



METALS INDUSTRY REPORT

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Summary

STEADY AS SHE GOES: METAL PRICES WILL STABILIZE AS MONETARY POLICY NORMALIZATION ACCELERATES AND SUPPLY CONSTRAINTS EASE

- Slower global economic growth coupled with a hawkish tilt by many central banks will limit price growth this year.
- Global steel demand is expected to grow by 2.2% this year, down from 4.5% in 2021.
- The weakening Chinese real estate sector and a stronger dollar will both weigh on base metals demand.

Many base metals had their best year on record in 2021. The outlook for base metals in 2022 remains positive. Hot-rolled coil steel peaked at \$1945 per ton in August 2021 driven, by ultra-low global interest rates, massive fiscal stimulus, and a recovering global economy; hot-rolled coil steel then closed the year at \$1435. Iron ore, a key ingredient in steel production, peaked at \$220 per ton in July 2021 before losing some steam in the second half of the year as China's real estate sector weakened and the Chinese government expanded its plan to limit industrial air pollution ahead of the 2022 Winter Olympics. Iron ore closed 2021 at \$113 per ton. An acceleration in global monetary policy normalization will weigh on the demand for metals, limiting price growth in 2022. PNC's baseline forecast calls for strong but slowing economic growth in the U.S. over the course of 2022 as consumers unleash pandemic savings and business fixed investment remains strong. Economic growth will be slower in the U.K. as sticky high inflation, supply issues and the energy crisis weigh on consumers and businesses. A weak real estate sector (29% of China's GDP) will weigh on China's economy in the near term, but growth should pick up in the second half of the year.

Manufacturing growth in the E.U., China, and U.S. slowed last year (Chart 1) as limited availability of raw materials and labor shortages weighed on growth in the industrial sector. An increase in global vaccination rates and slower demand growth for durable goods will reduce the demand-supply imbalance for base metals in 2022, dampening price increases. Over the longer term, passage of the U.S. bipartisan infrastructure package in November 2021 will support the demand for steel, cobalt, and lithium, although increased U.S. steel production (Chart 2) will dampen price growth in the near term. Outside of the U.S., weaker global economic growth will weigh on steel demand. The World Steel Association (WSA) forecasts global steel demand will grow 2.2% in 2022 to 1.9 billion tons, following a 4.5% increase in 2021.

Slower but still positive growth in U.S. homebuilding (Chart 3) and a recovering automotive sector (Chart 4) bode well for steel, aluminum, iron, zinc, and copper. In addition, the green energy transition will support base metals in the long term; building an electric vehicle requires six times more minerals than a gas-powered car, according to the International Energy Agency (IEA).

Labor shortages and supply-chain disruptions were recurring themes in the global economy in 2021 but these problems should improve substantially in 2022. Expected employment and inventory growth in U.S. manufacturing are both near decade-long highs (Chart 5). China's weakening real estate sector will weigh on demand for base metals, but an accommodative People's Bank of China (PBOC) should provide stability in the second half of the year. In the U.S., a hawkish Fed will support the greenback (Chart 6), which will be bearish for base metals. Risks to the metals outlook are balanced. The continued spread of the Omicron variant could lead to more supply-chain disruptions, accelerating price growth. A drop in Omicron case counts and an increase in vaccination rates will quicken the easing of supply-side constraints, dampening price growth.

