Third Quarter of 2021

METALS INDUSTRY REPORT

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Summary

OUT OF BREATH; METALS RALLY WILL LOSE STEAM AS MAJOR CENTRAL BANKS TIGHTEN AND CHINA'S ECONOMIC GROWTH MODERATES

- Global tightening cycle and reduced demand will pull metal prices back in the second half of the year.
- Hot-rolled coil steel rally will take a breather and end the year around $1300 per ton.
- Appreciating dollar and stalling Chinese economic growth will weigh on metal prices in the second half of the year.

After reaching record highs in the first half of this year, metal prices will cool over the next year as the global economy recovers and inventory levels recover. Steel prices tripled in the first half of 2021, iron ore and aluminum prices more than doubled, and prices for many other metals reached record highs due to global monetary and fiscal stimulus, supply chain disruptions, and the China-led global economic recovery. PNC Economics' baseline outlook calls a pullback in metal prices over the next year as global consumer demand shifts from manufactured goods to services, metal producers ramp up production, major central banks rein in stimulus, supply chains normalize, and the dollar strengthens. The economic outlook for the U.S. economy remains very strong as vaccination rates increase and consumers get opportunities to spend their stimulus payments. The economic recovery in the U.K. will lag behind the U.S. as the U.K. slowly eases restrictions. Eurozone economies should make up lost ground and recover to pre-pandemic levels of economic activity by the end of the year. Economic recoveries in emerging markets (EM) will be delayed as the pandemic still looms large in many EM economies particularly in Brazil, India, and Turkey.

Global manufacturing continues to make an impressive recovery from the pandemic (Chart 1) amid an increase in the demand for durable goods, but growth in the manufacturing sector will moderate over the next year as vaccinations increase, governments lift restrictions on high-contact industries, and consumers spend more on services. With U.S. steel capacity utilization back to its pre-pandemic level (Chart 2) and supply conditions loosening, the price of steel will weaken by the end of the year. The global housing boom has supported demand for steel but activity in the housing sector should slow (Chart 3) as the global recovery matures and mortgage rates rise. Resilient demand for steel, particularly in the automotive industry (Chart 4), should support steel prices but the temporary semiconductor shortage will limit production in the short term. Reduced demand and increased supply of steel will push hot-rolled coil steel prices down to around $1300 per ton by the end of the year. Iron ore, a major steelmaking ingredient, similarly benefitted from soaring demand for steel in the past year, but higher production in Brazil and Australia (Chart 5), the world's largest iron ore producing countries, will contain further price increases. Passage of the American Jobs Plan infrastructure package is an upside risk to steel and iron ore prices in the near term.

Copper continues to benefit from the new energy transition and has had an impressive run, pushing its price to a record high in May; electric vehicles use three to four times more copper than traditional vehicles. However, the Chinese government's sales of state stockpiles of copper to stem the rally will contain further price increases.

PNC's forecast for a stronger dollar in the near to medium term (Chart 6) is also bearish for metal prices—most commodities are priced in dollars. A weaker than expected global economic recovery or an out-of-control coronavirus variant are downside risks to our forecast.

