30 May 2024

Global Markets Research

Research Alert

Is the recent rally in base metal prices sustainable?

Base metal prices are expected to remain steady and elevated in 2024 and 2025

Clean energy transition, potential China demand and supply constraints are positive drivers

AUD, CAD and yuan could be the biggest beneficiary, the latter barring more tariff slaps

Overview

Metal prices increased 9.1% m/m in April and further by 2.0% m/m in May, following a relatively stable 2023 (Refer to Figure 1). According to the World Bank, the recent uptrend largely reflected positive sentiment over stronger demand and amid concerns of supply disruptions for some key metals and thus, are expected to remain steady and elevated in 2024 and 2025.

Metal prices could potentially stay elevated going forward

Notwithstanding downside risks to price outlook due to the slower-than-anticipated growth in some major economies, especially China, which could further suppress industrial activity and metal demand, as well as near term technical correction given the run-up in prices recently, we are positive that prices for base/ industrial metals could remain elevated going forward, attributable to the following factors

1. **China's demand**: Protracted weakness in China's property market has affected demand for base and industrial metals like iron ore and steel since 2023. Moving forward, the additional stimulus for China's property sector, recent pick-pick up in industrial output and anticipation of a robust infrastructure investment should help cushion subdued demand outside of China due to still elevated interest rates.

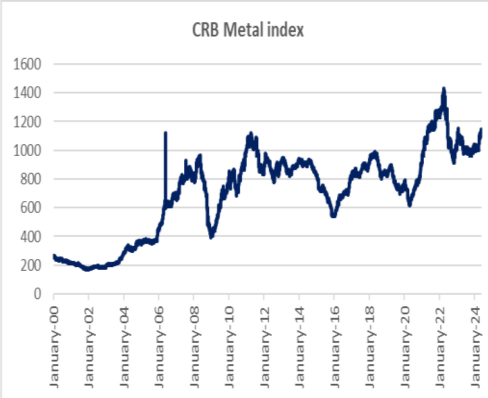
2. **Supply factors**: Supply constraints due to trade restrictions and costs/budget are likely to lend support for prices of some base metals.

   - Recent ban on Russian-origin metals at the London Metal Exchange and the Chicago Mercantile Exchange could potentially tighten supplies for aluminium, nickel and copper.
   - The International Copper Study Group (ICSG) cut its supply surplus forecasts this year due to lower-than-expected production. This comes amidst production cuts and disruptions in South America, be it due to protests over environment concerns (First Quantum Minerals halted production at its Cobre Panamá copper mine) or to cut costs, like Anglo American.
   - Data available from the Australian Burean of Statistics showed that mineral deposits drilled, thus supply, has fallen for the past 2 years. Amongst others, this could be due to miners cutting down on supply in lieu of lower demand from China, lower budget allocations as well as emerging restrictions in the ESG arena, especially in protecting human rights including indigenous people.

3. **The Dollar factor:** With the FOMC still expected to cut rates in 2H this year/ early next year, the US Dollar is expected to come under pressure eventually and push metal prices higher.

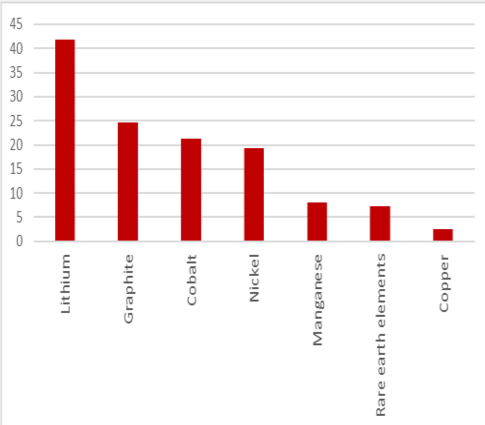
4. **Linchpin in the transition to clean energy**. The transition to a net-zero economy is expected to be metal intensive and will attract demand from two fronts. 1) End-user sectors will need the relevant base metal for each technology. 2) Selected

Figure 1: Recent gains in CRB Metal Price Index



Source: Bloomberg

Figure 2: Demand growth (in folds) for selected minerals from clean energy technologies, 2040 vs 2020



Source: https://www.iea.org/reports/the-role-of-critical-minerals-in-clean-energy-transitions/executive-summary metals like steel are needed to build the infrastructures for metals and mining companies to ramp up capacity and more cleanly.

