

# Q2 2021

## Outlook and forecast

### Aluminium - Steel

Macroeconomic scenario

Aluminium outlook

Steel outlook





## United States

The data released in February and March were better than those from late 2020 and often above analysts' expectations.

Industrial production was not in line with the overall good trend, registering -2.2% compared to +0.9% in January (analysts' expectations +0.3%).

On the other hand, consumer sentiment remains positive, thanks to prices remaining low, with core inflation at 1.3%. Both levels are still far from the long-term averages and the objectives of the FED.

The labor market shows a positive trend, with payrolls in February positive at 379,000 compared with 49,000 in January, while the unemployment rate in February fell to 6.2% from 6.3% in January.

On the political side, President Biden, after the approval in the House of Representatives of the \$1.9 trillion fiscal plan, envisions a multi-year \$3 trillion infrastructure plan, a plan that would give strength to the reflationary sentiment we are seeing in the U.S.. This plan, although details are still lacking, should be financed by tax increases.

Monetary policy -The FOMC continues to keep interest rates low and not intervene towards raising real rates, believing the rise in inflation to be temporary.

The pandemic is in sharp decline, with new cases appreciably reduced and a vaccination plan that has reached about 25% of the population.



## Europe

Despite the circulation of variants, the prolongation of restrictive measures and the still inadequate vaccinations, the data released on March 24 are very positive and better than expected. The services index exceeded the pre-pandemic values at 52.5 (51.6 in March 2020), while the manufacturing index rose to 62.4. Core inflation in February fell from 1.4% to 1.1%.

The unemployment rate in January, following the downward revision (from 8.3% to 8.1%) in December, is stable at 8.1%.

Industrial production is positively influenced by global demand: it rose in January by 0.8% after two months of volatility in the data. Production levels have returned close to pre-crisis levels.

The European Central Bank announced an increase in the PEPP in order to counter the rise in interest rates and with the aim of maintaining financial conditions at current levels.



## Asia and Emerging Markets

China's Caixin manufacturing PMI fell again to 50.9 in February, for the third consecutive month, suggesting how sentiment is changing. The February figure remains above 50, the critical area, giving a still positive indication. The decrease from 52 to 51.5 in the figure for services confirms the slowdown, but shows that the country continues on its recovery path, even if the momentum is diminishing.

Chinese inflation, little affected by monetary stimulus, continues to fall, -0.2% in February, compared with -0.3% in January, and against the worst analysts' expectations (-0.3%).

China aims to rebalance growth towards domestic consumption. It is committed to launching reforms that favor market entry for foreign partners and to strengthening its know-how in a phase of reduced international collaboration.

Turkey has many question marks linked to the political situation as well as financial imbalances that make it extremely weak.

Among the major so-called emerging countries, it is perhaps India, with all its well-known fragilities, that shows positive dynamics in terms of reforms in a context of substantial political stability.

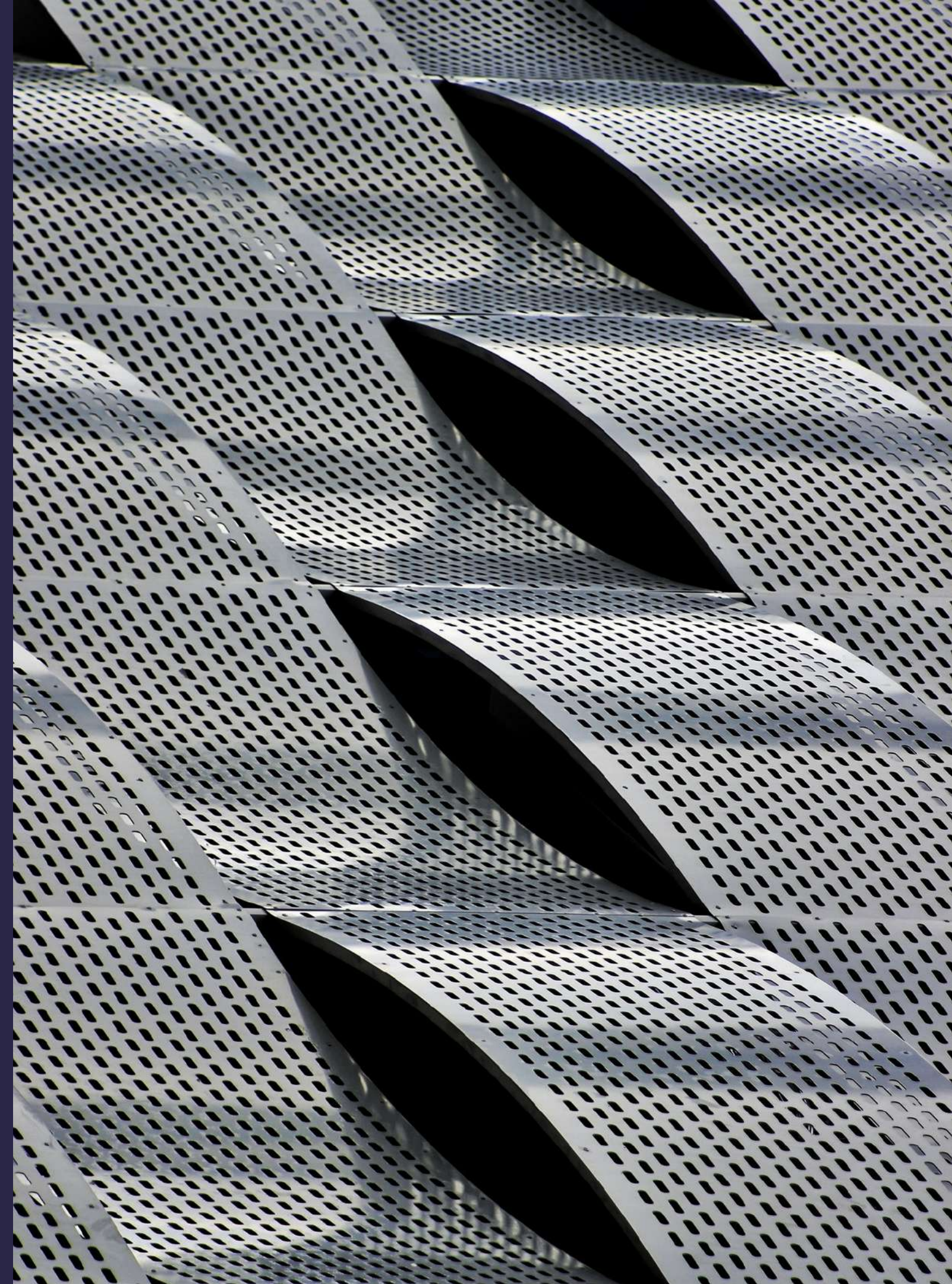




Macroeconomic scenario

Aluminium outlook

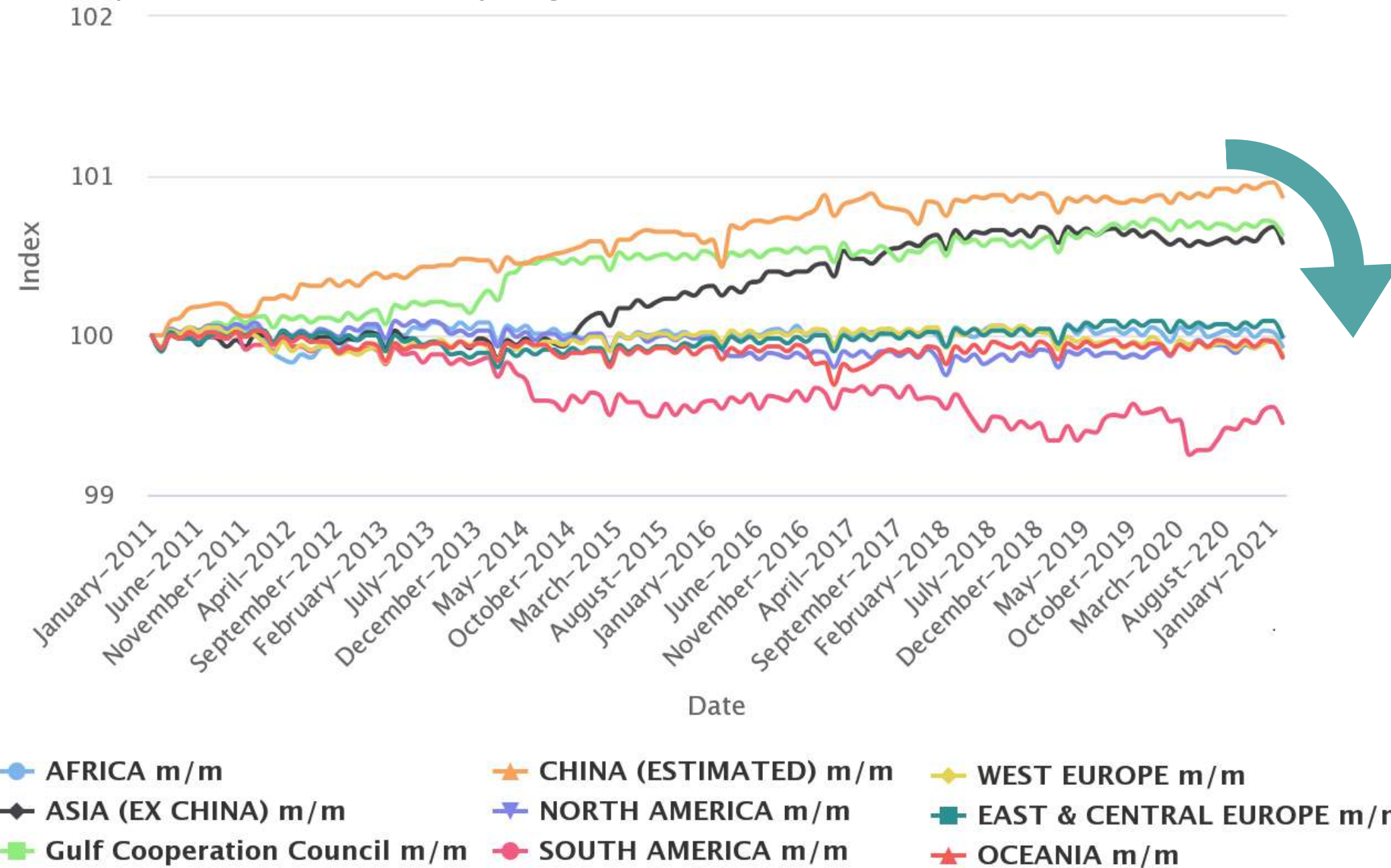
Steel outlook





## Aluminum world production

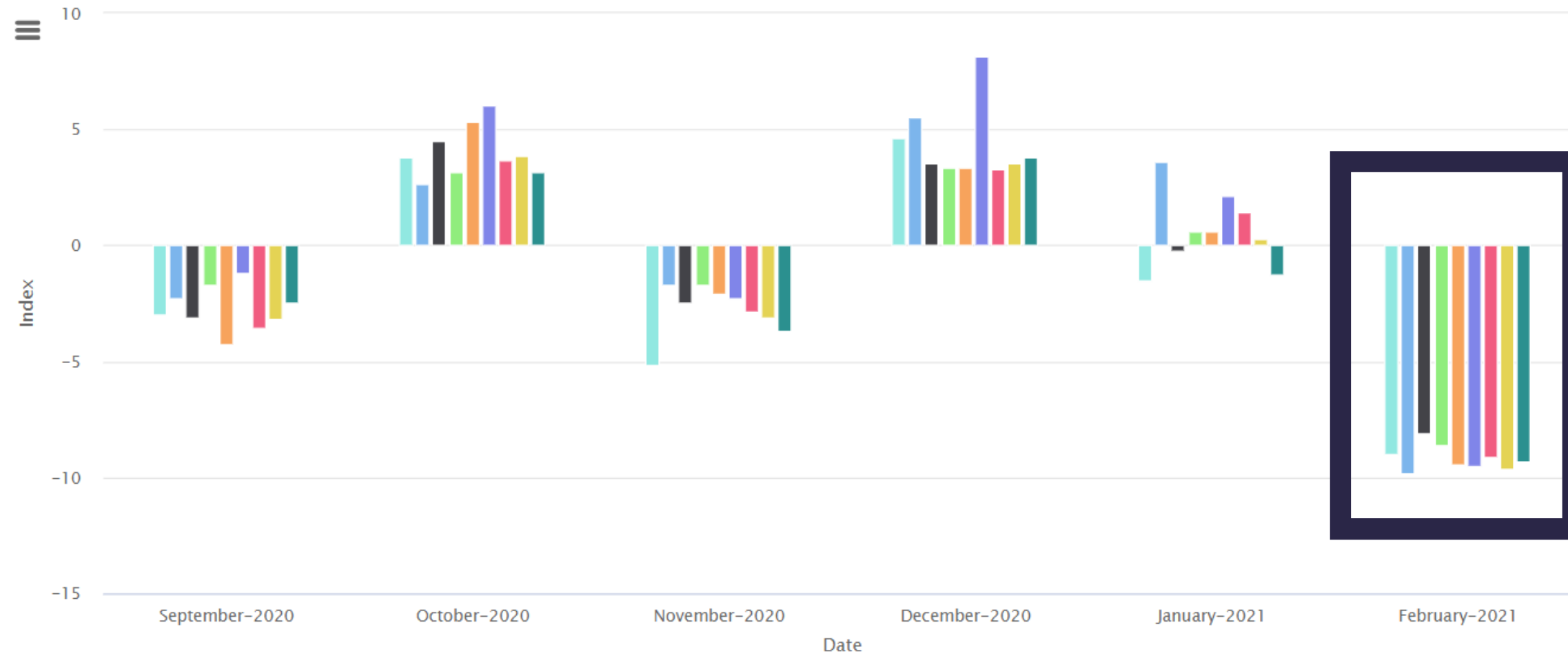
On the production front, analyzing the data of the International Aluminium Institute, a distinction is made between areas with constant



