

# Industrial Metals Monitor

## Turnaround in sentiment in global steel sector

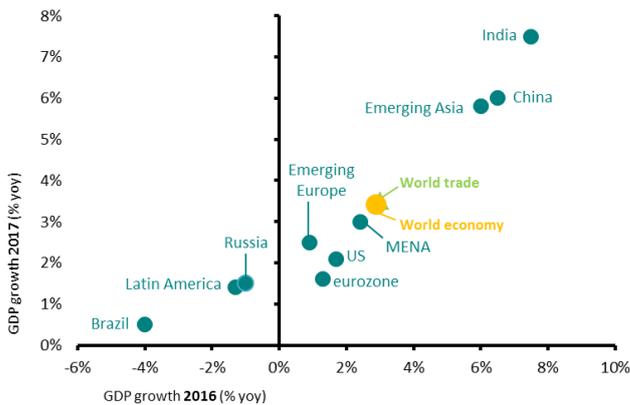
Group Economics

Casper Burgering  
casper.burgering@nl.abnamro.com

June 2016

- Among the base metals, zinc has seen the greatest price increase since the start of 2016
- Aluminium prices are increasing due to solid demand, copper and nickel remain subdued
- In ferrous markets, the tide in the recent positive market sentiment is slowly turning

Figure 1 Global economic outlook

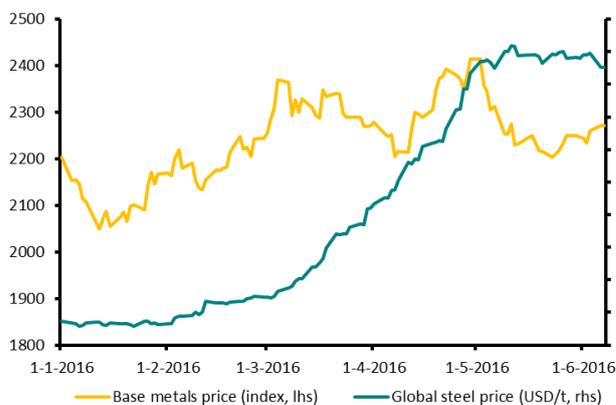


Source: ABN AMRO Group Economics

### Macroeconomic indicators pointing in the right direction

Global growth has had to digest some disappointing figures over the last couple of months, whereby the economic downturn in Latin America has played a significant role. Some economic indicators are showing early signs of recovery. But whether this is paving the way for a more sustainable recovery, remains to be seen given that the basis for the revival in some economies can be traced back to the current loose monetary policies in Europe, Japan and China. The stimulus program in China is supporting the gradual economic slowdown and the Chinese authorities have the means to orchestrate a soft landing for the economy. Meanwhile, uncertainty about a Fed rate hike is causing unrest in many markets. In any case, the key indicators for metal markets – such as trends in demand among large metal end-using sectors – are still relatively favourable. Although the industrial sectors worldwide are still witnessing some weakness in business activity, the trends in car sales and construction activity in the larger economies are more encouraging.

