ED&F MAN Capital Markets
EST. 1783

LME Metals Report

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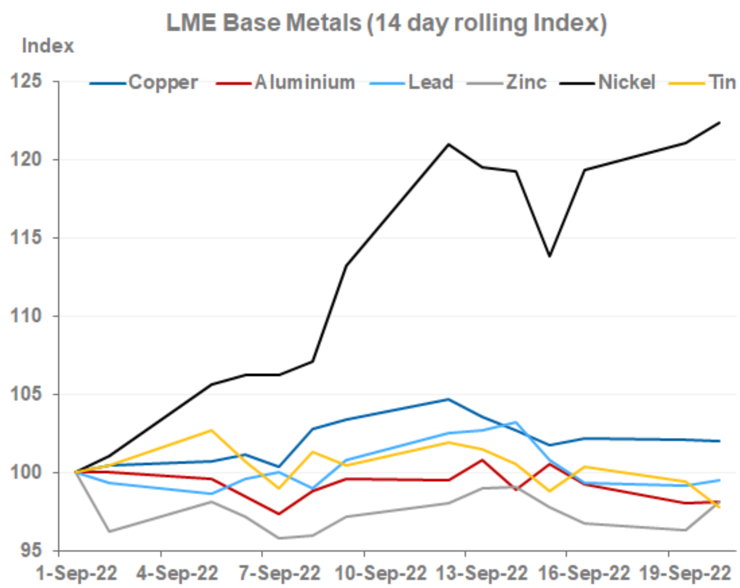

Impressions at ISRI… We were at the ISRI conference in Chicago last week where it was quite nice seeing clients and friends in person again. From what we understand, ISRI attendance hit a record high and given the long taxi lines evident outside our hotel each day, we suspect there is some truth to that. Surprisingly, the general chatter was not particularly bleak. Yes, business for most is well off the heady pace from earlier this year, but activity then was so robust that the current deceleration was still considered to be generally acceptable for most. One person told us that the relatively slow conditions the industry is currently seeing may be attributable to scrap dealers sitting on lots of inventory accumulated in the "just in time" or "just in case" mind-set brought on in the aftermath of COVID and so are well stocked for the moment.

Within individual sectors, scrap (and products) going into the auto sector is still experiencing good demand, but segments of transportation – like the RV market – is dead in the water. It seems that with COVID winding down, gas prices still high and people eager to start flying again, the urge to drive around the country in a luxurious metal box seems to be waning. Housing and construction-related scrap demand was slowing (no surprise), but even here, demand is far from terrible. Indeed, the housing data we are seeing shows that even despite the slowdown, well-priced homes are on the market for only a short period of time (around 17 days). More importantly, home prices continue to go up, although at a much more moderate pace.

On the trade side, scrap is still going overseas. South Asia is the primary destination and presumably it flows onto China after that. One vendor told us that Europe was also a buyer of US scrap of late, but with the recent crash in the Euro, those shipments have likely come to a halt.

On supply-chain issues, container prices have come down considerably from their highs, but some of the traders we talked to say that they are finding it difficult locating containers for specific destinations. In addition, US trucking companies are still having trouble securing triaxles. Thankfully, the US transportation market does not have to contend with a railway strike, averted while we were away. Votes on a tentative accord will be tallied over the next several weeks and if passed, would see workers get a 14% wage increase, better medical care and improved sick-leave provisions. However, some 22,000 union workers at 29 West Coast ports are still in talks and have yet to reach a deal. On the labor side of things, companies tell us that they are still finding it difficult to secure workers, although the need is not as urgent as it was several months ago.

