Sucden Financial

Quarterly Metals Report

Q1 2024

Analysis and Forecasts for Base Metals, Precious Metals, Iron Ore & Steel

sucdenfinancial.com

Quarterly Metals Report

Analysis and Forecasts for Base Metals, Precious Metals, Iron Ore & Steel

Published by:
Sucden Financial Limited
5 February 2024

Author:

Daria Efanova
Head of Research

Research Desk
research@sucfin.com

Press Enquiries
press@sucfin.com

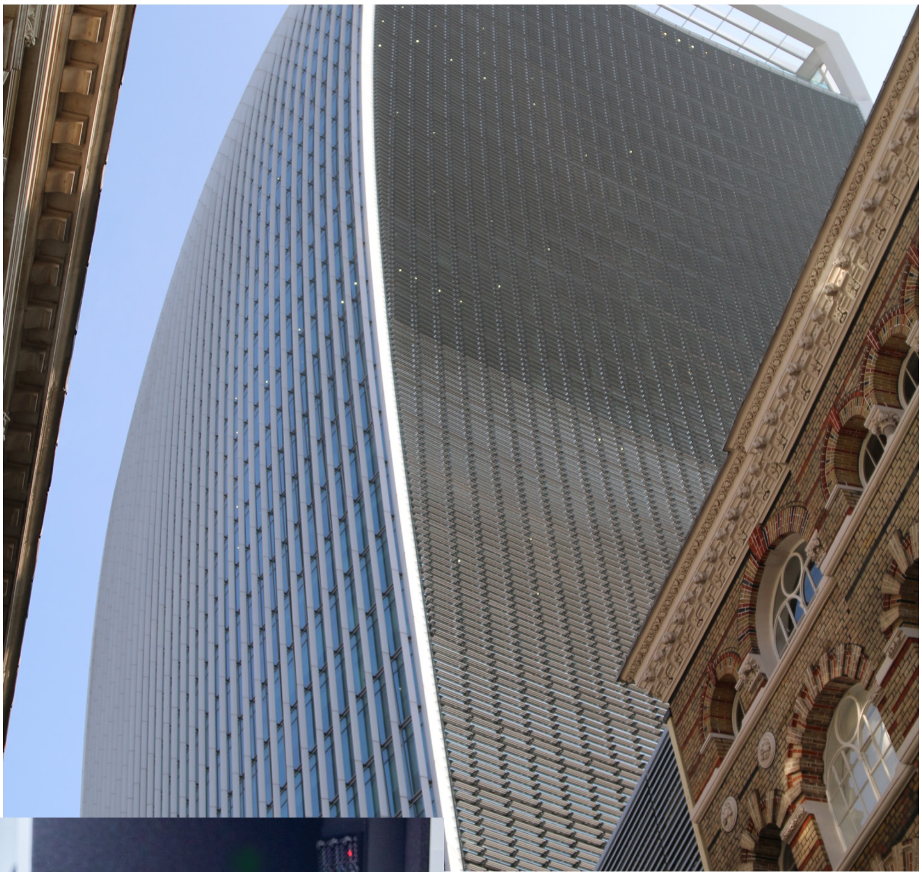
Industrial Commodities
+44 (0)20 3207 5430
industrials@sucfin.com

Trusted multi-asset solutions

With a history and heritage in commodity futures and options trading, Sucden Financial has evolved and diversified to become a leading global multi-asset execution, clearing and liquidity provider.

A proud history of trading
We are active in base and precious metals, iron ore and steel, offering multiple access points, help, experience and solutions for whatever price risk you face or liquidity you require. We are a Category 1 member of the London Metal Exchange (LME) and a full London Bullion Market Association (LBMA) member. Additionally, we are a member of the COMEX exchange and offer access to the CME's futures and options contracts. We also provide electronic access to copper contracts on the Shanghai International Energy Exchange (INE) as an Overseas Intermediary.

We have a track record of over 50 years in financial markets. Since our foundation in 1973, we have been supported by our parent, Sucden, one of the world's leading trading groups, while remaining fully independent in our day-to-day trading operations.



Opportunity Engineers

Sucden Financial's experienced and knowledgeable teams are central to our success, drawing on their expertise to exploit ever-changing markets, technology and trading environments, to keep our clients ahead. We are open minded, constantly evolving and adapting to tackle today's and tomorrow's opportunities.

Summary

During the last quarter, the markets expected the Fed to begin a cutting cycle, which caused the dollar and Treasury yields to decrease. This, along with predictions of China's recovery in 2024, boosted the prices of base metals by the end of the year. However, in Q1, the situation has changed. The US economy has shown robustness in terms of the labour market and consumer performance, which has led the market to price in the probability of cuts further down the curve. Additionally, despite continued support from the government, Chinese pessimism has yet to subside. In the upcoming months, macroeconomics will continue to play a crucial role in driving the day-to-day momentum, particularly in the aluminium and copper markets. Structural and cyclical indicators will also come into play when assessing the path for base metals performance. COT positioning, spreads, and stocks will drive the general price trend in the first half of the year while anticipating an economic recovery and easing monetary policy pressures in the latter half of the year.

