

Short Insight – Base Metals

Group Economics Emerging Markets & Commodity Research

20 March 2020

Corona crisis keeps base metals prices low

Casper Burgering Senior economist Industrial Metals Phone: +31 6 109 760 34 casper.burgering@nl.abnamro.com The pressure on base metals prices is high. The strong macroeconomic downturn due to the coronavirus crisis is having a strong downward effect on the trend in aluminium, copper, nickel and zinc prices. However, it has not yet led to the extremely low price levels reached during the financial crisis of 2008-2009 and the stock market shock in China in early 2016. Still, while government policies and monetary stimulus proved to be effective remedies to restore sentiment after these crises, we have not yet seen this during the current crisis. The economic stimulus packages rolled out in various countries are still insufficient to boost sentiment. Concerns about the ultimate impact of the coronavirus are still too high, and this will keep prices of base metals relatively low for the time being.

- Aluminium: large aluminium end-users close production sites
- Copper: copper price has already fallen 23% this year
- Nickel: pressure on nickel demand due to production delays in stainless steel
- Zinc: higher zinc production with weaker demand

Large aluminium end-users close production sites

Premiums for direct delivery of aluminium remained stable over the past week. Meanwhile, the first aluminium end-users across Europe began to shut down as a result of the coronavirus. For example, Volkswagen and Ford are closing several European production locations this month. More closures are expected. On the other hand, the production of packaging for food and medical applications has continued. And because many Italian aluminium producers are now closed, there is an increased demand for aluminium products from other countries where the virus has not yet hit in full force. All-in-all, the aluminium price has fallen by around 9% this year. This is a relatively weak decline compared to the other base metals. This is because the aluminium market has been subject to price pressure for some time due to overproduction and high availability.

Copper price has already dropped 23% this year

Global economic activity is stagnating strongly in many sectors and this is affecting demand for copper. The price of copper is already about 23% lower this year. After the pressure of the trade war in 2019, the coronavirus is now having a major impact on investor sentiment. Indeed, investors are avoiding the most cyclic metals, including copper. The trend in the dollar exchange rate also strongly affects the copper price. The EUR/USD reached its high so far this year on March 9. After that, the dollar strengthened by 5% and pressure on the copper price increased. ABN AMRO expects a deepening global economic contraction in the short term. We also expect a longer term economic slowdown before a strong and sustainable recovery takes place. This will have a severe impact on copper. Uncertainty therefore remains high and will keep the copper price relatively low in the next two quarters.







Source: Refinitiv

insights.abnamro.nl/en/

Pressure on nickel demand due to output delays stainless steel

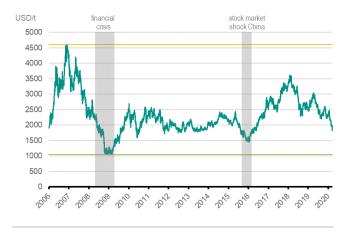
Italy is one of the largest markets for stainless steel products in Europe. Due to Italy's lockdown, confidence in the stainless steel sector has been hit hard across Europe. Further production delays can be expected as demand for stainless steel products across Europe will fall. As a result, demand for nickel will also decrease, putting pressure on prices. The nickel price has declined by 19% this year. The number of orders is decreasing, and this will continue in the near future. We think the price will remain relatively low in the coming months. Stainless production in China will remain weak in the first half of this year. There is a good chance that confidence in nickel will increase again during the second quarter. Still, because inventories will remain high for the time being, renewed confidence will not immediately lead to a significant price recovery.

USD/t financial stock market shock China 60000 50000 40000 30000 20000 10000 2015 2010 2009 2012 2014 2017 2001 2008 2010 2011

Nickel price with highest and lowest level

Source: Refinitiv

Zinc price with highest and lowest level



Source: Refinitiv

Higher zinc production with weaker demand

According to the International Lead & Zinc Study Group (ILZSG), the global zinc deficit decreased sharply in 2019. This was mainly because demand for zinc flattened. And demand has remained weak during the first quarter of 2020 because many Chinese companies (in the construction and automotive sectors) have ceased their activities due to the virus. However, despite this, Chinese refined zinc production grew 13% on an annual basis until February. This was mainly because the treatment charges for converting zinc concentrates into metal remained relatively low. Zinc prices have already fallen by 20% this year. European trade activity in zinc has largely stalled as an increasing number of countries have taken drastic measures to slow the coronavirus outbreak. This will slow down economic activity and keep zinc price low for the time being.

DISCLAIMER

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on commodities. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.

No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.

Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product -considering the risks involved- is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2020 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO)

