



بنك الإمارات دبي الوطني
Emirates NBD

Commodities

14 August 2018

Metals markets stay under pressure

The escalating trade war between the United States and China is weighing heavily on global commodity markets and hitting metals most directly. The LME index of six base metals has declined 12.8% year-to-date with most of the decline occurring in the last two months as China and the US have imposed retaliatory tariffs on each other. The sharp depreciation of the Turkish lira since the start of August has created another headwind for metal futures on fear that a deterioration in Turkey's economy could herald the start of a wider slump in emerging markets. However, we see the risk of contagion to the fundamentals of other EMs from the Turkey sell-off as reasonably low and expect a slowdown in global trade to be the more severe risk for base metals until the end of the year and into 2019.

Metals prices suffering on trade war escalation



Source: EIKON, Emirates NBD Research.

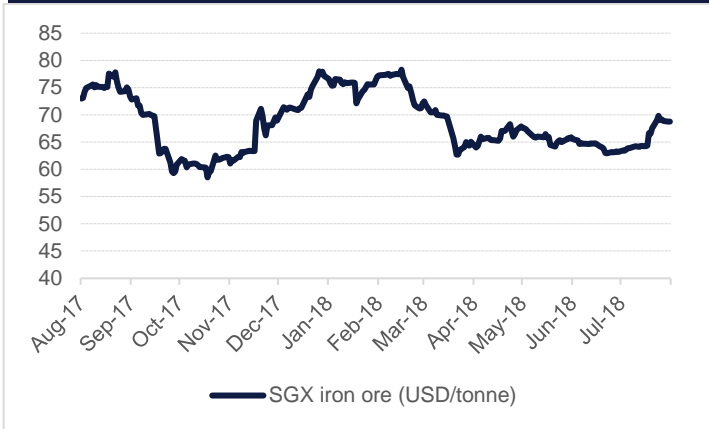
A slowdown in China's economy initiated by regulatory efforts to curb excessive credit growth is starting to show up in data and will also raise questions about commodity demand more generally. Fixed asset investment growth slowed to just 5.5% y/y in July compared with 6% a month earlier while industrial production growth held flat at 6%. We don't anticipate that China's authorities will allow for a sharp drop in economic performance and the government is already taking steps to ensure that any downturn bottoms out in the near term. Relaxed lending conditions and increased government spending will help keep a floor under growth; both real estate investment and construction starts spiked in July.

Anticipation of China's government putting a floor under growth may help to explain some of the divergence between iron ore and copper prices in recent weeks. Copper has plummeted from more than USD 7,000/tonne in June to a little above USD 6,100/tonne currently on the LME. Meanwhile, iron ore futures have jumped to almost USD 70/tonne from a level around USD 63/tonne where they spend most of Q2 the start of Q3. Prices for steel products in China have been trending solidly upward since Q2 while coking coal prices and freight rates from Australia have been stable or declining, helping to keep margins healthy at Chinese steel mills.

Copper prices appear to be bearing the brunt of trade war fears much more acutely than iron ore even though steel has been directly targeted by US tariffs. The one support that has helped to keep copper prices from crashing below USD 6,000/tonne is the ongoing negotiations in Chile between miners and labour unions. A strike at Escondida, the world's largest copper mine, has been delayed as negotiations are ongoing and a settlement that allows output to continue uninterrupted could mean more downward pressure on copper by the end of the year.