Aluminium (Al)
Aluminium prices have fluctuated due to macroeconomic factors, including the Chinese economic outlook and expectations for monetary policy. The Q1 2024 narrative is driven by postponed rate cut probabilities and Chinese pessimism, making it difficult for aluminium prices to break out of their current range. Although macro factors remain key to day-to-day activity, the Fed will continue to drive aluminium's price momentum. Despite potential supply shocks, there is ample liquidity to absorb them quickly. We anticipate wider trading ranges with slight upside potential amid increasing volatility.

Copper (Cu)
Copper has been subject to fluctuations, creating parallels with aluminium's trend. The day-to-day narrative driving copper prices has been influenced by macroeconomics and China's economic outlook. However, the stronger dollar may be capping any substantial upside gains. Supply disruptions are creating uncertainty about the outlook for copper concentrate this year. We expect a finely balanced market, which could see a more significant deficit next year. The outlook trajectory for copper depends heavily on China, and we anticipate copper prices to fluctuate with a slight upside skew in Q1 2024.

Lead (Pb)
Lead prices fluctuated during the last quarter of 2023 due to tightening in SHFE contracts. Q1 2024 is expected to see a similar situation with bullish factors, with spreads and positioning indicating further upside. However, the recent rally might be overdone, and a repeat of November highs seems unlikely. The supply reduction of lead ingots is expected to support SHFE lead prices, while production restrictions in Anhui have weakened domestic production of secondary lead. With China going on holiday starting 10 February, the return in the second half of February will likely add volatility to SHFE contract pricing.

Nickel (Ni)
The nickel market experienced a notable decline in Q4 2023 due to lacklustre demand and an oversupply of low-cost nickel from Indonesia. The supply surge is expected to continue until it peaks in 2026, leading to a substantial global surplus in 2024. The demand outlook for Q1 2024 remains unchanged, but the market is unlikely to overextend the fall to $15,000/t if the $16,000/t support level breaks. With many mines and smelters under pressure to maintain profit margins, a delicate balance of supply and demand is expected in the coming months.

Tin (Sn)
In Q4 2023, tin's performance was subdued, with prices hovering around $25,000/t. The market remained in surplus, primarily due to weak demand from the semiconductor industry, despite a ban on tin mining in Myanmar's Wa region imposed last August. Looking ahead into Q1 2024, with global demand for tin remaining weak, we expect tin prices to follow steadily in the upcoming quarter, trading in the $25,000-$27,000/t range.

Zinc (Zn)
Despite the lacklustre state of the Chinese economy, zinc fundamentals have remained steady due to factors such as reduced domestic production and increased reliance on imports. However, the structural and cyclical indicators are important in driving the price narrative in the coming months. We expect zinc prices to follow a mean-reversion strategy but continue on a slight upward trend in Q1 2024. The resistance at $2,700/t is key; a break above it could trigger stronger gains on the upside.

Iron Ore & Steel
Iron ore prices rallied in Q4 2023 due to China's efforts to support the property market. However, it appears that the reality is settling in, and unless construction data changes positively, iron ore prices might weaken back to $115-135/mt. Chinese economic indicators show that the construction sector is feeling the brunt of economic decline, and residential property bears the brunt of these challenges. The outlook for iron ore prices is expected to remain sentiment-driven in Q1 2024, with PBOC announcements likely to lend support rather than prompt prices higher, given muted construction fundamentals.

Gold (Au)
Gold experienced strong tailwinds in the last quarter of 2023, finishing the year near an all-time high at $2062.98/oz, primarily due to growing expectations of the start of monetary easing. However, January witnessed a shift in investor sentiment when policymakers in the US and Eurozone cautioned about persisting price pressures and the necessity to maintain interest rates at elevated levels for an extended period. We see little downside to the greenback's performance in Q1 2024 and as the negative correlation between the dollar and gold asserts itself, we expect the precious metal's price to trade in the $2000 - $2100 range.

Silver (Ag)
Silver closely followed gold in the first half of Q4 2023, climbing to $25.48/oz at the start of December as the dollar depreciated amid growing expectations of the start of monetary easing. As we approached the end of the year, however, silver found it challenging to maintain pace with gold, as the deteriorating global economic landscape exerted downward pressure on the industrial demand for the white metal. In Q1 2024, we expect silver to trade rangebound between $22/oz-$25/oz, slightly underperforming gold as the industrial aspects of the white metal weigh on demand.

Palladium (Pd)
In the last quarter of 2023, the prices of precious metals saw an upward trend, largely driven by gold's strong performance. However, palladium stood out as the exception, continuing its downward trend through December. The continuous decline in palladium prices throughout 2023 indicates that macroeconomic factors have a minimal impact on palladium in contrast to other precious metals. With palladium prices still having the potential to decline, we expect the metal to trade around 920/oz in the coming months.