production growth, static areas and areas with decreasing trends. In detail, the graph shows that Asia (Ex China - Azerbaijan, Bahrain, India, Indonesia, Iran, Japan, Kazakhstan, Malaysia, North Korea, Tadjikistan, Taiwan, Turkey), the Gulf Cooperation Council (Saudi Arabia, Bahrain, United Arab Emirates, Kuwait, Oman, Qatar) and China show constant production growth (green - black - yellow line). The Euro zone (West and East Europe) is stable, while South America shows a constant drop in production (red line).

However, it should be noted that in February 2021 all the areas under examination recorded a significant drop in production compared to January of the same year.

Aluminium production trend - February 2021 - Commodity Evolution elaboration



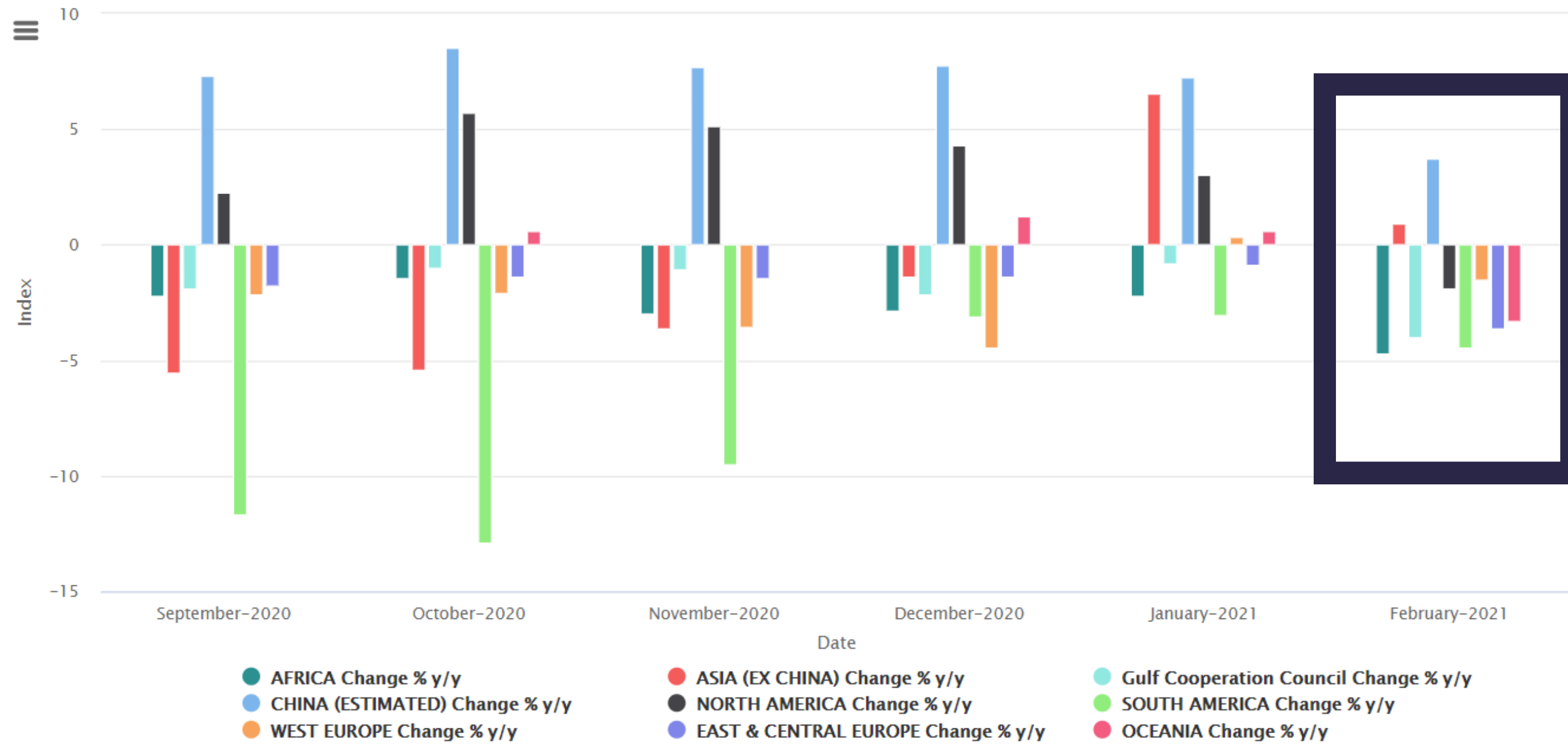
In detail:

- **Africa** -9,02%
- **Asia (Ex China)** -9,48%
- **Gulf Cooperation Council** -8,1%
- **China** -8,58%
- **North America** -9,41%
- **South America** -9,47%
- **West Europe** -9,12%
- **East Europe** -9,63
- **Oceania** -9,32%

- AFRICA Change % m/m
- CHINA (ESTIMATED) Change % m/m
- WEST EUROPE Change % m/m
- ASIA (EX CHINA) Change % m/m
- NORTH AMERICA Change % m/m
- EAST & CENTRAL EUROPE Change % m/m
- Gulf Cooperation Council Change % m/m
- SOUTH AMERICA Change % m/m
- OCEANIA Change % m/m

% change m/m - aluminium production - September 2020 to February 2021 - Commodity Evolution elaboration





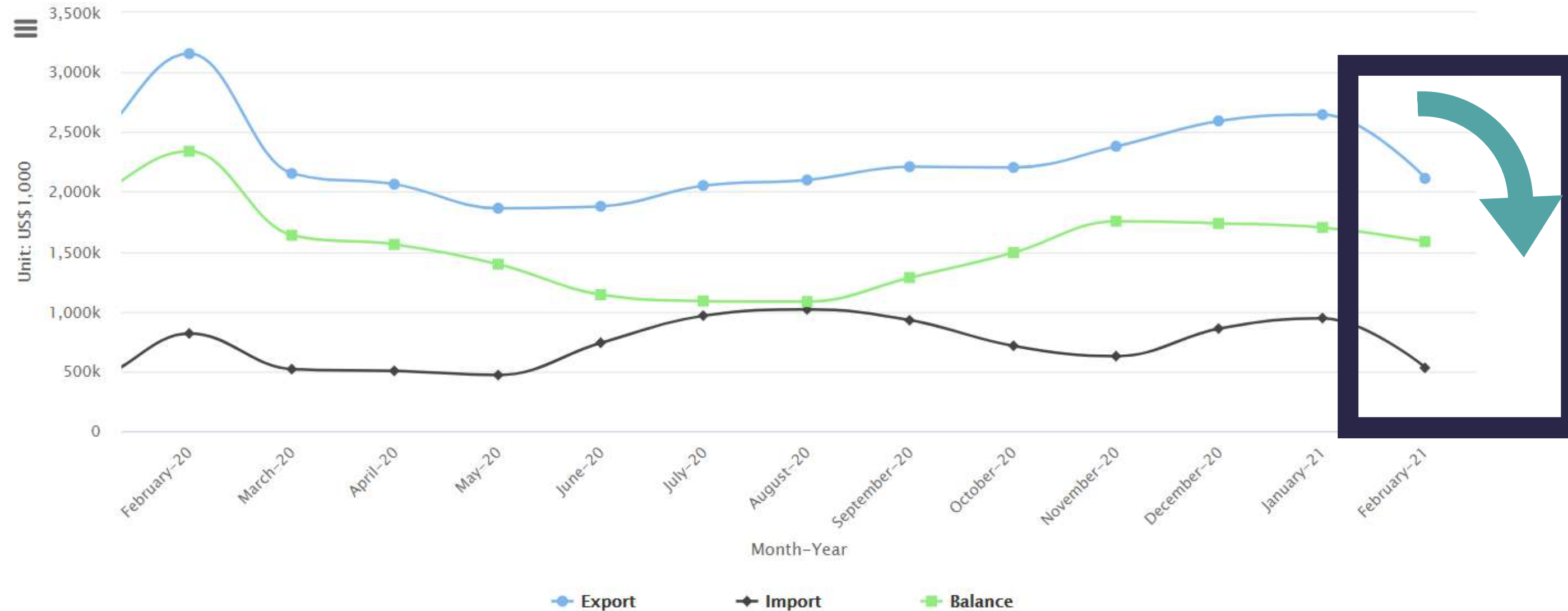
% y/y change - aluminum production - September 2020 to February 2021 - Commodity Evolution elaboration

On the other hand, analysis of the data on an annual basis (February 2021/February 2020) shows more limited declines, with only China and Asia (Ex China) registering growth on the production front, of 3.71% and 0.89% respectively.



## Aluminum import/export China

On the import and export side of the largest commodity-using country, there is a decline on both the import and export side. Exports drop to \$2.11bn (from \$2.65bn in January 2021), imports drop to \$529m (from \$944m in the previous month). Net balance falls to \$1.58 bln from \$1.70 bln in January 2021 (still in surplus, China is a net exporter of aluminum).