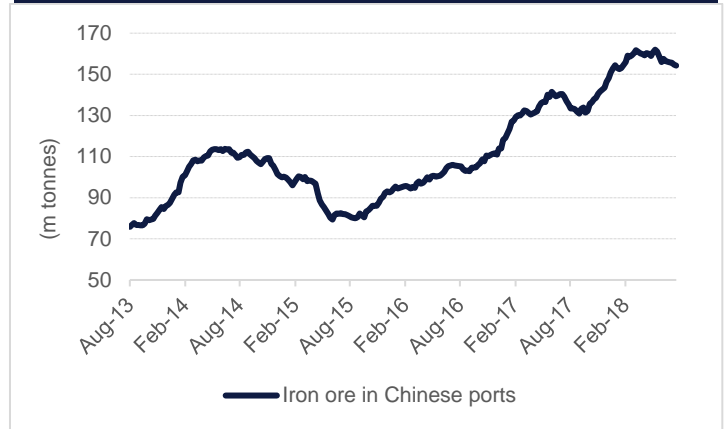
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Iron ore prices



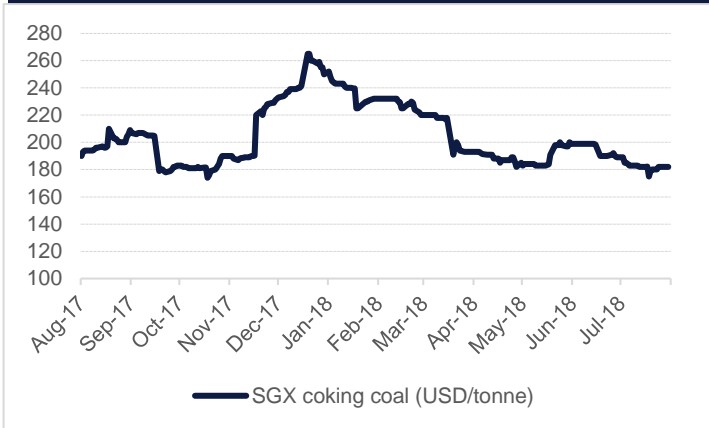
Source: EIKON, Emirates NBD Research

Iron ore inventories



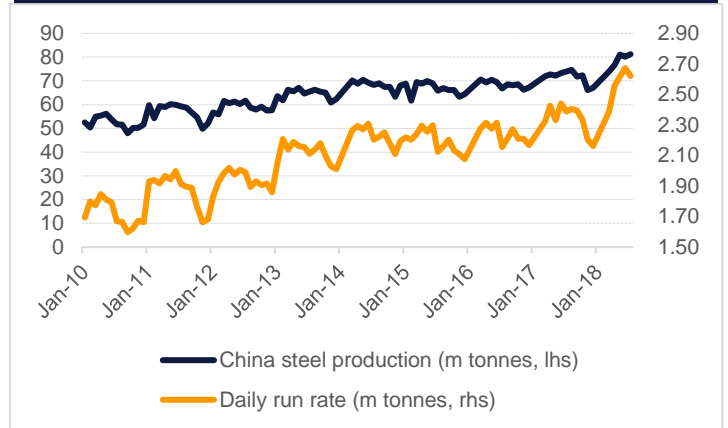
Source: EIKON, Emirates NBD Research

Coking coal prices



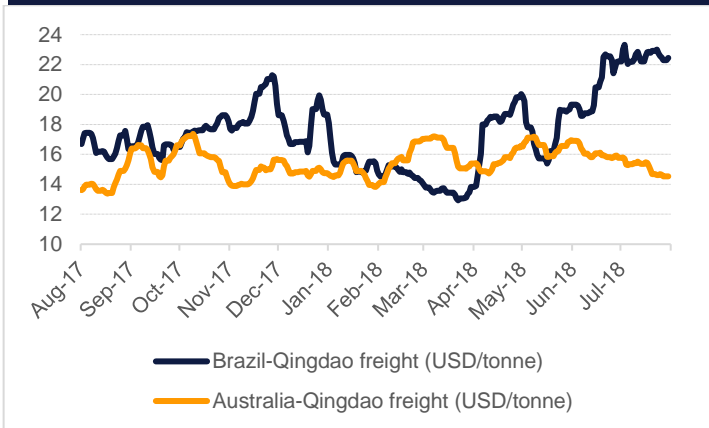
Source: EIKON, Emirates NBD Research.