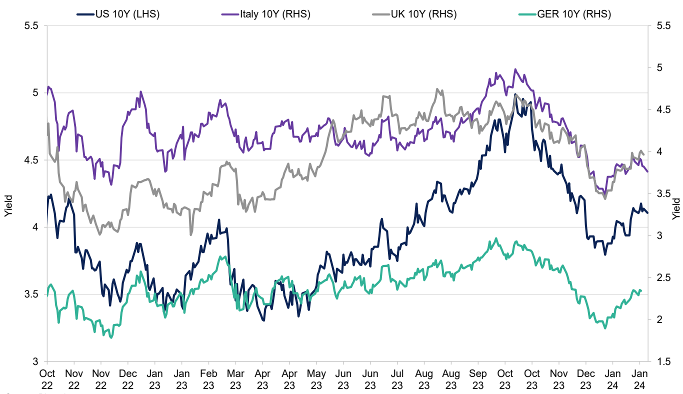
Platinum (Pt)
In recent months, platinum prices have mirrored the fluctuations of gold and silver, influenced by changing expectations regarding the onset of monetary easing. With the dollar gaining strength in November, the price of platinum took a significant hit, dropping to the $850/oz mark. Towards the end of December, a resurgence in gold's strength lifted platinum prices, briefly pushing them towards the $1000/oz threshold. Since that peak, platinum has decreased in value, stabilising at around $900/oz, a support level we anticipate will hold through the first quarter of 2024.

Market Overview

Global Outlook: According to the latest forecasts by the International Monetary Fund (IMF), global economic growth is anticipated to reach 3.1% in 2024, with a slight increase to 3.2% in 2025. However, these projections fall below the historical average growth rate of 3.8%, attributed to high central bank policy rates aimed at combating inflation, the scaling back of fiscal support in the face of mounting debt, and subdued underlying productivity growth. In Q1 2024, the elevated borrowing costs will continue to impact consumption and manufacturing, moderating global economic expansion. Still, the worst has been priced in, and subsequent downbeat economic data should align with market expectations of softer performance worldwide. A declining demand forecast in China has significantly impacted the industrial metals sector, prompting investors to gravitate towards the dollar for its perceived stability amid a general lack of liquidity in more volatile assets. While the tide for the dollar will turn eventually, we do not expect significant changes in Q1 2024 as central banks continue with their data-dependent narrative.

Developed Economies' 10Yr Yields

Long-term yields remain elevated.



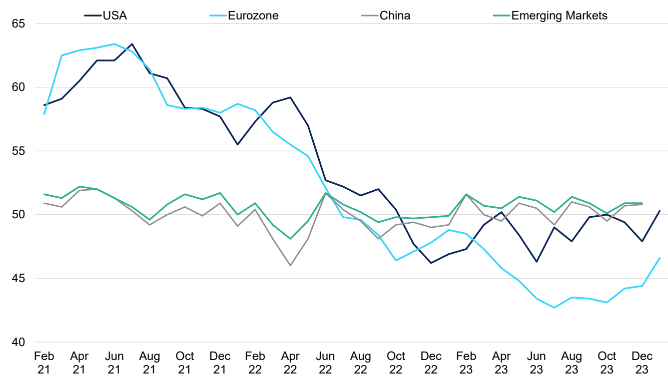
Source: Bloomberg

Oil: In September, oil prices surged to historically high levels, nearing $100 per barrel after Saudi Arabia and Russia, the world's second and third-largest oil producers, agreed to cap their output, sparking fears of supply shortages. However, prices gradually declined, reaching the quarter's lows in mid-December, with WTI and Brent crude falling to $68.8 and $73.2 per barrel, respectively. Despite concerns that attacks by the Houthi, a Yemeni military group threatening to target all vessels heading towards Israel in the Red Sea, would escalate prices, this scenario did not materialise. Although major shipping companies have ceased operations in the Red Sea, rerouting cargo vessels around South Africa, Saudi Aramco, the world's largest oil company, continues to dispatch tankers westward through the Red Sea. Since December, oil prices have been on an upward trend, bolstered by strong economic data from the US, indicating that oil demand is likely to remain robust in the near term.

PMI: The worldwide manufacturing industry closed out 2023 on a muted note. December witnessed a seventh straight month of production downturn, registering at 49.0, as the sector faced a continued decrease in new orders. Due to falling demand, manufacturers resorted to working through existing backlogs to maintain production levels. In the US, manufacturing output experienced its first drop in four months, while Japan recorded its seventh consecutive month of contraction. The euro area, however, was the most significant area of concern, with manufacturing production in the currency union declining for the ninth consecutive month. The downturn was particularly acute in Germany, France, Austria, and the Netherlands. December also marked the eighteenth consecutive month of decline in new business intakes for global manufacturing, with declines observed across the consumer, intermediate, and investment goods sectors. Furthermore, international trade flows worsened, with the slump in new export orders extending to 22 months.

Global Manufacturing PMIs

Eurozone production declined for the ninth consecutive month in December.