Chart 1: Slower goods spending growth in the near term

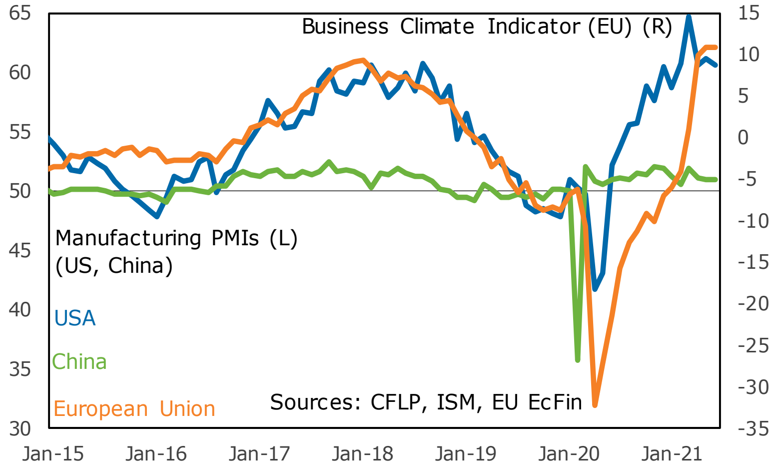


Chart 2: Bullish steel run likely to take a breather

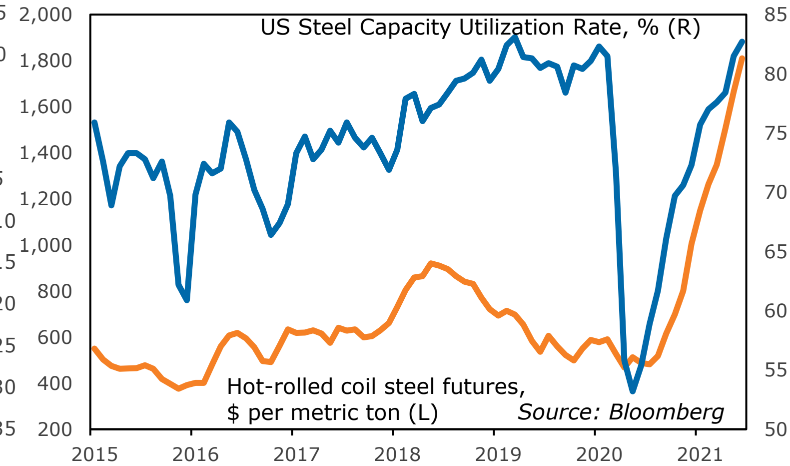


Chart 3: Higher mortgage rates will weigh on homebuilding

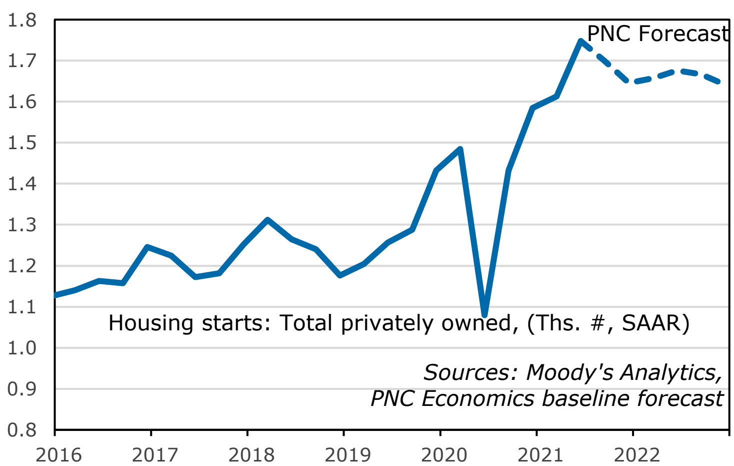


Chart 4: Car sales will shift to lower gear by next year

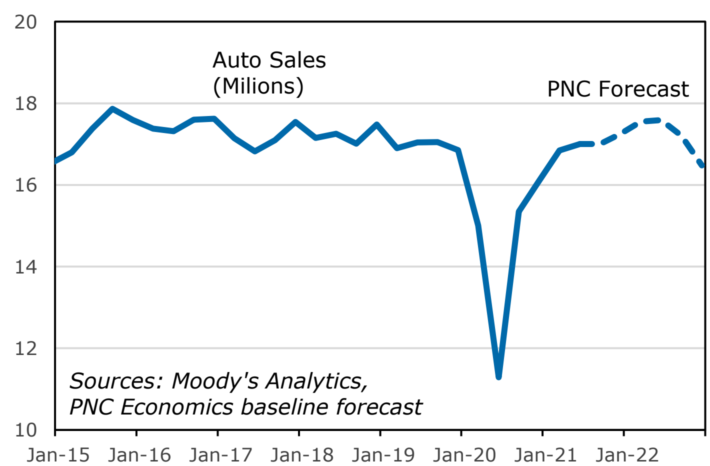


Chart 5: Australia iron ore exports near record highs

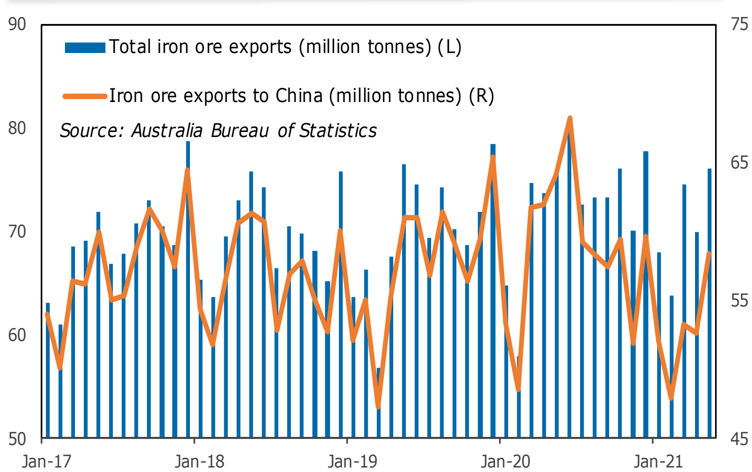
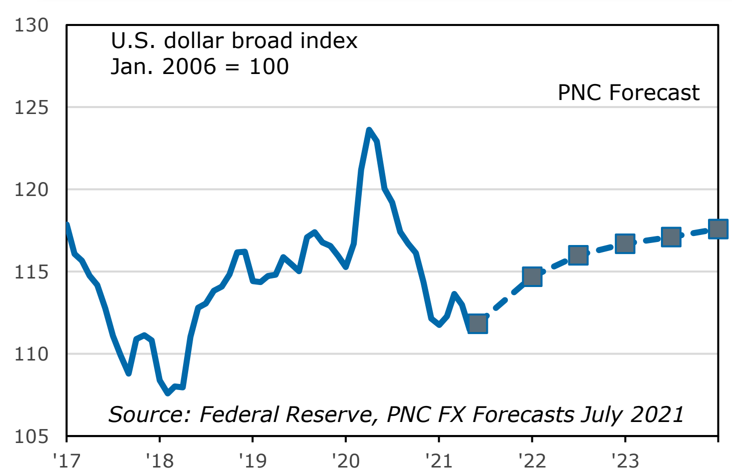


Chart 6: Dollar strength to weigh on base metal prices



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