

Short Insight - Metals

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Higher base metal prices despite economic turmoil

Casper Burgering

Senior economist Industrial Metals

Phone: +31 6 109 760 34

casper.burgering@nl.abnamro.com

Disappointing economic figures from China (especially from trade and the automotive sector) have not reversed the positive sentiment in base metals markets. Optimism about a possible positive outcome of the trade negotiations is the main driver for the current price increases in the base metals complex. In the event of a positive result, the prices will rise further, but this result is already largely priced in. After the trade war dust has settled, fundamental drivers will take over and they show a mixed picture.

- **Aluminium:** good availability ensures low price volatility
- **Copper:** price trend as a barometer of the trade negotiations
- **Nickel:** stronger growth in demand in the stainless steel and electric car sectors
- **Zinc:** production is growing, while automotive sector demand is weak

Sufficient sources of aluminium keep price tempered

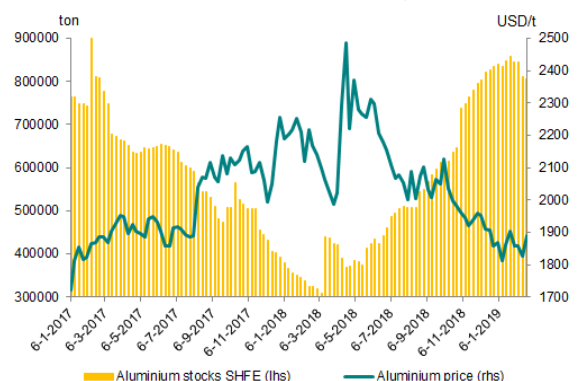
The price of aluminium has increased by 2% this year, which is limited compared to the relative price increase in the other base metals markets. This is mainly because the availability of aluminium is still good and that will remain the case in the long term. The US sanctions imposed on Rusal - a large Russian smelter - have been lifted, which ensures an abundant supply. In addition, the level of stocks in China - the largest producer of aluminium - give a good indication of aluminium availability. The stocks at the SHFE (Shanghai Futures Exchange) appear to closely mirror the trend in the aluminium price (see figure). In addition, Chinese production and exports are expected to increase further. That will dictate market sentiment and price. ABN AMRO expects the aluminium price to fluctuate between USD 1,800-2,000/t in 2019.

Trend copper price as barometer of the trade negotiations

The copper price has increased by 10% this year, with the current market deficit contributing to the higher price. The direction of the dollar is also significant for the copper price trend (see figure). However, since the third quarter of 2018, that relationship has become much less important. The EUR/USD fluctuated between USD 1.13 and 1.16, while the copper price was much more volatile. This is because the progress of the trade talks between the US and China has a significant impact on price direction. The copper price reacts quickly to both positive and negative trade war news. When the news is good, optimism increases and the price rises. As a result, the copper price can be characterized as a barometer of the trade war negotiations. The trade war will probably be resolved at end of March. From that point onward, the deficit in the copper market will give further support to prices.

Supply influence on direction aluminium price

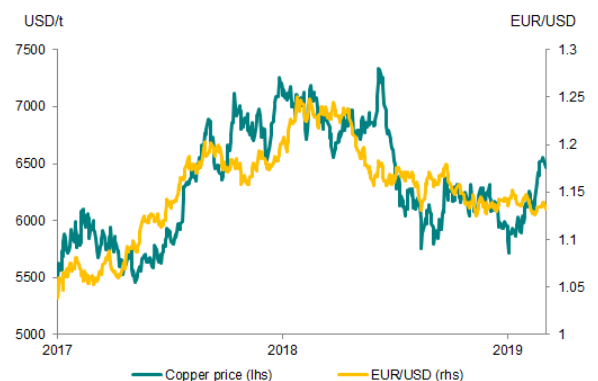
weekly price trend aluminium versus stocks in Shanghai



Source: Thomson Reuters Datastream

Relation copper price and dollar strong

price trend copper versus dollar



Source: Thomson Reuters Datastream

Demand for nickel also remains solid in the long term

The price of nickel has increased by 24% this year, the strongest rise of all base metals. Positive sentiment related to the trade talks helps, but demand growth from the stainless steel sector and the battery sector (for electric cars) has been particularly key in lifting prices. A higher nickel price results in an increase in the stainless steel price (see figure). In addition, the price for steel sheet increased due to restocking, which also contributes to higher stainless steel prices. This year and next the nickel market will face deficits. The growth in demand is set to continue (the prospects for the electric car sector are particularly positive), while capacity expansions will remain limited. This is putting pressure on stocks and ensures that the price of nickel remains relatively high.

Rising nickel price lifts stainless steel prices

price trend versus steel price and stainless steel price



Source: Thomson Reuters Datastream

Zinc production set to increase, while end-user demand stagnates

The zinc price has increased by 12% since the start of 2019. The zinc market is currently coping with deficits and relatively low inventories, keeping zinc prices at fairly high levels. However, production at zinc mines will increase in 2019 and this will also put pressure on the market for refined zinc. After all, with an increased supply of zinc concentrates, the capacity utilization of smelters will also remain elevated. In addition, the price of zinc is now relatively high and zinc smelters want to benefit from this. The higher price of zinc translates into higher prices for galvanized steel (see figure). The demand for galvanized zinc will continue to grow, albeit at a considerably lower pace. This is mainly due to the declining activity in the automotive sector, which will put pressure on prices during 2019.

Higher zinc price increases galvanized steel prices

price trend zinc versus galvanized sheet prices



Source: Thomson Reuters Datastream

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