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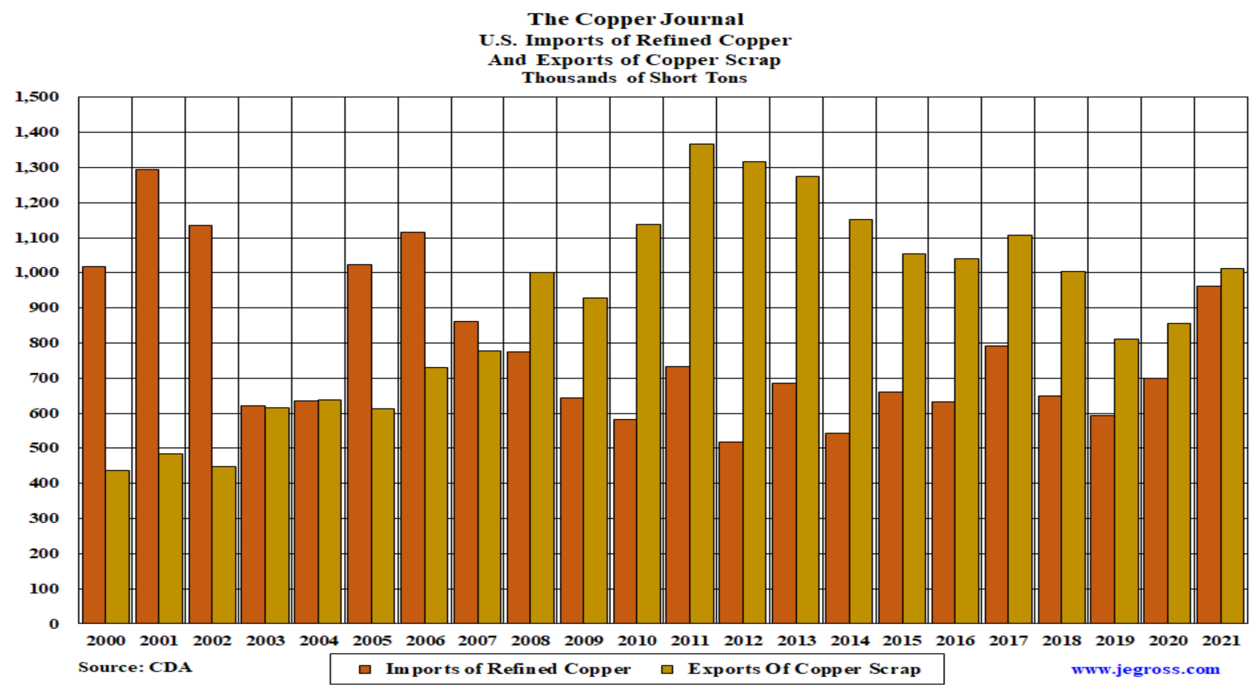
In terms of the various roundtables that were held, this writer was on the nickel panel and was also a last-minute addition on the copper discussion, both of which were very interesting. On nickel, I suggested that the LME nickel contract is in the midst of fundamental change, especially after the events in March. Liquidity and open interest have both dropped markedly as more lawsuits cropped up last week by those who feel they were wronged by the LME decision. But more importantly, the fact that nickel sulfates are being made by using nickel intermediates (as opposed to dissolving class I and nickel powders) has reduced the attractiveness of the current nickel contract. Indeed, we argued that there is an urgent need for more price transparency in the intermediate markets, be it through futures or price indices. If anything, the current LME nickel contract is a better proxy for Class II activity, which revolves around stainless. But stainless demand remains lethargic, particularly out of China, explaining the sideways price drift we are seeing in nickel. The lackluster tone contrasts sharply to the price surge we are seeing in a number of NI intermediate products.

The copper panel we were on raised familiar themes that have been expressed before, but which are now taking on added urgency. In an excellent presentation, John Gross pointed out that the US continues to export ever-increasing amounts of scrap while importing more refined products -- in effect continuing a decades-long trend of exporting manufacturing activity (and pollution) to other countries while bringing in finished goods like washing machines and air-conditioners. (See John's chart below showing US scrap exports exceeding refined imports in every year since 2007).



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But given the advent of the “green revolution” and an increase in domestic copper recycling operations (by Wieland, SDI LaFarga and Aurubis among others), these “megatrends” could change as more scrap will need to remain in the US. More broadly, the world will need considerably more copper and a host of other metals to accommodate the EV push.

In the aluminum roundtable (a discussion we unfortunately missed) CRU advisor Greg Wittbecker pointed out that the 2022 ali deficit has shrunk from an expected 2.2-million-ton deficit at the start of the year to only .2 million tons right now on account of weaker demand, particularly out of China and a step-up in both Russian and Chinese exports. Chinese production was held back briefly on account of power issues over the summer, but output has rebounded, with August output at a record high.

