

Industrial Metals Insights

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Industrial Metals Markets

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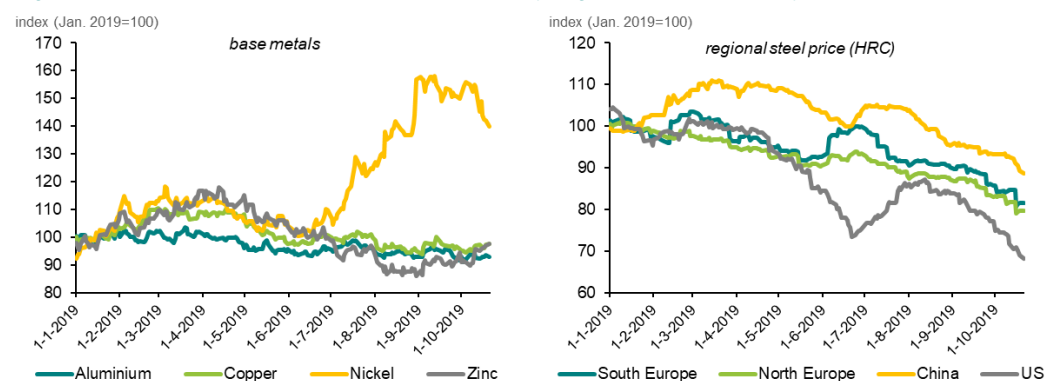
Economic turmoil affects metal prices

- Prices in metal markets are heavily influenced by cyclical trends
- **Base Metals:** weakening global economic growth is dampening prices
- **Steel:** output is high with weak manufacturing demand, particularly for cars
- **Steel (raw materials):** cheapest types of iron ore remain popular

Figure 1: Price trends in base metals and steel (by region) since 1 January 2019

	Spot price (USD/t)	% price change (1 Jan.)
21-10-2019		
Aluminium	\$1,722	-7.6%
Copper	\$5,804	-2.4%
Nickel	\$16,080	51.6%
Zinc	\$2,504	-0.6%
Global Steel (HRC)	\$440	-20.4%
South Europe	\$446	-19.6%
North Europe	\$477	-20.6%
China	\$430	-10.9%
US	\$474	-34.6%
Iron Ore	\$86	19.6%
Coking Coal	\$144	-25.8%

Scrap	Spot price (USD/t)	% price change (1 Jan.)
21-10-2019		
Aluminium (tabloid)	\$1,494	-8.0%
Aluminium (taboo)	\$1,371	-13.1%
Aluminium (taint)	\$635	-29.6%
Aluminium (tense)	\$635	-28.7%
Copper (candy)	\$5,328	-3.9%
Copper (berry)	\$5,116	-4.6%
Copper (birch)	\$4,849	-4.3%
Zinc scrap	\$2,040	-5.6%
Steel scrap (NE USA)	\$202	-32.7%
Steel scrap (Europe)	\$222	-32.7%
Steel scrap (China)	\$235	-25.4%



Source: Refinitiv

The prices of two metals currently stand out in the industrial metals markets: those of nickel and iron ore. The nickel price has risen by nearly 54% this year, while the iron ore price has risen by around 20%. The sharp price increases in these markets were mainly attributable to government policy (the Indonesian export restriction on nickel ore) and a natural disaster (the flooding of iron ore mine because of a dam burst in Brazil). Prices in the other industrial metal markets have fallen this year, illustrated in particular by the sharp fall in steel prices in the US and the fall in the price of coking coal.

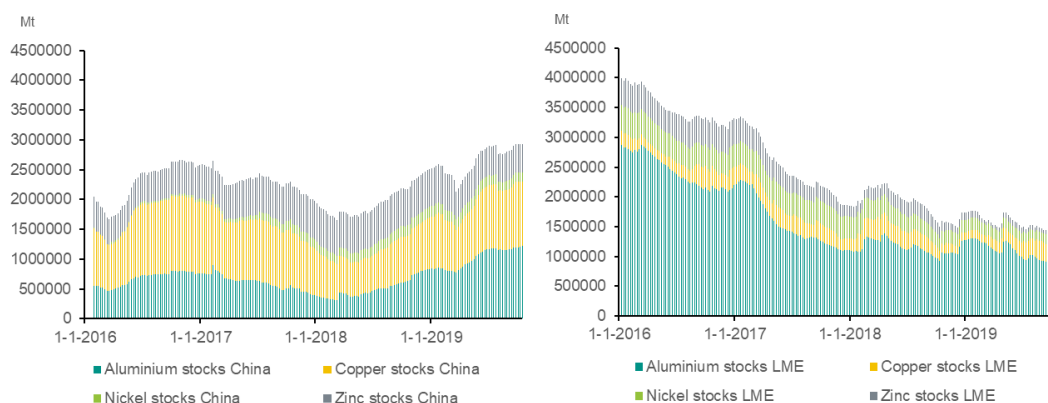
The demand for metals is weak due to declining global economic activity. Macroeconomics also heavily influence price trends. This determines sentiment in many markets. A combination of cyclical factors will continue to drive the price for industrial metal markets in the coming months. Key drivers are the trade wars, global economic activity and the monetary policy of central banks.

