



بنك الإمارات دبي الوطني
Emirates NBD

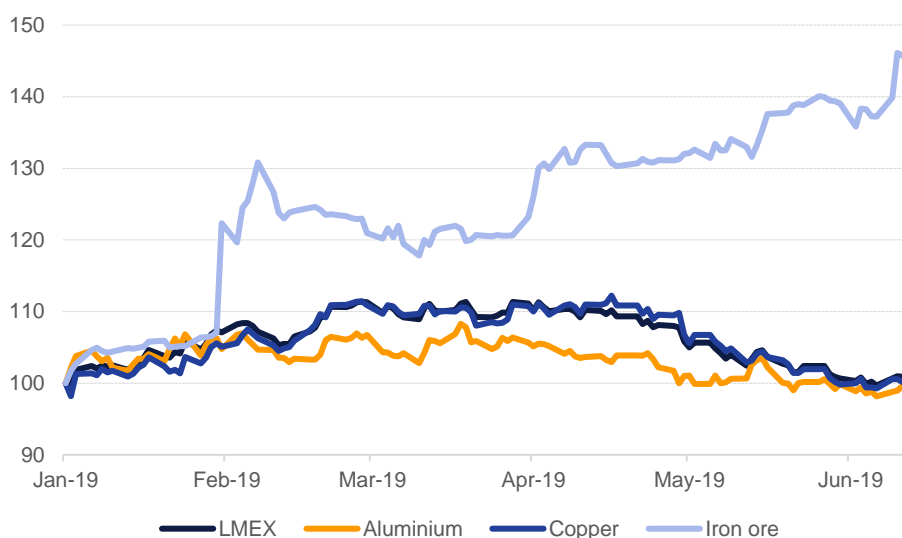
Commodities

17 June 2019

Metals set to soften in second half

Industrial metals have endured a tough second quarter. All six major non-ferrous metals have declined in the second quarter and most have pushed into negative year-to-date performance. The prospect of a wide-ranging and hostile trade war between the US and China along with a general slowdown in global manufacturing has weighed on metals and these effects seem unlikely to dissipate in the near term. We had anticipated prices tempering their strong first quarter performance in the second half of the year but the slowdown has come sooner than expected as odds of a China-US trade deal appear remote. We are thus revisiting several of our price assumptions for base metals and iron ore.

Industrial metals soften in Q2



Source: Eikon, Emirates NBD Research. Note: Jan 2 2019 = 100.

The upswing in global manufacturing that looked to have been in place since the start of 2016 is now firmly engaged in a downturn. The global manufacturing PMI fell below 50 in May while the backlog of work component has been stuck below 50 for all of 2019, sending a worrying signal for metals demand for the rest of the year. Meanwhile global trade as measured by the CPB World Trade Monitor has collapsed and is barely eking out growth.

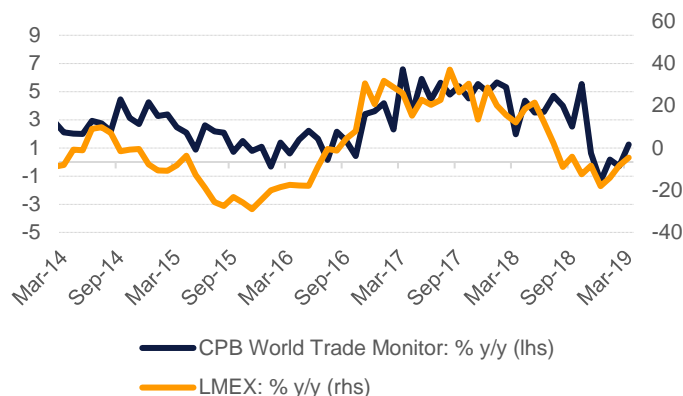
Emirates NBD Research industrial metals price assumptions

	Jan 2019	Apr 2019	Jul 2019	Oct 2019
Aluminium	1,883	1,825	1,775	1,775
Copper	6,219	6,200	6,000	6,000
Lead	2,048.80	2,043	1,985	1,985
Nickel	12,468	12,400	12,500	12,750
Tin	20,951	20,425	20,500	20,500
Zinc	2,684	2,677	2,605	2,605
Iron ore	82.69	95.00	90.00	80.00

Source: Emirates NBD Research. Note: quarterly average USD/tonne.