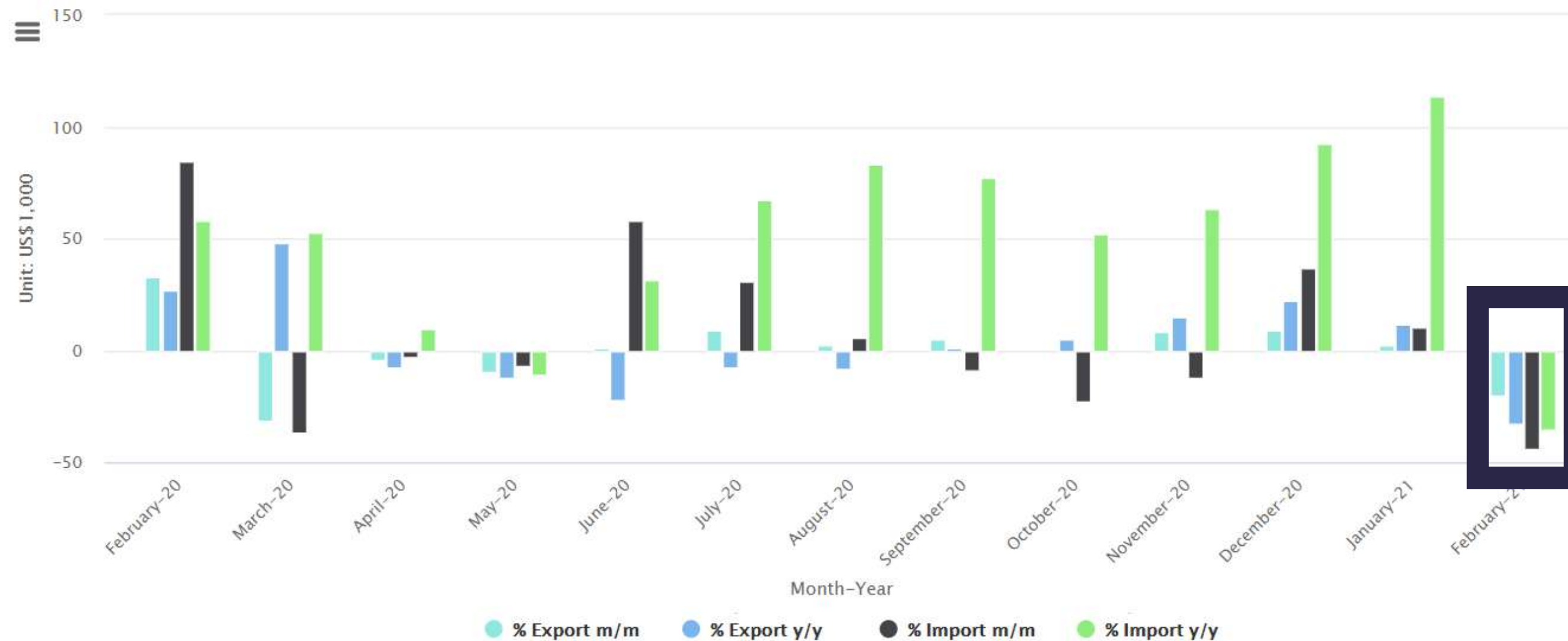


Imports - Exports - China aluminium trade balance - February 2021 - Commodity Evolution elaboration



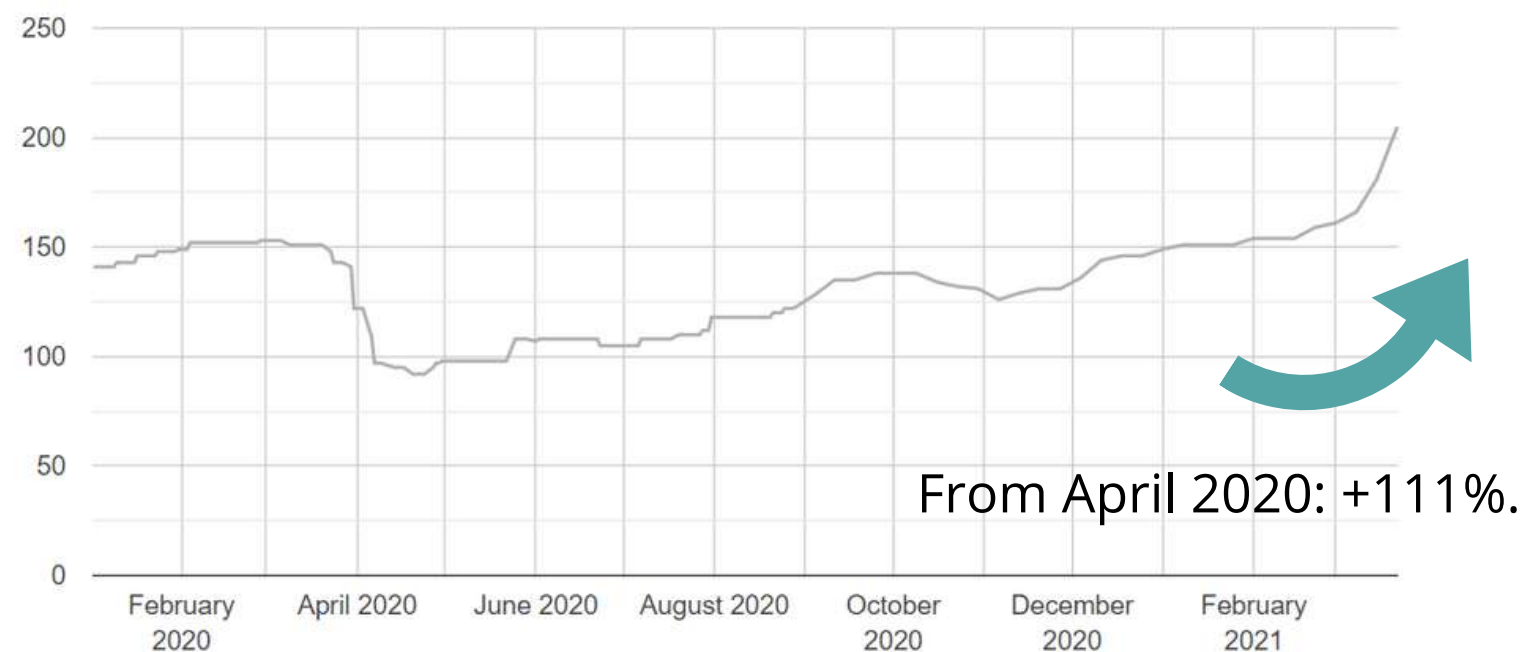
This results in a more pronounced **decline** in imports than in exports:

- Imports on an annual basis (February 2021/February 2020) -35%.
- Imports on a monthly basis (February 2021/January 2021) -44%.
- Exports on an annual basis (February 2021/February 2020) -33%.
- Exports on a monthly basis (February 2021/January 2021) -20%.



% change on monthly/annual basis aluminium imports/exports China - February 2020 to February 2021 - Commodity Evolution elaboration





Aluminum P1020A - Warehouse Rotterdam DDP-Delivered Duty Paid-cash Dollar/Ton

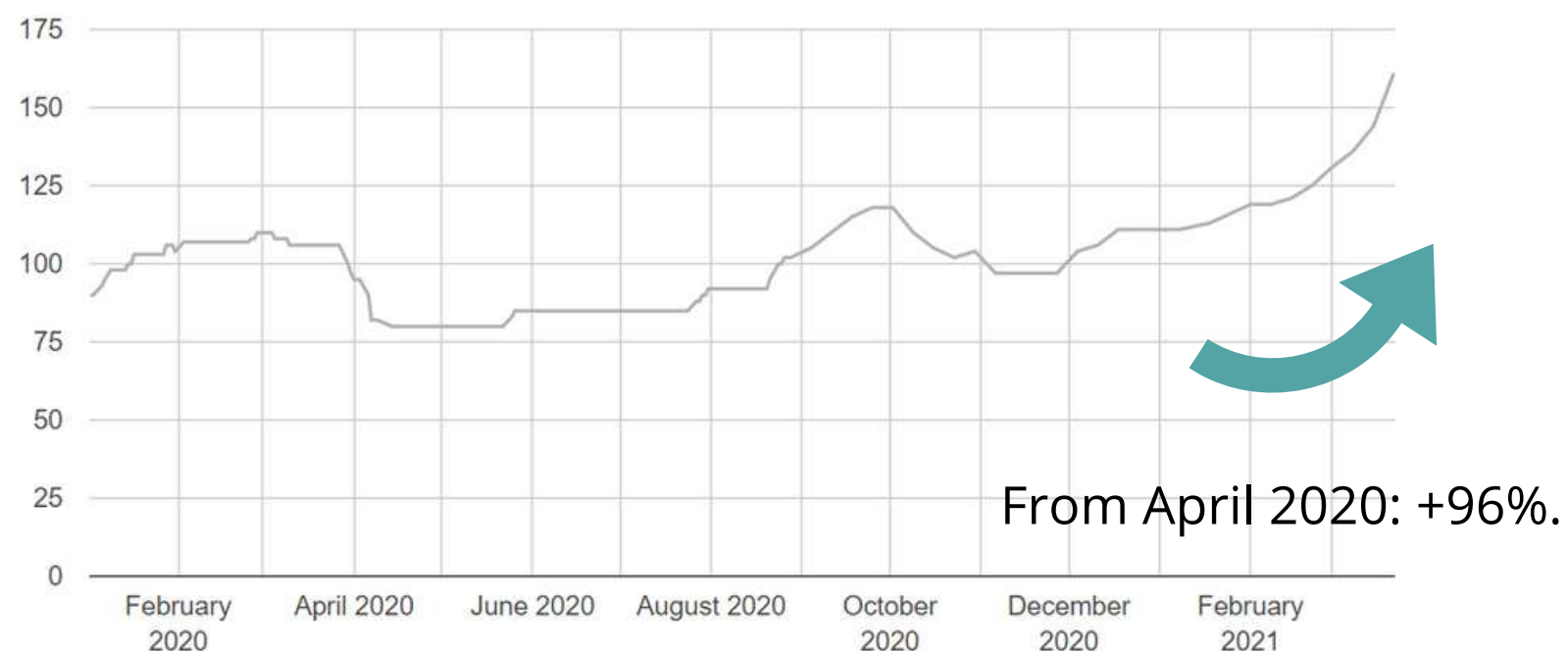
### Aluminium billet premiums on the rise

China's metal shortage has diverted all demand within European borders. This has created a shortage of aluminum from primary ingots.

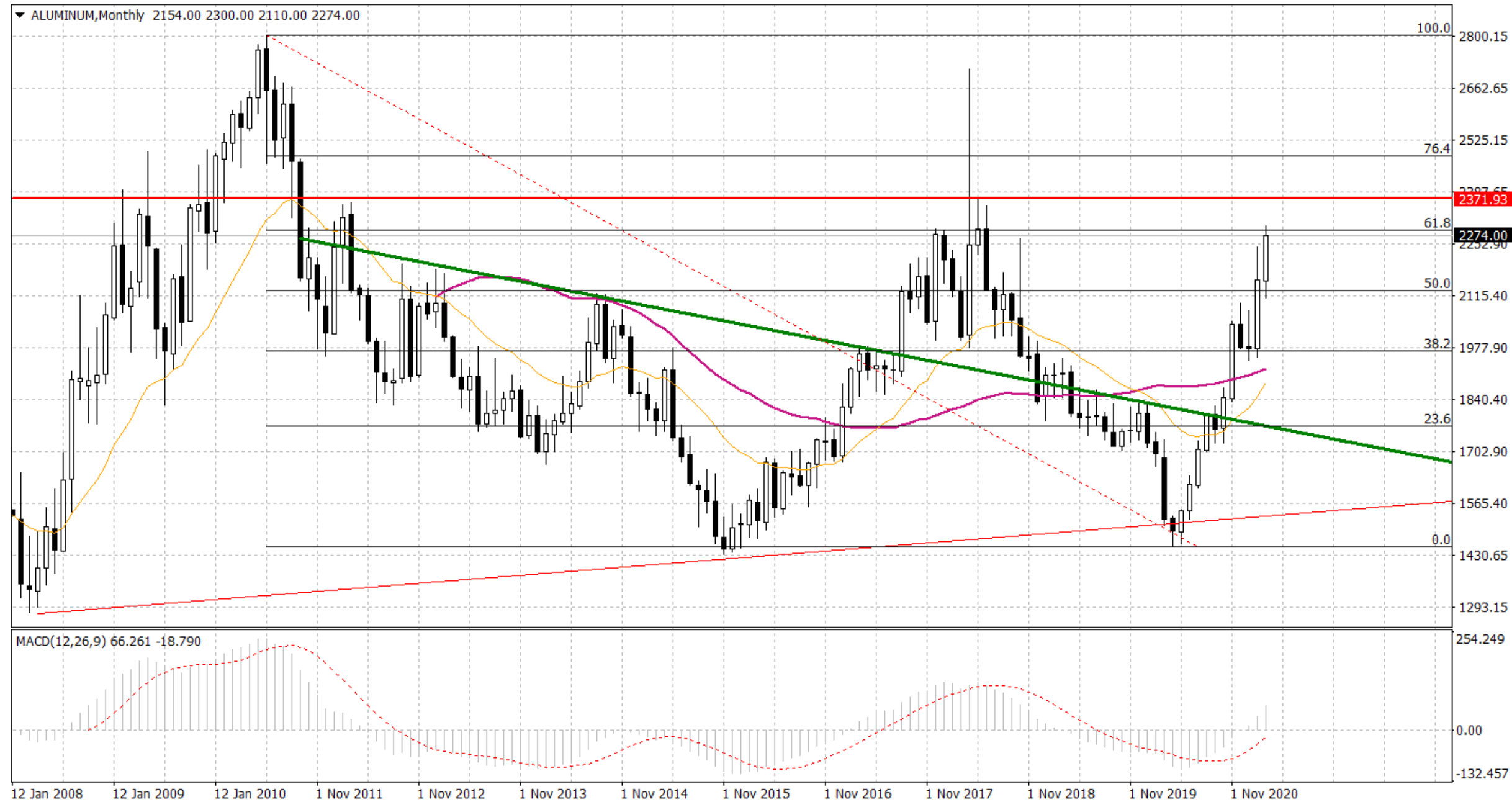
Automakers, in particular, are struggling to find sufficient aluminum. Long lead times and rising prices are pushing buyers to order excess quantities of metal. Naturally, this exacerbates the strain on material availability.

