

Industrial Metals: Show me the money!

Fund flows in aluminium and copper have reversed since December and divergent flows have set the stage for divergent prices



Source: Shutterstock

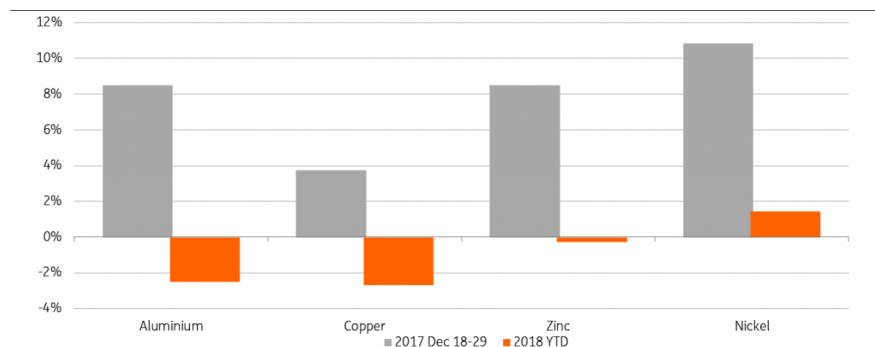
Copper and aluminium retreat with flows

Copper and aluminium both breached significant price barriers of \$7,000 and \$2,200/mt respectively in December 2017, but through January, and regardless of the falling US dollar and strong Chinese data, both metals have slipped from their highs. The corresponding change in money manager longs and open interest mirrors this asymmetric month-on-month performance. Aluminium open interest had surged 8% through the last two weeks of December, which drove prices up 9% but both prices and positions have slid 2% in January. Copper flows and prices have had the same pattern. In December, copper open interest rose 4% alongside a 5% price rally but a 2.6% slide in positions this year has seen prices come down by 1.9%.

Unless these flows start to turn, more price weakness is likely to follow in the two major metals. Fundamentally, we are more bullish on aluminium at these prices and we also note how tightening spreads (Jan-Feb) offer the opportunity to squeeze out the shorts and give extra yields to the longs. A very wide contango in copper markets, only briefly surpassed once since 2008, however, makes a rolling long copper position all the more costly.

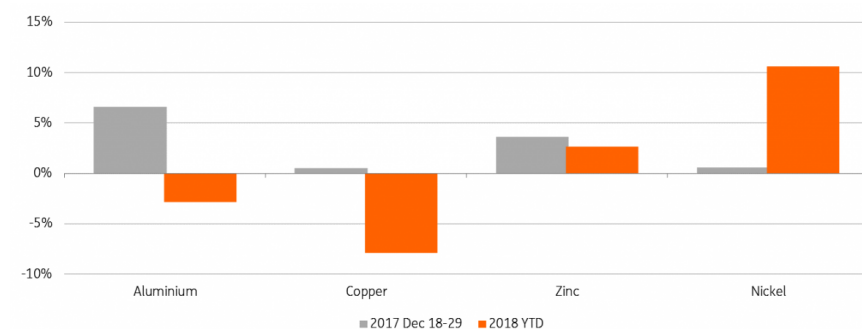
Open interest Reverses for Aluminium, Copper

LME Open interest



Source: LME

Money Manager Longs Retreating in Aluminium and Copper only



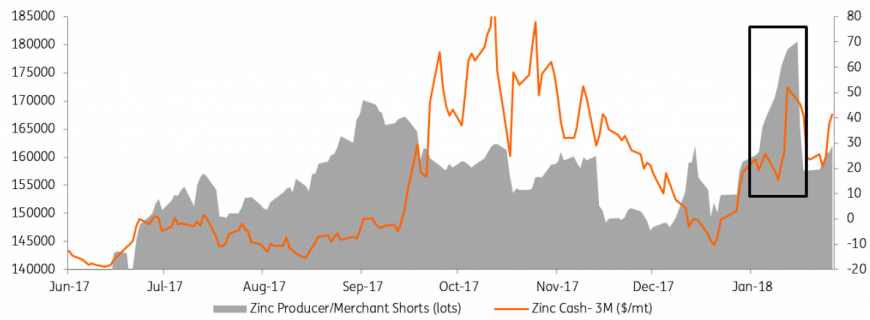
Source: LME CoTR

Small metals in front

Market leader zinc sees a fairly flat open interest this year but the money manager longs are up 3.6% to the highest since July and following on from the 2.6% increase seen in November. This allocation was boosted by a 13% collapse in the physical shorts as a \$52 backwardation peak in the Cash-3M drove these participants to submit to the tightness and liquidate short hedges/stocks in financing.

Nickel's allocations are far more obvious as LME money manager longs are up a further 10% through January to record highs. The LME's flows are, in turn, augmented by the +15% of Shanghai nickel open interest that included a 30% surge last week. Given the LME length and pace of the SHFE increase, we would be cautious of profit taking sparking quick reversals. As [we wrote last week](#): "Nickel, beware the Chinese speculator!"

Zinc physical shorts get squeezed out by backwardation



Source: LME CoTR, ING Research

Zinc physical shorts