Steel output



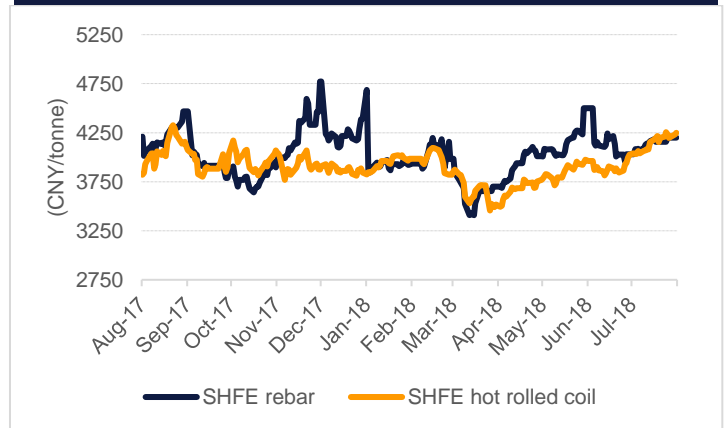
Source: EIKON, Emirates NBD Research

Freight rates



Source: EIKON, Emirates NBD Research

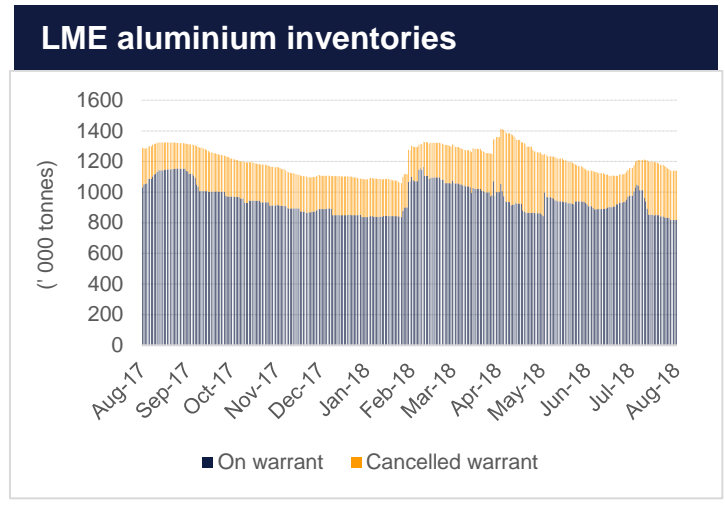
Steel prices



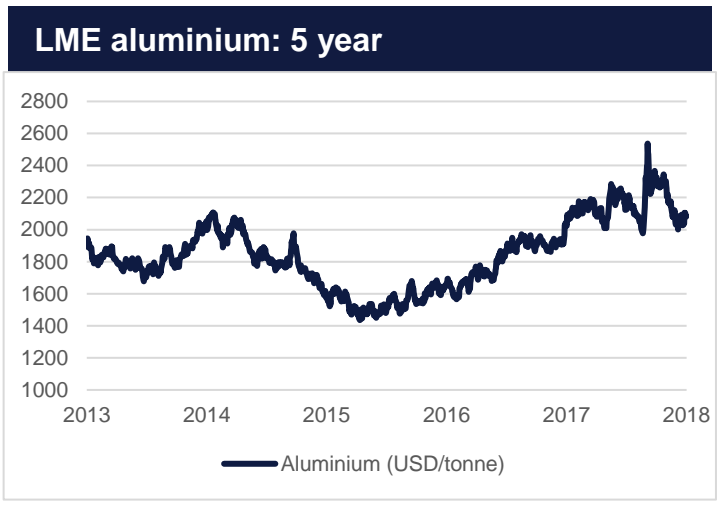
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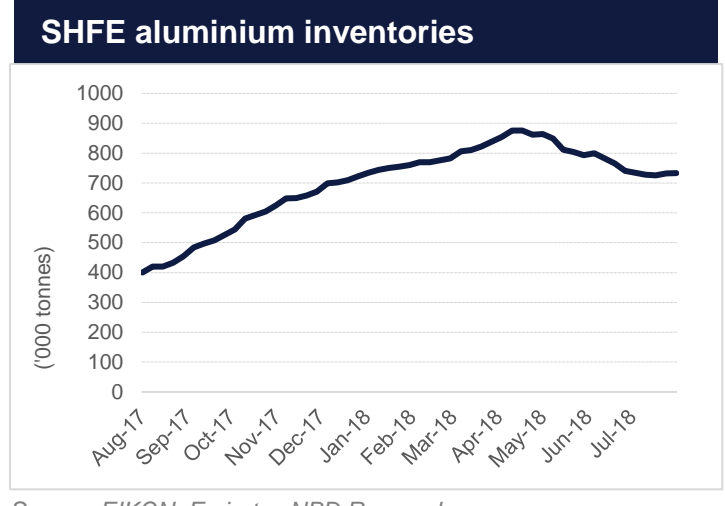
Source: EIKON, Emirates NBD Research