Here in the US, with at least three major US mill projects being announced this year (by Novelis, SDI and Manna Capital Partners), not to mention the growing focus on “green aluminum”, there will be more demand for domestic scrap. Greg sees UBCs as being potentially tight as stronger demand and a can recycling program that remains mired at below 50%, could set the stage for a tight supply picture. UBC demand is expected to grow by 544,000 metric tons while class scrap should rise by 288,000 tons, leaving a scrap deficit of over 400,000 tons by 2026. Scrap "spreads are expected to remain wider than historical valuations until 2024 when the ramp up of the three new rolling mills will begin to impact the value of UBC and class scrap; increases in secondary capacity for billet, slab [should] narrow the spreads" Greg notes. On premiums, Greg sees US Midwest close to bottoming out and sees a 27¢ level in Q4. European duty paid is expected to come in at $400/ton for Q4 and $375 for Q1 of 2023. Pricewise, he sees ali averaging around $2,525 for Q4 as Chinese demand is expected to improve.

In terms of where things are heading, given the many imponderables, no one had any firm convictions -- and we include ourselves in that camp. Among the key issues: When will the Fed’s rate campaign come to an end since the central bank has to be careful not to overshoot and crash the economy. The war in Ukraine is also taking unexpected twists and turns on the ground, none of which are favorable to Mr. Putin at the moment. Judging from his meeting with key allies China and India at the recent summit in Uzbekistan, his friends are growing less enamored with him as well. Mr. Putin will feel the pressure to wrap things up, either by escalating or de-escalating the situation. A third option is for him to exit the stage altogether -- peacefully or forcibly -- if his position becomes untenable. The European winter will be another key inflection point for the markets. Gas prices could take off again if Europe fails to get its energy demand under control, especially if the Russians continue to play their usual games with supply.

And finally, everyone will be keeping an eye on China to see whether the government will get more actively involved in stabilizing the country's wobbly real estate sector or more importantly, whether it will start backing away from rigid COVID protocols. So far, the authorities are showing no inclination to do either and that will not change at least through October which is when the Communist Party meets to appoint Mr. Xi to an unprecedented third term.

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Quote of the Day: “***I think we came to the wrong airport***.” *Overheard by a passenger walking into a renovated LaGuardia.*

Review of the markets…

We had to leave last Tuesday just as the August CPI inflation report came out. As our readers know by now, the numbers came in somewhat worse than expected, triggering a meltdown in the US equity markets. The Dow had its worst one-day plunge in more than two years, shedding a whopping 1200 points. For the week as a whole, all three indices lost nearly 5%. A 21% plunge in FedEx shares on Friday did not help sentiment either after the company said it would close offices, freeze hiring and park aircraft in response to a decline in package shipping volume. The concern is that there will be more of these “pre-announcements” heading into the key Q3 earnings season that kicks off in about two weeks’ time.

We were admittedly wrong on the August CPI trajectory. We thought the steep declines in input prices, particularly in gasoline, would result in another downside surprise. Instead, overall prices inched higher by .1% (vs. -.1% expected), as the drop in energy (down 5% on the month on account of a 10.7% decline in gasoline) was more than offset by soaring food costs (+11.4% annualized) health-care (+5.4% annualized) and rent (+6.2% annualized). The most troubling part of the CPI report was that the core rate rose by 0.6% in August (expected at .3%). Annually, CPI prices are now up by 8.3%, down from July’s 8.5% level and off from the 9.1% spike seen in June, but still extremely high, especially compared to where rates currently are.

The producer price index, released Wednesday, was far tamer, coming in line with estimates and actually falling for a second straight month (by -.1%), In the 12 months through August, the PPI clocked in at 8.7%, the smallest year-on-year gain since August 2021 and down from the 9.8% increase seen in July.

Not surprisingly, bond yields soared on the CPI readings, sending long-term mortgage rates to 6%. In the treasury markets, the two-year spiked to nearly 4%, while the 10-year is hovering at just around the June high of 3.5%, just about where we are right now.

The general dollar index had a strong week, especially against sterling, which crashed to nearly a 40-year low last week. China’s yuan weakened as well, breaching the psychologically important 7 mark for the first time in two years. The yuan has lost nearly 10% of its value versus the greenback so far this year, although against other major trading partner currencies, it is down by less than half a percent.

In base metals, tin and zinc ended last week pretty much flat, but nickel ended higher for a second week in a row. Copper, aluminum and lead all experienced modest losses. LME markets were opened on Monday, but trading was quiet.

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In precious metals, gold had a dreadful week, plunging to a 28-month low of $1661, but others in the group held up much better.

Crude lost slight ground last week (about $1.70), with diesel faring the worst, losing over $.40/gallon as the successful end to the pending rail strike alleviated concerns. Gasoline ended unchanged. Natural gas prices also lost their "mojo", now trading quietly below $8/bcf. In Europe, gas prices are retreating as well and are now at two-month lows.