Source: S&P Global

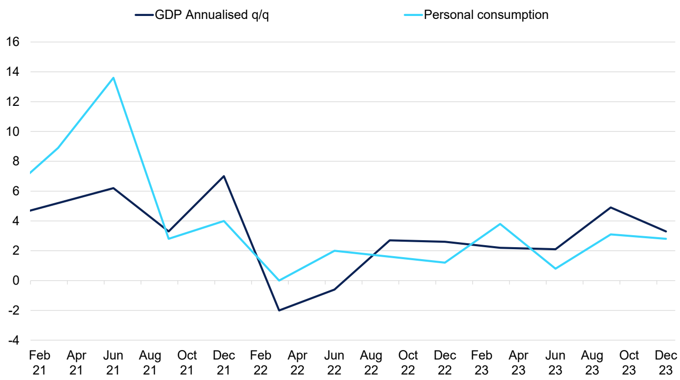
US: Compared to expectations this time last year, the outlook for the world's largest economy in Q1 2024 remains positive, showing no signs of the recession that was once a concern. Constant output growth continues despite specific sectors of the economy, particularly real estate, feeling the pinch from the elevated interest rates. The Q4 2023 GDP figure came out at 3.3% QoQ, marking another quarter of robust performance after Q3 2023 print of 4.9% QoQ led economists to lift the forecasts for 2023 GDP growth to 2.4% YoY. These relatively high numbers can be attributed to strong consumer spending, which continues to be supported by a resilient labour market. In December, retail sales, a key indicator of consumer spending, outperformed expectations, registering a 0.6% MoM increase. While an uptick was expected in the holiday season, it was higher than the predicted 0.4%, indicating optimism about the personal financial situation despite elevated borrowing costs. Indeed, the recent data points to increased consumer confidence, with the Uni of Michigan Sentiment Index for January rising to 78.8, compared to the previous month's 69.7, underscoring the resilience of the US consumer. The unemployment rate is hovering near a 50-year low, with the recent reading at 3.7% YoY in December, demonstrating ongoing strong job creation bolstered by an increase in the labour force. Weekly jobless claims continue to fall short of expectations. At the same time while nonfarm payrolls remain higher than the pre-pandemic norm, suggesting that overall economic growth is likely to maintain a steady pace without significant downturns in the coming quarter.

While inflation has softened significantly from the highs seen in 2022, the persistent tightness in the labour and consumer markets is expected to pose challenges in reducing the rate closer to the target of 2% in the coming quarter. The headline Consumer Price Index (CPI) accelerated to 3.4% YoY in December from 3.1% YoY in the previous month, suggesting that underlying price pressures persist. Additionally, the ongoing conflict in the Middle East and fears of supply chain disruptions have created upside inflationary pressures, necessitating a careful evaluation of monetary policy measures. Geopolitical tensions in the Red Sea led major shipping companies to redirect cargo vessels to the Cape of Good Hope, raising shipping charges by 75%, likely filtering down to consumers.

With price pressures persisting, investors' expectations regarding the initiation of monetary easing have significantly shifted since the beginning of the year. On the last day of December 2023, forward swaps were priced with a 90% probability of a rate cut in March, whereas at the time of writing, it had fallen to 50%. Given the robust economy, the Fed does not need to rush into implementing monetary policy easing before they are confident price stability has been achieved. Although at the beginning of January, we anticipated the first cut to materialise in March, we now believe that interest rates will remain elevated for longer, and the first cuts may not take place until June. Until then, we expect a "data-dependent" narrative from the policymakers, aiming to prevent premature expectations of rate cuts from excessively lowering Treasury yields. With the US government's cost of borrowing and mortgage rates at elevated levels, market dynamics are effectively aiding the Fed's efforts, reducing the need for further rate increases. Overall, the US economy will likely remain resilient in the coming quarter with solid consumer spending and a robust, albeit moderating labour market. We expect inflation to hover around the 3% level while the central bank continues to monitor economic data to determine the appropriate timing of the first interest rate cut.

US GDP Annualised QoQ vs Personal Consumption

The Q4 2023 GDP figure came out at 3.3% QoQ, marking another quarter of robust performance.



Source: Bureau of Economic Analysis

Europe: While the eurozone avoided a fully-fledged recession in 2023, the common currency area entered 2024 on the back foot relative to its younger cousin from the other side of the Atlantic. The last two quarters of 2023 saw the eurozone teetering on the brink of a recession after months of weakening manufacturing and services activity. At the start of 2024, business activity remained stuck in contraction for the eighth consecutive month, with the January HCOB Composite PMI reading at 47.9. While there was a slight improvement in the manufacturing outlook, it continued to be in a state of contraction, further compounded by a more pronounced downturn in the bloc's predominant services sector.

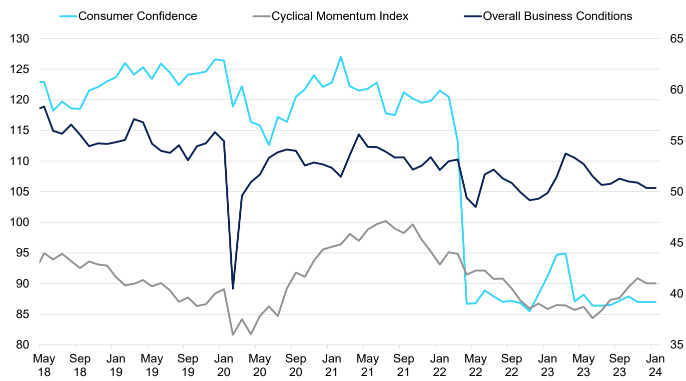
The past year showed that the region struggles to remain internationally competitive amid ongoing conflict in Ukraine and deepening structural problems. Unstable energy prices led many multinational companies to either pause their investment strategies or, in more extreme cases, establish new production facilities out of the continent in countries like the US or China. Germany, accounting for 29% of the eurozone's GDP, is particularly affected by the changes in energy supply and decreased investment. As a leading player in the European manufacturing value chain, the country's underperforming manufacturing sector continues to impact other countries in the region. In addition, the German debt brake agreement voted in December will result in implementing austerity measures at a time when the bloc's largest economy struggles to rebound from an economic downturn.