Many European companies are also looking for aluminum outside of Europe, in the Middle East. As a result, **billet premiums have risen and extruders are finding their profit margins under pressure.**

The problem in the Middle East is the delivery time of no less than 12 weeks to the port of departure. This is compounded by the timing and difficulties of shipping at this time, with container availability quite limited.



Aluminum P1020A - Warehouse Rotterdam DDU-Delivered Duty Unpaid-cash Dollar/Ton



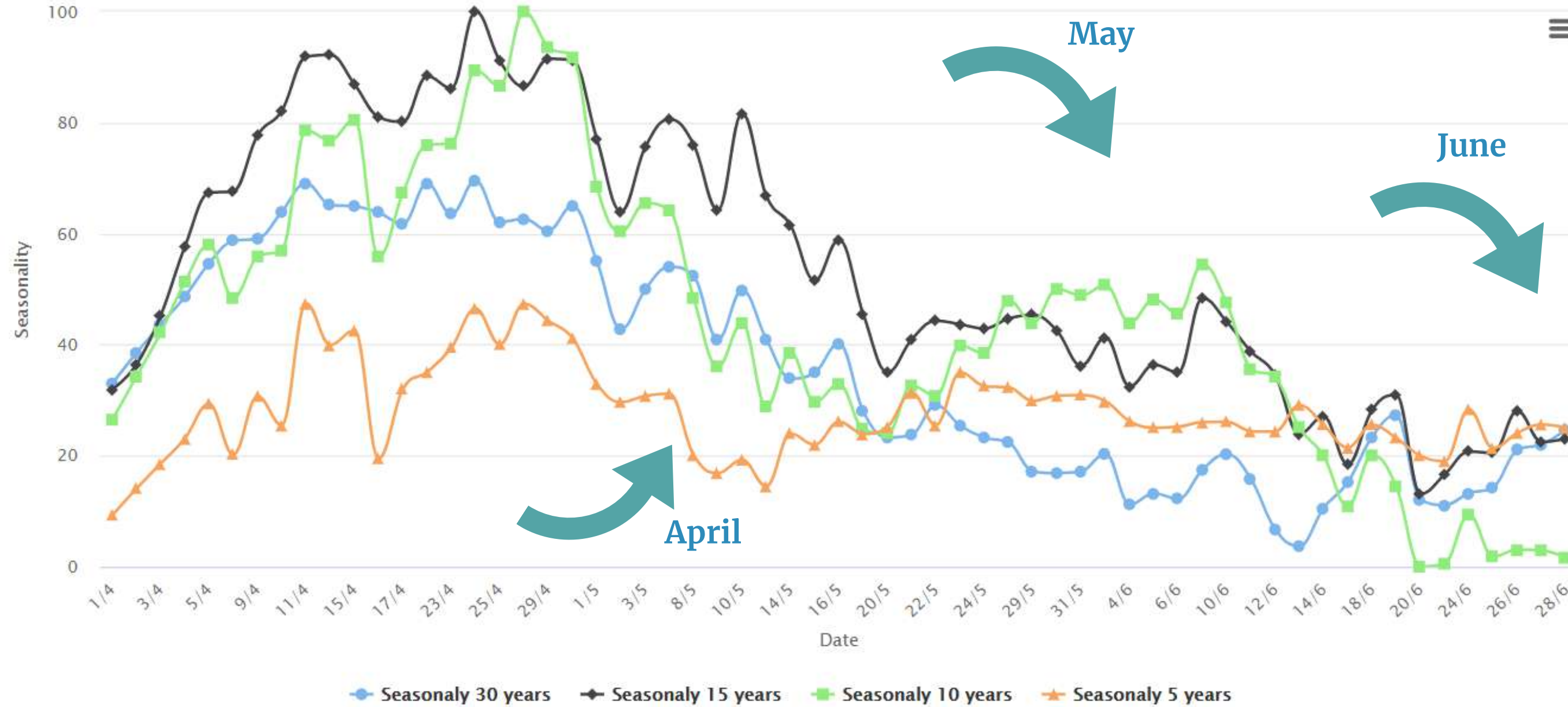
Aluminium Lme 3 months \$/ton - Monthly graph

**On the chart front, what to expect?**

The ascent started from mid-April 2020 (1460\$) has recorded until the end of March a positive performance of about 57%, with few (almost no) corrective breaks.

It should be noted that prices are close to an important psychological level (\$2300), a very sensitive price area that should be monitored carefully. If the tensions (supply problems) present in these weeks continue, the upward violation of 2300\$, could push prices upwards at least for the whole month of April (at least up to the 2350-2400\$ area), otherwise the first new downturns of 2150\$/ton prices could appear.

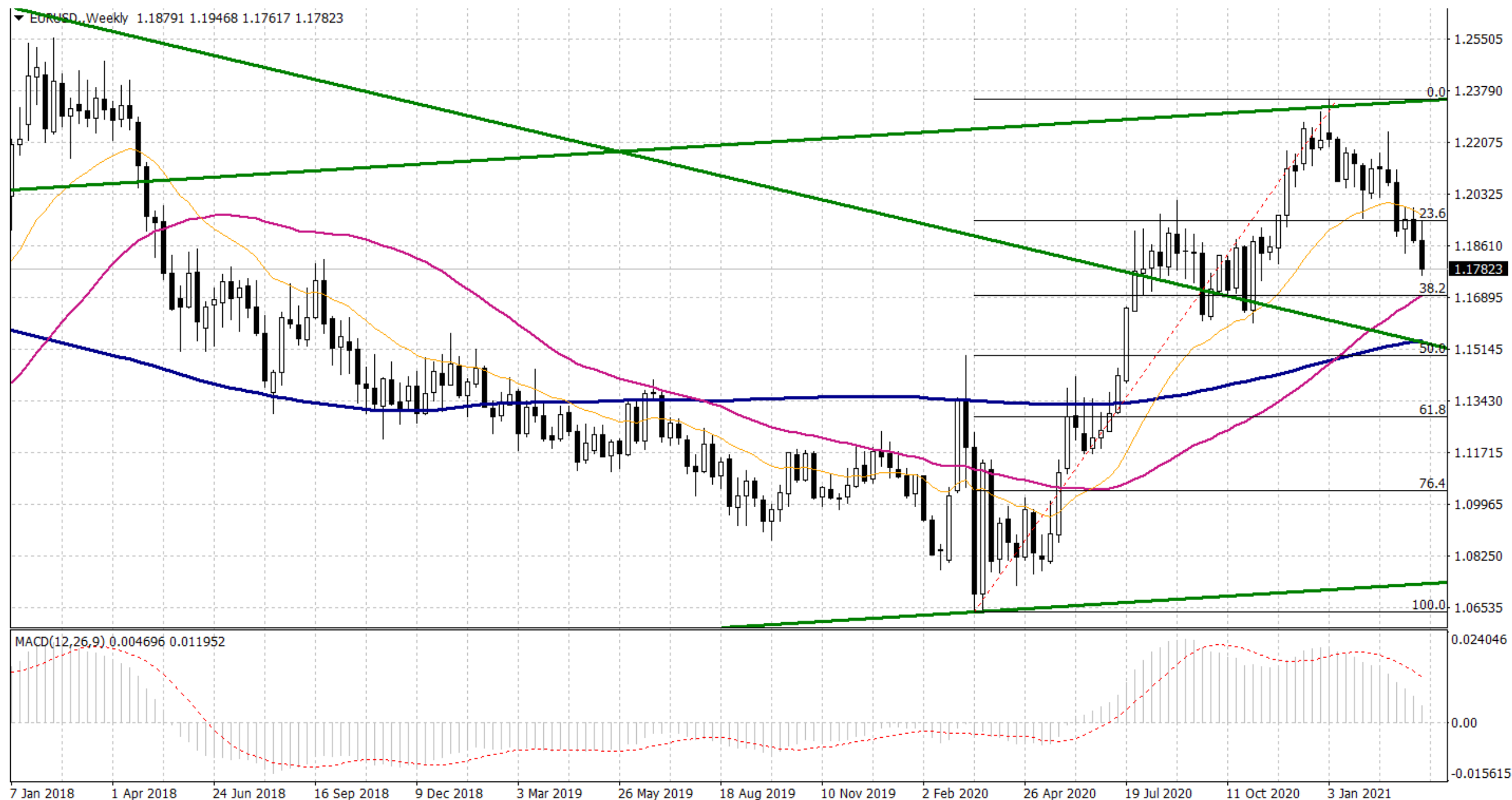




Aluminum seasonality Lme 3 months \$/ton - 30-15-10-5 years - Commodity Evolution elaboration

**What does the seasonality suggest?**

On a historical/statistical basis, the chart shows how aluminum has moved over the past 30-15-10-5 years in the April-June quarter. In April (first arrow), the climb appears clear across all time horizons while in May and June (second and third arrows), seasonality expresses negative movement.



Euro/Dollar exchange rate - Weekly chart - 2018 time horizon

**The euro dollar exchange rate falls towards the first supports**

After reaching the recent highs in 1.2350 area, the exchange rate started to fall, towards the first supports positioned in 1.1680 area. This level will be monitored with extreme attention: any further descent could lead the pair towards the next areas in the 1.1500 area. On the contrary, if it will remain above 1.1680 it could regain momentum with possible returns towards 1.200 and 1.2200.





Aluminium 3 Months Lme € Bloomberg - Daily chart

### How aluminum will perform in €

3-month aluminum in € bloomberg maintained the same upward approach as the quotations in \$, meeting the expectations predicted in the Q1 report (target at €1850). A rise in the first part of the quarter (April) for the prices in \$ and a potential fall in the €/€ (asynchronous movement - due to the aluminum supply problem) could push the prices in € towards the €2000-2050 area. In the later part of the quarter, the possible descent of the prices in \$ could push the prices in € towards 1800€-1750€.



Aluminum Shanghai Cny/ton - Daily chart

**Shanghai-listed aluminum remains below March 17, 2021 closings**

In contrast to London-listed aluminum (Lme), Shanghai-listed aluminum still remains below recent March 17 closings at 17740cny/ton. In fact, Lme aluminum has already broken through the highs in the \$2248.50/ton area. It will be interesting to watch if the metal listed in China will also follow the movement of the western one. If this does not happen, declines below 17000cny/ton would not be surprising.





Aluminium Shanghai in cny Vs Aluminium Lme \$ - Commodity Evolution elaboration

From the chart above it is possible to observe how effectively Lme aluminum has exceeded recent highs while Shanghai aluminum is still below its highest levels.



Aluminium Shanghai in \$ Vs Aluminium Lme \$ - Commodity Evolution elaboration

Furthermore, by converting Shanghai aluminum into dollars it is possible to observe how quotations remain below recent highs. This therefore indicates that it is not an asymmetry due to the exchange rate, but actually a mismatch between supply and demand in the European market.





Aluminium Shanghai/Aluminium Lme Ratio - Commodity Evolution elaboration

Finally, the "Aluminum Shanghai/Aluminum Lme Ratio" chart shows how in the latest period the movement of London-listed aluminum is outperforming China's, with the ratio dropping sharply in favor of Europe's.



