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Non-ferrous Metal Prices Update

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Non-ferrous metal price: Update May 2021

Prices of all base metals have climbed higher since falling rapidly at the onset of the pandemic early last year. Stronger recovery from China and US market, supply constraints and weaker US dollar are driving prices higher. Tin led the way with 113% yoy rise on the London Metal Exchange (LME) in May 2021. Followed by copper which has climbed to an all-time high level of $ 10,417 per tonne surpassing its previous peak of $10,160 per tonne in February 2011. Aluminium prices are up 69% on year. In comparison, nickel lead and zinc have shown modest growth of 46%, 36% and 49% yoy, respectively. Domestic non-ferrous metal prices follow the trend in the international prices and have exhibited a very similar pattern as can been seen in the table 1 below.

Table 1: Non-ferrous metal prices: LME and domestic market

Month	Primary aluminium	Copper Cathode	Zinc	Nickel	Tin	Lead
LME Prices (USD/tonne)						
May-19	1,777	6,015	2,743	12,013	19,505	1,818
May-20	1,457	5,216	2,026	12,071	15,373	1,615
May-21	2,466	10,105	2,956	17,957	32,795	2,190
Indian market						
May-19	1,52,834	4,31,640	217	881	1,690	161
May-20	1,33,521	3,96,000	146	899	1,111	137
May-21	2,06,800	7,64,600	238	1356	2,457	174

Note 1: Prices are monthly average, May 2021 prices are as on 8th May, note 2: unit for domestic prices is Rs/kg for lead, zinc, tin and nickel and Rs/tonne for copper and aluminium. Source: London Metal Exchange (LME), CMIE

Table 2: Inventory levels at LME ('000 tonnes)

	Aluminium	Copper	Zinc	Nickel	Tin	Lead
Apr-18	1,326	326	237	307	2.2	131
Apr-19	1,075	229	81	173	0.9	75
Apr-20	1,356	252	101	231	5.4	74
Apr-21	1,835	144	292	262	1.3	111

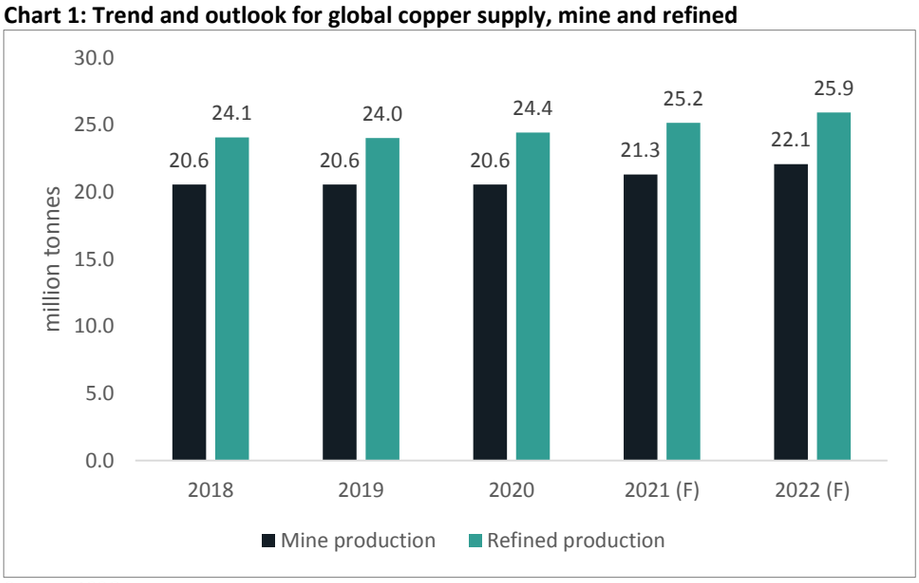
Source: LME, CMIE

While the rally in commodity price in 2020 can be attributed solely to China, in 2021 prices are largely been driven by the western economies. The rebound of the large economies from the pandemic has created huge demand for building and construction materials while at the same time mine disruptions, logistical constraints and slower ramp up of smelter operations have created significant supply crunch. Global economic recovery led by stimulus and infra spending on one hand and supply crunch on the other is driving prices of copper, aluminium and tin higher. Besides, China's efforts to decarbonise its economy and cut down output of aluminium and steel is also contributing to the rally in these metals.