We expect another quarter of stagnation in the eurozone, with business activity remaining below the 50-point mark. At the same time, we believe the bloc will continue to avoid a full-blown recession as business and consumer confidence is bound to improve with price pressures abating. While the headline inflation rose in December to 2.9% YoY from 2.4% YoY recorded in November, it was mostly driven by the expiration of government energy subsidies implemented amid the energy crisis in 2022. The annual core inflation continued to soften in December, falling to 3.4% from 3.6% in the previous month. At their latest meeting, the ECB left the interest rates unchanged, reiterating a data-dependent approach when deciding on the path of monetary policy in 2024. Although we do not expect the European policymakers to start monetary easing before the Fed, they will likely adopt a similar timeline, particularly since Europe's economy remains susceptible to an unwarranted economic slump.

China: When forming the outlook on the Chinese economy in 2024, it seems crucial to reflect on the dynamics that shaped the country in the past year. The lack of a strong rebound from the COVID pandemic, which economists expected at the start of 2023, highlighted the underlying challenges faced by the world's second-largest economy The weakening global demand exacerbated by a prolonged period of high borrowing costs worldwide has proven that China can no longer rely on exporting itself into prosperity, leading policymakers to shift their focus inward. At home, sluggish domestic demand reflected in weak retail sales proved time and time again the lack of consumer confidence amid the ongoing property sector crisis, deflationary pressures, and record-high youth unemployment. Official figures indicate a decline of 8% in existing home prices from their peak in July 2021, with residential properties bearing the brunt of the downturn. Property development investment decreased by 9.4% in 2023, with a notable deepening in the drop of home prices, especially in the secondary market where prices have seen the sharpest fall in nine years.

Confidence in China

Confidence in China remains at historically low levels.



Source: Standard Chartered Bank, National Bureau of Statistics, China International Capital Co

Policymakers found themselves between a rock and a hard place trying to implement adequate stimulus while taming property and local government debt risks without triggering disorderly spillovers. Among policy measures announced last year, authorities have bolstered specific sectors, including extending tax breaks for electric vehicle purchases. Additionally, in 2023, the government raised 152.3 billion yuan ($21.05 billion) via special bonds to provide capital for small and medium-sized banks to finance infrastructure spending. However, the real estate data signals the downturn in the property market is far from over, despite the government's rollout of measures. Government stimulus is only enough to provide support at the current levels and not enough to encourage growth in the segment. Overall, for China, given the lack of uptick that we have seen at the start of 2023, on hopes of a fast recovery from the pandemic, the goal of 5% might be harder to defend this year. We are entering the new year with reduced expectations regarding the world's second-largest economy, anticipating low consumer confidence levels will remain as the real estate crisis intensifies.

Aluminium

"Macro factors are driving day-to-day activity, with the Fed maintaining its influence on aluminium's price momentum."

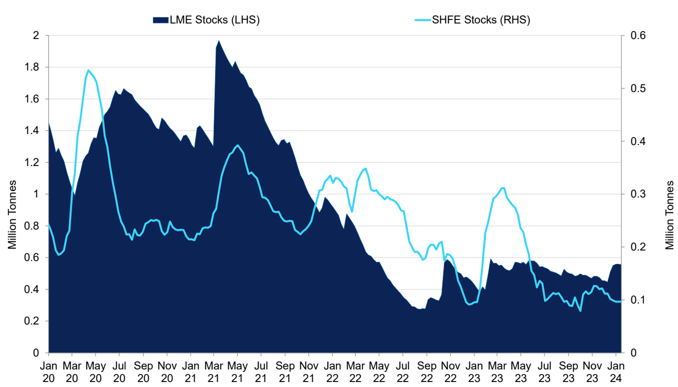
LME Aluminium, 3MO ($)

Source: Bloomberg, 30.01.2024

Aluminium prices fluctuated during the last quarter, gaining momentum by the end of the year, given the combination of fundamental and macroeconomic influences. In particular, expectations of a March start to the monetary policy-cutting cycle and optimism about Chinese economic recovery boosted sentiment, prompting prices to test the high of $2,400/t. However, as we headed into 2024, the probability of rate cuts was pushed further down the curve, and China's pessimism prevailed. This led to a higher dollar valuation and continued weakness in the Chinese yuan, which kept a lid on aluminium prices. Our future focus remains on China and developments in the region to drive the 2024 momentum. However, in Q1 2024, we do not expect any signs of protracted recovery. Recent announcements highlighted policymakers' urgency to support the economy and, in turn, commodity prices. While these announcements might offer some short-term incentives for base metals, we maintain the view that with a lack of sustainable improvements across the nation's performance, prices will return to their averages in due course.

Aluminium LME stocks vs SHFE Stocks

Recent LME stock increase is having little impact on aluminium prices, as fundamental influences wane.



Source: Bloomberg, Shanghai Futures Exchnage

Compared to the seasonal performance of 2022 and 2023, aluminium has opened on the back foot but is still in line with the longer-term average. A balanced global market provides little incentive for the metal to trade outside the current ranges. Given the Lunar New Year celebrations, uncertainty surrounding China's performance is expected to weigh on aluminium prices for the first half of 2024, with Q1 likely to remain subdued. This period will also be marked by uncertainty related to the threats of weakening global growth and the easing monetary policy cycle. In the meantime, the macro plays a crucial role in driving aluminium prices, evidenced by a strong inverse correlation to the dollar in recent months.

