

Short Insight – Metal Markets

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Support for metal prices in 2021

The corona crisis had a major impact on the metal sector in 2020. Demand for industrial metals weakened abruptly, while a supply response only started late. This resulted in higher inventories. Fortunately, this did not turn into a millstone for the sector. After all, the resilience of the industrial activity proved to be high. Today, we see that the global recovery is becoming more and more widely supported. Demand for metals is increasing and sentiment on industrial metal markets remains optimistic. Despite still high downward risks, these conditions will bring support for metal prices in 2021.

- **Higher steel prices on demand recovery, higher input costs, supply constraints**
- **Iron ore price remains relatively high; Australian coking coal price is rebounding**
- **Base metal prices closely track the economic cycle**

Steel: stronger demand and lower supply drives up prices

Demand for steel-intensive consumer goods, such as cars and white goods, is currently strong in several markets. Market sentiment is positive and activity is improving at a better-than-expected rate. In particular, car sales in China sharply increased in the last five months of 2020. Demand recovery in Europe and the US is somewhat slower but on its way up. Many steel end users are increasing restocking efforts. As a result, supply is struggling to keep up with the rapid recovery in demand, resulting in price increases. The increased costs of making steel - mainly due to the higher prices of iron ore and scrap – are also contributing to higher steel prices. This year, steel prices will remain relatively high.

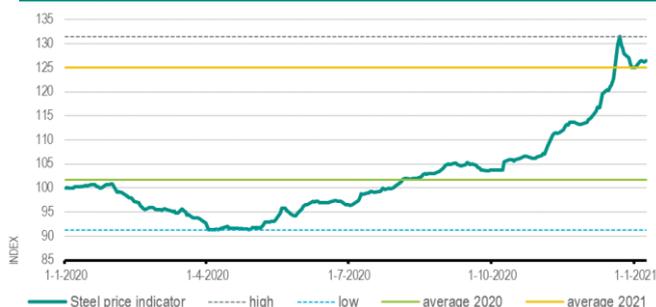
Iron ore: price will remain relatively high this year

The strong Chinese demand for iron ore, combined with a limited supply, prompted the price rise for this commodity. China's steel production grew sharply in recent months and iron ore stocks decreased. In addition, both Australia and Brazil were struggling to meet the stronger growth in demand, mainly due to the influence of extreme weather (heavy rainfall and tropical storms). Demand for good quality iron ore remains high worldwide. Price risks come mainly from the supply side. In any case, the current high price is an invitation for mining companies to produce more. A recovery in supply will bring a reduction in price in the course of the year. But on balance, the price of iron ore will remain relatively high this year.

Coking coal: price recovery on the horizon

The Chinese import restrictions on coking coal from Australia are causing persistently low prices. The demand for Australian coking coal from India, Japan, Taiwan and Vietnam is increasing, but is not causing a reversal in the price trend. The supply of coking coal from outside Australia (e.g., Russia, Mongolia and China) is tight. This means that existing trade flows are subject to change. For example, China is buying more coking coal from Canada. However, despite the fact that the weather phenomenon La Nina will weaken further in the coming weeks, heavy rainfall is still expected. This will put pressure on the supply from Australia and will result in a higher price. The increasing global demand for coking coal due to recovery in the steel sector will also contribute to price increases.

Steel price index



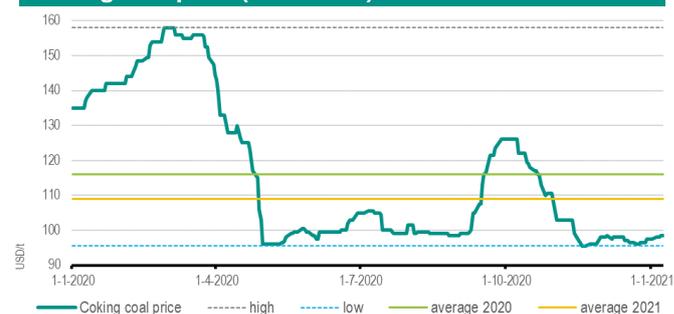
Source: Refinitiv, ABN AMRO Group Economics