Other US macro readings we got last week were fairly decent. US consumer sentiment ticked up in early September from historically low levels reached in June as Americans felt slightly better about the economy although they remain uncertain about future prospects. Retail sales rose by .3 % in August (expected flat), largely due to increased spending at auto dealerships. Excluding auto and parts though, sales were down by .3%.

On the manufacturing side, production of nondurable manufactured goods rose 0.2%, mining output was unchanged after five consecutive monthly gains, while utilities production fell 2.3%. These are the three components that make up the industrial production index and so when combined, August IP was down by 0.2%. Separately, production at US factories edged up by .1% in August (expected flat) after increasing by .6% in July.

The Atlanta Fed's GDPNow model now has US GDP growing by 0.5% in Q3, down from a 1.3% estimate at the end of the prior week. For its part, Goldman Sachs cut its US GDP estimate for 2023 to 1.1% compared to an earlier number of 1.5%. The firm's projection for 2022 was left unchanged at 0%. Goldman raised its interest rate forecast to 4%-4.25% by year-end 2022 and sees unemployment rising to about 3.7% by year-end before moving to 4.1% by year-end 2023.

Macro numbers out of China improved in August. Industrial production grew by 4.2% from a year earlier, the fastest pace since March, while retail sales were up 5.4% from a year ago, the quickest in six months. The auto industry was a big driver for the economy as sales continue to increase. Chinese steel output also picked up in August, rising by 3% from July, but still trailing last year by 5.7% on a year-to-date basis. In contrast, China's property sector contracted further in August as prices, investment and sales all declined. The country's jobless rate came in at 5.3% in August from 5.4% in July, but youth unemployment remains at a staggeringly high 18.7%.

Out of Europe, Eurozone industrial production was much weaker than expected in July, falling 2.3% month-on-month, while inflation hit another record high of 9.1% in August.

Current Market Action…We do not expect to see movement in many of the markets for the balance of the day and heading into the early part of tomorrow ahead of the Fed meeting. Practically everyone is now expecting a 75-basis point rate hike, but a minority of economists see a 1% increase, which we think would be very destabilizing for the markets. On the flip side, we could see a relief rally set in if Powell comes across as a bit more dovish -- like he did at his July news conference and unlike his more hawkish portrayal at Jackson Hole.

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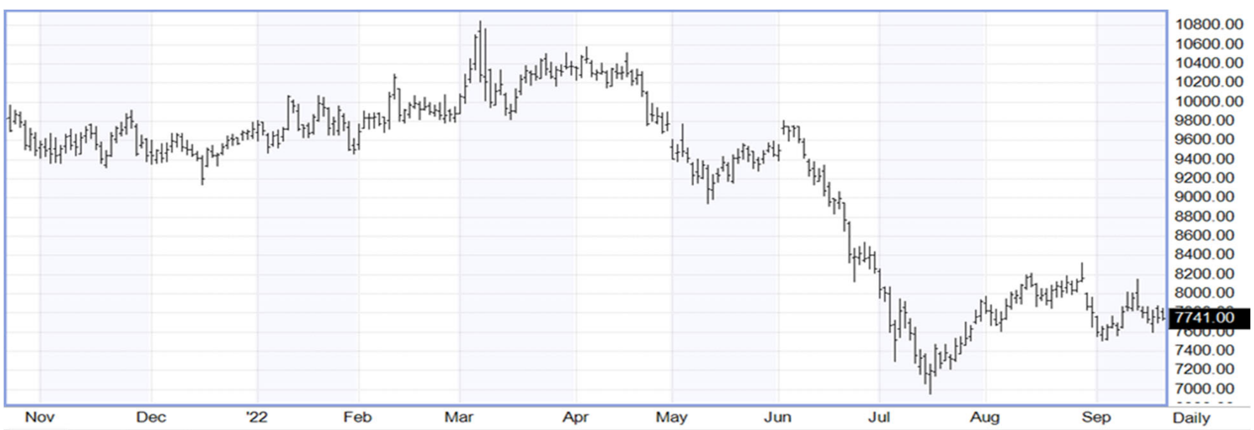
Base metals are quiet, apart from nickel, which is creeping higher and is now up by roughly 20% since the start of the month. Still, the market has been in a generally downward drift since April. There is very little going on in the precious and energy space, as the general dollar index is unchanged. US equity markets are expected to open lower. Conditions in the credit markets are quiet as markets await the Fed.