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Trade growth has slumped



Source: EIKON, CPB.

China's economy continues to soften

China's economy, the critical element for global metal demand, is showing signs of slowdown on nearly every indicator. Exports barely reported growth in May while producer price inflation continues to slip to near 0. Manufacturing, according to the government's PMI figures, has been flat-lining or contracting so far this year. Market reaction to disappointing data from China has, however, often been positive on the assumption that the worse data get, the more likely heavy fiscal stimulus will be forthcoming.

The soft underlying macro picture in China would be damaging enough for industrial metal demand and was what we cautioned earlier this year would act as a drag on metals prices. But sentiment towards commodities generally is turning negative as a positive resolution to the US-China trade war looks out of reach in the short term. As US president Donald Trump turns his focus to re-election in 2020 we expect he will maintain a hardline on China issues and push for significant changes to Chinese industrial policies, something authorities there will balk at accepting. A meeting between Trump and China's president Xi Jinping later in June at the G20 is uncertain and appears unlikely to result in any agreement if it indeed occurs.

As the top-level macro picture becomes increasingly difficult for commodities, individual market dynamics will shape the scale of price response.

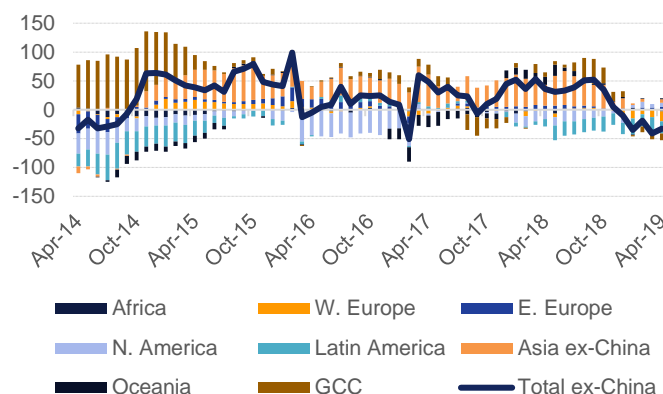
Aluminium faces high output from China

Aluminium prices have fallen more than 4.4% this year as the market has absorbed the ending of US sanctions on Rusal, a major Russian producer, and persistently high Chinese production. Outside of China, aluminium production is in decline y/y, led by lower volumes from Latin America as power shortages in Venezuela have disrupted output there and production in Brazil had been affected by restrictions to domestic alumina supply.

Production from China has begun to plateau as the industry has been under pressure to close older, less efficient smelters and shut down illegally build capacity. However, China is still producing aluminium at a near record pace and exports have maintained their

elevated levels. Planned prohibitions on importing scrap metal (to take effect in July) should help keep domestic output near recent highs, particularly as declining stockpiles suggest that domestic demand may be holding reasonably steady.

Aluminium production outside China



Source: IAI, Emirates NBD Research. Note: '000 tonnes

We are revising lower our forecast for aluminium prices (LME 3mth forwards) to an average of USD 1,815/tonne for 2019 as we expect the negative pressure from trade war fears to outweigh supply constraints in the near term. As we move into 2020 prices should begin to stage a recovery as supply growth outside China is likely to be limited.

Copper supply remains constrained

Copper prices have been pummeled by fears that the trade war between the US and China will push the global economy into recession. Since the start of the second quarter, copper prices have fallen more than 10% and pushed investors to take a heavily short position on the red metal. Speculative net short positions on COMEX copper account for around 17% of open interest as of mid-June. Expectations for demand are the force setting copper prices in the short term even though the metal remains in a supply constrained thanks to limited supply growth at both mines and smelters.