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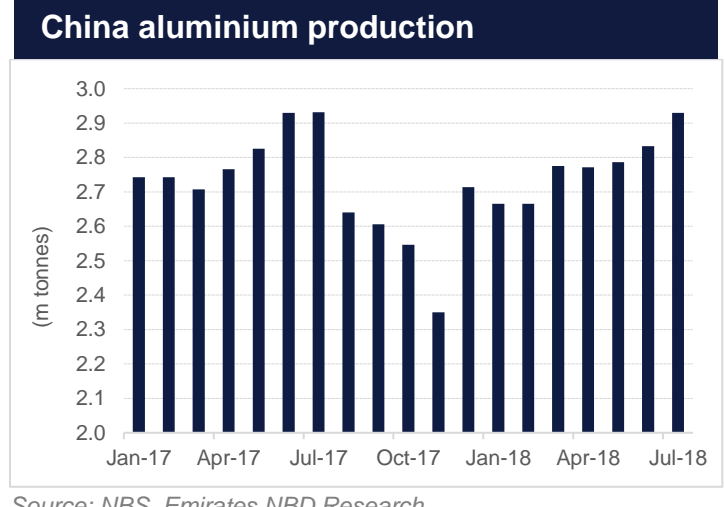
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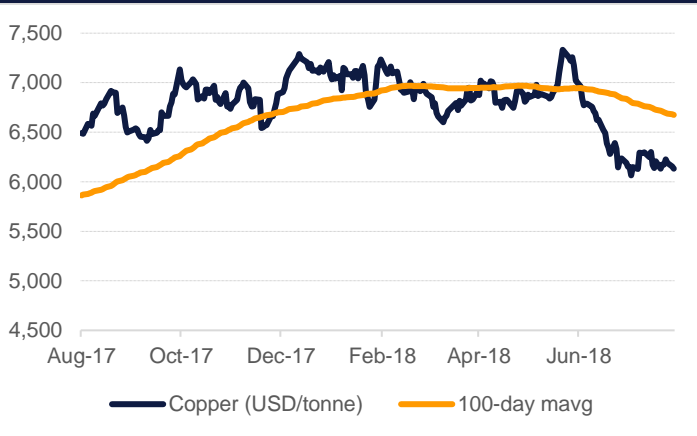