Later today, we get August building permits and housing starts (expected at 1.62 and 1.5 million units annualized respectively), while Wednesday brings us August existing home sales (expected at 4.68 million, last 4.81 million). On Thursday we get weekly initial claims (expected at 214,000, unchanged from the previous week) and leading economic indicators for August (expected at -.1%, last -.4%). Finally, on Friday we get the flash manufacturing PMI from S&P for September (expected at 51.4, unchanged from the previous month). The service reading is expected to move up (to 46 from 43.7).

COPPER -- SUPPORT: $7,600 / RESISTANCE: $8,153

We are at $7,755, up $3. We have been trading between $7,720-$7,848.



* *Fastmarkets'* indices for **TC/RCs on a CIF Asia-Pacific** basis are now at their highest level since mid-May. A Q4 Indonesian concentrate parcel was awarded at a TC in the high $80s, while two other tenders for clean Australian and Chilean material were awarded at the low $70s. On the supply side, Chile's Port Ventanas has resumed partial operations after a strike there ended, impacting deliveries from Los Bronces and El Teniente for the last two weeks.

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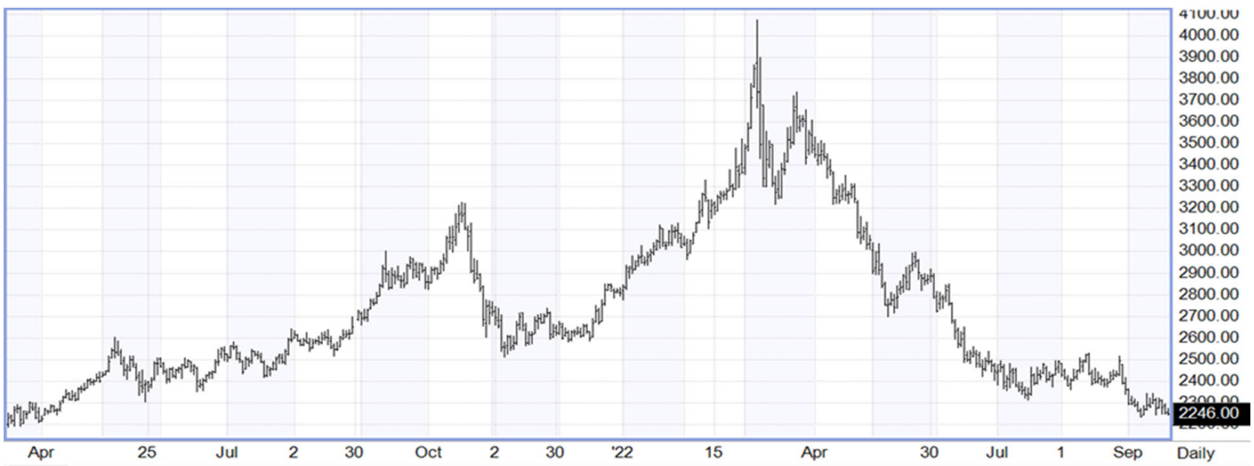
ALUMINUM -- SUPPORT: $2,233 / RESISTANCE: $2,370

We are at $2,246, down $5. We have been trading between $2,241-$2,271.



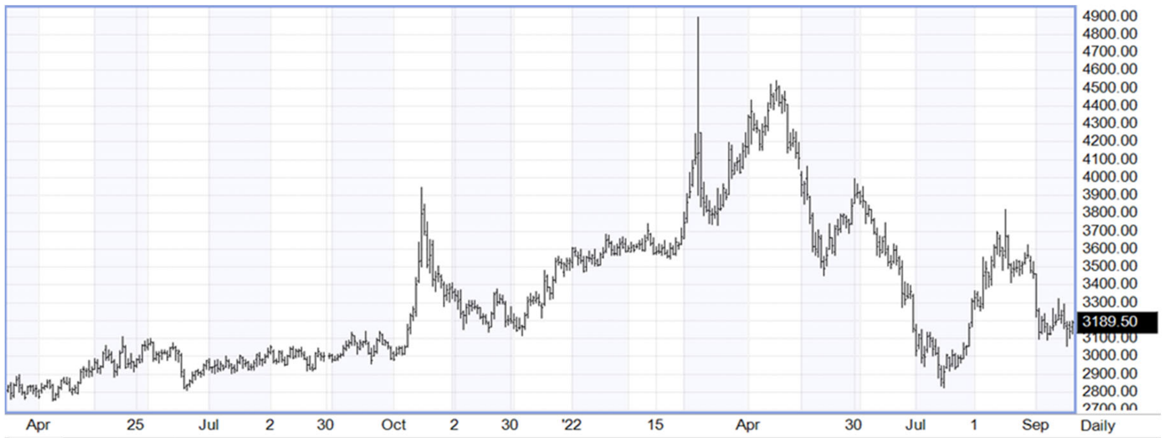
* Reuters reports that **Rusal's clients** are getting higher discounts for their ali purchases, now said to be around $100-$150/ton according to a European trader who talked to Reuters last week at the aluminum conference in Barcelona. Meanwhile, there is growing reluctance to take additional Russian units. **Novelis** said it will not accept Russian metal at its European factories in 2023 and other smaller and medium size companies have apparently made the same decision. However, **Constellium** plans to keep buying Rusal metal next year as it did in 2022, although a final decision has yet to be made. Rusal's metal accounts for less than 5% of Constellium's purchases.