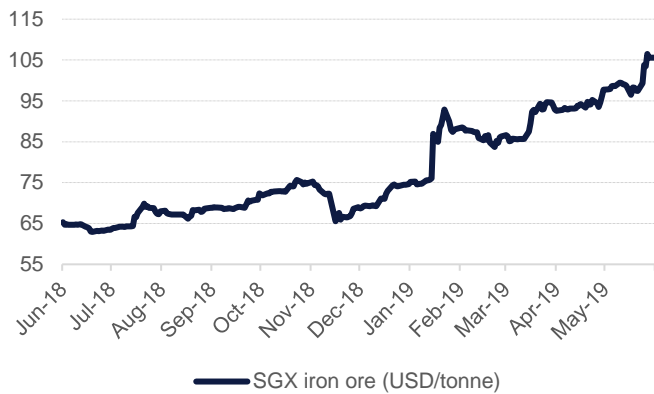
We now expect copper prices to linger closer to USD 6,000/tonne for the rest of 2019 with downside dips in response to negative trade war headlines. The muted supply outlook for the next few years, however, should help set a floor under prices and allow copper to recover.

Iron ore the standout among metals

Iron ore remains the one standout market in terms of metals performance. Prices have risen more than 50% ytd as output from Brazil has been disrupted since January. Iron ore inventories in Chinese ports has dipped steadily this year and are now at their lowest levels since early 2017. However, high iron ore amid stable steel prices will be squeezing steel mill margins in China and could see buying slowdown during the remainder of the year, particularly as the economy still hasn't received heavy-handed fiscal stimulus.

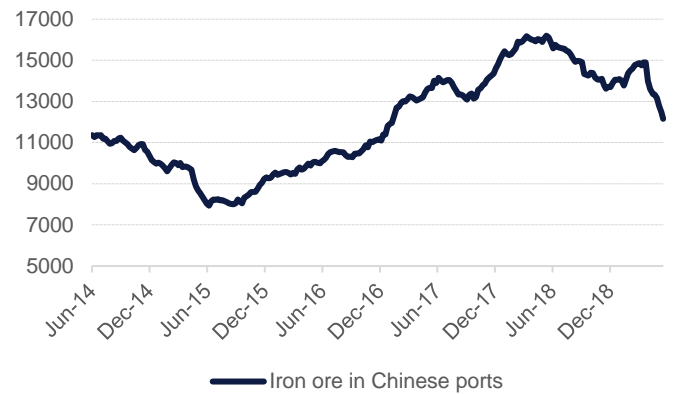
We are marking our forecasts to market but still expect prices to retreat from current levels by year end.

Iron ore prices



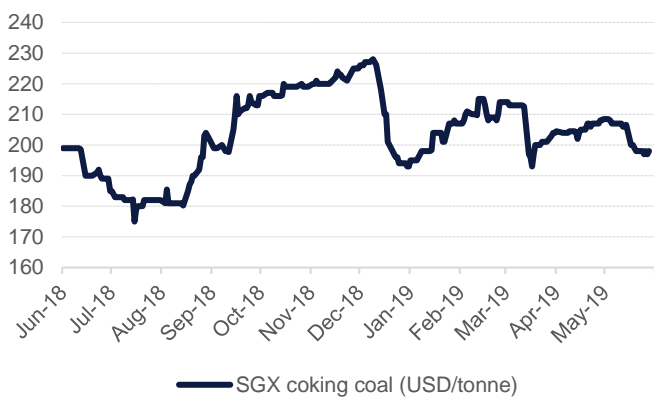
Source: EIKON, Emirates NBD Research.

Iron ore inventories



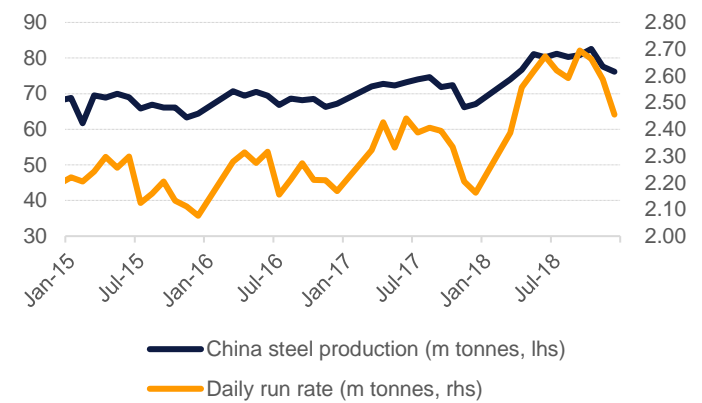
Source: EIKON, Emirates NBD Research.