Iron ore price



Source: Refinitiv, ABN AMRO Group Economics

Coking coal price (Australian)



Source: Refinitiv, ABN AMRO Group Economics

Aluminium: price will maintain its relatively high level in 2021

China is normally a net exporter of aluminium and imports are insignificant. In 2020, this situation tilted. Due to strong domestic demand for aluminium, export volumes decreased and aluminium imports increased sharply. The Chinese rebound in demand is mainly due to strong catch-up demand from the automotive sector and targeted Chinese economic support packages in the construction sector. Demand also recovered in Europe, the US and Japan. The price passed the USD 2,000/t mark. Meanwhile, the order books for aluminium sheets are solidly filled for the first quarter of 2021. This will keep prices relatively high in 2021. Still, when Chinese stimulus spending stops, a downward price risk will emerge and China will become a net exporter again.

Copper: price rises in 2021 but in a lower gear

The copper price continues to break record after record. At the end of 2020, the peak of June 2018 was reached and in the first few days of 2021 the price started heading towards the peaks of 2012 and 2013. The list of reasons for the higher prices is long. The weaker dollar, a shortage of copper, the global economic recovery, the start of widescale vaccinations, the continued growth of Chinese industrial activity and supply constraints from Chilean mines. This provides a lot of confidence. As a result, total long positions are high, but this also brings a downside price risk because it increases the likelihood of profit-taking by speculators. In 2020, the market has taken a substantial advance on the good news of 2021. The copper price will rise further in 2021, but in a lower gear.

Nickel: expectations around electric cars keep price high

The new year is still young, but the nickel price has already risen by about 8%. And that while the market is in surplus. Optimism is widely supported in the nickel market, largely due to the expectation of sustained long-term demand from the battery sector. This is fuelled by a further increase in sales of electric cars, which will accelerate in the coming period. In order to revitalize economic growth in the post-Covid-19 era, and also reduce CO2 emissions, many governments around the world are unveiling green incentives. As a result, nickel prices will remain relatively high. However, the stainless steel sector has been hit hard by the Covid-19 crisis with sharp declines in production. A strong recovery in the short term on a global scale is unlikely.

Zinc: despite a surplus in 2021, prices may still rise slightly

The zinc market was oversupplied in 2020 and stocks increased at the London Metal Exchange (LME) and the Shanghai Futures Exchange (SHFE). Nevertheless, prices rose significantly during the year. Prices were guided more by the positive macro-economic narrative than the reports on the negative supply and demand balance, and high inventories. Demand for zinc fell sharply in 2020 as a result of car plant closures. Demand also fell sharply in the construction industry where a lot of galvanized steel is processed. However, global activity in both sectors will pick up again in 2021. This is a positive trend for zinc demand. A surplus is still on the cards for 2021, but this is expected to be relatively low. The price of zinc will continue to rise in 2021, but at a slower pace.

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Aluminium price



Source: Refinitiv, ABN AMRO Group Economics

Copper price



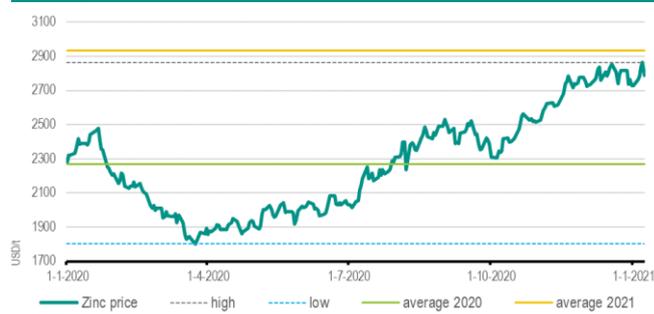
Source: Refinitiv, ABN AMRO Group Economics

Nickel price



Source: Refinitiv, ABN AMRO Group Economics

Zinc price



Source: Refinitiv, ABN AMRO Group Economics