Source: EIKON, Emirates NBD Research



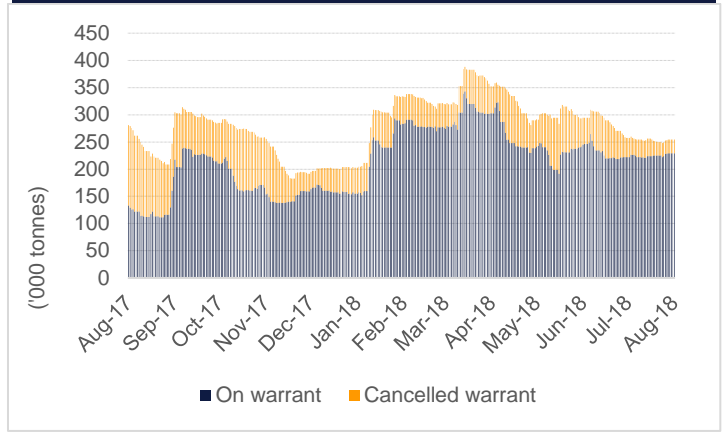
Source: NBS, Emirates NBD Research

LME copper: 1 year



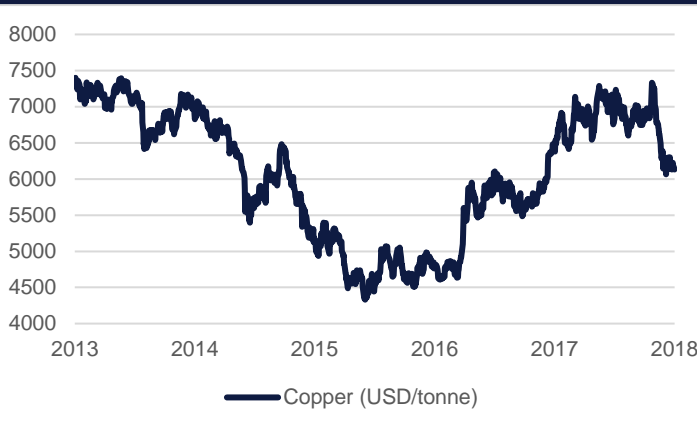
Source: EIKON, Emirates NBD Research

LME copper inventories



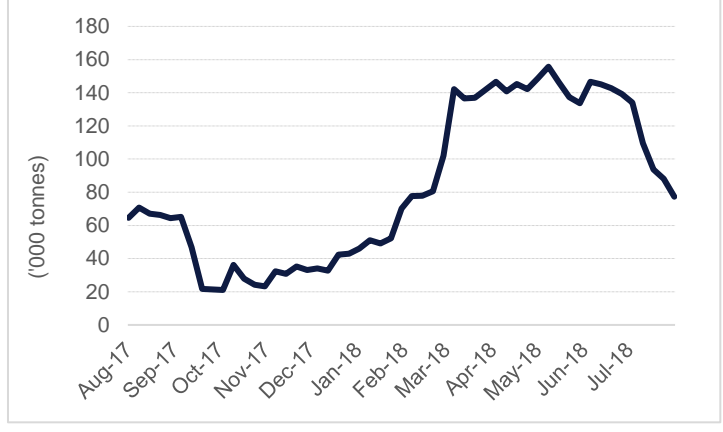
Source: EIKON, Emirates NBD Research

LME copper: 5 year



Source: EIKON, Emirates NBD Research.