* **Arconic** said last week that its Q3 earnings could be almost 13% below its previous forecasts due to lower metal prices and premiums along with "production disruptions" at various plants. The disruptions should ease by Q4. The company sees a 24.95 cent premium for US Midwest for the quarter, down from 31.95 cents previously, alongside a lower price for aluminium (of $2,300/ton).

* **China's aluminum output** climbed to a second straight monthly record in August at 3.51 million tons, up 9.6% from the same month a year earlier and up 2.3% from the previous month. In the first eight months of the year, China produced 26.47 million tons, 2.1 % higher than the same period last year.

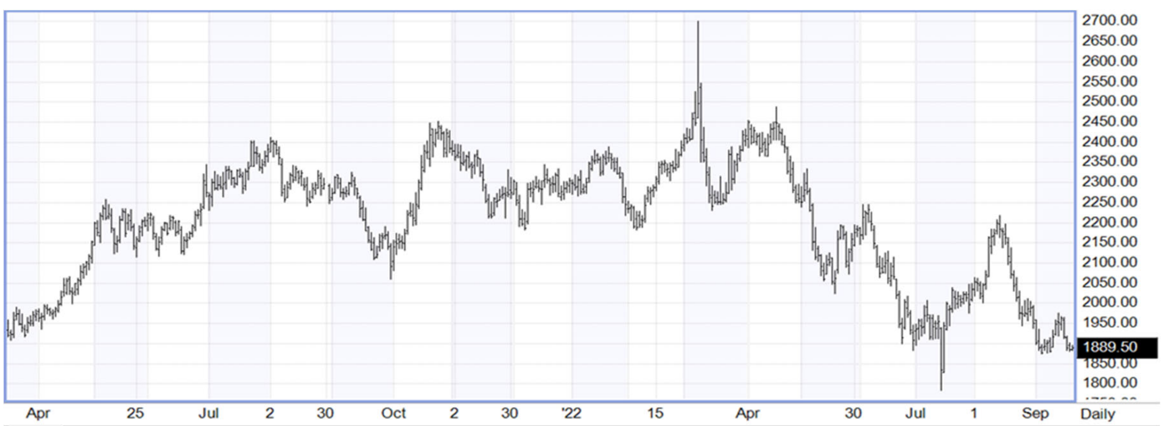
ZINC – SUPPORT: $3,056 / RESISTANCE: $3,322

We are at $3,183, up $42. We have been trading between $3,127-$3,200.



LEAD -- SUPPORT: $1,870 / RESISTANCE: $1,975

Lead is at $1,897, up $12. We have been trading between $1,882-$1,898.



NICKEL -- SUPPORT: $23,050 / RESISTANCE: $25,325

We are at $24,800, up $206. We have been trading between $24,550-$25,075.

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* Russian billionaire Vladimir Potantin said last week that the proposed merger between **Nornickel and Rusal** has been postponed. Separately, Mr. Potantin said that some Nornickel customers –presumably in Europe – are "self-sanctioning" forcing the company to look at more opportunities in Asia.

* **JPMorgan Chase** has reduced its lending to China's Tsingshan as well as to several other customers in Asia and Europe, Reuters reports. In April, JPMorgan made a $120 million loss provision stemming from the nickel crisis.

* **PT Vale Indonesia** signed an agreement with **China's Zhejiang Huayou Cobalt** to build a second HPAL plant to produce 60,000 tons of nickel in MHP form. In April, Vale inked another deal with Huayou to develop a similar plant also in Indonesia to produce 120,000 tons of the material. Ford later joined the partnership.