Developments in trade conflicts between the US with China and the EU are crucial for investor sentiment. In the event of an escalation, uncertainty increases and investors are not eager to invest in cyclical metals. The trade conflicts cause a stronger cooling of the Chinese economy and puts pressure on the economies of both the US and the EU. This has an adverse effect on the demand for industrial metals. To mitigate the economic downturn, central banks such as the Fed (US), the ECB (EU) and the PBoC (China) are pursuing stimulating economic policies. This global monetary easing cycle contributes to a stabilisation of economies. However, the downside risks remain high. They include a further escalation of trade conflicts and geopolitical challenges (Iran, Hong Kong, North Korea, South China Sea, Syria). A recession is still a real possibility.

Base Metals: weakening global growth is dampening base metal prices

The inventories in storage houses of the London Metal Exchange (LME) and the Shanghai Futures Exchange (SHFE) partly reflect the fundamental trends in the base metals complex. However, there are many more parties that hold stock, such as traders, service centres, producers, end users and financiers. This makes it more difficult to draw conclusions from the LME and SHFE inventory trends.

Figure 2: Inventories base metals SHFE and LME



Source: Refinitiv

The total inventories in the SHFE storage houses are increasing, while those in the LME storage houses have been declining for some time. There are now more inventories in Chinese storage houses than in LME storage houses. Inventories of aluminium (+ 44%) and copper (+ 24%) in the SHFE storage houses saw especially sharp increases this year. Chinese nickel and zinc inventories fell. It is noteworthy that copper inventories increased in both SHFE and LME storage houses. The inventories in both storage houses now represent around 10% of the total demand for copper. This was 4% at the end of 2018. These high inventories have a dampening effect on prices. For this reason, prices are responding mildly to positive messages regarding the trade dispute or the Chinese economy.

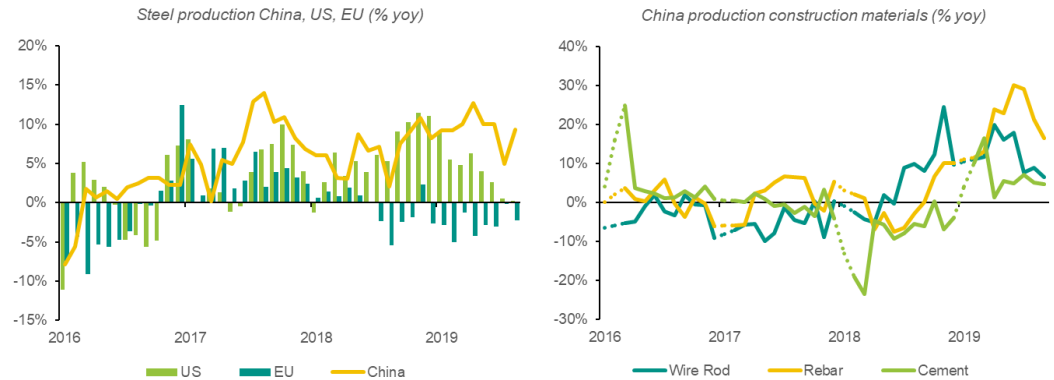
For the time being, trends in base metals markets remain highly dependent on economic trends. On balance, the world economy is still doing well, despite increasing macroeconomic unrest. However, the risks are real, which is why sentiments among investors remain hesitant. The Chinese economy in particular is still the one to monitor with regard to base metals markets. The Chinese economy is cooling further. The US and the EU also feel that the pressure on their economies is increasing. The Fed, the ECB and the PBoC have all taken measures to support growth. More monetary easing is expected as soon as economic activity starts to deteriorate further. Weaker US macroeconomic data will lead to a greater chance of more interest rate cuts. This will subsequently result in a weaker dollar and some support for basic metal prices. That said, we believe that the net effect will be relatively limited. Macroeconomic unrest and uncertainty are driving prices for the time being.