Coking coal prices



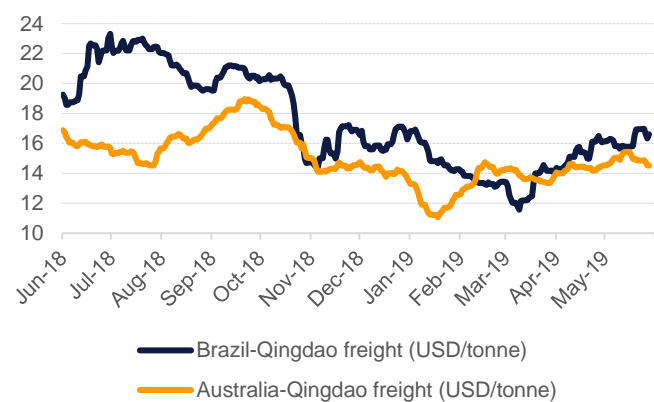
Source: EIKON, Emirates NBD Research.

Steel output



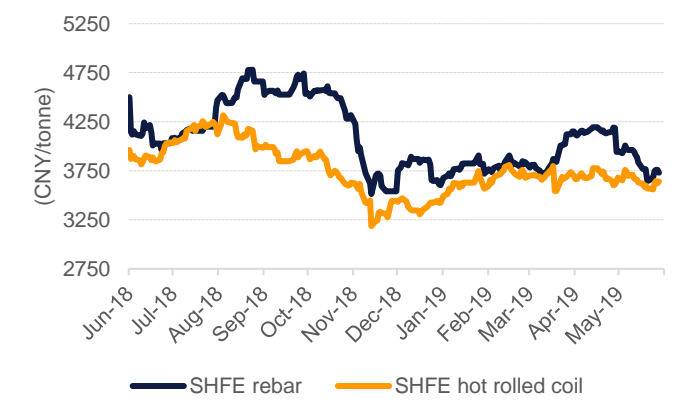
Source: EIKON, Emirates NBD Research.

Freight rates



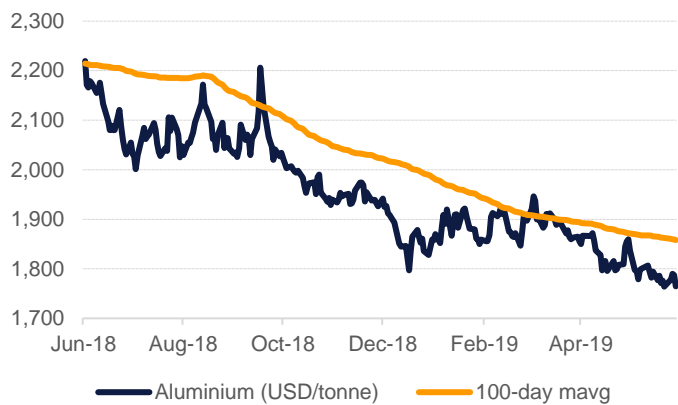
Source: EIKON, Emirates NBD Research. Note: USD/b.

Steel prices



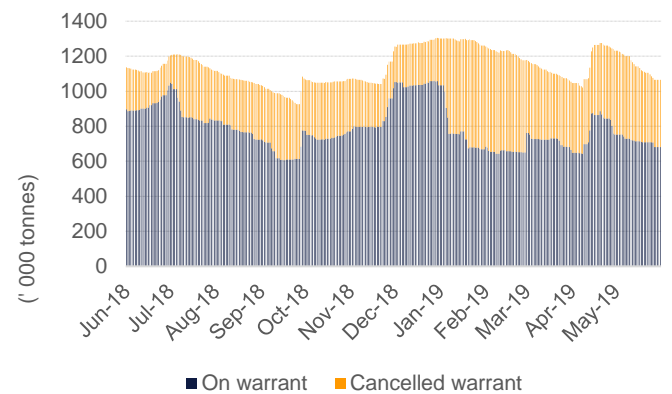
Source: EIKON, Emirates NBD Research.

