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Industrial Metals Outlook

Q2 2023

What's next for metals prices?

Macro-economic Outlook

Q1 2023 began with hopes for a resumption in demand for Industrial Metals from China as it relaxed its COVID 19 restrictions and initiated a multitude of stimulus measures aimed to reinvigorate the industrial output.

The rally in Industrial Metal prices that occurred in late Q4 2022 and the early weeks of 2023 has since unwound, further exacerbated by a failure of consumption in China materializing and the Fed's hawkish stance on rates leading to a stronger dollar, causing metals to weaken. This should not come as a surprise to anyone. It was always the intention by Global Central banks to slow demand and as a result, inflation. The strong response to inflation by Global Central Banks has started to create the desired effect of market demand destruction.

Undesired side effects such as the collapse of major US Banking names, and the contagion over European banks such as Credit Suisse, has also led to heightened economic fears curtailing many ambitions by market participants to venture into new projects.

"It certainly seems that the major driver heading into Q2 2023 will be Macro Indicators"

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Industrial Metals Outlook

Q2 2023

Commodities in the Final weeks of Q1 2023 declined significantly across the spectrum of Energy and Industrial Metals. Slowing construction demand is also a notable side effect of the moves by Central Banks; higher interest rates and falling property prices are usually not conducive to much demand to undertake risky projects by developers, especially given the potential volatility of input costs thrown into the mix.

> "We have seen heightened activity amongst customers to enter into Hedging programmes to stabilise net spending for contracts"

It certainly seems that the major driver heading into Q2 2023 will be Macro Indicators, although Geopolitical events such as the Russia-Ukraine war or escalation in US/Chinese relations could certainly lead to heightened upside price risk for consumers.

During these challenging economic environments, we have seen heightened activity amongst customers to enter into Hedging programmes to stabilise net spending for contracts and tenders won with margins that could be highly affected by wildly fluctuating variables in interest rates and input costs.

The UK's annual inflation rate rose unexpectedly to 10.4% in February 2023, compared to 10.1% in January and exceeding market forecasts of 9.9%. The UK Manufacturing PMI, as reported by S&P Global/CIPS, was 47.9 in March 2023. This was slightly lower than the earlier flash estimate of 48.0 and February's reading of 49.3, which was a seven-month high.

The latest figure indicates the manufacturing sector in the UK continued to contract for the eighth consecutive month, driven by declining new export orders and subdued market demand, leading to reduced inventory holdings. Although new business showed a minor improvement, it was the first gain in ten months, thanks to a mild rise in domestic demand. Backlogs of work fell further, and employment levels dropped for the sixth consecutive month.

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Industrial Metals Outlook

Q2 2023

Copper

Could see a return to $9000 USD/Tonne

Copper (or Doctor Copper as some call it for its usage as an indicator for global health) began the first quarter of 2023 with a 14% increase on LME from 8200 USD/Tonne to around 9400 USD/Tonne on CUMC3 (3-month LME Copper contract), on the back of optimism around the renewed demand in China.

This conviction has since started to unwind back to the 8700 USD/Tonne levels at the end of the quarter. However, as China's economy continues to rebound, the demand could soon eclipse the falls in prices. Rising Oil prices are starting to show a return in this demand, and if prices to produce the conductive start rising again, the combination of a reawakened China and higher input costs could be the catalyst for prices to return to above the $9000 USD/Tonne level.

2023 Annual Forecasted Prices (Updated 02 Feb 2023) -

Institution	Forecast ($/Tonne)
Amalgamated Metal Trading	10373
ANZ Bank	8900
Berenberg	9250
Bank of America	8625
Capital Economics	8875

Aluminium

Strong support at 2300 USD/Tonne

LME Aluminium started 2023 on a strong note, with the 3-month contract rising from 2274 USD/Tonne to peaks of 2660 USD/Tonne on 18th January 2023. Since then, it has been in a continual slide back down to just under 2300 USD/Tonne at the end of the first quarter.

This price has proven to be a strong floor for Aluminium, with the major causes of price action at these prices late last year being driven by historically low global inventories because of unsustainably high input cost prices leading to many notable smelters shuttering production significantly. Rising LME inventories are a major contributing factor this quarter, as the steep contango in the curve incentivizes traders to put their metal into storage at a price less than the curve differential.

