

WHAT'S HOT: METALS – STARTING 2024 ON A HIGH?

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2023 was a challenging year for investors in industrial metals. Macroeconomic headwinds overwhelmed the structural case for greater demand for metals from the ongoing transition to clean energy technologies. But are those headwinds finally subsiding?

The annual inflation rate for the US fell to 3.1% in November¹. In December, the US Federal Reserve (Fed) not only decided to hold interest rates steady, but also opened the door for several interest rate cuts in 2024. Risk assets reacted favourably across the board. So did metals.

Metal	December 2023 price change
Tin	9.5%
Palladium	9.4%
Aluminium	8.6%
Platinum	6.9%
Zinc	6.8%
Copper	1.3%

Source: Bloomberg. Price performance based on the generic first futures contract.

Historical performance is not an indication of future performance and any investments may go down in value.

Interestingly, copper was not among the chief beneficiaries of the rebound. Rather, among the leaders was tin, a crucial energy transition metal used to produce solder which helps create electrical connections in any application where current flows. Tin, a relatively smaller market than copper, has in the recent past, exhibited larger fluctuations in prices in either direction.

Also among the top performers in December were platinum and palladium – precious metals with industrial characteristics and used as autocatalysts in internal combustion engine cars. Platinum is increasingly finding new application for its use as a catalyst in both hydrogen electrolyzers (to produce green hydrogen), and hydrogen fuel cells (a type of battery which uses green hydrogen as a fuel source). In addition to their industrial credentials, since both metals are classified as precious, they tend to also correlate with gold. Gold's strength in response to falling inflation and dovishness from the Fed has, in turn, also helped lift platinum and palladium.

Aluminium and zinc, both crucial elements in the energy transition, also made notable gains in December. Aluminium is at the heart of the renewable energy value chain given its use in energy generation, transmission, and storage across wind, solar, and green hydrogen. Zinc is used to galvanise steel to prevent electric vehicles, solar panels, and wind turbines from rusting. In our recently published market outlook, we discussed how China has not come out with an economic bazooka to stimulate the economy but, instead, is introducing piecemeal stimulus. China has started 2024 in a notably different fashion compared to last year. 2023 kicked off with markets expecting big things from the Chinese economy as it emerged from Covid lockdowns. What was steady activity throughout the year left markets disappointed. Given expectations have now moderated and economic activity in China remains stable, the outlook for assets linked to China is much more favourable.

Overall, industrial metals have offered a glimmer of hope to investors by staging a rebound after a prolonged period of weakness. It is a helpful reminder that the asset class has largely been a victim of macroeconomic headwinds rather than a worsening of its long-term fundamentals. The world will require large quantities of metals like copper, nickel, aluminium, zinc, tin, platinum, silver, lithium, and cobalt, among others to decarbonise many different sectors. This long-term story, we believe, remains underappreciated.

Sources

¹ Source: Trading Economics, January 2024.

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