## Aluminium Forecast

	Current price	2Q21	3Q21*	Year 2021*	Current Quarter Trend
Aluminium Lme 3 month \$/ton	2296	2150-2300	2400	2400	Sideway - negative
Aluminium Lme cash €/ton	1946	1800	1950	1950	Sideway - negative
Aluminium Shanghai Cny/ton	17355	16500	17500	17500	Sideway - negative

\*estimates to be updated throughout the year/oncoming reports



Macroeconomic scenario

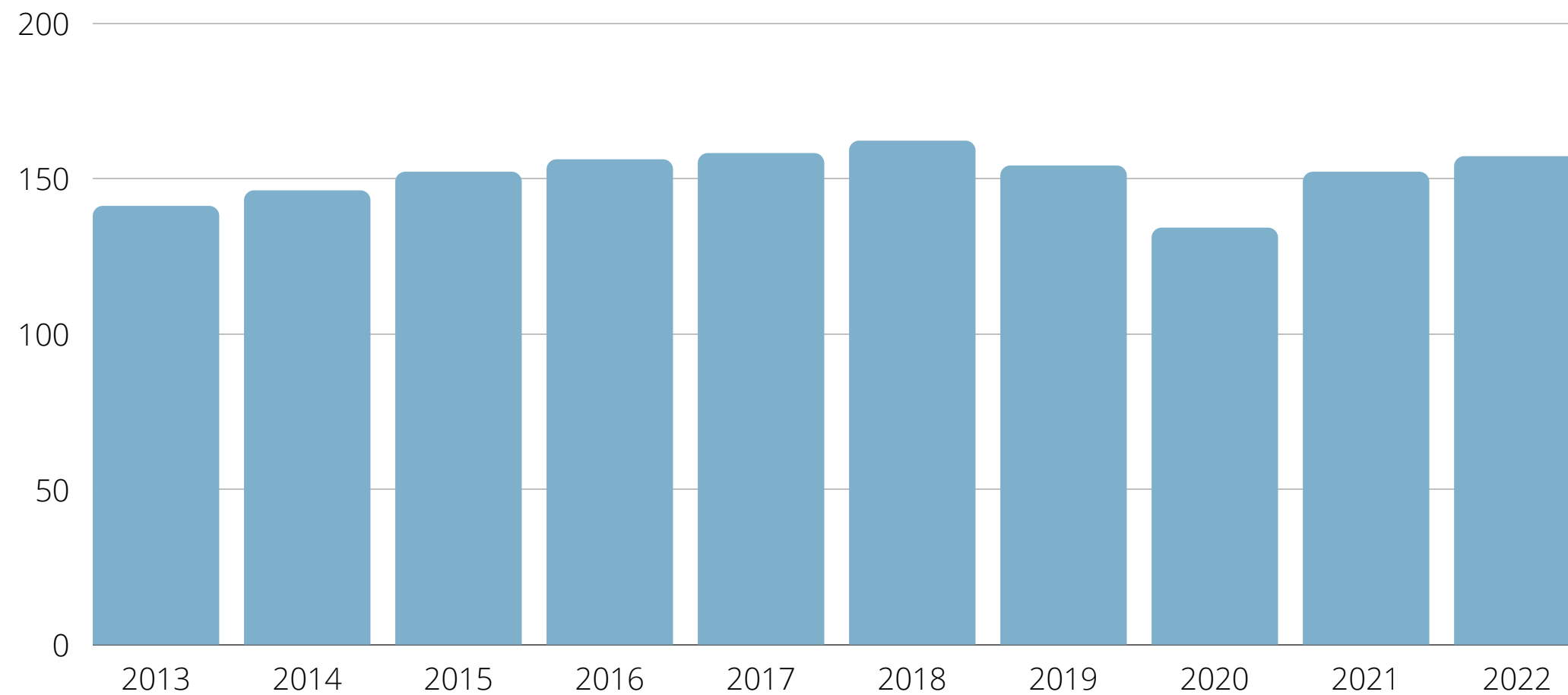
Aluminium outlook

Steel outlook

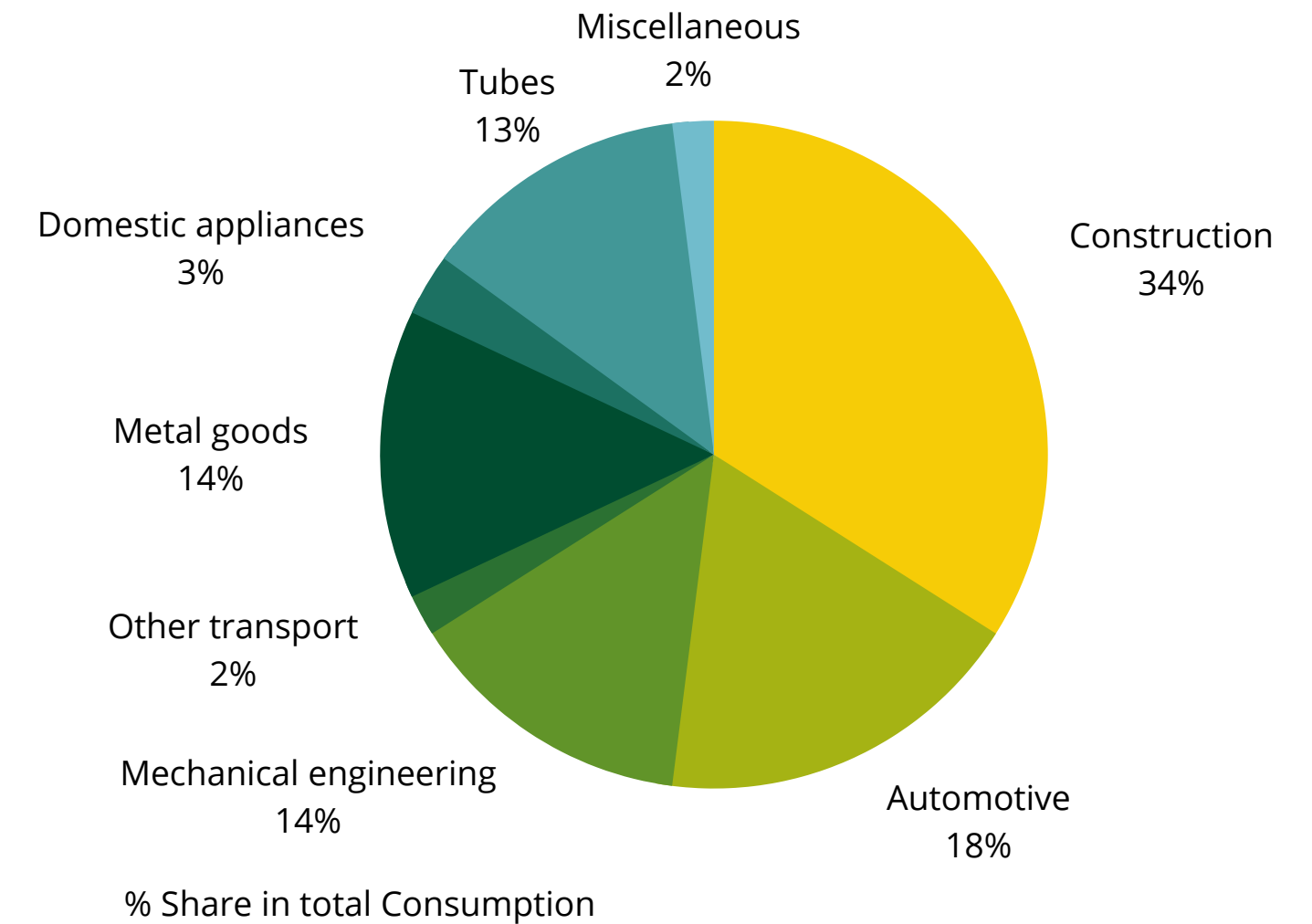


### Steel 2021 positive outlook

According to the European Steel Association in 2020 (Eurofer), steel consumption in the EU was 134 mln tons, down 13% compared to 2019. The year just ended is the worst since 2009 and reflects a contraction on both the production and import side. The outlook for 2021 and 2022 is positive. Volumes are expected to grow and should return to 152 million tons this year, close to the 2019 level.



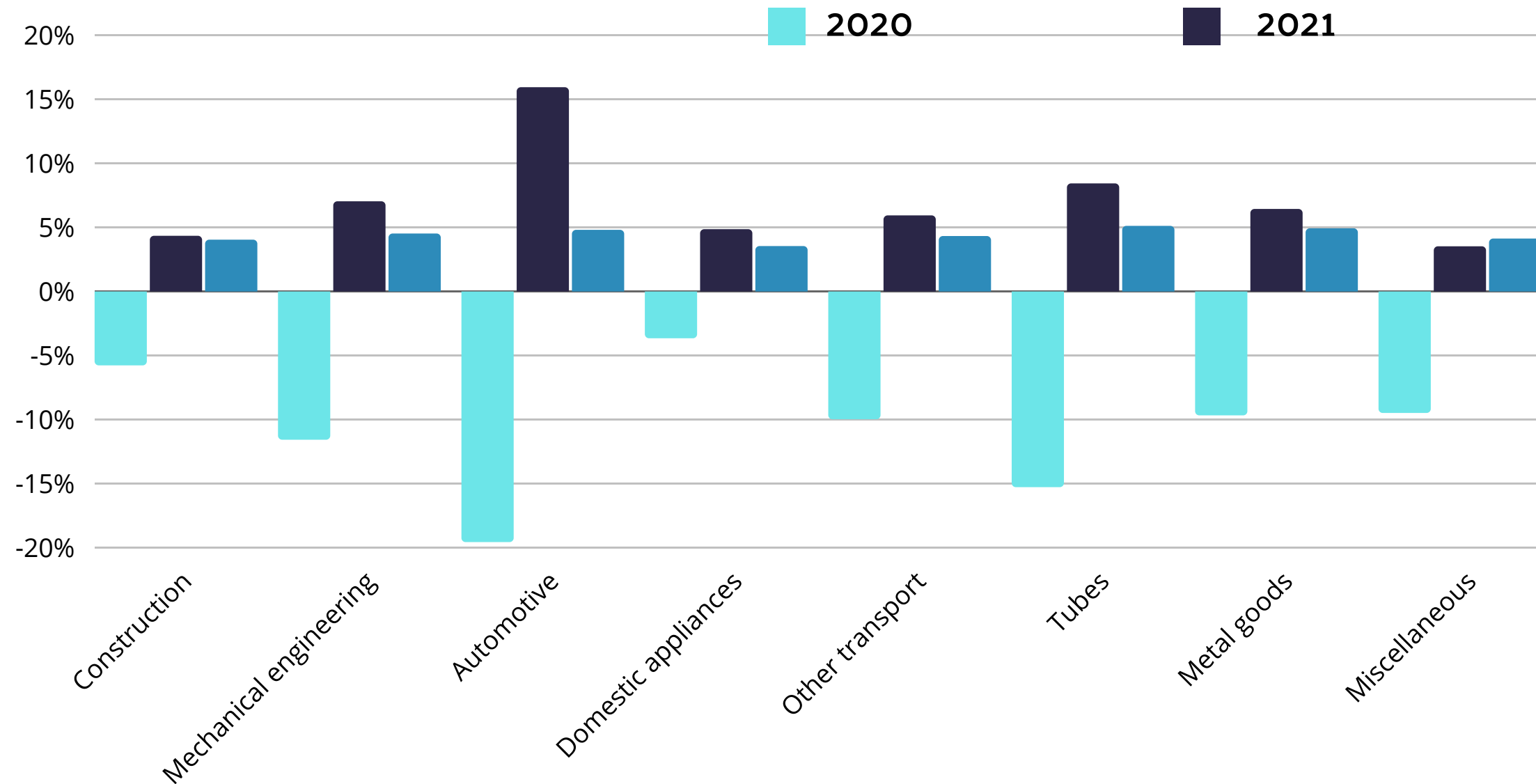
Apparent steel consumption in the EU in million tons – Commodity Evolution elaboration on Eurofer data



