ON 24^{TH}	\$18.850 ON 1^{ST}

If that was not enough for the bears out there another negative outlook came out from Reuters's metal polls for 2018 and 2019 :

	2018			2019		
	MEAN \$ PRICES			MEAN \$ PRICES		
	New	**July**	**Diff.**	**New**	**July**	**Diff.**
ALUMINIUM	2.150,90	2.188,30	-1,71%	2.160,20	2.186,50	-1,20%
COPPER	6.551,30	6.872,00	-4,67%	6.643,00	7.015,50	-5,31%
LEAD	2.282,20	2.406,60	-5,17%	2.215,70	2.356,70	-5,98%
NICKEL	13.482,10	13.833,30	-2,54%	14.223,90	14.385,40	-1,12%
TIN	20.302,80	20.929,30	-2,99%	20.765,00	21.519,10	-3,50%
ZINC	2.933,30	3.118,00	-5,92%	2.697,90	2.928,00	-7,86%

Copper looked actually steady in early October with price ranging between 6.150\$ and 6.300\$ on the 3 Months with momentary ups and downs and normal volumes then the price dropped quickly both on the 30^{th} and 31^{st} falling below the important 6.000\$ resistance. The € price reflected the currency depreciation against the dollar so that the equivalent monthly average was up almost 5% at 5.413€/t.

What was more interesting last month though is the evolution of copper inventories, we know there are cycles of inflows/outflows and warrant cancellations (see September commentary) moved by some big companies. October has been exceptional with LME volumes down over 30% from previous month and below 137.000 tons, never been at this level in the last 10 years! (Back then the global economy was on the edge of the precipice with the Lehman Brother scandal kicking in a few days later).

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Spreads tightened as warehouse emptied with Cash to 3 Months moving schizophrenically but resilient in the first 2 weeks but whishing bon voyage to contango in the last trading days in favor of backwardation topping 46$, not seen since January 2015. On the second day of November all of a sudden there has been an inflow of almost 44.000 tons (being two thirds of the October volumes), questions anybody?

Despite a know pattern of material exiting European and US locations in favor of Shanghai warehouses there's one that makes you wonder about the recent hemorrhage of copper. Liverpool has had little or no importance amongst the LME official warehouses, running empty for years in a row and rumor had it set to be delisted. In the end of 2016 it started to see inflows again with sudden increases and long moments of stillness, in the beginning of this September it reached its decade high of over 20.000 tons. Since then it has dried up quickly and is now almost back to 0 now leaving us with the Hamletic doubt whether all cathodes have really left in October or are to be seen flocking back again.

Zinc went hand in hand with copper also this month and seemed to finally recover from its double dips in August and September starting October with a fresh two-month high on the 2nd as Shanghai supplies shrunk. From a Reuters article of that day *"Zinc inventories in Shanghai Futures Exchange warehouses are at more than decade lows while premiums in Shanghai, at above $200 a tonne, have hit their highest since November 2013, according to Bank of China International (BOCI). "Refined zinc production in China has been low because of the smelter cuts (but) the demand side (is) not very robust either," said Xiao Fu, head of Commodity Market Strategy at BOCI."* Price wise zinc halted close to June's average price at 2.654$/t and also the 2.327€/t was a good sign although this 11% increase since September was widely exchange rate driven. Just as copper the price fell close towards the end of the month and likewise huge stocks movements in that period moved inventories back to February at multi year lows of 2008, 57k tons less since previous month at 144.000 tons. Needless to say the backwardation did skyrocket after the early weeks drop and went back towards 45$ – 60$.

Nickel was again in a bearish mood and hit 2018 (so far) low breaking 11.500$. The crisis started before other metals and despite the late September good fundamentals with market deficit, early October's expectations of global demand increase (2.42 million tonnes in 2019 versus 2.35 million in 2018 by the International Nickel Study Group) and 4% lower LME inventories these news did not help. In the last 10 days of the month the price dropped 1.000$, almost 10% on concerns from China announcing higher output of the cheaper substitute Nickel Pig Iron (https://en.wikipedia.org/wiki/Nickel_pig_iron).

Tin kept hopes up for base metals in this bearish monotonous October continuing the positive strike after hitting a multiyear low in August, recouping in September above 18.650$ and in the last week of trading the price broke the 19.200$ resistance while other metals were dropping. *"The three-month tin price has climbed by 2.8% since the start of October and reached an intraday high on Tuesday* (23rd) *of $19,400 per tonne. It has found support on recent news of a possible disruption to the supply of Indonesian exports because of a government-ordered suspension of PT Surveyors, a key smelter inspector. Another factor supporting price rises was that total LME tin stocks were down by 5.8% week on week, dipping back below 3,000 tonnes, while a dominant warrant-holding position has 50-79% of LME stocks."* Reuters