SHFE copper inventories



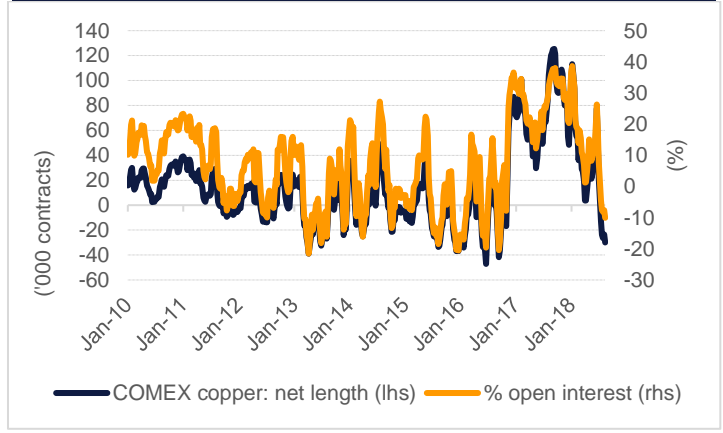
Source: EIKON, Emirates NBD Research

Forward curve



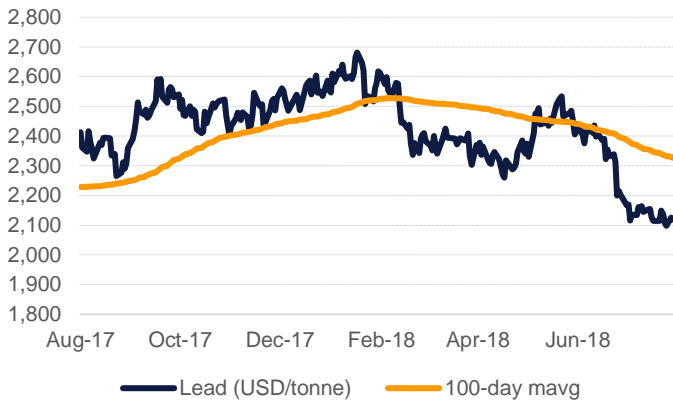
Source: EIKON, Emirates NBD Research

Copper speculative interest



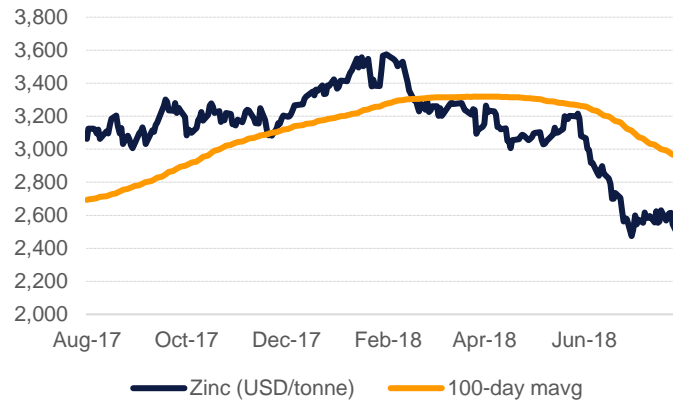
Source: EIKON, Emirates NBD Research

LME lead: 1 year



Source: EIKON, Emirates NBD Research

LME zinc: 1 year



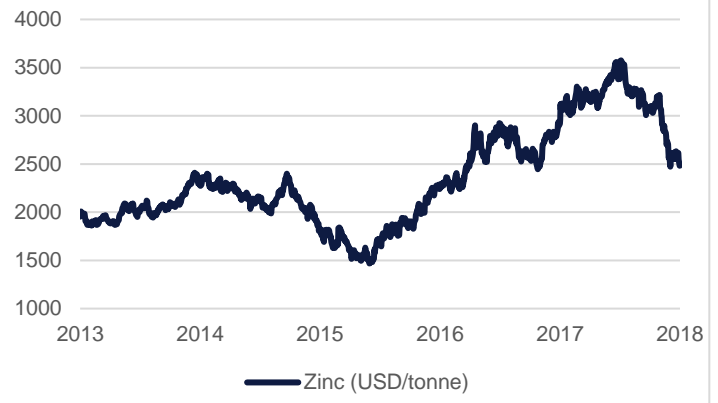
Source: EIKON, Emirates NBD Research

LME lead: 5 year



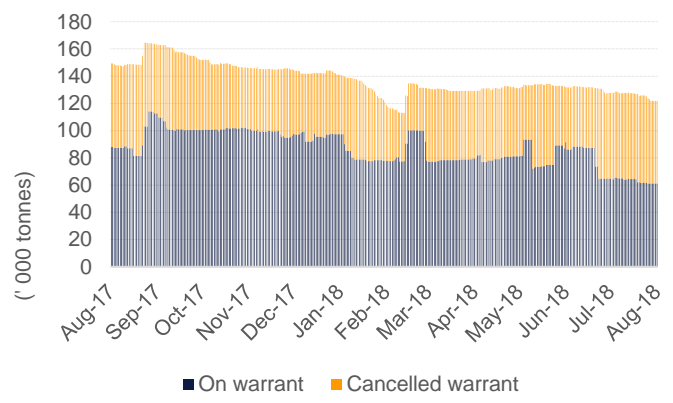
Source: EIKON, Emirates NBD Research.

