

LME Week talking points: global slowdown looms over demand outlook

As the metals markets enter the last quarter of a turbulent year, the industry prepares to gather in London for a week of meetings and contract negotiations against a backdrop of weakening demand



Traders work on the floor at the London Metal Exchange

LME discussion paper on Russian metal

The London Metal Exchange (LME) began a formal discussion on a potential ban on Russian metals, casting new uncertainty over supply, especially for aluminium but also for nickel and copper.

The LME is considering three options: it could continue to accept Russian metal, set a cap on Russian metal in LME warehouses or issue an outright ban.

Russian aluminium has accounted for as much as three-quarters of LME stockpiles over the past decade, while copper from Russia has made up as much as 95%, according to the exchange.

The LME discussion paper came after the exchange issued a ban on new deliveries of metals from Russia's Ural Mining & Metallurgical Co. and one of its subsidiaries after the UK placed sanctions on co-founder, Iskandar Makhmudov. The move is the biggest restriction on Russian metal flows by the LME since Russia's invasion of Ukraine.

Russia accounts for about 9% of global nickel production, 5% of aluminium output and 4% of copper output. Metals accounted for 10% of goods exports in 2018-2020 in Russia, according to the World Bank.

Potential US ban on Russian aluminium imports

Global aluminium prices soared briefly after news that the United States is considering an effective ban on Russian imports of the metal in response to the conflict in Ukraine.

Metals have been mostly spared in the rounds of sanctions imposed on Russia that followed its invasion of Ukraine on 24 February.

The news of a potential US ban has revived memories of the chaos in the aluminium market that followed when the US administration placed sanctions on Russian aluminium producers in April 2018. LME prices jumped to \$2,718/t, at the time the highest since 2011 before gradually falling in the following weeks and months. Sanctions were then lifted in January 2019.

This time, the Biden administration is weighing three potential measures: a complete ban on Russian aluminium, increasing tariffs to levels that would effectively act as a ban, and sanctioning the company that produces Russian aluminium, Rusal.

The scale of the impact will depend on which one of the three options the US will eventually take.

If the US decides to [sanction Rusal](#), the impact could be the most severe, bearing in mind the market's reaction to the sanctions in 2018. The move could freeze the Russian producer out of the Western markets, depending on the severity of sanctions, which would boost global prices for the metal and distort global aluminium trade flows.

China's zero Covid-19 policy

China's economic recovery has been dented by its strict zero Covid-19 policy. As China's cities were locked down this spring, the country's industrial output and consumer spending fell to the lowest levels seen since early 2020.

Concerns about China's homebuilders have weighed on demand for industrial metals. However, more cities are now unveiling further credit support measures and adjusting down-payment requirements for homebuyers, which in theory might give some support to metals prices. Last month, China Evergrande Group removed most of its construction-project freezes as China has entered its peak building season, which traditionally lasts until the end of October.

Earlier this month, China's financial regulators told the nation's biggest state-owned banks to extend at least 600bn yuan (\$85bn) of net financing to boost the country's ailing property sector.

The news, however, failed to buoy sentiment in the metals markets with China's stimulus efforts not enough as Covid-19 restrictions in the country continue to take their toll on the demand outlook.

Meanwhile, market confidence has declined as few positive signs have come from the 20th Party Congress in China which opened on 16 October with no change in the tone for Covid measures. This will likely continue to put downward pressure on the base metals complex.

Europe's energy crisis

European metal manufacturing has seen a wave of shutdowns amid the ongoing energy crisis with energy-intensive metals like aluminium and zinc most at risk from soaring energy prices in Europe.

Several aluminium smelter cuts have already been announced across Europe since December 2021, including Alcoa's San Ciprian smelter and Hydro's plant in Slovakia due to high energy costs, which account for about a third of aluminium's production costs.

About 1.48 million tonnes of capacity could be cut in Europe and the US, accounting for 1.9% of the global total. European smelters have already cut 1.18 million tonnes of output – around 11% of total installed capacity in the region.

The European power crisis will continue to weigh on growth in early 2023 as further smelter closures and curtailments in production are highly likely with Europe heading into the winter months and the war with Russia raging on.

Global economic growth fears

Industrial metals prices have been battered by fears for global demand, as well as a stronger dollar. Growing recession risks in the US and Europe and an uncertain recovery in China will likely continue to pose downside risks to the demand outlook.

Earlier this month, in its World Economic Outlook, the International Monetary Fund cut its forecast for global growth next year to 2.7%, from 2.9% seen in July and 3.8% in January, adding that it sees a 25% probability that growth will slow to less than 2%.

About one-third of the global economy risks contracting next year, with the US, European Union and China all continuing to stall. Excluding the unprecedented slowdown of 2020 because of the coronavirus pandemic, next year's performance would be the weakest since 2009, in the wake of the global financial crisis.

Author

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.