Copper:

Copper prices touched $ 10,417 a tonne in May 2021, highest level since February 2011. Since last year the metal has risen 94% amid strong demand and supply tightness. As can been seen from chart 1 below, global copper supply has remained almost stagnant over the last three years and only two new copper mines have come on stream in the last four years. Supply tightness is also reflected in the falling stock levels at the LME and the SHFE warehouses. Inventories of copper at the LME warehouses fell to 144 thousand tonnes as on end of April 2021, losing 43% since April 2020 thereby driving prices higher. The bullishness in copper prices is also led by the red metal's immense importance in transitioning to clean energy technologies such as renewables and electric vehicles. Clean energy technologies are also the fastest growing segment for copper demand. An electric vehicle (EV) needs four times more copper than a regular vehicle. In a scenario that meets the Paris Agreement goals, clean energy technologies' share of total demand rises significantly over the next two decades to over 40% for copper and rare earth elements, 60- 70% for nickel and cobalt, and almost 90% for lithium, as per the International Energy Agency (IEA). ICSG, has projected copper mine supply to increase to 25 million tonnes in 2021 and further to 26 million tonnes in 2020 after remaining stagnant for four straight years. While demand for copper is expected to surge, supply is expected to lag behind as ore grade from existing mines are declining in quality and new projects are running behind schedule. A severe shortage could be seen if new supplies do not come on stream in the coming years and investment is not poured into developing new copper mines. These factors are behind the super rally seen in copper.

Chart 1: Trend and outlook for global copper supply, mine and refined



Source: ICSG

Aluminium:

Aluminium prices neared $ 2,500 per tonne in May 2021 and is inching towards its 2018 peak of $ 2,718. China's decision to close polluting smelters has pulled out some supply from the market which is supporting prices. Besides, the mounting tension between China (largest consumer of aluminium) and Australia (biggest supplier of bauxite and alumina) has also raised supply concerns in China pushing prices higher. China has made a statement saying it would indefinitely suspend all economic activities with Australia, deepening the crisis. Aluminium demand remains intact as it will remain an important metal in in construction of renewable energy infrastructure. Demand from the automobiles sector also looks robust in 2021.

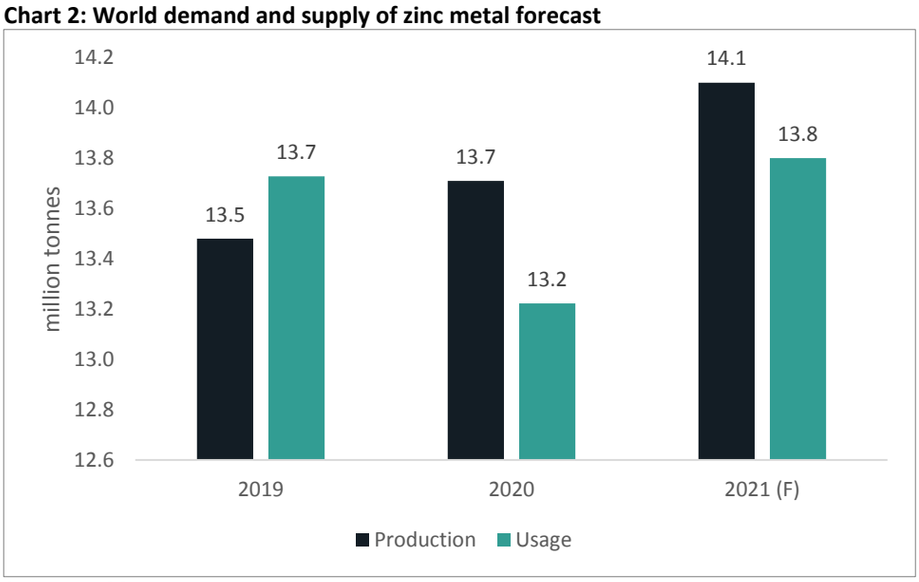
Tin:

Tin has been the outperformer among the non-ferrous metal pack rising 113% on year as on May 2021. Tin prices hit 10-year high of $ 32,795 a tonne in May 2021. Tin is mainly used in soldering and in tinplate to make tin cans and foils. Tin coating on steel cans helps in food preservation. As a result, the demand for tin cans only grew further during the Covid crisis due to increased can food purchasing for storage. On the supply side, the market continues to witness supply disruption. Malaysia Smelting Corp, the world's third largest tin produce said that it will not return to pre-pandemic smelting capacity until the end of 2021. Higher demand and supply disruptions led to a sharp 76% fall in tin stocks at the LME as on April 2021 end compared with end of April 2020. Consequently, tin prices edged upwards throughout the past one year.