* **Hedge funds** AQR Capital Management and four other parties (Winton Capital Management, Capstone Investment Advisors, Flow Traders and DRW Commodities) have filed suits against the LME protesting the exchange's decision to halt nickel trading back in March. The LME is already facing legal action from Elliott Associates and Jane Street Global, both suing for $456 million and $15.3 million respectively. "We consider that application to be without merit and we look forward to setting out our arguments opposing the application in due course," the LME said.

TIN -- SUPPORT: $19,760   / RESISTANCE: $22,345

We are at $21,050, up $105. We have been trading between $20,510-$21,080.

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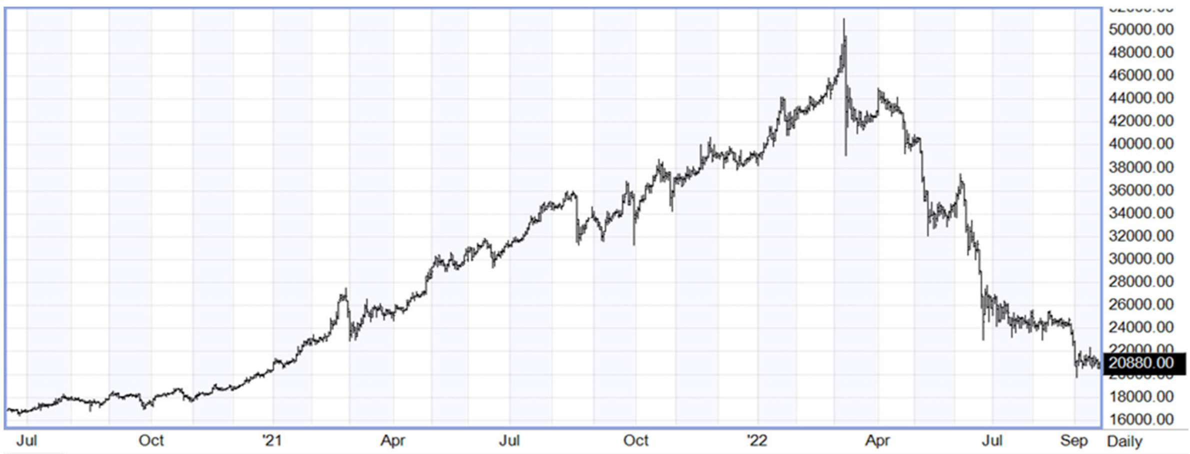

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Base Metals Prices and Forward Curve Snapshot

LME Cash	20-Sep-22	Prev Day	Month ago	3M Trend	12M Trend
CU ($/MT)	7,827	7,869	8,101		
AL ($/MT)	2,238	2,268	2,394		
PB ($/MT)	1,866	1,874	2,038		
ZN ($/MT)	3,166	3,184	3,548		
NI ($/MT)	24,556	24,229	22,177		
SN ($/MT)	21,026	21,238	25,005		

LME Frwrds	Cash	3-month	15-month	27-month	63-month	Curve's shape
CU ($/MT)	7,827	7,753	7,676	7,656	7,646	
AL ($/MT)	2,238	2,253	2,341	2,436	2,707	
PB ($/MT)	1,866	1,891	1,876	1,871	1,841	
ZN ($/MT)	3,166	3,199	2,898	2,648	2,298	
NI ($/MT)	24,556	24,860	24,946	25,346	26,038	
SN ($/MT)	21,026	20,585	19,935			

SHFE Front	1 month	3 month	6 month	9 month	12 month	Curve's shape
CU (CNY/T)	62,480	61,550	60,620	60,860	60,690	
AL (CNY/T)	18,720	18,550	18,355	18,345	18,340	
PB (CNY/T)	14,900	14,895	14,855	14,825	14,810	
ZN (CNY/T)	24,555	23,760	23,005	22,580	22,265	
NI (CNY/T)	194,410	187,020	180,490	174,890		
SN (CNY/T)	177,670	171,890	169,700	168,980	170,360	

