# Metals Daily

17 March 2021

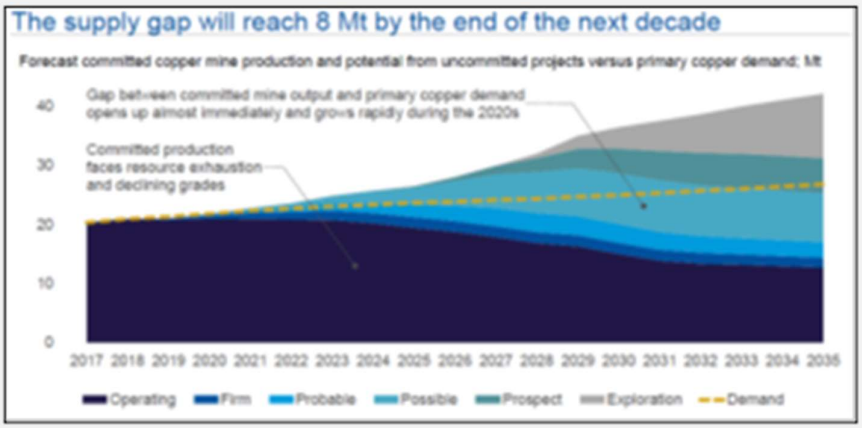
RBMC

## What's moving markets?

- The **macroeconomic** environment is positive: US 10-year treasuries yields have eased to 1.59%, from 1.64%, while Wall Street equity indices set fresh record highs on Monday and the risk-on sentiment remains in place around the world. At tomorrow's Fed meeting we expect their GDP forecast to be upgraded significantly, while inflation forecasts are likely to rise. However, Chair Powell and his colleagues have been quite persistent that maximum employment is far away, allowing them to be patient. President Biden is hoping to get some Republican support for his **infrastructure** package as getting a multi-year initiative through Congress without their support would be almost impossible.
- Russia's *Nornickel* expects to restore full capacity at its flooded mines in Siberia in the next 3-4 months but revised its metal production volumes to reflect the mining halt, it said in a press release on March 16. Nornickel's Oktyabrsky and Taimyrsky mines have been closed since February 24 following an inflow of groundwater into the two mines. The production shortfall should be 65kt for **copper**, 35kt for **nickel** and 22t (710koz) for the **platinum metal groups**, Nornickel said.
- **Precious metals** were mostly flat on the day. **Palladium** jumped by 5% on the Nornickel production delay as the market will be shorter by around 570kozs of supply this year due to output losses at the palladium-rich Arctic mines (the production split in the mines average 80% Pd, 20% Pt). Palladium has lagged platinum due to costs of holding positions and below normal liquidity from a portfolio management perspective. Gold was underpinned as investors bet on the Fed remaining dovish at this week's FOMC meeting. The strong recovery form the pandemic has been raising concerns that the Fed may lift interest rates earlier than expected.
- Modest gains were seen in the **base metals** complex, but rallies were capped as investors took profits ahead of the Fed policy announcement scheduled for Wednesday, followed by Fed Chair Powell's news conference. The base metals are consolidating after recent pullbacks and limited damage has been caused to the charts. Most of the metals have either held up well, or have recovered robustly from the early March weakness, the exceptions are **nickel** and **lead** that sold off considerably and prices are weaker. The underlying themes with economic recovery, stimulus spending (on "green" infrastructure) and constrained supply chains should all be bullish for metals prices. How much this bullish sentiment has already been factored into prices is difficult to ascertain. Also, if broader markets get jittery, a correction in bonds and equities would likely flow into the metals, at least initially.

## Theme of the Day: Market deficits; the theory and the reality

- It won't be long, if it's not already the case, before some markets become structurally undersupplied, particularly if the energy transition accelerates. Taking **copper** as an example, 2021 mine production remains at risk with ongoing disruptions and the concentrate market tightness continues (treatment charges – TCs – close to 10-year lows), but scrap availability is improving on higher prices.
- **Mine** growth is set to resume in 2022 and peak in 2024, with a multi-year gap for the next tranche of projects postponed or delayed due to Covid-19 (lower expansionary CAPEX) and subject to future copper prices. Although supply is disrupted by the pandemic in the short-term, growth projects are available but are facing ESG, technical and sovereign risks. And if the project owner is not big, financing is very difficult (lenders are risk averse). Single-asset companies or smaller mining companies require significant investment to finance their projects from the construction phase up until the operation and/or production phase. Declining ore grades and mine depletions mean that supply needs to be replaced even if there is no growth in demand.
- Some believe this is a prolonged **high-price** cycle and we're going to need these high prices to incentivise new production. A significant **deficit**, possibly in the region of 8-10Mt of additional copper is required to balance the market by 2030. That's the theory. What about in practice?
- **In practice**, this huge deficit is unlikely in reality. Whilst the gap will probably open up post-2025 it will likely be closed ultimately from a structural perspective due to a combination of demand attrition/moderation/thrifting due to high prices (demand destruction), substitution, rising scrap availability (policy driven) and accelerated primary supply development (again due to the high price environment). The key question is how long demand can run ahead of supply which will be determined by the availability of stocks and the reality is that the market has around 70 days of global supply (*source: Wood Mackenzie*) - not very long, so, slow growth of supply will be a constraint on the rate of increase of the energy transition and copper demand.




*Source: CRU*