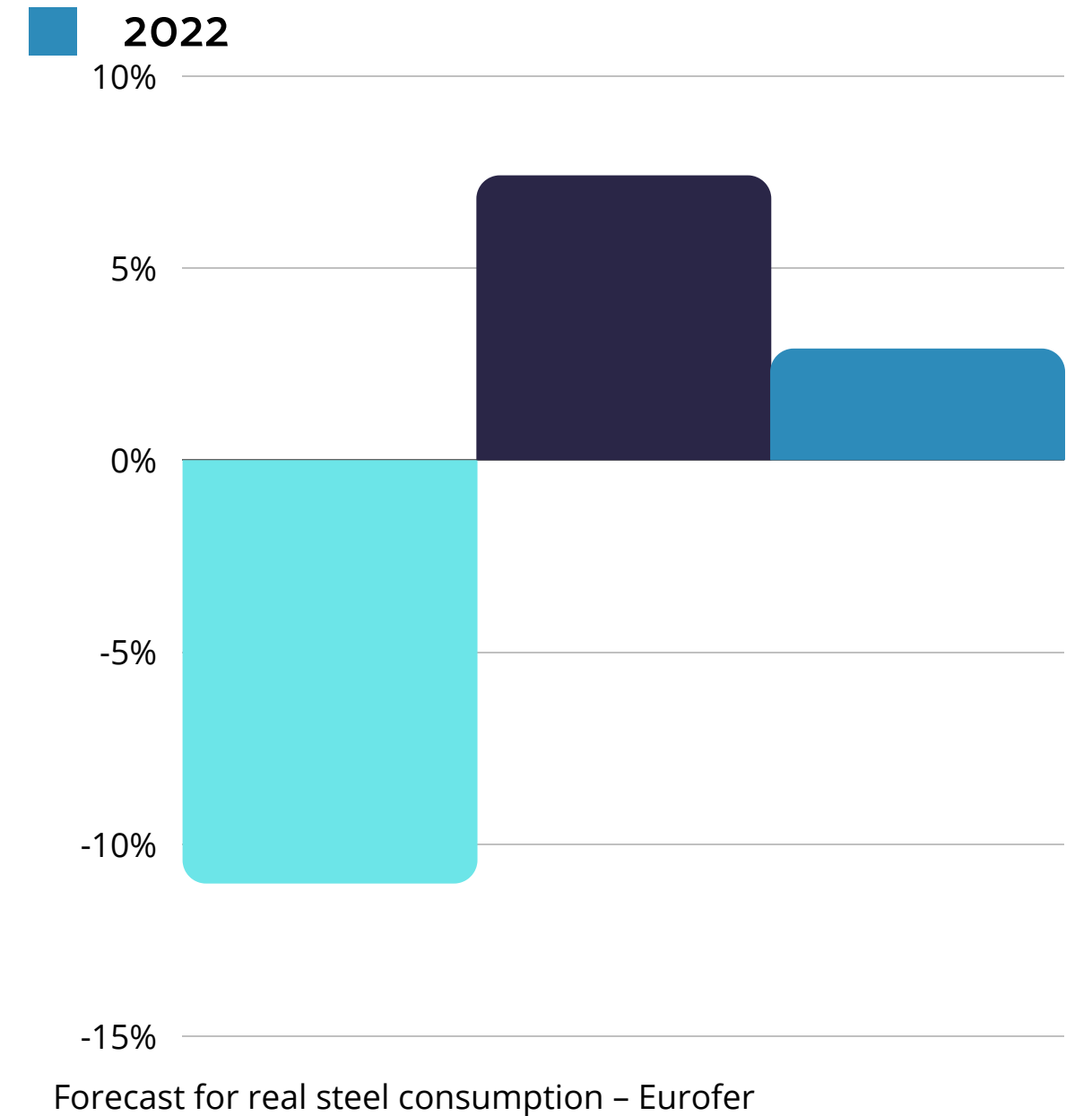
In terms of sectors of use, construction remains the most important, followed by automotive.



The automotive sector remains the most volatile, in 2020 it was the hardest hit, in 2021 it is the one expected to recover the most. Full details in the chart below.



Steel user sectors forecasts - Commodity Evolution elaboration on Eurofer data



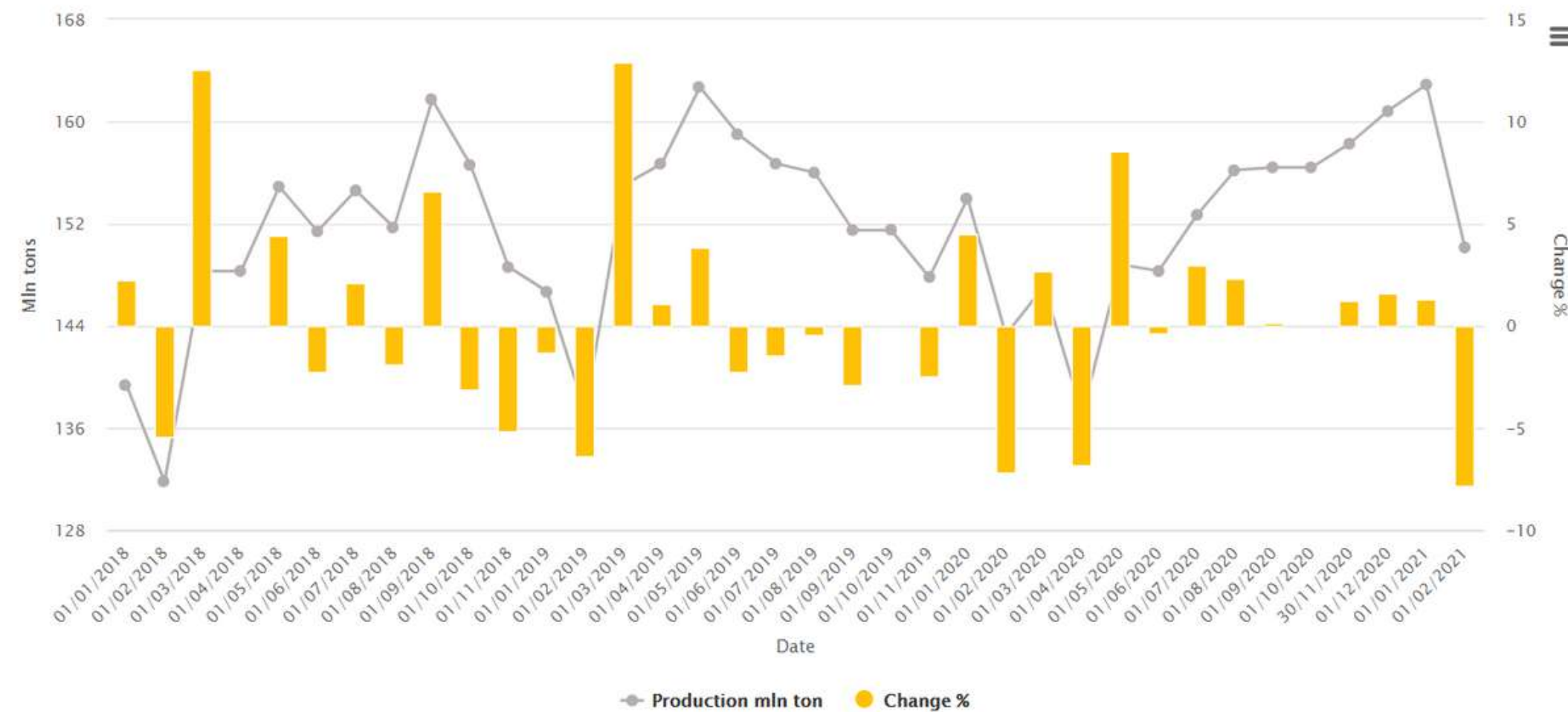
Forecast for real steel consumption - Eurofer

Some sectors more than others will drive real steel consumption, which after -11% in 2020 is expected to post +7.5% in 2021 and +2.9% in 2022.

## Steel Production

Global crude steel production for the 64 countries reporting to the World Steel Association was 150.2 million tons (Mt) in February 2021, a 4.1% increase over February 2020.

**China** is estimated to have produced 83.0 Mt in February 2021, up 10.9% from February 2020. **India** produced 9.1 Mt, down 3.1%. **Japan** produced 7.5 Mt, down 5.6%. The **United States** produced 6.3 Mt, down 10.9%. **Russia** is estimated to have produced 5.7 Mt, down 1.3%. **South Korea** produced 5.5 Mt, up 1.2%. **Turkey** produced 3.0 Mt, up 5.9%. **Germany** produced 3.1 Mt, down 10.4%. **Brazil** produced 2.8 Mt, up 3.8%. **Iran** is estimated to have produced 2.3 Mt, up 11.5%. Although on a yearly basis, world production grew by 4.1%, on a monthly basis there was a 7.8% decline, from 162.9 Mt in January 2021 to 150.2 Mt in February 2021.

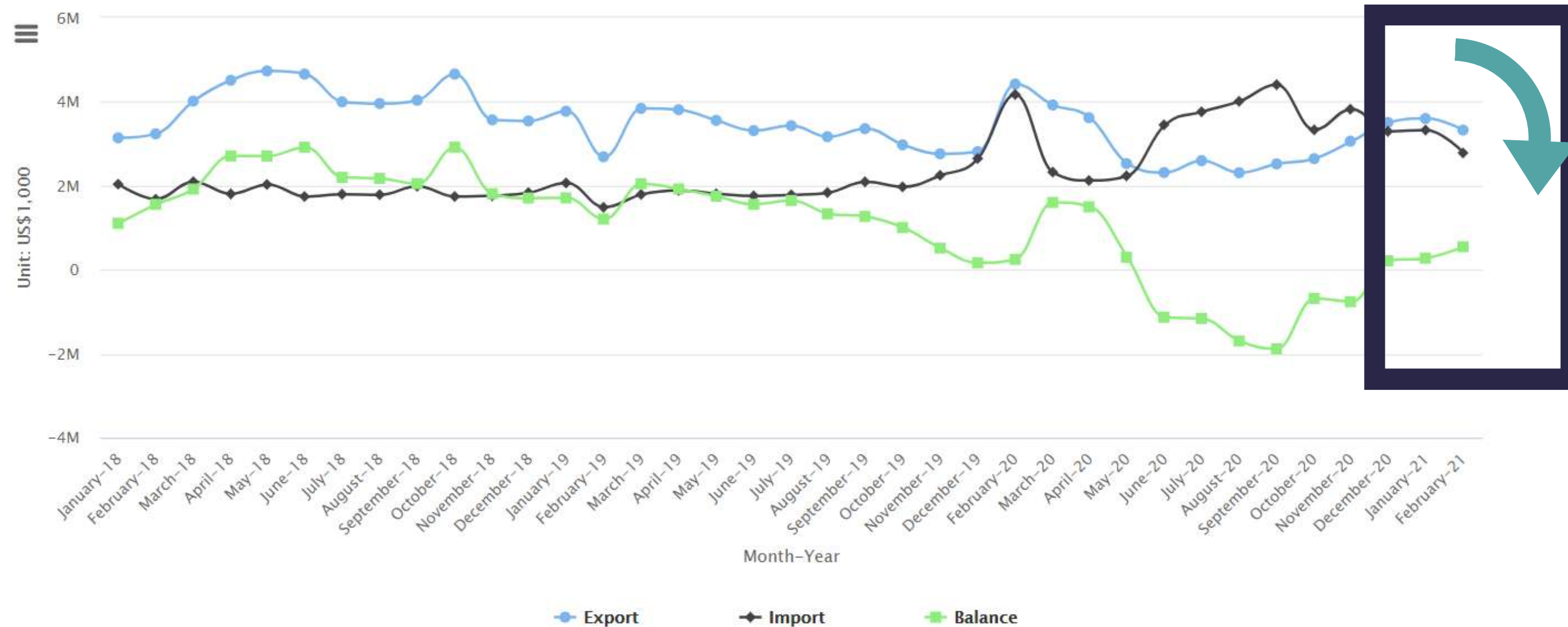


Global steel production mln/ton - February 2021 - Commodity Evolution elaboration - World Steel Association data



