



BASE METALS INDUSTRY REPORT

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Summary

BASE METALS WILL SHINE; CHINA-LED GLOBAL ECONOMIC RECOVERY TO SUPPORT METALS DEMAND AND PRICES IN 2021

- With a global economic recovery underway, robust global demand will bolster steel prices in 2021
- Iron ore's resiliency will continue in 2021 despite increased global supply from Brazil and China
- Base metals will benefit from solid Chinese demand and vaccine-fueled global economic optimism

Despite the pandemic upending global economies in 2020, base metals prices have largely recovered from the Viral Recession and should continue to rise modestly in 2021 given an improving global backdrop. Base metals prices recovered from their April nadir thanks to the strong rebound in the manufacturing industry (Chart 1). Rock-bottom policy rates, fiscal stimulus, vaccine optimism and pent-up demand should support base metals prices in 2021 assuming vaccines are successfully deployed in the first half of the year. PNC's baseline outlook calls for the U.S. economic recovery to weaken in the first quarter of 2021 in large part due to record-high coronavirus caseloads, then regain momentum in the second quarter, bringing the level of real GDP back to its pre-pandemic level by the end of 2021. The E.U. and U.K. economies dipped back into contractionary territory in the fourth quarter of 2020 but should rebound from these double-dip downturns in mid-2021. The economic outlook in 2021 for emerging economies is mixed. The astounding recovery of China, the world's largest steel producer and consumer, from the pandemic will continue in 2021 as its economy pulls further ahead of other major economies. Brazil, the second-largest supplier of iron ore after Australia, had a strong recovery from the Viral Recession in the third quarter of 2020, although yearly total iron ore exports did not recover to 2019 levels.

Robust global demand aided by vaccine optimism will bolster steel prices in 2021. Global finished steel demand fell an estimated 2.4 percent in 2020 to 1.7 billion tons, but is expected to rebound 4.1% in 2021 to 1.8 billion tons, according to the World Steel Association. With capacity utilization set to keep increasing in 2021 (Chart 2), continuing recoveries in the automotive (Chart 3) and housing sectors (Chart 4) will support hot-rolled coil steel prices. Iron ore had an astounding 2020 with prices rising 70% to a seven-year high. Iron ore's strength in the past year was driven by global supply chain disruptions and strong demand from China--Chinese iron ore imports hit a six-year high in July 2020. Looking ahead, PNC Economics expects iron ore's resiliency to continue into 2021, aided by improved global demand, although a slowdown in global manufacturing growth and the stabilization of global supply chains could dampen the price surge.

The aluminum industry made a swift recovery from the Viral Recession: prices plummeted to \$1,426 per ton in April, then hit just over \$2,000 per ton in December. High aluminum prices will be an incentive for producers to increase production, but robust global demand will still keep prices stable to higher in 2021. Bloomberg forecasts global aluminum supply to hit a record-high 66.6 million tons in 2021 (Chart 5).

The continued Chinese recovery and an improving global economy will support base metal prices in 2021. The International Monetary Fund (IMF) projects global economic output to grow 5.2 percent on a year-over-year basis in 2021. Downside risks to the metal price outlook are the possibility that the dollar is stronger than forecast (Chart 6), global goods demand recovers more slowly than expected, or that the pandemic does not begin to come under control by mid-year.

