

Short Insight – Base Metals

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Uncertain macroeconomic landscape keeps base metals prices low

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A diverse picture has emerged in base metals markets. The prices of aluminium, copper and zinc are now relatively low, while the price of nickel has risen to new heights. Clearly, the uncertain macroeconomic climate is having a depressing effect on the price trend of all base metals, mainly due to the imminent trade war. Government policy is key in the nickel market. Indeed, an Indonesian export ban on nickel ores from 1 January is ensuring higher prices.

- **Aluminium:** high availability puts pressure on prices
- **Copper:** strong dollar and macro uncertainty results in low copper price
- **Nickel:** Indonesian export ban sends nickel price to new highs
- **Zinc:** demand for zinc is weak, which is creating a low price environment

High availability puts pressure on prices

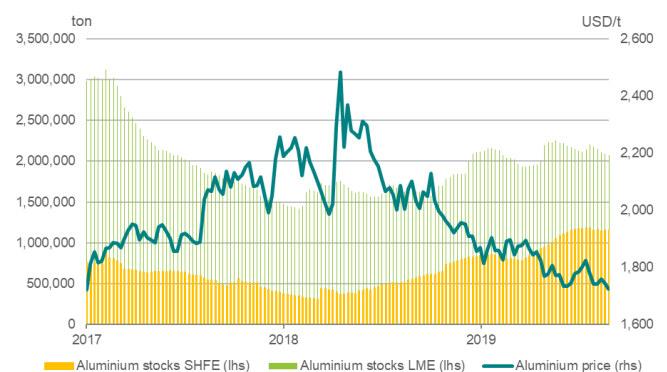
The aluminium price is under pressure and has already fallen 7% this year. The low price is mainly due to the high availability of aluminium globally. And this will remain the case for some time to come. Global output growth is stable, while demand for aluminium is weakening. This creates a surplus. Stocks on the Shanghai Futures Exchange (SHFE) and on the London Metal Exchange (LME) are high and increasing. Meanwhile, the current economic uncertainty is exacerbating the weak conditions. Lower global economic growth prospects and the strong dollar are putting pressure on prices. In addition, the market for alumina - used in the production of aluminium - is in surplus. The alumina price is low, which translates to lower production costs for primary aluminium and contributes to its lower price. We expect that prices will remain low in 2019 and foresee that prices will fluctuate within a bandwidth of USD 1,700-1,900/t.

Strong dollar and macro uncertainty results in low copper price

The current macroeconomic uncertainty is leaving its mark on the copper price trend. Activity is stagnating in many sectors and that is having a negative effect on demand for copper. The copper price has already declined about 6% this year. The trade war is having a significant influence on the sentiment of investors, who tend to avoid the most cyclical metals, including copper. The dollar, which has strengthened this year, also affects copper prices. This causes a decrease in demand, due to higher purchasing costs. However, ABN AMRO expects that the dollar will weaken until the end of 2020. Meanwhile, the Fed will take a more stimulative policy stance this year. We think the interest rate will be cut three times by 25 basis points. In this scenario, the dollar will weaken, and this will have an upward effect on the copper price. Volatility will remain high. Over the next few months, the progress of the trade war and macroeconomic uncertainty will have a strong impact on the price trend.

Availability of aluminium remains high

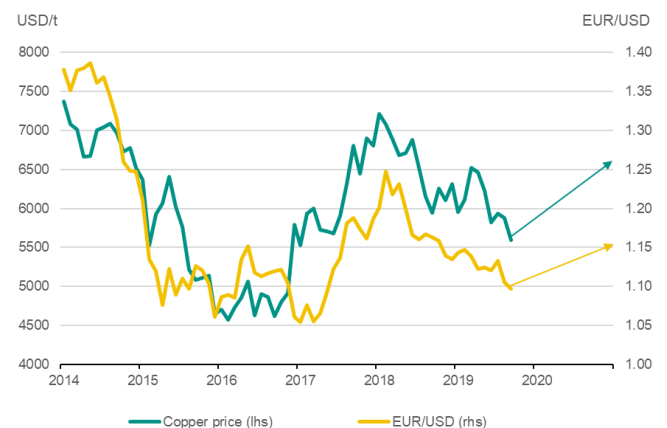
weekly price trend aluminium versus stocks at Shanghai & LME



Source: Refinitiv (formerly: Thomson Reuters Datastream)

Dollar has high influence on copper price trend

price trend copper versus US dollar



Source: Refinitiv (formerly: Thomson Reuters Datastream)

Indonesian export ban sends nickel price to new highs

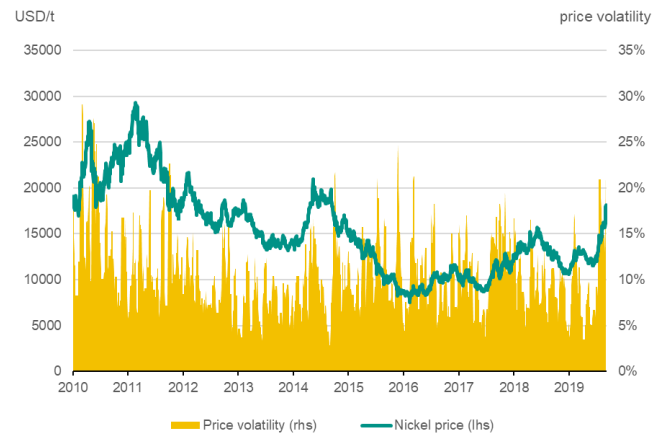
The nickel price has risen by more than 70% this year, making it the strongest price performer of all the base metals. The price volatility increased swiftly when the Indonesian government brought forward an export ban, which was initially planned for 2022. From January 2020, raw nickel ores are no longer permitted to leave Indonesia. The move caused a shock in the market. The price rose spectacularly on the assumption that from 2020, the market will face a significant shortage of ores. The mining sector in the Philippines can still fill the gap but the quality of these ores is much lower. In any case, we think that both price and volatility will remain high for the time being. A further escalation of the trade war can send price down again. In addition, it has also become clear in recent years just how capricious Indonesia's government policy is. If the policy proves to have a negative effect on the economy, there is a good chance it will be relaxed. After all, the same thing happened in 2014.

Demand for zinc is weak, which is creating a low price environment

Premiums for direct delivery of zinc from warehouses in China are at a historically low level. This indicates that Chinese demand for zinc is weak. Premiums in Europe also declined, mainly due to weaker orders. The relatively low level of activity in large end-use sectors (construction and automotive) is adding to the price pressure. Despite the fact that warehouse stocks are declining and the market is facing a shortage of zinc, sentiment in the zinc market remains low. This is related to the trade war and the weak economic climate globally. As a result, the zinc price has already fallen by 12% this year. We think that zinc prices will remain relatively low for the time being. A number of zinc mines were closed between 2013 and 2016, which caused a shortage of ores and a rise in zinc prices. Since then, however, there have been substantial investments in new mining projects. These mines became operational from 2018 and mine output recovered. This will determine market conditions in the coming years and ensures that the refined market will once again have to deal with an oversupply.

Strong price increase and higher volatility

nickel price and price volatility in %



Sources: Refinitiv, ABN AMRO Group Economics

Weak demand leads to larger price and premiums

zinc price and premiums for direct delivery (China)



Source: Refinitiv (formerly: Thomson Reuters Datastream)

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