### Import/export iron and steel China

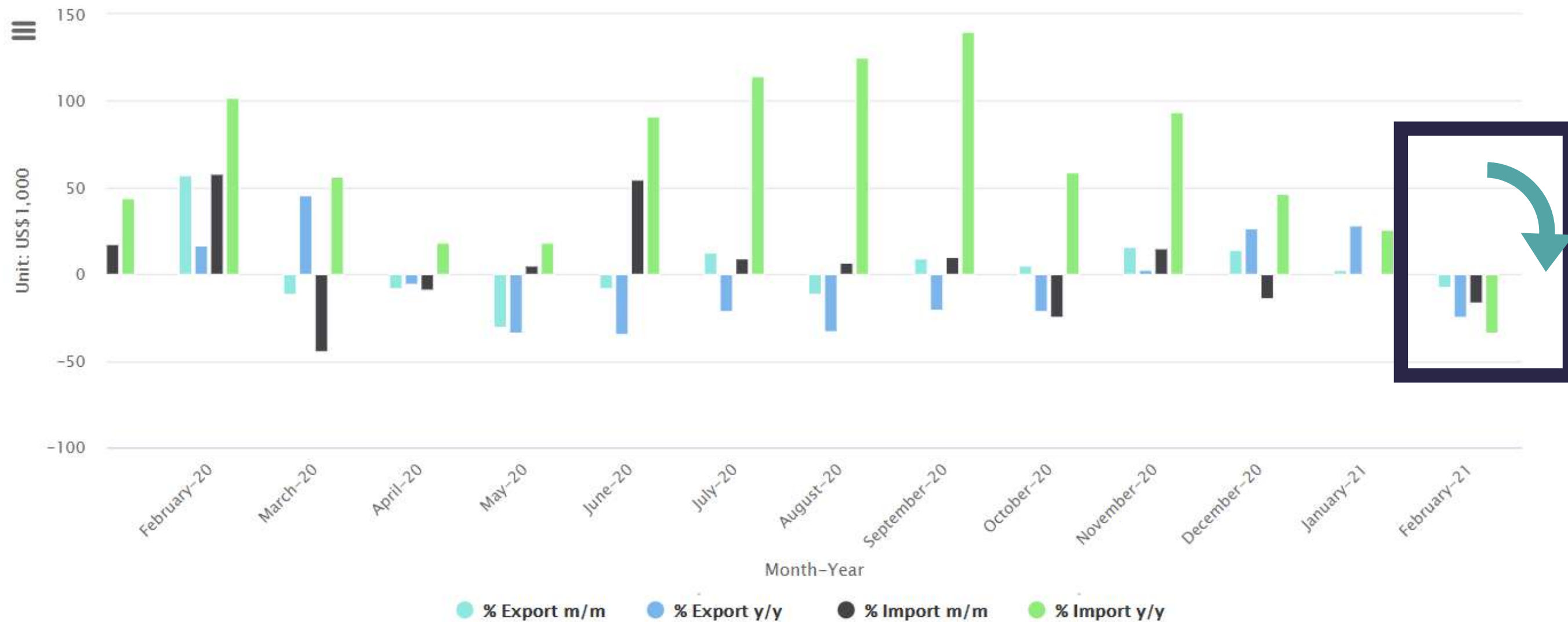
Analyzing the import and export components of Chinese iron and steel, it is possible to see that both imports and exports of the Asian country have decreased in recent months. In February 2021 exports were \$3.32bn from \$3.6bn in the previous month, imports decreased to \$2.78bn from \$3.32bn in January 2021 while the trade balance (export-import) increased to \$544m from \$274m previously (effect due to a greater decrease in imports than exports).



Imports - Exports - Iron and steel balance - China - February 2021 - Commodity Evolution elaboration

Also in this case, as for aluminum reported in the previous pages, there is a more marked **decline** in imports than in exports of iron and steel "made in China":

- **Imports on an annual basis (on February 2021/February 2020) -33.42%.**
- **Imports on a monthly basis (on February 2021/January 2021) -16.44%.**
- **Exports on an annual basis (as of February 2021/February 2020) -24.79%.**
- **Exports on a monthly basis (as of February 2021/January 2021) -7.67%.**

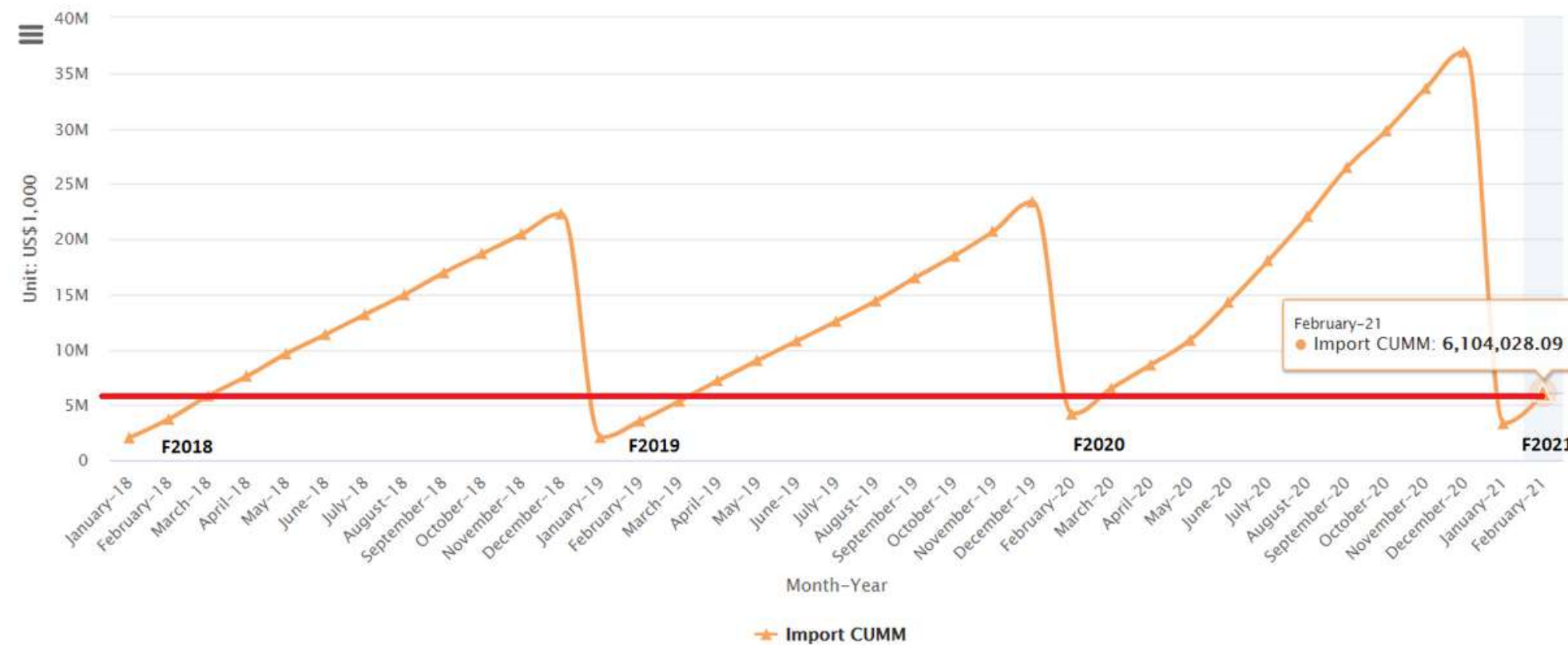


% change on monthly/annual basis iron and steel imports/exports - China - February 2020 to February 2021 - Commodity Evolution elaboration





Cumulated iron and steel exports to China - Commodity Evolution elaboration



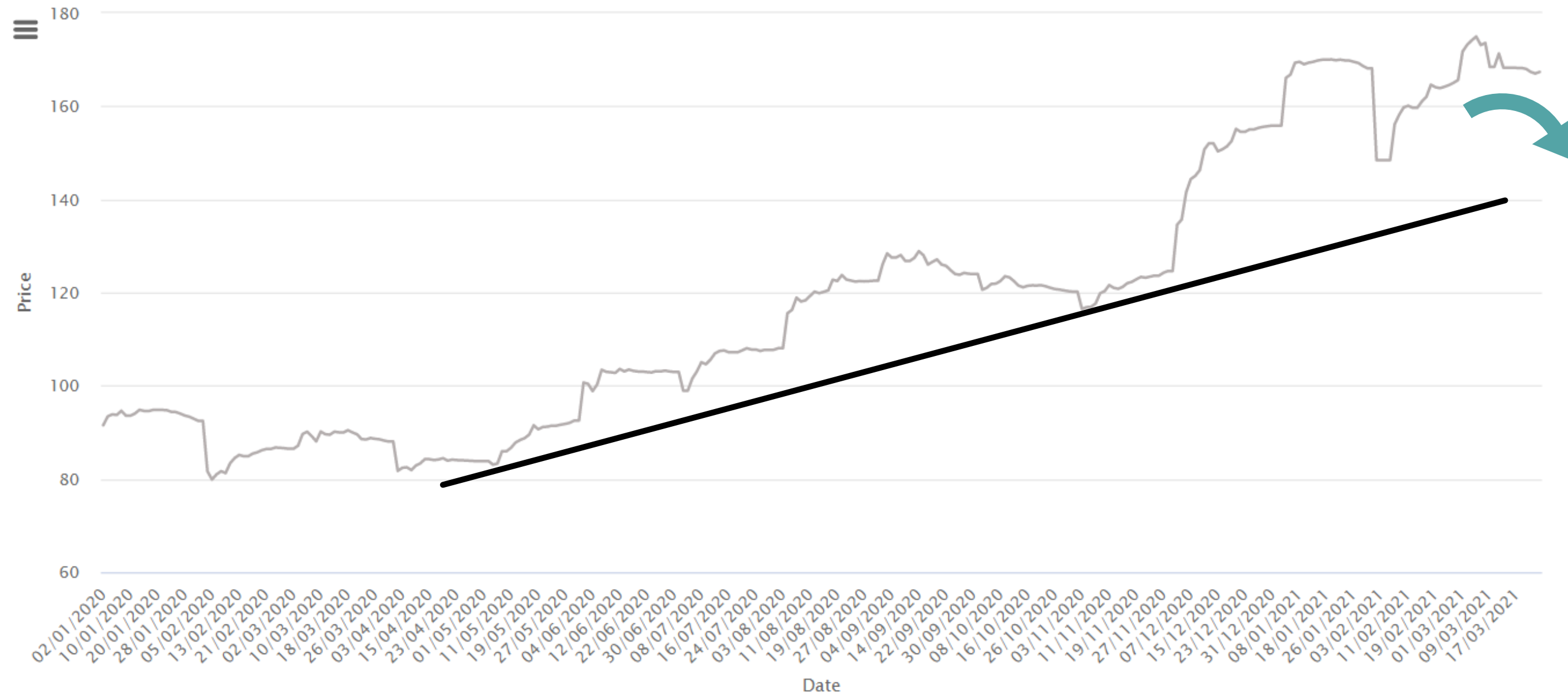
Cumulative iron and steel imports China - Commodity Evolution elaboration

Despite the fact that imports and exports fell in February 2021 (both on a monthly and annual basis), analysis of the data on a cumulative basis shows that cumulative exports (January 2021+February 2021) are in line with previous years, while cumulative imports are higher than in past years.

It should be noted that the availability of locally produced material is extremely limited. Delivery times from steel mills are very long. The recovery in steel production continues to be insufficient to meet current demand.

The unprecedented cost of steel is creating severe financial pressure for many companies. It is negatively affecting existing projects and delaying the start of new projects.