Chart 1: Global manufacturing bounced back

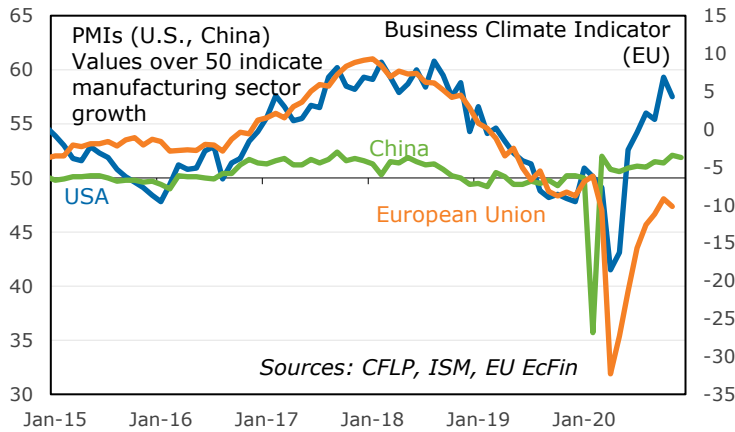


Chart 2: U.S. Steel capacity utilization will rise in 2021

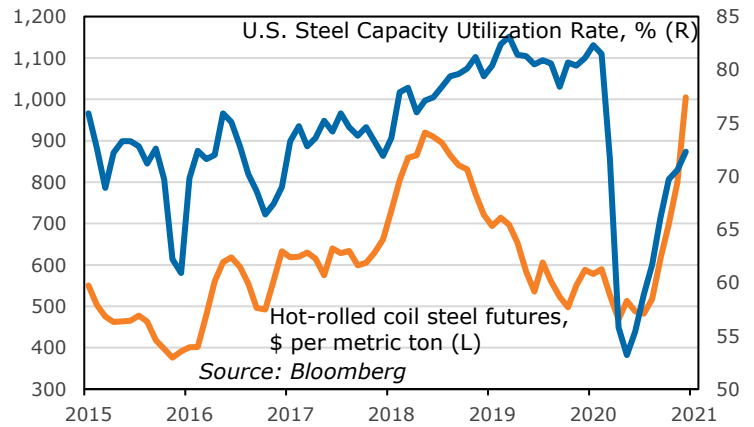


Chart 3: Auto sales to recover to pre-pandemic levels

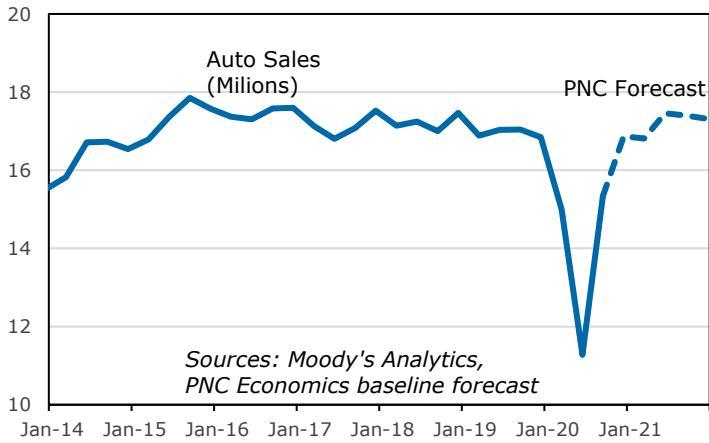


Chart 4: Housing strength to continue in 2021

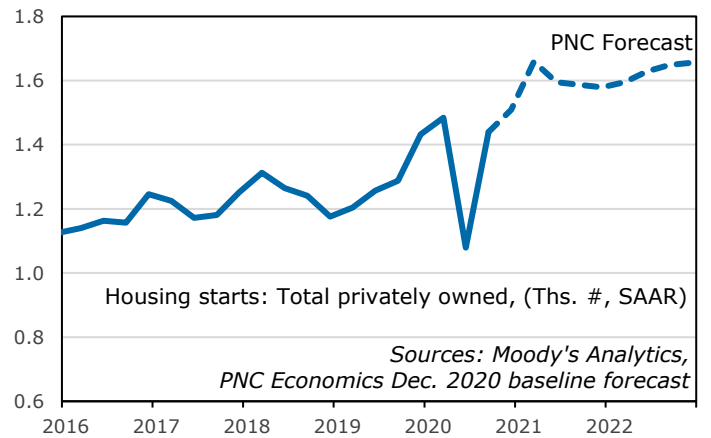


Chart 5: Global aluminum production to increase

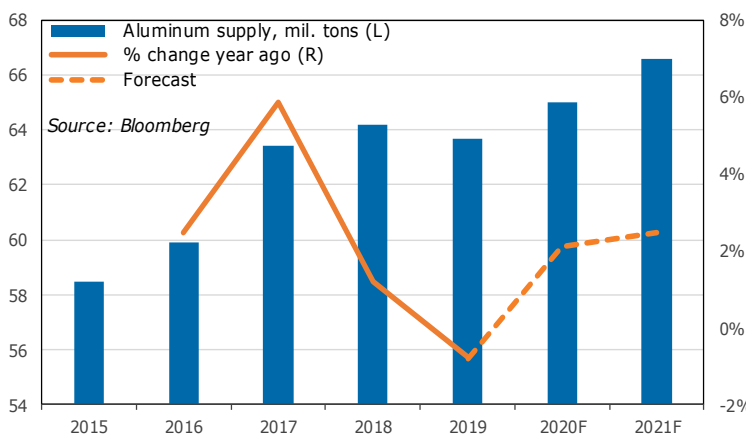
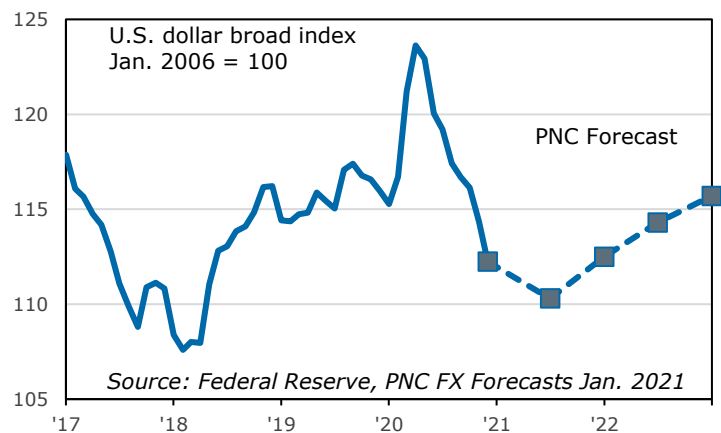


Chart 6: Dollar strength in late 2021 could drag prices



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