Figure 2 Base metal and steel price trend in 2016



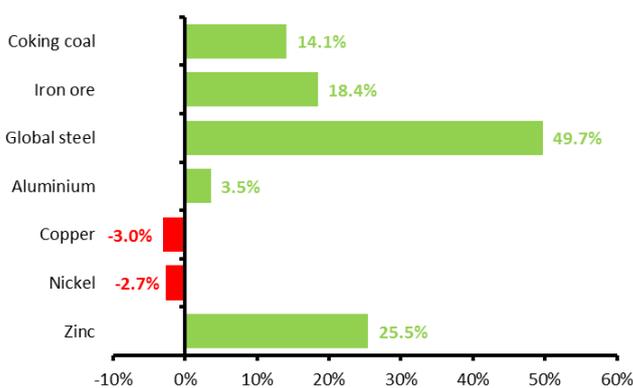
Source: Thomson Reuters Datastream

### Once again, pressure on prices intensifies from May

Is it a coincidence or a pattern? Either way, the parallel is certainly noteworthy. Just like last year, a price trend reversal began looming from early May. In 2015, there was a turnaround in sentiment which had its origin in three major themes: 1) increasing worries about economic growth in China, 2) ongoing Greek crisis at that time, and 3) strengthening of the US dollar. This led to a sharp decrease in speculative activity and base metals prices began their downward trend. Two of these themes continue to play a prominent role and, once again, the situation deteriorated from early May. The uncertainty about the state of China's economy remains a concern for many markets and the stronger dollar – due to the turmoil surrounding a possible Fed rate hike this year – is having a negative impact on base metals prices. The worries in Europe are less prominent, although this year the growth outlook is still subdued for the eurozone.

Figure 3 Industrial metal prices in 2016

(% change in price since 1 January 2016)

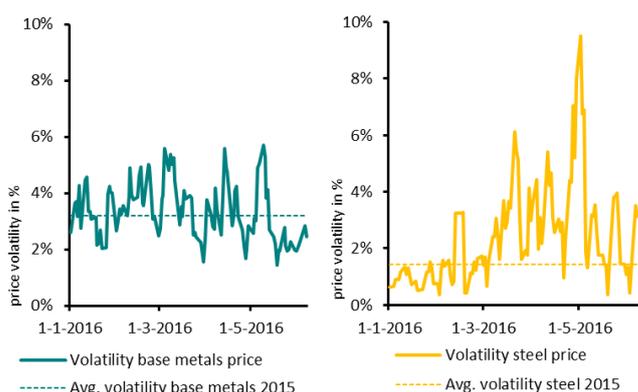


Source: Thomson Reuters Datastream

### Copper and nickel prices are still struggling

The zinc price has experienced the strongest increase relative to other base metals since the start of 2016. The main cause is an inadequate supply due to the closure of several large mines at the end of 2015. In addition, the availability of zinc ores remains relatively low and, going forward, the availability of ore reserves is just 15 years, expressed in mine production 2015. Our long-term outlook on zinc prices is therefore positive. Meanwhile, the aluminium price increased due to solid demand – although the rise was dampened by persistent oversupply – but copper and nickel prices are still struggling. Nickel in particular has suffered from a rough stainless market, where demand growth cannot keep up with the pace of supply growth. The copper price is influenced by the concerns about the Chinese economy, a possible Fed rate hike (and thus volatility of the dollar) and the Brexit referendum. In ferrous markets, the price position is still favourable compared to January 1, but the tide in the recent positive market sentiment is slowly turning.

Figure 4 Price volatility in industrial metals

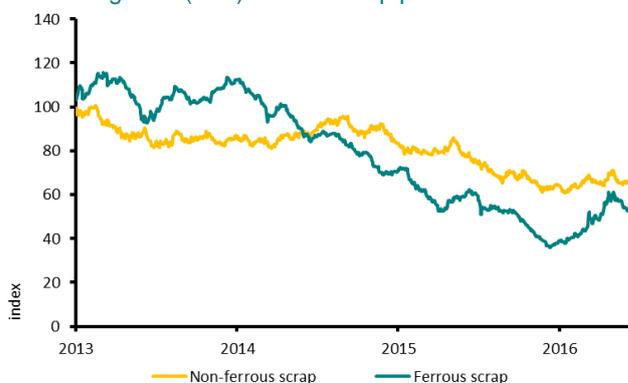


Source: Thomson Reuters Datastream, ABN AMRO

### Price volatility has increased in 2016

We have touched on this subject more than once in previous editions of this metals monitor: industrial metals markets are subject to sentiment. This is more applicable to the base metals market than the ferrous metals market, but so far this year sentiment also had a firm grip on the direction of ferrous metals prices. Earlier in 2016, China announced ambitious plans to reform the steel sector and reduce redundant capacity. This pushed a wave of optimism through the global steel industry and eased the price volatility in ferrous markets in many regions. But as long as an effective implementation of the Chinese plans to restructure its steel industry are delayed, the sector will remain sensitive to fundamental trends going forward. And so far, trends point to a continuing oversupply, which will dominate the steel market this year. Price volatility in base metals markets is fairly similar to the average volatility over 2015. Still, the level of volatility is higher than in the steel market.

