

Prospects for base metals hinge on 4 key themes

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Base metals have seen a big swing in prices and expectations in last nine months. Following themes explore whether the uptrend could continue in 2021 or the bulls are up for a surprise.

China & rest of the world

More than 90 per cent of the incremental demand of metals in 2020 came from a single country i.e. China. On the one hand, China stepped up local consumption of metals into infrastructure spending. And, on the other, its exporters replaced local manufacturers in several countries, who

struggled amid repeated lockdowns. However, it is highly likely that Chinese intensity of demand for commodities will face a slump. Generally, Chinese stimulus is front-loaded; this year was not different. Further, Chinese export growth could cool in 2021 as manufacturers in developed markets recover post vaccination.

Can the demand of metals from the rest of the world offset slowing Chinese intensity in 2021? The metal bulls think so, but history shows otherwise.

Supply growth smoothens

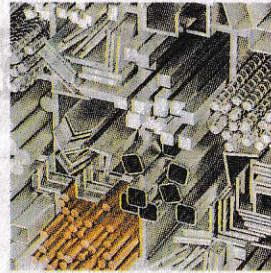
The supply chain for metals was badly disrupted this year

on account of three factors – Covid-19 related interruption in mining, shipping delays slowing international trade of metals, and postponed implementation of new Chinese scrap policy.

These disruptions have either eased or are likely to. South American miners are back on their feet; experts suggest that shipping schedules could normalise post Chinese Lunar holidays (February 11-17) and scrap imports into China are rising after new policy was notified from November 1, 2020.

Producers step-up

Commodity prices move in



Base metals are likely to see high volatility in prices

cycles. At extreme points, it gives pain to producers with smile to consumers or vice-versa.

Currently, high prices are pushing miners, smelters and refiners to step-up output to

the best possible pace. No surprise that Chinese output of most of the metals have been hitting record highs recently. Analysts are penning a strong rebound in mining output in 2021.

On the other hand, high prices are becoming difficult for consumers to absorb. This is resulting in deferral of demand and search for substitutes.

Unless metal prices see a sizeable downward revision, physical demand-supply conditions could put the bull market in danger.

High volatility

It is for the first time since 2009 that commodities have at-

tained such popularity amongst investors. Their conviction and thereby money at stake for a long-lasting bull market has been growing every passing month. Bulls see no interruption in the uptrend in 2021.

However, history shows that with high expectations and stake come high volatility in prices. Irrespective of the debate whether prices will make higher highs or not in 2021, something that can be said with certainty is that 2021 will see high volatility in metal prices.

The writer is Founder, CEO of Metal Intelligence Centre (MIC), an information hub for metals. Views are personal.