Summary

SOFTER DEMAND FOR BASE METALS EXPECTED AS GLOBAL ECONOMY SLOWS

- 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 0.4% this year and grow a further 2.2% in 2023.
- The weak real estate sector in China and a stronger dollar will both weigh on base metals demand.

Many base metals have had an awful 2022. After reaching record-high prices in 2021, the outlook for base metals has deteriorated significantly this year. Aggressive monetary tightening by many major central banks, a weak Chinese real estate sector, and a more slowly growing global economy have been negatives for base metals this year. After peaking at $1945 per ton in August 2021, hot-rolled coil steel closed June 2022 at $930. Iron ore, a key ingredient in steel production, peaked at $220 per ton in July 2021 before losing some steam as a weak Chinese economy and a global economic slowdown weighed on demand. Global economic growth is expected to slow from above 6% in 2021 to 3% in 2022 and 2.8% in 2023, according to the Organization for Economic Co-operation and Development (OECD). PNC’s baseline forecast calls for below-trend economic growth in the U.S. in 2022 and 2023 as rising interest rates and elevated inflation continue to take a toll on consumers and businesses. Recession risks are elevated in the U.K. as sticky high inflation, supply issues and an energy crisis weigh on the economy. The Covid-zero policy and a weaker global economy will weigh on Chinese economic growth this year.

The manufacturing outlook in the E.U., China, and U.S. (Chart 1) is mixed as supply-chain difficulties and labor shortages limit production and consumers shift their spending from goods to services. In the U.S., a ramp-up in infrastructure spending in 2022 and 2023 will support demand for steel, cobalt, and lithium, although high 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 0.4% in 2022 and a further 2.2% in 2023, following a 4.5% increase in 2021.

Substantially higher mortgage rates will slow housing activity and limit U.S. homebuilding (Chart 3), and a recovering automotive sector (Chart 4) bodes 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). Construction activity remained elevated during the pandemic, but investment in residential and non-residential structures (Chart 5) will decline as the Fed withdraws stimulus in 2022 and 2023.

The remarkable strength of the dollar in 2022 has weighed on commodities as most commodities are priced in U.S. dollars. The U.S. dollar strengthened to a fresh twenty-year high in July as financial markets raised the odds of a 100-basis point Fed rate hike at the July 27 FOMC meeting. PNC Economics expects continued strength in the greenback (Chart 6) in the near term and a slight depreciation in 2023. Also, a recovering Chinese economy will be bullish for base metals. The People’s Bank of China (PBOC) is likely to keep monetary policy accommodative through 2022 to support the economy. Risks to the metals outlook are heavily tilted to the downside. An escalation of the Ukraine invasion, continued strength of the dollar, or a global economic recession would weigh on metals demand.
Chart 1: Consumers will spend less on goods

Chart 2: Hot-rolled coil steel prices have slumped

Chart 3: Demand for new homes will fall

Chart 4: Rebound in auto sales expected this year

Chart 5: Fed tightening will weigh on capex

Chart 6: Dollar strength to weigh on base metal prices

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