According to IEA, a fast energy transition could require a more than 40-fold increase in the consumption of lithium for EVs and renewables, while the consumption of graphite, cobalt, and nickel for these purposes may rise around 20-25x (Refer to Figure 2).

According to the Energy Transitions Commission, the transition to global zero-carbon energy would require the production of 6.5bn tonnes of end-use materials between 2022-2050, 95% of which would be steel, copper and aluminium.

Prices may have peaked or not, but yuan, CAD and AUD could gain

Moving forward, based on median consensus forecasts, most base metal commodities may have peaked and are expected to see some price corrections in 2024 after April's blip, except for steel, but prices are expected to recover again in 2025.

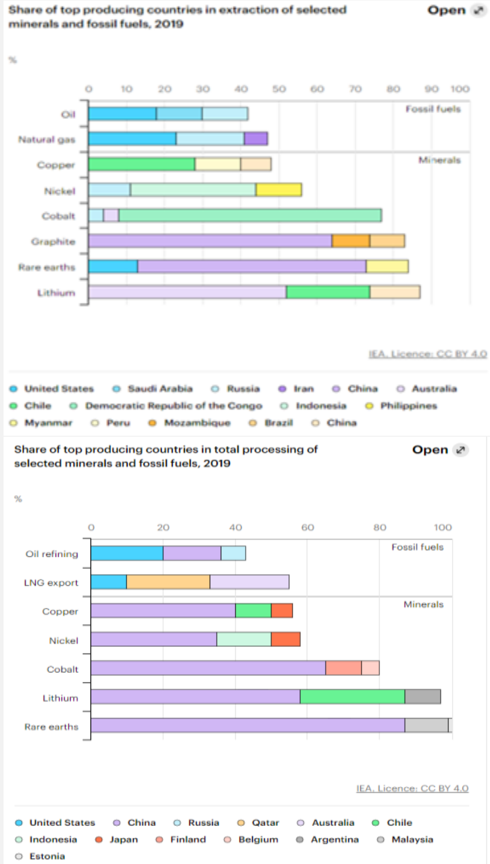
Table 1: Commodity price forecasts, as of 28th May

	Spot	2024	2025	2026	2027
Copper $/mt	10,334.0	9,008.0	9,417.9	9,760.4	9,665.4
World Bank forecast*	8,490.0	8,900.0	8,800.0		
Nickel $/mt	20,310.0	17,225.0	17,643.5	18,150.0	18,568.5
World Bank forecast*	21,521.0	17,000.0	18,000.0		
Zinc $/mt	3,058.5	2,550.0	2,648.2	2,733.2	2,742.9
World Bank forecast*	2,653.0	2,500.0	2,600.0		
Tin $/mt	33,200.0	27,800.0	27,649.9	31,000.0	32,350.0
World Bank forecast	25,938.0	27,000.0	28,000.0		
Aluminum $/mt	2,658.0	2,340.0	2,487.5	2,600.0	2,643.7
World Bank forecast*	2,256.0	2,300.0	2,400.0		
Steel-Hot R. $/ST	782.5	860.0	826.5	770.0	779.0
World Bank forecast*					
Iron Ore Fines62% Fe spot USD/MT	119.1	112.6	103.0	91.3	90.0
World Bank forecast*	120.6	110.0	105.0		
Lead $/mt	2,305.0	2,100.0	2,119.0	2,100.0	2,202.5
World Bank forecast*	2,136.0	2,100.0	2,050.0		

Source: Bloomberg, World Bank's Commodity Price Outlook (April 2024), * denotes 2023 prices for spot category

Thus, while it remains challenging if base metal prices will continue its upward trend, one thing for certain is that on top of mining producers like Canada and Australia, the Chinese economy and yuan could be a notable beneficiary to stronger metal prices as the top producing country in extraction and processing of minerals and fossil fuels globally, barring more trade restrictions from the US and EU.

Figure 3: Top producing countries in extraction and processing of selected minerals and fuels, suggesting that China (and yuan) is one of the biggest gainers



Source: https://www.iea.org/reports/the-role-of-critical-minerals-in-clean-energy-transitions/executive-summary

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my