Base Metals Inventories

Copper	Today	1 day ∆	1 month	6 month	Yr Ago	12M Trend
LME (MT)	107,150	2,075	123,825	79,500	239,500	
SHFE (MT)	35,865	0	31,205	129,506	54,341	
COMEX (MT)	41,222	-404	49,183	65,383	47,387	
GLOBAL(MT)	184,237	1,671	204,213	274,389	341,228	
Aluminum	**Today**	**1 day ∆**	**1 month**	**6 month**	**Yr Ago**	**12M Trend**
LME (MT)	346,025	-300	273,775	715,225	1,326,150	
SHFE (MT)	206,945	0	197,886	333,823	224,050	
COMEX (MT)	19,225	-45	21,677	20,168	35,621	
GLOBAL(MT)	572,195	-345	493,338	1,069,216	1,585,821	
Lead	**Today**	**1 day ∆**	**1 month**	**6 month**	**Yr Ago**	**12M Trend**
LME (MT)	33,600	-550	38,450	38,675	52,750	
SHFE (MT)	79,745	0	71,352	104,010	205,898	
GLOBAL(MT)	113,345	-550	109,802	142,685	258,648	
Zinc	**Today**	**1 day ∆**	**1 month**	**6 month**	**Yr Ago**	**12M Trend**
LME (MT)	69,850	-5,825	74,725	143,325	223,950	
SHFE (MT)	58,407	0	96,206	176,507	50,399	
COMEX (MT)	3,102	0	2,699	2,699	2,699	
GLOBAL(MT)	131,359	-5,825	173,630	322,531	277,048	
Nickel	**Today**	**1 day ∆**	**1 month**	**6 month**	**Yr Ago**	**12M Trend**
LME (MT)	51,408	-294	55,914	74,358	169,992	
SHFE (MT)	3,427	0	3,818	7,509	7,339	
GLOBAL(MT)	54,835	-294	59,732	81,867	177,331	

Source: EDF Man Capital Markets/ Bloomberg

Technical Profile

	20-Sep-22	1 day	1 month ago	3 month ago	Yr ago
Volume (3-Mnth/lots)					
CU	23,682	39,803	46,067	52,317	36,757
AL	23,357	35,414	62,327	37,260	55,387
PB	6,634	8,744	12,302	10,887	11,038
ZN	9,741	23,542	43,590	23,218	18,935
NI	6,167	4,743	7,373	17,929	18,614
SN	663	691	2,431	292	633
Open Int (3-Mnth/lots)					
CU	240,946	240,627	240,687	286,964	310,473
AL	569,489	573,848	580,041	790,983	667,276
PB	89,374	91,165	87,060	105,662	108,520
ZN	195,923	198,625	192,168	191,756	229,431
NI	147,622	151,730	148,535	201,811	277,215
SN	11,806	11,993	11,725	16,173	16,093

Moving Averages & Implied Price Direction

	Cash	10 MAV	40 MAV	100 MAV	200 MAV
CU ↔	7,827	7,880	7,895	8,427	9,184
AL ↓	2,238	2,264	2,381	2,534	2,840
PB ↓	1,866	1,908	2,011	2,051	2,192
ZN ↓	3,166	3,196	3,416	3,498	3,635
NI ↑	24,556	23,259	22,272	24,315	25,052
SN ↓	21,026	21,276	23,575	28,566	35,530

Support & Resistance

	S1	S2	R1	R2	RSI
CU	7,600	7,520	8,153	8,214	46
AL	2,233	2,150	2,370	2,515	39
PB	1,870	1,828	1,975	2,010	38
ZN	3,056	2,940	3,322	3,430	44
NI	23,050	20,275	25,325	26,350	66
SN	19,760	19,250	22,345	25,170	30

Market Round-up (Data as on 9:30 am GMT)

	Today	1 day	1 month	6 month	Yr Ago
Gold	1,665	1,673	1,748	1,929	1,762
Silver	19.50	19.30	19.07	25.06	22.16
Platinum	922	901	888	1,036	899
Palladium	2,188	2,098	2,131	2,489	1,865
WTI	86.19	85.11	90.77	104.70	70.29
Brent	92.67	91.35	96.72	107.93	73.92
WTI Inv (mbbl)	430	430	422	413	419
Sterling	1.1428	1.1420	1.1829	1.3178	1.3657
Euro	1.0010	1.0016	1.0037	1.1051	1.1726
CNY	7.01	6.99	6.82	6.36	6.47
Dollar Index	109.82	109.76	108.17	98.23	93.28

Physical Premiums (Aluminium)

	Today	1 day	1 month	6 month	Yr Ago
US ($/lb)	0.246	0.246	0.270	0.392	0.347
JP ($/MT)	87.29	87.57	91.09	103.13	171.68
EU ($/MT)	442.82	443.85	529.05	537.50	381.50

Source: EDF Man Capital Markets/ Bloomberg