For 2023, the global aluminium market experienced a small deficit of 90kt, given a lack of Yunnan production until the second half of the year. A capacity cap of 45mt, alongside a stable power supply in Yunnan, might result in stable production in the coming months, with the total operating capacity stabilising at around 42mt. However, other intermediary products, such as alumina, have experienced more fundamental shifts, with the East China spot reaching a 2022 high of CNY3,250/mt following an oil explosion in Guinea. A combination of government controls meant domestic alumina production had to rely on imported ores. Indeed, China has been increasing its imports from the region in recent years, with 91m of bauxite shipped in the first 11 months of 2023, meaning Guinea constituted 70% of total imports. With the tight alumina balance in China, we expect more material to be imported. In the meantime, a combination of ore supply shortage and possible production controls from pollution will likely limit some of alumina capacity. This, however, failed to translate into aluminium prices, indicated by a swift fallback as the threat of Guinean disruption receded. Aluminium spreads do not indicate tightness yet; lacklustre physical demand gives more room for macro volatility to play out in aluminium prices.

By the end of last year, markets awaited a Chinese event to drive the narrative. However, as we moved through January, those with long calls began offering them due to their underperformance. Demand is expected to pick up in 2024, gradually accelerating from H2 2024, driven by lower interest rates and China's continued support of the property sector. Macro factors remain key for day-to-day activity, and the Fed will continue to drive aluminium's price momentum. Sufficient liquidity in the market may absorb a potential supply shock, but the question remains whether such a shock will be enough to push prices in a particular direction for the longer term. We expect a wider trading range, given increasing volatility, but the market expects to remain mostly rangebound with a slight upside skew.

Copper

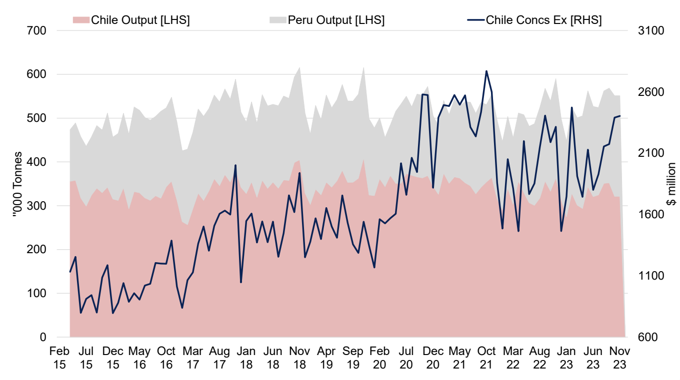
"Copper's outlook hinges significantly on China, with investors potentially maintaining long positions in anticipation of back-end demand in the near future."

Source: Bloomberg, 30.01.2024

Copper prices continued to fluctuate in recent months, mainly driven by the combination of macroeconomic factors and China's economic outlook, creating parallels with aluminium performance. Copper prices pushed higher in November and December, supported by a weaker dollar and Chinese stimulus measures directed towards the construction sector. However, the sentiment changed at the start of this year as postponed expectations about rate cuts and continued pessimism surrounding China's economic recovery weighed on prices. This, alongside a stronger dollar, has kept a lid on copper prices in January. We expect yields to drift higher in the meantime, with the 10-year yield finding support at 4.0%, as the earliest start to the cutting cycle from the Fed is now being priced in May. In the meantime, a robust US economy, with solid consumer spending and a tight labour market, is likely to keep the dollar at elevated levels. We see the greenback average at about 102.50 during Q1 2024. However, in the meantime, markets will continue to speculate on the timing and the scale of the rate-cutting cycle, which will drive copper's short-term price narrative.

Peru and Chile Copper Production and Concentrate Exports

Chilean production continues to soften given continued underinvestment in mines.



Source: Cochilco Minsterio de Mineria, Banco Central de Chile, Banco Central de Reserva del P

While macroeconomics drives copper prices on the day, the general focus for the year ahead has turned towards the industry as a whole. After a series of high-profile mine disruptions, suspensions and negative guidance revisions in the final quarter of 2023, copper is now subject to a tightening global balance. While talks about diminishing supply from key mining regions are not driving prices on the day, they are guiding the longer-term narrative. For 2024, we expect a finely balanced market with a growing deficit from 2025 onward. While expectations of global tightness were expected next year, there are already signs that supply might not be able to keep pace with demand this year. This was spearheaded by the end of last year, with an indefinite suspension of First Quantum's Cobre Panama mine. In Chile, Codelco is struggling to return to pre-pandemic production of 1.7mt per annum from the current 1.3mt. Ageing assets and water resource damage are leading to declining ore grades.

Overall, Chilean production is declining, falling to 321,500t in November 2023. With the deterioration of ore supply and continued smelter production, the case for copper concentrate shortages is growing this year. Treatment charges have been set at $80/mt, and we are likely to see a further reduction in the coming months, as markets adjust to supply shocks. However, despite supply disruptions looming, refined metal is forecast to be in a surplus next year, with Chinese production heading for another year of expansion, given its smelting and refining capacity growth. That is why we believe the copper concentrate market will have higher volatility than copper prices themselves this year. In the meantime, lower immediate demand has been reflected in LME stockpiles, which grew to 170kt in January. This has also been indicated by weakening spreads across the cash to 3-month contracts.