LME aluminium: 1 year



Source: EIKON, Emirates NBD Research.

LME aluminium inventories



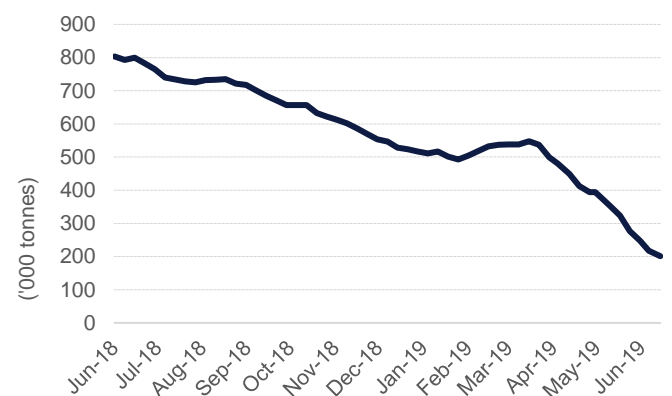
Source: EIKON, Emirates NBD Research. Note: NYMEX only.

LME aluminium: 5 year



Source: EIKON, Emirates NBD Research.

SHFE aluminium inventories



Source: EIKON, Emirates NBD Research. Note: ICE only.

Forward curve



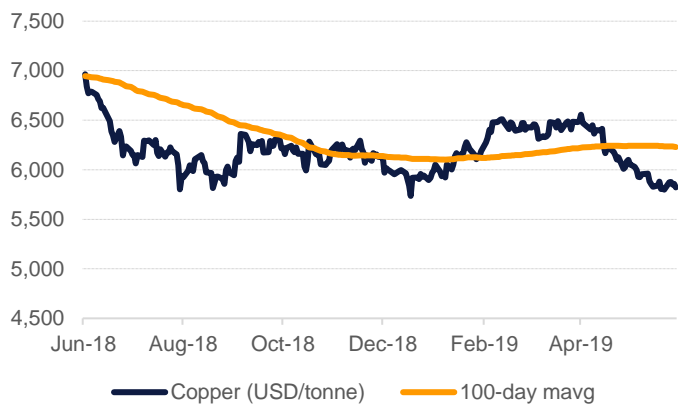
Source: EIKON, Emirates NBD Research.

China aluminium output



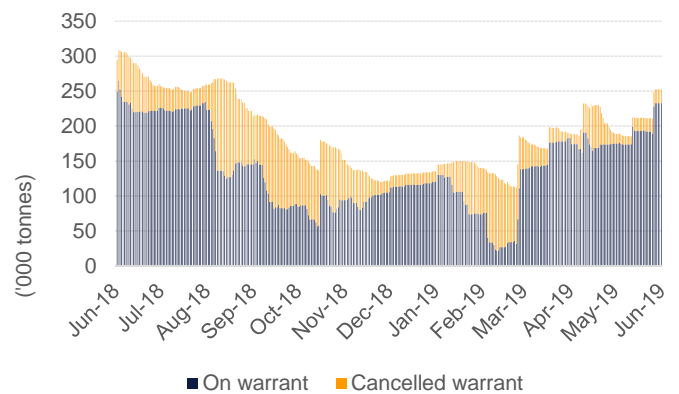
Source: IAI, Emirates NBD Research.

LME copper: 1 year



Source: EIKON, Emirates NBD Research.