Steel: output is high with weak manufacturing demand, particularly for cars

Steel production continues to increase. The output of the Chinese steel industry in particular remains high. Output increased by 9% on an annual basis the year to August. In the US, steel production increased by 4% in the same period, but the decline in output has

been significant in recent months. European steel mills produced around 3% less steel this year.

Figure 3: Steel production and production building materials (China)



Source: Refinitiv

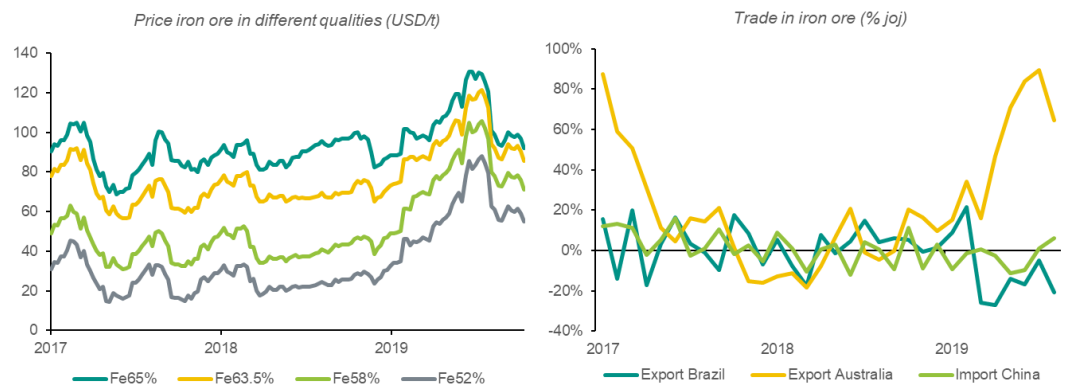
In recent years, the ferrous sector has become increasingly regulated. New anti-pollution policy is particularly harmful to activity in heavy industries such as the steel industry. This is especially prevalent in China, the largest steel producer in the world. Safeguard measures on imports of steel products (EU) and trade tariffs (US) also cause changes in the global steel trade flows.

Macroeconomic sentiment has much less influence on the steel industry than on the base metals complex. Nevertheless, macroeconomic trends remain an important focus area for the steel sector. The growth of activity among end users (construction, automotive, machine building and metal processing) is particularly important to monitor. With the exception of construction, activity is now weak in most end-user sectors. Car production is shrinking in China, the US and the EU. The manufacturing sector is also struggling at this stage. Construction is still a bright spot, especially in China. The construction of residential properties and office buildings shows a slight recovery. This is also reflected in the increase in the production of building materials, such as reinforcement steel (rebar) and cement. On balance, however, global demand for steel is still weak.

Steel (raw materials): cheapest types of iron ore remain popular

The price of iron ore (63.5% iron content) has risen by around 17% in the year to date. A dam burst in Brazil caused a major supply disruption in January this year. The price of iron ore increased sharply, which caused much of the margins achieved by steel mills to

Figure 4: Iron ore prices and trade in iron ore



Source: Refinitiv

evaporate. Many mills were not in a position to recharge the price increase to end users due to weak market conditions. The pressure on the margins of steel companies remains high for the time being. Relatively weak demand for steel and continually high production levels keep steel prices low. For cost reasons, steel mills prefer the cheaper types of iron ore (58% and 52% iron content). This requires more energy in the production process, but ensures that steel mills remain somewhat financially viable. The price of 52% iron-content ore is still higher by 69% than it was on 1 January. However, the supply of iron ore is recovering and demand from China is weaker. This puts pressure on prices. The prices of all types of iron ore have fallen by an average of around 32% since mid-July.

Chinese imports of iron ore decreased by 2% on an annual basis year to September. The higher prices prompted many traders to postpone their purchases. Inventories in Chinese ports fell. Over the past three months, iron ore imports from China have increased by 5% on an annual basis, partly due to the fall in prices. A further recovery of seaborne supply (from Brazil and Australia) is putting pressure on prices. Continued growth in Chinese iron ore imports, however, helps to limit these price cuts.

Sources:

For this publication, several sources were used, of which Argus Metals, CRU, Mining Journal, OECD, ISGS and Refinitiv (formerly Thomson Reuters Datastream) are the most important.

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