LME zinc: 5 year



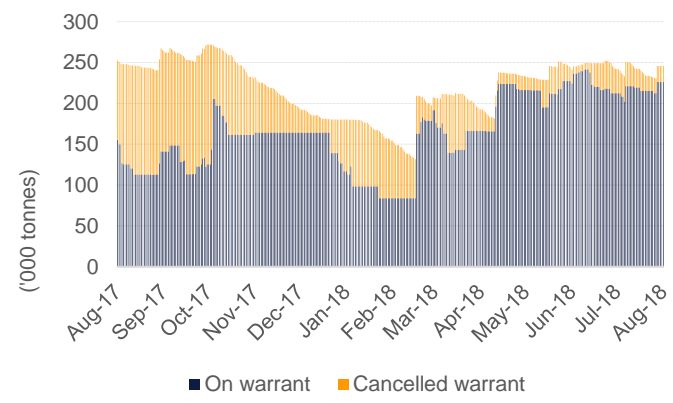
Source: EIKON, Emirates NBD Research

LME lead inventories



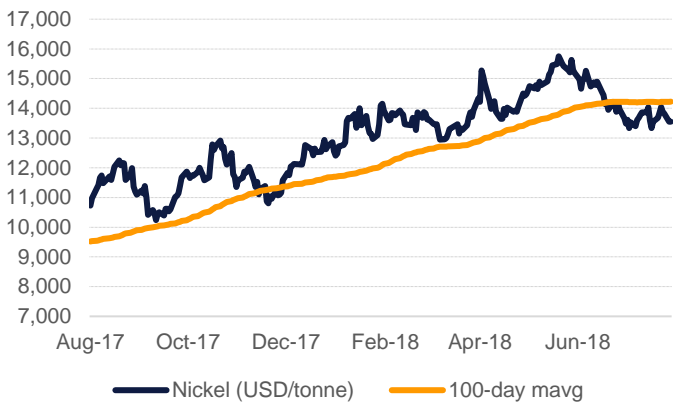
Source: EIKON, Emirates NBD Research

LME zinc inventories



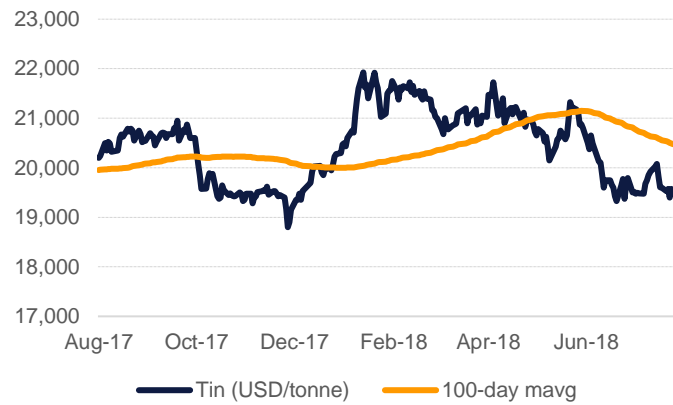
Source: EIKON, Emirates NBD Research

LME nickel: 1 year



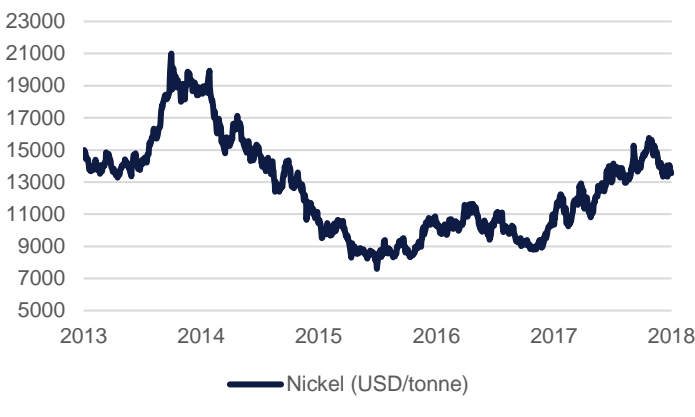
Source: EIKON, Emirates NBD Research

LME tin: 1 year