2023 Annual Forecasted Prices (Updated 02 Feb 2023) -

Institution	Forecast ($/Tonne)
Amalgamated Metal Trading	2755
ANZ Bank	2590
Berenberg	2575
Bank of America	2738
Capital Economics	2490

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Industrial Metals Outlook

Q2 2023

Zinc

Prices could soften towards 2700 USD/Tonne

LME Zinc started the year on a similar rally to other Non Ferrous metals, jumping from 3000 USD/ Tonne to 3500 USD/Tonne, and now settling at just above 2800 USD/ Tonne price last seen in November 2022.

Supply constraints seen in late 2022 are starting to wane, and there is now anticipated surplus in the import of ore and concentrate into China in 2023. Although there may be continued optimism about China's reopening in the short term, the direction of Chinese stimulus is crucial.

Consumer-focused stimulus may not support zinc demand as much as traditional infrastructure-focused spending. Spreads are expected to remain in backwardation in the short term. As refinery capacity returns, Zinc prices could soften towards the 2700 USD/Tonne levels in Q2 2023.

2023 Annual Forecasted Prices (Updated 02 Feb 2023) -

Institution	Forecast ($/Tonne)
Amalgamated Metal Trading	3147
ANZ Bank	3490
Berenberg	3350
Bank of America	2813
Capital Economics	3280

Tin

Support forming at $24,000/Tonne

LME Tin began 2023 trading at around 25000 $/Tonne, rising to 32000 USD/Tonne Peaks at the end of January 2023. Prices have come back down since, finding a base at around the $24,000/Tonne level. Higher Chinese inventories will be aggregated by further supply measures promised by Malaysian Producers.

Malaysia Smelting, one of the world's largest tin producers, has announced that it will boost its production by 20% in the coming years. As we look to the future, Tin demand is expected to benefit from the energy transition and the adoption of green technologies such as solar panels and electric vehicles.

2023 Annual Forecasted Prices (Updated 02 Feb 2023) -

Institution	Forecast ($/Tonne)
Amalgamated Metal Trading	30699
ANZ Bank	23670
Capital Economics	25300
Citigroup	25750
CPM Group LLC	19014

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Nickel

Despite a 29% decline the case for Nickel demand is strong

Nickel prices have fallen 29 percent since the start of the quarter, from 31,200 USD/Tonne to 21850 USD/Tonne at the end of March 2023. Declining EV demand could further exacerbate this, however, as the world continues its path to a cleaner climate transition, the case for further demand for Nickel should remain strong.

According to the International Nickel Study Group, the latest data shows a significant 22% YoY increase in global nickel production in January, driven by continued growth in Indonesian output. The agency further notes that mined nickel production is expected to exceed 3.2 million tonnes per year at the current pace. Indonesian output grew by almost 50% YoY to 1.58 million tonnes in 2022, accounting for nearly half of the global supply and pushing the global nickel market into a surplus last year.

2023 Annual Forecasted Prices (Updated 02 Feb 2023) -

Institution	Forecast ($/Tonne)
Amalgamated Metal Trading	23723
ANZ Bank	23125
Berenberg	25625
Bank of America	25625
Capital Economics	27150

Steel

NW Europe HRC contract jumps 36%

The steel industry has been limited by low steel margins, resulting in decreased output. Furthermore, soft demand in steel-intensive industries has not helped. The property development sector is a crucial contributor to steel demand. However, due to weak demand , the property market is expected to suffer more losses in value and developments to be stifled.

While the excitement surrounding China's reopening has increased sentiment, steel consumption is unlikely to see a significant increase if the stimulus is not directed towards these key sectors. LME Steel rebar prices briefly rose around 15 percent between the end of January 2023 and March 2023 and have since fallen back to the levels seen at the start of the Quarter. A notable mover however is the LME NW Europe HRC contract, having shown no signs of stopping its ascent since the start of the quarter, rising from 672 USD/Tonne to 920 USD/Tonne a rise of 36%.

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