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 CNGR 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 Ration 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.

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