LME copper inventories



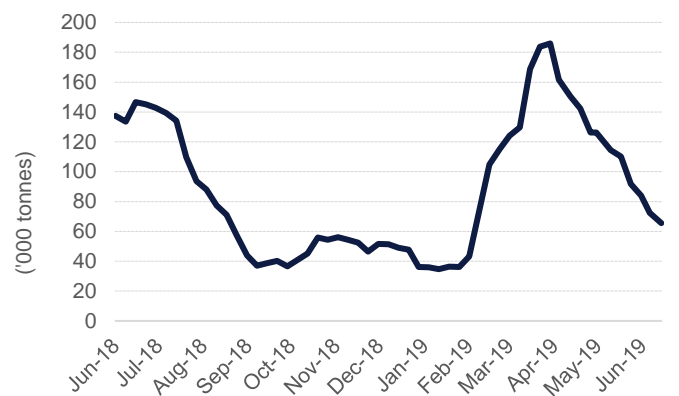
Source: EIKON, Emirates NBD Research.

LME copper: 5 year



Source: EIKON, Emirates NBD Research.

SHFE copper inventories



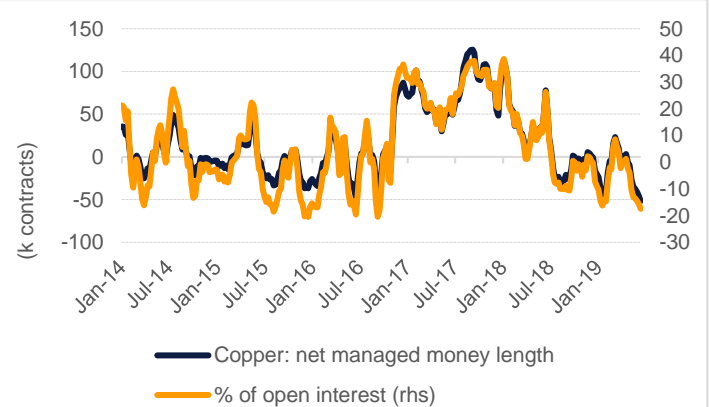
Source: EIKON, Emirates NBD Research.

Forward curve



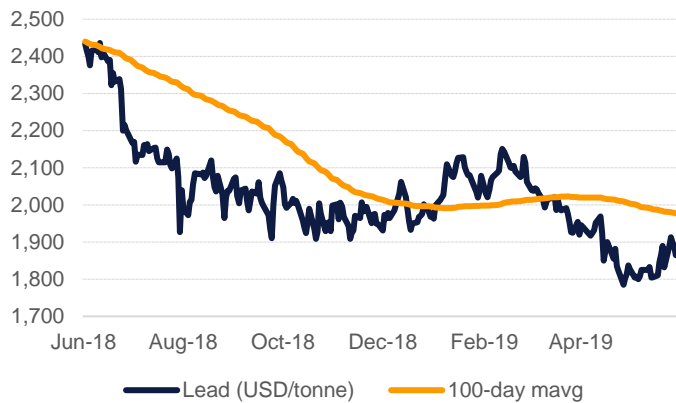
Source: EIKON, Emirates NBD Research.

Copper speculative interest



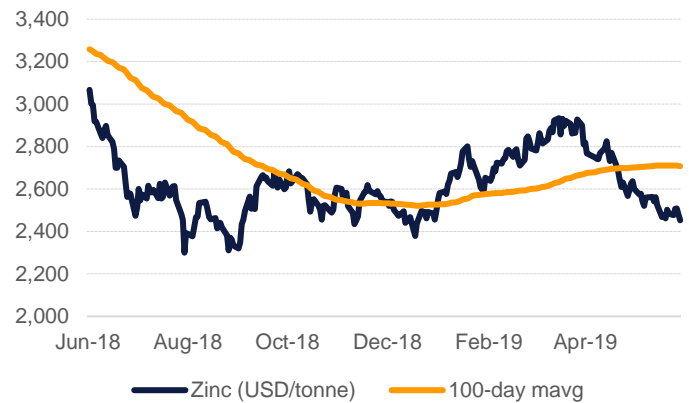
Source: EIKON, Emirates NBD Research.