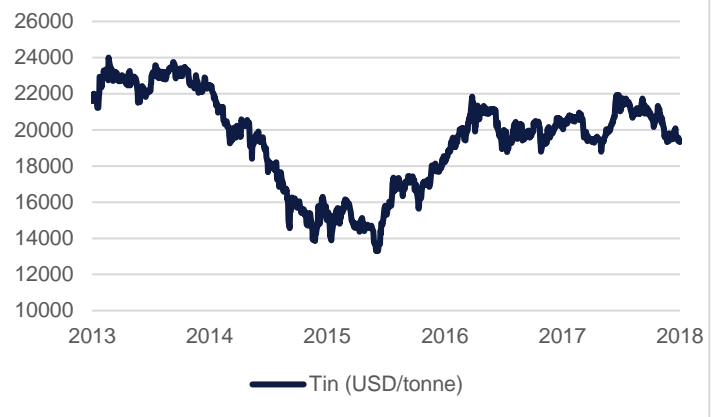
Source: EIKON, Emirates NBD Research

LME nickel: 5 year



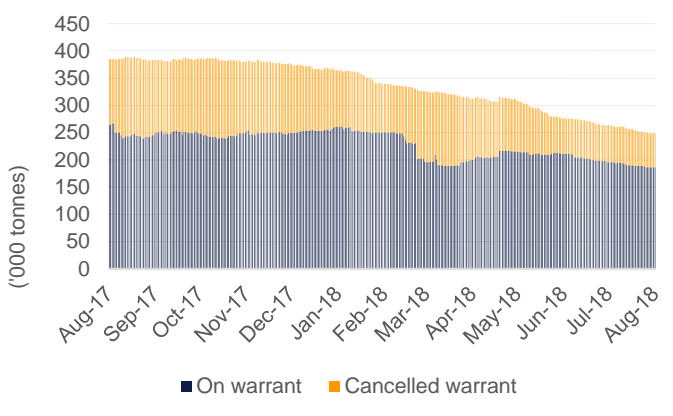
Source: EIKON, Emirates NBD Research.

LME tin: 5 year



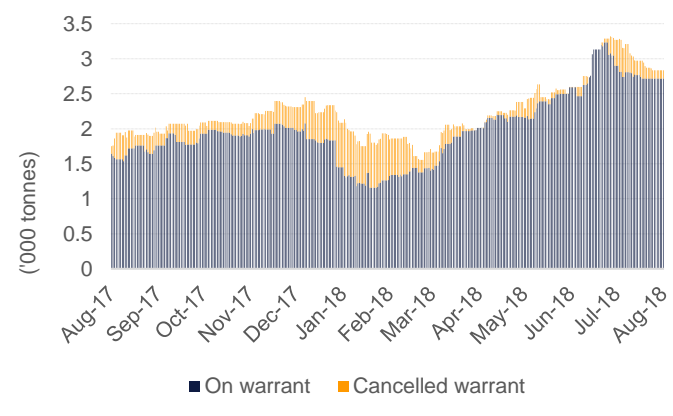
Source: EIKON, Emirates NBD Research

LME nickel inventories



Source: EIKON, Emirates NBD Research

LME tin inventories



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