Zinc:

While copper, aluminium and tin have seen an unprecedented rally in prices in the last one year, zinc, lead and nickel have made only modest gains of 46%, 36% and 49%, respectively. In case of zinc metal, the market for zinc was in surplus in CY2020 and is expected to remain in surplus in the current year as well. According to the International lead & zinc study group (ILZSG), global refined zinc market recorded a surplus of 486 thousand tonnes in CY2020 and is forecasted to record surplus of 353 thousand tonnes in CY2021. Surplus zinc production also reflected in LME warehouse as inventory of Zinc was 189% higher as on end of April 2021 compared with the corresponding month of the 2020. Surplus availability of zinc made it loose out of the super rally witnessed by its non-ferrous peers copper and aluminium.

Chart 2: World demand and supply of zinc metal forecast

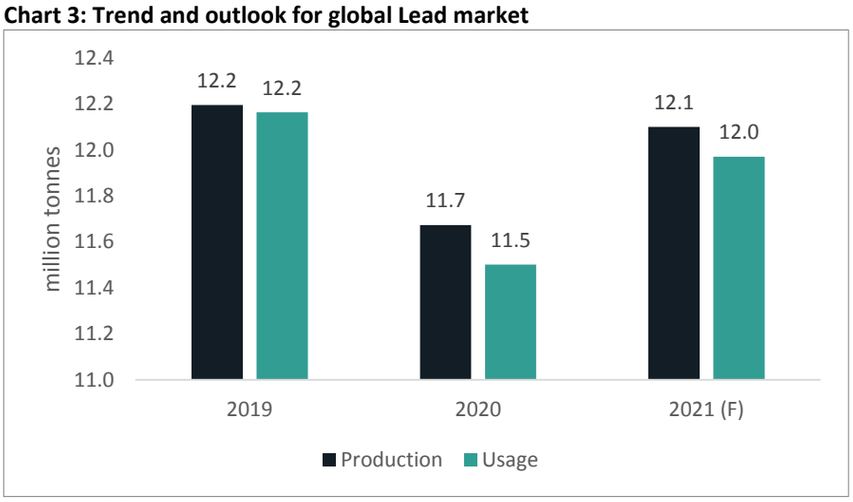


Source: ILZSG

Lead:

Lead prices made the weakest gain of just 36% yoy on the LME in the past one year. The Covid-19 pandemic severely impacted the global automotive sales. Besides, lead future demand is also impacted due to the global decarbonisation efforts. Lithium ion battery is preferred in electric vehicles over lead acid battery due to the latter's harmful effect on the environment. Stocks of lead are up 50% yoy on the LME warehouses as on April end. The International Lead and Zinc Study Group (ILZSG) anticipates that the global supply of refined lead metal will exceed demand by 96 thousand tonnes in CY2021.

Chart 3: Trend and outlook for global Lead market



Source: ILZSG

Nickel:

Nickel prices peaked in February to average $ 18,607 per tonne before cooling off to $ 16,549 in April and then up again to $ 17,957 a tonne in May 2021. The stainless steel and battery segment made a quick recovery from the pandemic thereby pushing demand for nickel. Nickel's use in lithium ion batteries will also accelerate its demand as EV sales is projected to rise. The global surplus in nickel market is expected to narrow in 2021 as consumption demand is expected to pick-up.

Outlook:

The demand for base metals looks strong as more countries emerge from the pandemic with strong recovery anticipated in the global economy. Economic data from US and European market have improved since April and the US dollar trended lower which is also giving supporting metal prices. The current demand fundamentals for copper, aluminium and tin are robust and future supply will need to respond to increased demand. Copper and aluminium will enjoy robust growth in demand over the next decade given their importance in transitioning to green energy. The decarbonisation efforts by countries will drive demand for these metals. Supply side constraint will remain for copper due to falling ore grades. Copper projects entails huge time and cost therefore completion of these projects on time becomes challenging. Falling copper inventories also points towards bullish sentiments in copper prices in 2021. The China-Australia trade tension and shutting down aluminium smelters by China to decarbonize will keep aluminium supply tight and prices have potential for further upside.The rally in Tin prices is also expected to continue given the tight supply, low inventory levels and robust demand for tin.

On the other hand, while the demand fro zinc and lead is expected to improve with a sharp rebound in global economic activity, the refined lead and zinc market recorded surplus production in CY2020 and are on track to report a surplus in CY2021 as well unlike supply constraint in the copper and aluminium market. Ample supply and decarbonisation efforts will keep lead prices in the current range. High inventory and anticipated surplus will also keep zinc prices from rising sharply.

However, on the downside risk Chinese authorities have announced that they will track commodities prices more closely, and are prepared to take measures to steady raw materials prices. High commodity prices will also increase the project cost of infrastructure development activities announced by the major economies to tide over the pandemic driven slowdown. High commodity prices of copper and aluminium will also increase the cost of transitioning to green energy and may lengthen the time taken to reach the climate goals.

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