

Here's why metals are struggling to find any clear direction

Metals have struggled to find clear direction in the last few weeks thanks to macro market jitters and the bond market tantrum which caused consternation in cross-asset markets. While the macro element has been the dominant factor, there are subtle micro fundamentals affecting individual market performance



Copper: Feeling the squeeze

The tightness in the copper concentrate markets continues to weigh on the spot treatment charges (TCs) and is eroding smelters' margins. News on strikes at mines did little help to ease the fears of mine supply risks. The question remains: Have TCs hit rock bottom? And now the focus will be on whether those depressed margins could translate into smelter curtailments and refined production losses.

In the short term, these supply-side developments still look supportive for copper prices. According to the latest data from the China National Bureau of Statistics (NBS), refined copper production rose 12.3% YoY to 1.63mln tonnes in the first two months of 2021. It's worth noting that the growth rate looks too high due to the base effects from last year as China was in lockdown in January and February and those smelters had struggled to operate due to swelling

sulphuric acid stocks.

□ Aluminium: Whipsawing expectations

Curtailments in Inner Mongolia due to the 'double control' continued to spark optimism, particularly in the Chinese onshore market ([see analysis here](#)). The ShFE prices soared to their highest since 2008, driven by investor speculations over the buzzwords on 'carbon emissions peak' and 'carbon neutrality'. Yet, policymakers are still mapping out concrete plans for each of the industries to conquer the greenhouse emissions' problem.

However, there are quite a lot of complexities and this cannot be sorted overnight. In contrast to copper, aluminium smelter margins remain healthy, which act to incentivise as much supply as possible. It's no surprise that the total operating capacities hit their highest levels in March. The ongoing curtailments in Inner Mongolia whipsaw expectations over Chinese aluminium supply, but be mindful of risks that actual production may overshoot in the near term.

□ Zinc: Carried away

We came into 2021 with a view that mine supply tightness would at least continue until the first quarter which acts to support prices. At the end of the first quarter of this year, things are not getting better and spot TCs have continued to fall lower. Inner Mongolia's efforts to cap energy consumption could also send jitters across zinc production lines as there are reports that any constraints on energy consumption may lead to production losses at zinc smelters in the area.

The situation there is similar to that of copper, with nothing to surprise the market with either planned maintenance or unexpected curtailments due to the tightness in the concentrate market. But it feels a bit like riding a current; it's not clear whether this is margin-related or energy-cap related (administrative cuts) if there were to be real retrenchment. On the demand side, we fear that zinc may be again be sucked into the steel market's orbit in light of recent pollution control-related cutbacks at steelmakers in Tangshan.

□ Nickel: In the eyes of beholder

Nickel remained under pressure after Tsingshan's announcement to commercially produce nickel matte from nickel pig iron, and it will start to supply nickel matte to Huayou and CNCR later this year. Market scepticism has been mainly around high-quality ore supply (thus adding further to costs) and greenhouse emissions.

Put these things aside, we need to be clear about what's in the LME nickel price. The fanfare around EV battery demand seems to overwhelm the increasing complexities of exchange-traded nickel. In the longer run, we still hold a constructive view towards nickel demand but this does not always necessarily translate into super bullish LME prices. Meanwhile, we updated the [multiple ramifications](#) in the nickel value chain after the collapse in exchange-traded Class 1 nickel prices. In the very short term, the market is trying to find a new equilibrium.

And in case you missed these developments: Tsingshan has announced to build a 2,000MW clean energy facility in Weda Bay in the next 3-5 years and is on track to invest in a 5,000MW hydropower to ensure clean energy supplies further. Yesterday (16 March), Silkroad Nickel, a laterite nickel ore producer in Indonesia, signed an offtake agreement with Ekasa Yad Resources, a unit of Tsingshan Holding Group, in which it will supply 2.7 mln tonnes of high-grade nickel ore, at a

minimum quantity of 50kt per month.

□ Gold: Scrambling for signals

Clearly, gold is standing at a crossroads and is awaiting guidance from the upcoming FOMC meeting. As a non-interest bearing asset, gold has faced strong headwinds amid rising real yields, which has seen Comex and ETF investors trim their gold exposure. However, the lack of any agreement on inflation risks ahead keeps some investors on the sidelines as policymakers have been downplaying the risks here.

Meanwhile, cryptocurrencies do appear to have stolen gold's thunder, and it's particularly true given cryptocurrencies' possible wider acceptance from institutional investors. In the short term, gold still faces risks from the decision on the Supplementary Leverage Ratio and there's more on that [here](#). Further ahead, should inflation overshoot expectations, this may see risk-conscious investors return to gold. Meanwhile, the physical market now looks better than the paper market. We're seeing strong sales of coins and bullion in the US. In the traditional physical consumption market, gold is still a premium in both India and China.

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Senior Economist, Healthcare & Technology

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Deputy Global Head of Editorial and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporate Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com