Given the uncertainty surrounding China's economic recovery, we are starting this year on a more cautious footing, where softening, albeit robust economic growth, softening price pressures, and expectations of Federal Reserve cutting are easing some of the pressures that weighed on the base metals complex. Monetary policy expectations will continue to drive the momentum on the day. With the dollar's strength expected to prevail for the majority of this quarter, we expect a more cautious outlook on the upside. Moreover, supply-side uncertainty from key performers could prompt further upside. Still, the outlook trajectory for copper hinges on China, and investors might continue to hold long copper positions for the back-end demand in the coming months.

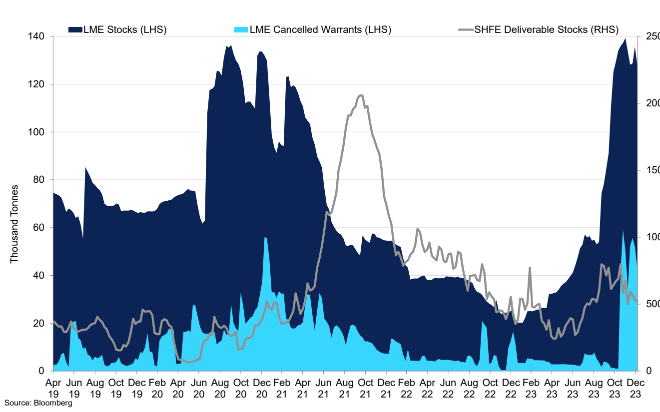
Lead

"A surplus should weigh on overall lead performance across the year; however, stocks and positioning will remain key in shaping the lead price narrative in the short term."

Lead prices fluctuated during the last quarter of the year, primarily driven by an acute tightness in the SHFE contract. The lead squeeze, building up over several months, led to tightening spreads on the LME and SHFE exchanges. This, coupled with low exchange stocks and rising open interest, propelled prices to increase and test the highs of $2,300/t before giving up most of those gains by the end of the quarter. In Q1 2024, we expect a recurrence of this situation, with bullish factors seen across the positioning, cyclicality, and technical levels. In particular, the COT net positioning saw substantial short growth in January, with investment funds falling below -5,000, resulting in a 6.5% price surge in the space of a couple of days. As of January 24th, lead prices are back above $2,150/t, causing the nearby spreads to turn backwardated, potentially creating further upside incentives. Diminishing stocks are also propping up the momentum. LME closing stocks are now at 110,650, given the pent-up demand following the winter holidays and scheduled maintenance by European smelters, tightening supply.

LME and SHFE Lead Stocks

January inventory drawdown has helped to support the recent upside in lead prices.



While we anticipate further price gains, we caution that the recent rally might be overdone, given the combination of positive macro and technical momentum that pushed prices higher. The support at $2,100/t is key, as it could set further impetus on the upside in the coming weeks. Yet, a repeat of November highs seems unlikely due to the impact of a strong dollar weighing on metal price performance. For Q1 2024, if the strong upside materialises, we expect the longs to eventually unwind, in line with the pattern seen in November/December 2023

Likewise, deliverable stocks on SHFE continued to withdraw, continuing the trend that started in October 2023. At that time, a large number of primary lead and secondary lead companies reduced and suspended production, tightening the supply of lead ingots. Primary smelters appear to have resumed production after maintenance, resulting in refined lead production of 308,500mt in December. However, Q1 2024 may witness several smelters conducting another round of equipment maintenance, driven mainly by Hunan and Yunnan. This should result in slightly lower production in Q1 2024. Regarding domestic SHFE lead prices, the supply reduction of lead ingots and pre-Lunar New Year stockpiling by downstream consumers lowered lead ingot at social inventory. Destocking is expected to support SHFE lead prices.

In terms of secondary lead, production restrictions in Anhui weakened domestic December output by 23.2% m/m to 342,000mt, hampering the recovery of secondary lead supply. As Anhui's secondary lead smelters resumed normal production after the end of production restrictions, the supply of ingots grew. In line with primary output, we expect maintenance and suspension to occur in Q1 2024 due to environmental protection, will likely result in lower production in the coming months. With the Lunar New Year approaching, higher closures of battery scrap traders are expected, affecting the recycling volume of battery scrap, and downstream companies are likely to go into maintenance during this period.

For 2024, we expect another year of surplus in lead, at 35,000mt, up from 25,000mt in 2023. This should weigh on overall lead performance across the year; however, stocks and positioning will remain key in shaping the lead price narrative in the short term. Our view for Q1 2024 mirrors that of Q4 2023, albeit on a smaller scale. Building shorts, backwardated spreads, and continued drawdowns on stocks are likely to add to the lead's momentum. Moreover, with China going on holiday in a couple of weeks, the return in the second half of February is likely to add volatility to SHFE contract pricing.

Nickel

"...liquidity continues to increase slowly, and price volatility for 2024 is likely to be low."