Figure 5 (Non)-ferrous scrap prices

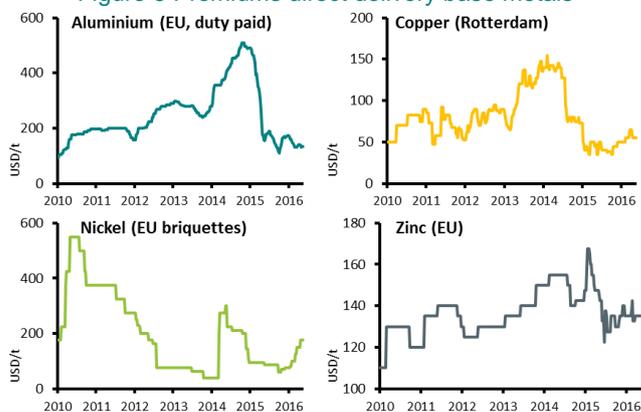


Source: Thomson Reuters Datastream

### Recovery in scrap prices on hold

The direction of industrial metals scrap prices broadly follows the trends in prices for refined base metals and crude steel. The price of ferrous scrap increased sharply since the start of this year, matching the crude steel price trends. The buoyant sentiment in steel markets was also felt in the ferrous scrap markets. But often enough, characteristic dynamics of scrap markets also become important determinants in scrap prices, such as the amount of supply and the quality of the scrap. The price trends in base metals scrap only experienced a slight upswing this year, but – similar to the general trend in base metal markets – prices have lost ground since May. The supply of scrap in many industrial metals markets is currently sufficient to meet the demand, although this varies, of course, by region.

Figure 6 Premiums direct delivery base metals



Source: Metal Bulletin

### Premiums base metals at relatively low level

In Europe, premiums for direct delivery of aluminium, copper and nickel are at a similar level compared to 2010. This is directly related to the ready availability of these metals in the market. The availability of aluminium in particular has increased significantly over the last couple of months, which is associated with the stricter load-in/load-out requirements at LME warehouses. Market expectations do not indicate a significant increase in the short-term premiums for aluminium because the current spot market transactions are still relatively low in Europe. Moreover, it appears that the availability of aluminium in many regions will remain good. While premiums for zinc in Europe are relatively high compared to 2010, they fell significantly during 2015. Zinc stocks fell sharply during the year and, as a result, the availability of zinc continued to be good. It is expected that premiums for basic metals will not change significantly this year. The new LME rules appear to be effective and thus availability will remain high.

Figure 7 Prices steel making raw materials



Source: Thomson Reuters Datastream, ABN AMRO

### Optimism tempered in iron ore and coking coal markets

In January, the bottom was reached in global ferrous prices and optimism gained pace from February. Prices rose more sharply and peaked halfway through the second quarter. From that point it became clear that the supply had increased strongly in nearly all ferrous markets, while demand growth was not able to match the supply increase. A supply-driven price correction was inevitable. Supply in the coking coal market increased due to higher mine supply in China, coupled with further growth in supply in Australia. As a result, the price remained relatively low. The availability of iron ore is also elevated. The number of closures of unprofitable mines has been relatively limited, while investments in new (greenfield) mines continues. The fourth quarter is usually a period when demand for iron ore strengthens, which means the price can appreciate again to USD55/t.

## ABN AMRO Group Economics

### Casper Burgering

Senior sector economist – Industry & Industrial Metals



Casper Burgering  
@CasperBurgering

Telephone: 020 (+31) 383 26 93  
casper.burgering@nl.abnamro.com

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