Chart 1: Slower goods spending growth in the near term

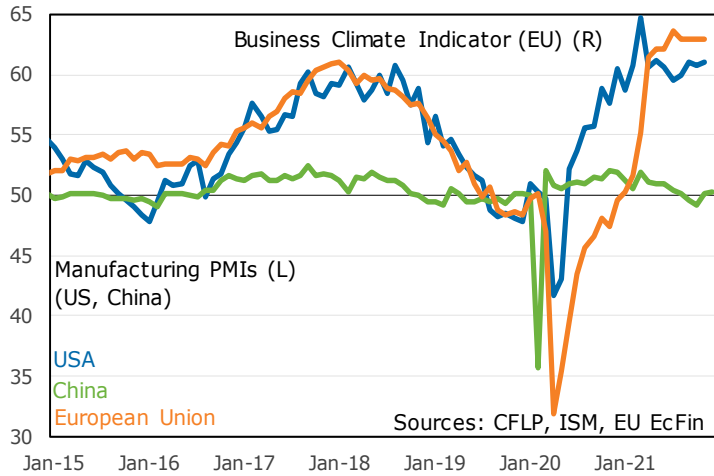


Chart 2: Strong U.S. production expected this year

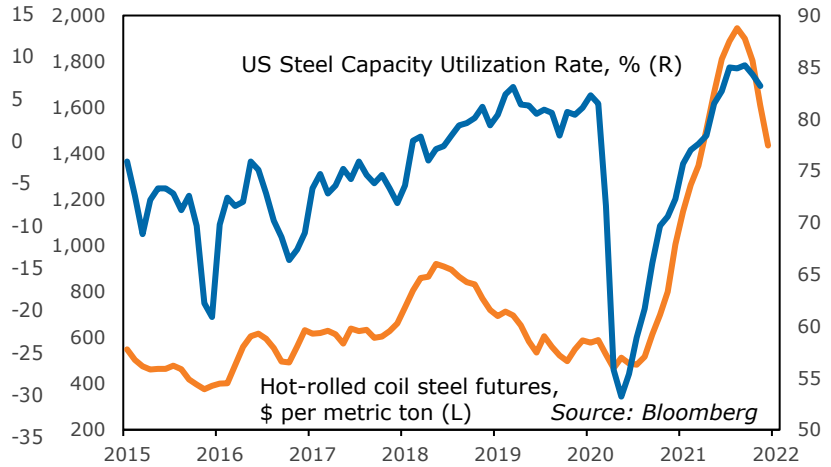


Chart 3: Demand for new homes to remain strong

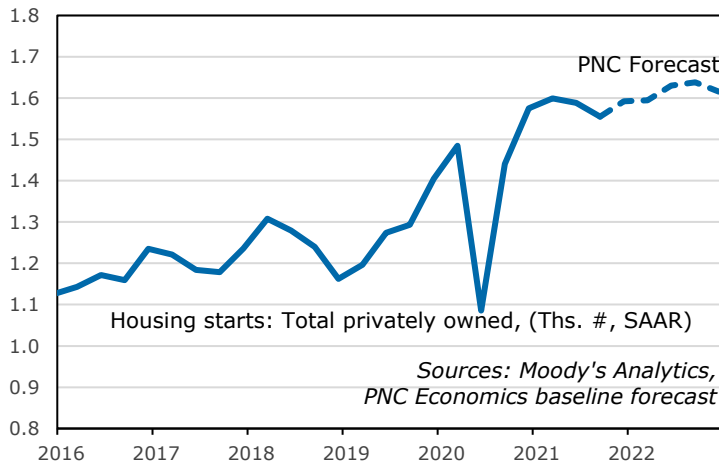


Chart 4: Rebound in auto sales expected this year

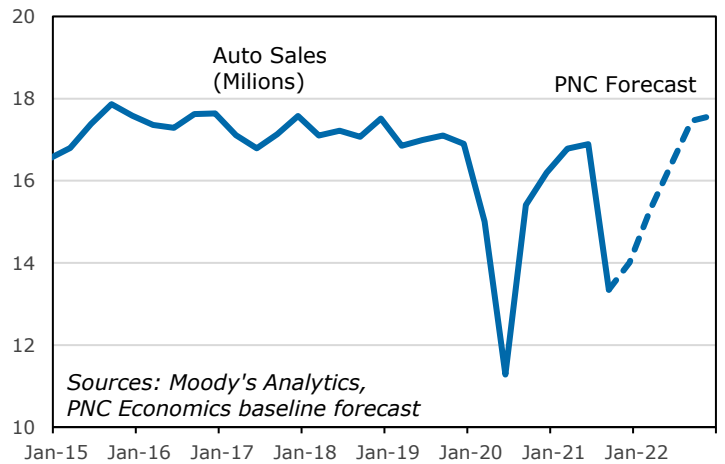


Chart 5: Solid outlook for manufacturing this year

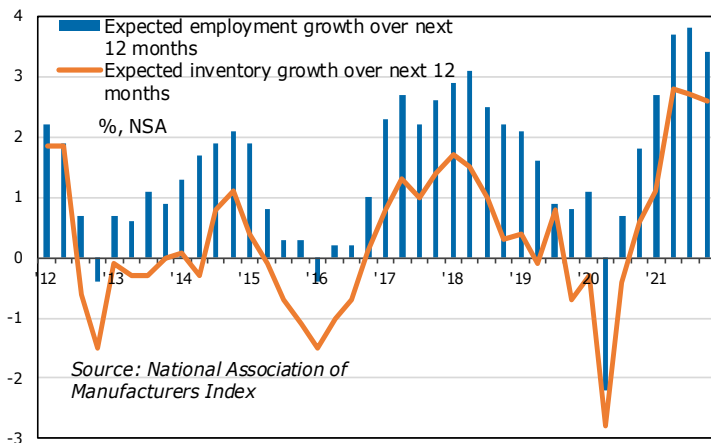
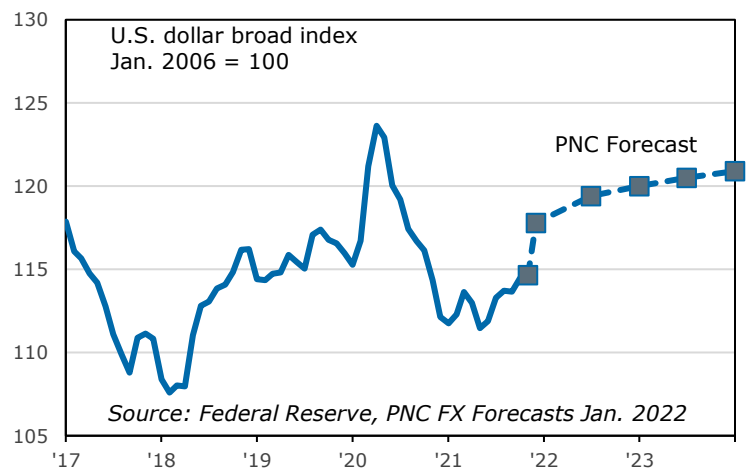


Chart 6: Dollar strength to weigh on base metal prices



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