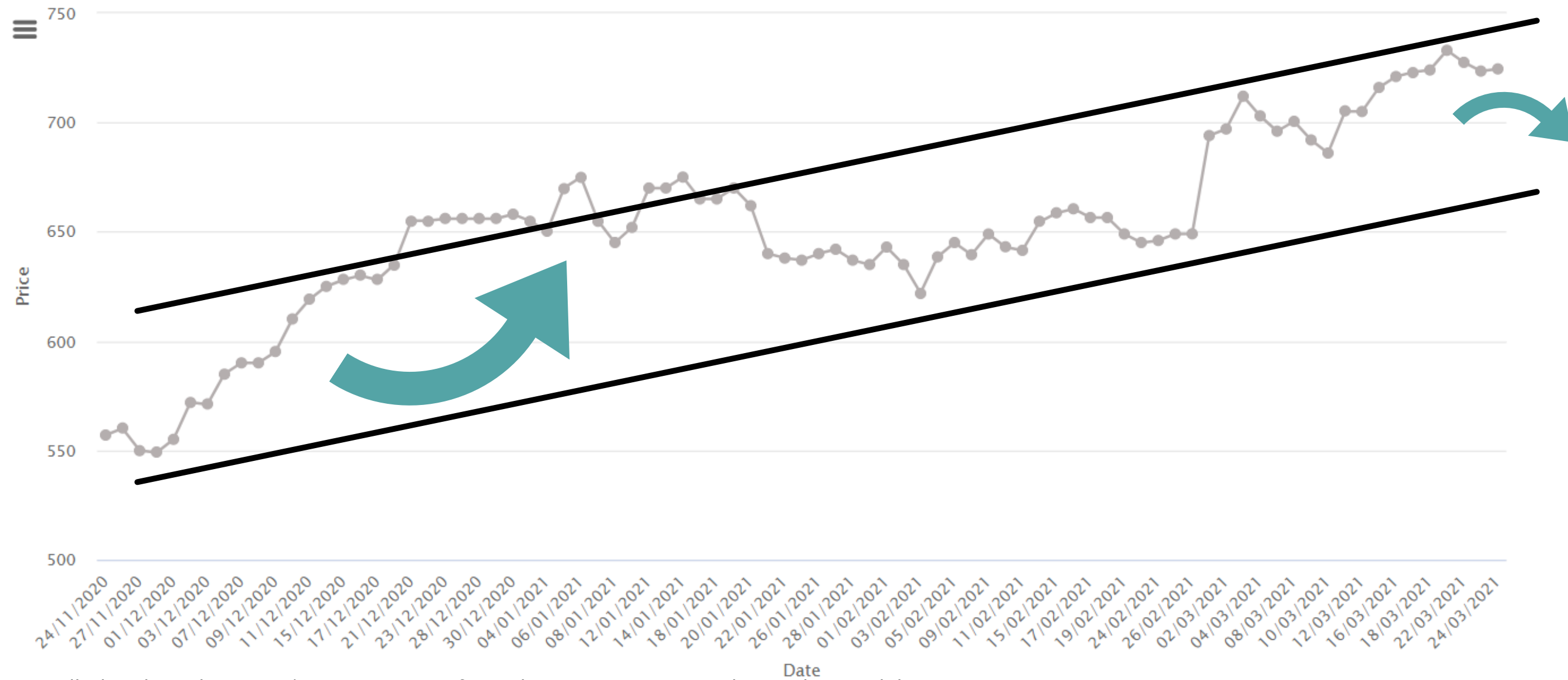
Analyzing the price of **Iron Ore 62% FE - CFR China** the climb from the April 2020 lows has registered a 118% rise, from \$80/ton to \$175/ton. The medium-term trend remains in a decidedly positive stance. Nevertheless, after an ascent of this magnitude, it would be physiological and natural to witness the first settling movements, with possible fluctuations in a price range between 175-180\$/ton and the first useful support in the 148\$/ton area.



Iron Ore 62% FE - CFR China \$/ton - Data as of March 25, 2021 - Commodity Evolution elaboration



Analyzing the **Steel HRC Europe** price, the climb from the April 2020 lows has registered a 94% increase, from \$380/mt to \$730/mt. Also for Steel HRC, in the next quarter, consolidation movements are not excluded, which could soon become evident between \$750/mt and \$650/mt. The medium-term trend remains in a decidedly positive frame.



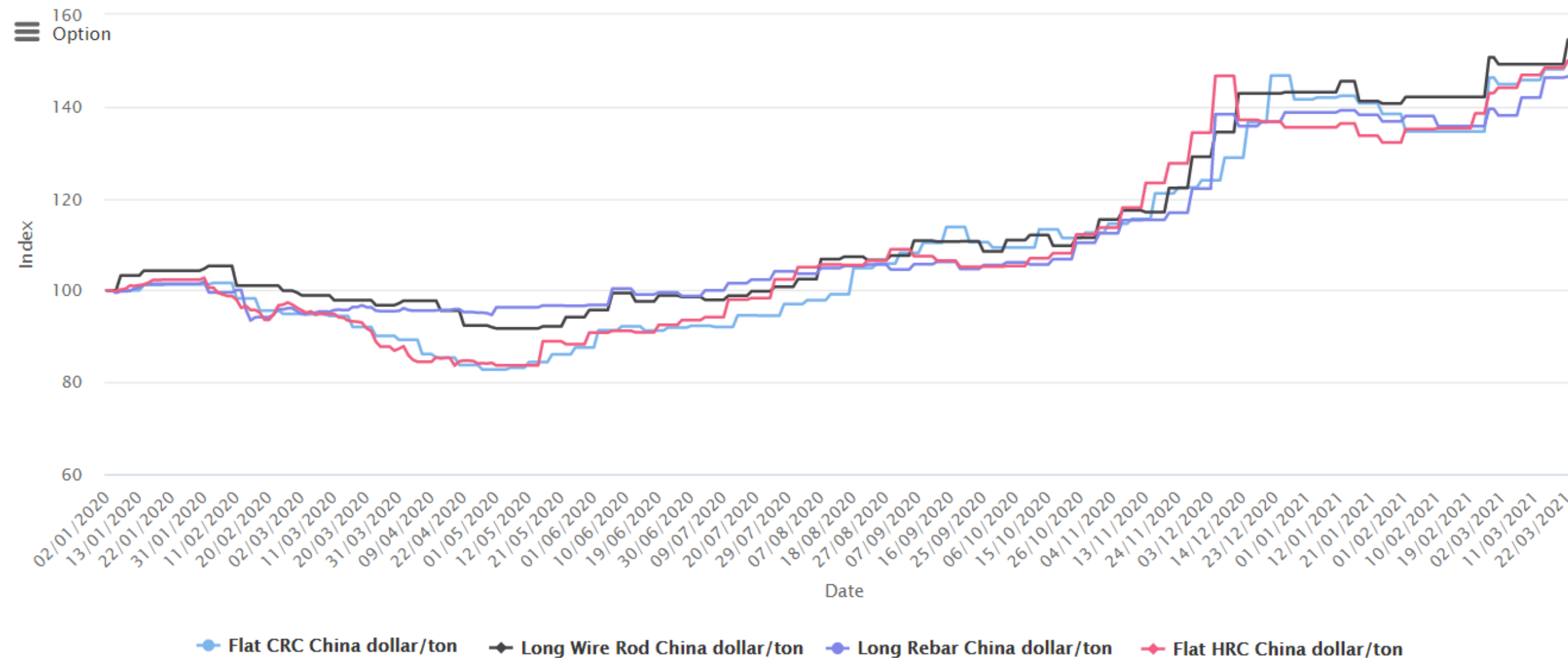
Hot-Rolled Coil Steel Europe \$/ton - Data as of March 25, 2021 - Commodity Evolution elaboration



Graph comparison on % basis (basis 100) - Steel Europe, Turkey, Russia - Commodity Evolution elaboration

The chart focuses on the steel market in the Eurozone, Russia and Turkey. Both Lme Steel Rebar and Iron Ore lead the movement of the European sector, often anticipating the directional movement. The trend is still upwards, even if in the short term first settlements cannot be excluded, as indicated by the flattening of both the LME Steel Rebar and the iron ore. Also the Commodity Evolution Steel Price index has started to become flat, suggesting a pause of consolidation for the whole European steel sector.



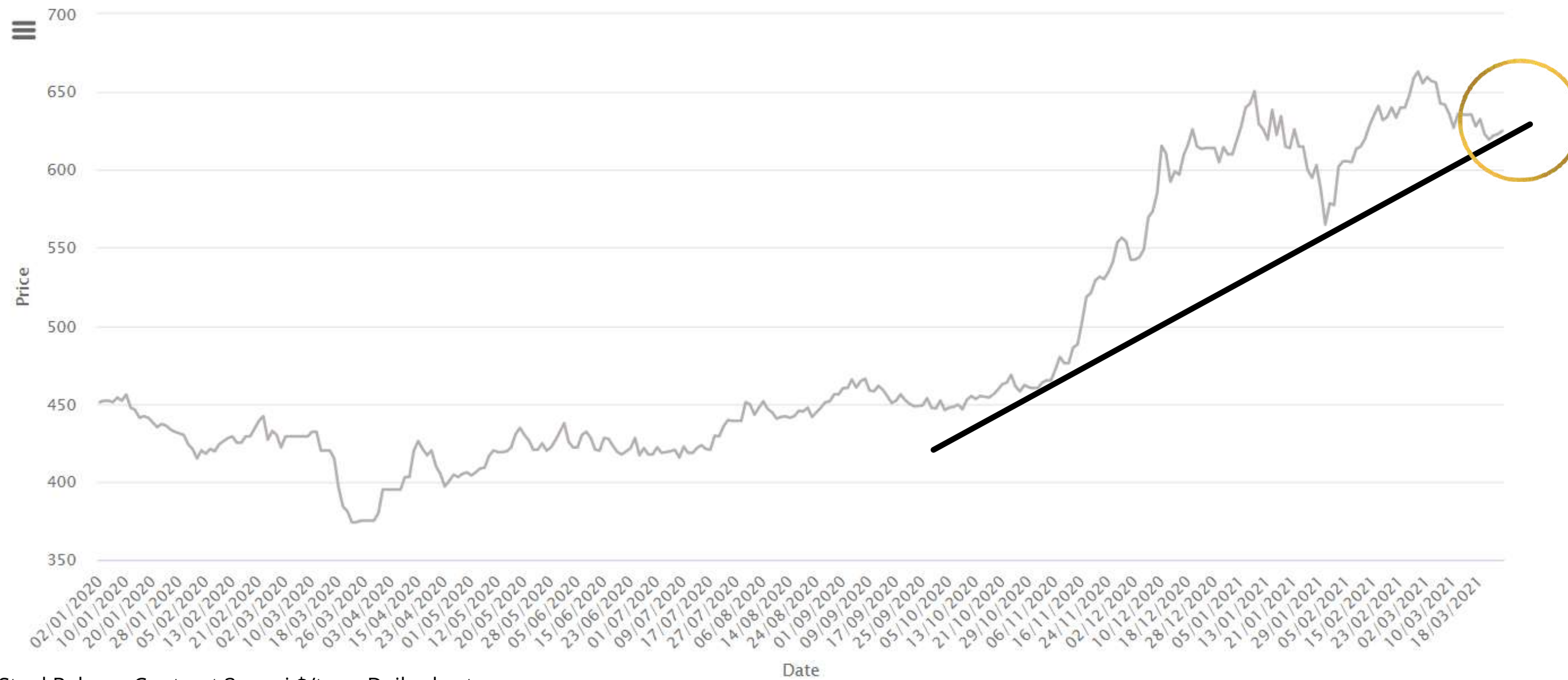


Graph comparison on % basis (basis 100) - China - Commodity Evolution elaboration

Unlike the European market, the Chinese one seems to be oriented in a more positive way, with the main steels that at the moment do not show any sign of weakness.

**A look at the nickel market**

As in the last report, a special mention is essential for the nickel market (fundamental element in the production of stainless steel and other corrosion resistant alloys). After rising up to 20100\$/ton area (recorded in February - above the target we reported at 18880\$/ton), nickel quotations suddenly dropped, returning to 16300\$/ton area. For the next quarter we do not exclude possible descents towards 15000\$/ton.



Steel Rebar – Contract 3 mesi \$/ton - Daily chart

Also steel quoted in London (Lme 3 months steel rebar) shows first signs of settling, with prices returning to the short-term trend line. A new corrective movement of the quotations under the first dynamic support (above mentioned trendline) is not excluded, with potential descents towards the next important areas in the 560\$/ton area.



## Steel Forecast

	Current price	2Q21	3Q21*	Year 2021*	Current Quarter Trend
Iron Ore 62% FE - CFR China \$/ton	166	148.00	160.00	160.00	Negative
Hot-Rolled Coil Steel Europe \$/ton	728	685.00	700.00	700.00	Negative
Lme Steel Rebar – Contratto 3 mesi \$/ton	625	570.00	620.00	620.00	Negative

\*estimates to be updated throughout the year/oncoming reports



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