

Base metals: Is the worst over?

October 12, 2020 | Industry Research

Base metal prices on the LME have sharply rebounded from April lows. Prices of base metals - copper, aluminium, lead, zinc and nickel exceeds pre-pandemic levels (March 2020) owing to rising demand, particularly from China and weaker US dollar.

Refined copper has been the best performer among all base metals rising 33% since April 2020 to average Rs 6,706 per tonne in September 2020. It was closely followed by zinc and nickel, both up by 29.2% and 26.8%, respectively since April-lows. Primary aluminium and lead prices have seen moderate recovery in comparison with other base metals, growing by 19.7% and 13.9%, respectively.

Base metals prices except for nickel were already depressed since the last two years, much before the pandemic sent prices to multi-year lows in March and April 2020. The US-China trade war and Brexit had created uncertainty leading to sluggishness in global demand for base metals.

Prices have surged in recent months mainly due to a pick-up in Chinese demand even as recovery in the rest of the world remains weak. China which produces and consumes roughly half of the world's industrial metals recovered from the pandemic much earlier than other countries. After contracting in March 2020 quarter China's economy registered 3.2% growth in the June 2020 quarter from a year-earlier while all other major economies reported contraction. China's industrial output growth accelerated to 5.8% in September 2020 when compared to a year earlier, hinting at strong underlying demand. This was supported by large scale fiscal stimulus package of nearly \$ 506 billion unleashed by the Chinese government with a focus on infrastructure development to bolster growth, quiet similar to one used by the country during the global recession in 2008. This infrastructure-led spending by China has boosted demand outlook for base metals and sent prices soaring.

Besides, fall in inventory levels at the Shanghai Futures Exchange (SHFE) and a rise in refined metal imports simultaneously supports the rapid recovery story in China. For the first six months of 2020, copper imports by China totalled 2.8 million tonnes, a 25% increase over the same period of 2019. China turned into a net importer of aluminium in all forms from a net exporter in July 2020. Import of primary aluminium accelerated further in August to 248,000 tonnes from 185,000 tonnes in July.

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
+91-22- 6837 4433

Rashmi Rawat
Deputy Manager
Rashmi.rawat@careratings.com
+91-22-6837 4405

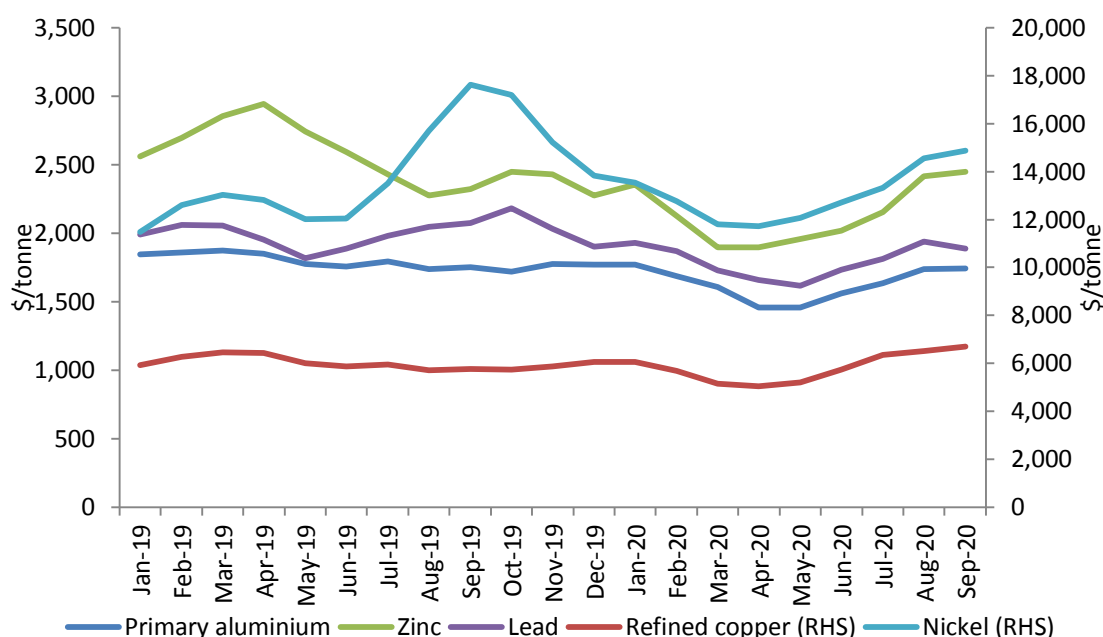
Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3573