LME lead: 1 year



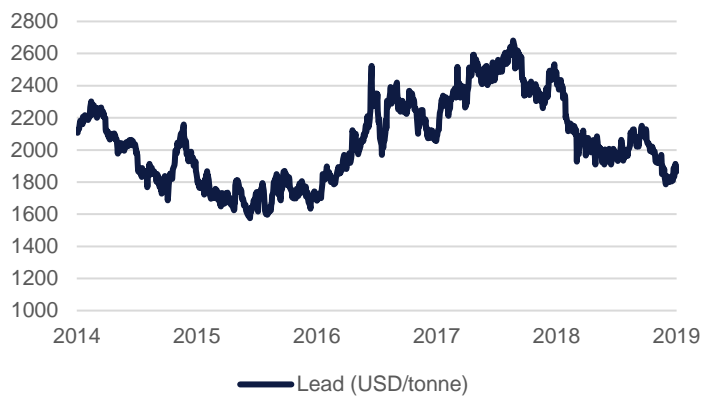
Source: EIKON, Emirates NBD Research

LME zinc: 1 year



Source: EIKON, Emirates NBD Research

LME lead: 5 year



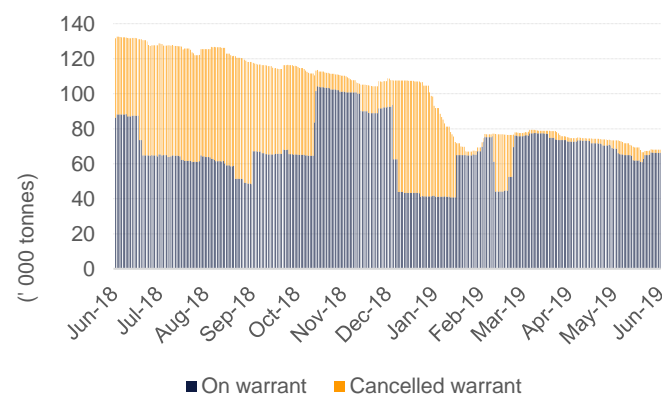
Source: EIKON, Emirates NBD Research.