Disclaimer: This report is prepared by CARE Ratings Ltd. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

Snapshot of base metal prices on LME (\$/tonne)

	Avg price in Sept '20	Growth since April '20	y-o-y growth
Primary aluminium	1,744	19.7%	-0.4%
Refined copper	6,706	33.0%	16.5%
Zinc	2,450	29.2%	5.4%
Lead	1,887	13.9%	-9.0%
Nickel	14,876	26.8%	-15.6%

Base metal prices on LME



Inventory levels:

Base metal prices are getting support from decline in stock at SHFE-approved warehouses even though stocks levels at LME continue to rise, suggesting weak demand outside of China.

Falling stocks of copper at both LME and SHFE warehouses have pushed copper prices to two-year high. Aluminium inventories have slipped by 51% since mid-march 2020 on the SHFE while stocks at the LME have risen by 25%.

Zinc inventories in LME-registered warehouses have sharply risen to 214 thousand tonnes in September 2020 from 74 thousand tonnes in March 2020 but stocks in SHFE sheds have slipped to 51 thousand tonnes from 170 thousand tonnes in March causing zinc prices to soar.

On the other hand, inventory of lead has risen sharply on both LME and SHFE listed warehouses indicating weak demand scenario for the base metal. Lead prices are down 9% y-o-y as on September 2020.

Indian scenario:

Domestic base metal prices largely moves in tandem with international prices. Therefore, prices of refined copper in the domestic market rose the highest since lockdown in April by 25.3% to average Rs.516,265 per tonne in September 2020. Average nickel, lead and zinc prices rose by 14.9% to Rs.1113 per kg, 11.2% to Rs.160 per kg and 16.2% to Rs.200 per kg, respectively in September 2020 compared with April 2020.

A revival in demand is visible in some sectors in the domestic market since the lifting of nationwide lockdown restrictions. Retail car sales increased 10% y-o-y in September 2020, as demand recovered sharply due to a surge in rural markets and the growing need for personal vehicles as an alternative to public transport. Recovery in construction sector is expected in Q3 FY21 as labour availability improves and monsoon recedes. During April-August 2020, NHAI has awarded 744 km length orders, highest in last 4 years. 30% of construction target (28/km per day) for FY21 has been achieved till date.

Outlook:

	Copper	Aluminium	Lead	Zinc	Nickel
FY17	5,157	1,688	2,004	2,365	10,040
FY18	6,445	2,046	2,380	3,050	11,162
FY19	6,335	2,035	2,122	2,746	12,888
FY20	5,858	1,750	1,950	2,404	14,005
FY21 till date	5,923	1,599	1,774	2,149	13,206
March 2021 (E)	6,000	1,615	1,820	2,200	13,500

*(E) - CARE estimates

- Recovery in global economic activity and China’s infrastructure spend will keep demand for industrial metals strong. Over the next 6 months prices may remain firm at the current levels as demand recovery in China and the rest of the world continues to gather pace. Increase in raw materials prices may push prices upwards.
- An anticipated infrastructure development-led stimulus package by some of the other large economies like US, UK and India may spur demand for industrial metals and rally in metal prices.
- On the supply-side, covid-19 induced restrictions are likely to persist to a certain degree until countries can better control the on-going pandemic. Supply disruptions and higher demand may support prices.
- However, slower than expected recovery in the rest of world, delay in vaccine for Covid-19, health and economic concern, escalation of US-China trade tensions are considerable headwinds for base metals.
- Resurgence or a second wave of Coronavirus in China could lead to fall in all base metal prices.

CORPORATE OFFICE:

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

Follow us on  [/company/CARE Ratings](https://www.linkedin.com/company/CARE-Ratings)
 [/company/CARE Ratings](https://www.youtube.com/channel/UC...)