LME zinc: 5 year



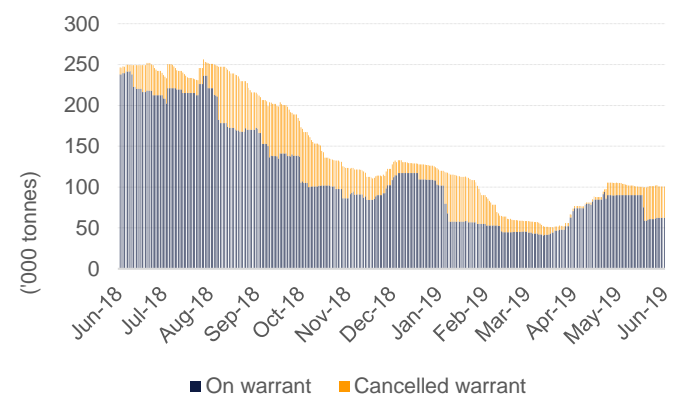
Source: EIKON, Emirates NBD Research

LME lead inventories



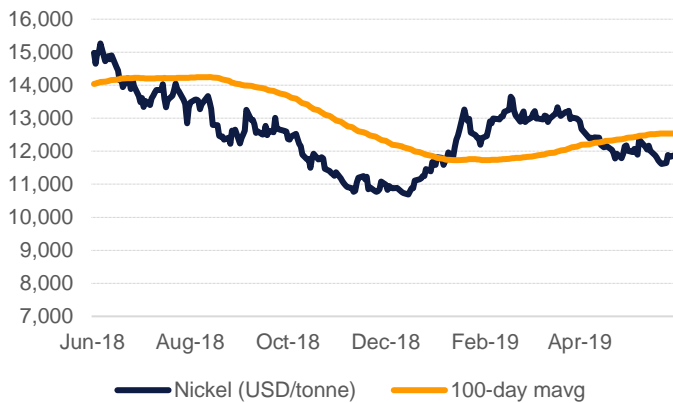
Source: EIKON, Emirates NBD Research

LME zinc inventories



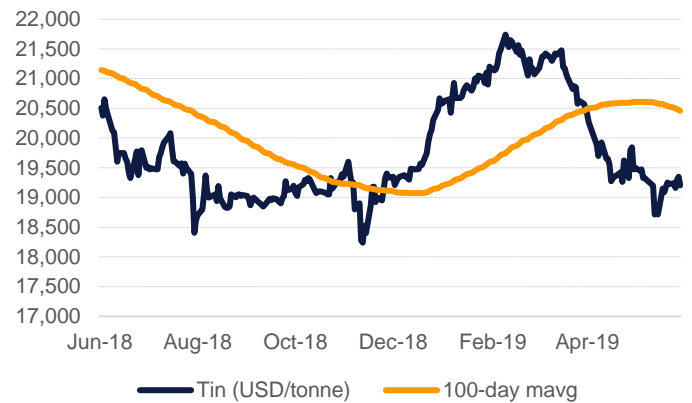
Source: EIKON, Emirates NBD Research

LME nickel: 1 year



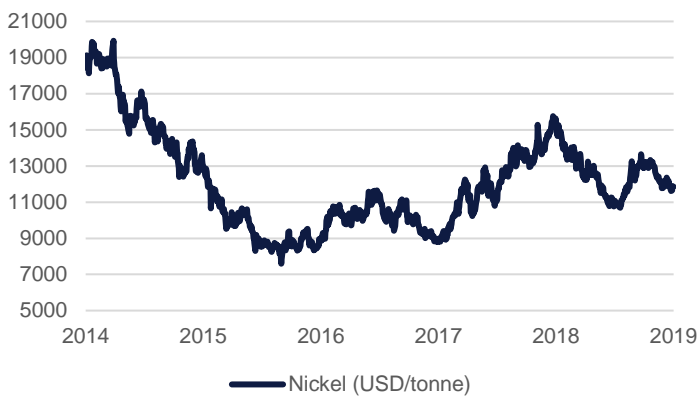
Source: EIKON, Emirates NBD Research

LME tin: 1 year



Source: EIKON, Emirates NBD Research.

LME nickel: 5 year



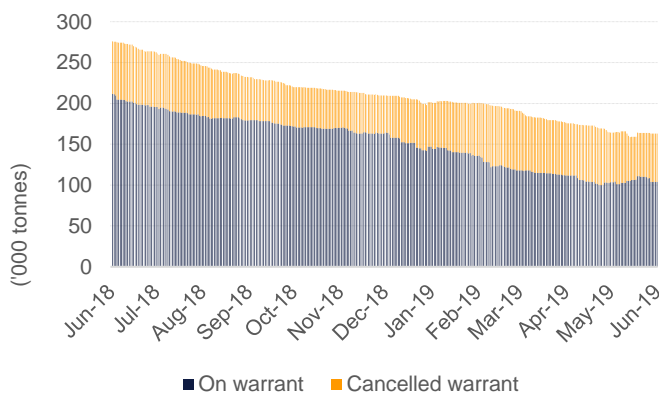
Source: EIKON, Emirates NBD Research.

LME tin: 5 year



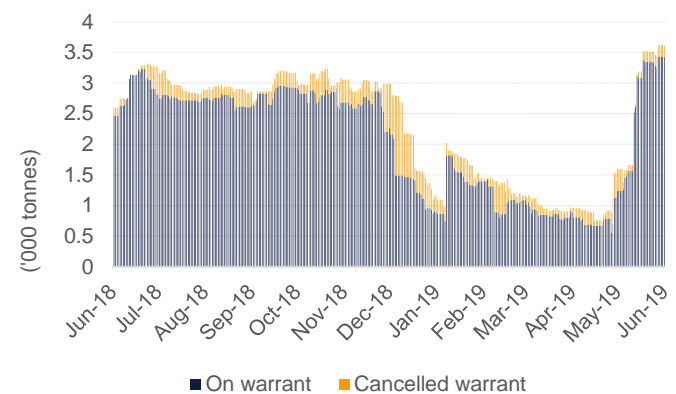
Source: EIKON, Emirates NBD Research.

LME nickel inventories



Source: EIKON, Emirates NBD Research

LME tin inventories



Source: EIKON, Emirates NBD Research.

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