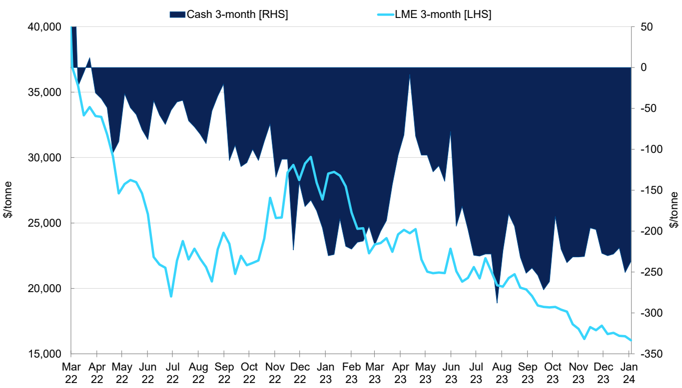
LME Nickel 3MO ($)

Source: Bloomberg, 30.01.2024

Nickel's downside continued in Q4 2023, marked by a notable decline of 49% by the year-end - the worst performance among base metals in 2023. This downward trend is primarily attributed to a combination of lacklustre demand and continued supply glut, with technical factors playing a key role in recent months. A drop below the psychologically significant $18,000/t level triggered further losses, leading to new support stabilising at $16,000/t. This level, closely aligned with the cost of mined nickel production, is acting as a deterrent against sustained efforts to push prices below this level.

Nickel 3-month Forward vs Cash to 3-month Spread

Prices and spreads indicate the fundamental oversupply in the nickel market.



Source: Bloomberg

The fall was driven in large by a flood of low-cost supply from Indonesia, where new techniques to produce battery-grade material threaten to upend the industry entirely. Indonesia's HPAL plants that produce MHP are rising, and the conversion of NPI to nickel matte is growing. Further growth is anticipated, and Indonesian production is set to expand to 2.40m tonnes in 2024 from 1.76m tonnes in 2023. We expect this narrative will dominate the nickel price outlook in the coming years as rising output from Indonesia floods the market until the supply peaks in 2026. This surge is expected to result in a substantial global surplus in 2024, reaching 721,000 tonnes – the widest since 2013. There are possibilities of potential production delays that might materialise this year as prices are now close to the cost of production level. Persistently high labour and energy costs are now the main contributors to diminishing profit margins, causing further downgrades in corporate results. In our view, while these delays might exacerbate the deficit by the end of the decade, their influence on near-term nickel prices is expected to be marginal.

Demand remains lacklustre, highlighted by growing stocks in both LME and SHFE and widening cash to 3-month spreads. Nickel stocks have continued to pile, reaching 68,600mt at the beginning of January – a high not seen since summer 2022. Moreover, with decreased lead time on the LME exchange due to faster approval of new brands, the need to restock could impact market prices much quicker. This could further increase inventories this year. These concerns have translated into the positioning on the LME, with investment funds' net positioning declining to -19,986 on January 12th, marking a series low. At the same time, liquidity continues to increase slowly following the 2022 crisis, and price volatility for 2024 is likely to be low. While we will likely see nickel prices trading in the lower end of the range, the moves across the exchange will likely be orderly, given ample liquidity.

In our view, the demand story is unlikely to change in the near term. From the EV perspective, sales are expected to grow, albeit at a slower pace, due to general auto conditions this year. The shift to EVs has been in talks for years, prompting automakers to secure future supply and causing prices to soar. Now, carmakers are hesitating to enter into new deals. The transition to higher nickel usage will not be smooth and quick, and we do not expect that trend to influence prices significantly in 2024. It is more likely to provide robust support than prompt prices higher. Instead, the construction companies are carrying the brunt of the decline. In particular, Germany's construction segment is expected to be grim in 2024, adding to subdued economic data from the region. Construction in China has been underwhelming, with fixed investment in real estate falling by 8.0% y/y YTD in November. The property market downturn is expected to persist, and government measures aimed at boosting demand for homes may not be sufficient to reverse the trend

While our demand outlook for Q1 2024 remains broadly unchanged, we expect Indonesia's supply outlook to guide the momentum for nickel prices. This reliance is becoming more acute as other regions lack sufficient reserves to ensure a stable supply stream. Additional regional supply might prompt nickel to test the $16,000/t in Q1 2024. If this level breaks, we expect markets to overextend the fall to $15,000/t before finding a robust support of $15,350/t. However, with prices falling by more than 45% in 2023, many mines and smelters are under pressure to maintain adequate profit margins, and we are likely to see a fine balance of supply and demand in the coming months.

Tin

“Our view is that tin will be stuck in a fine balance of fundamental supply tightness and muted demand.”

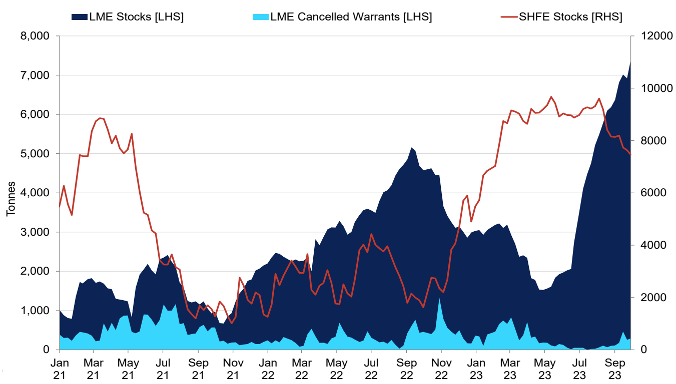
LME Tin 3MO ($)

Source: Bloomberg, 02.02.2024

In Q4 2023, tin’s performance was subdued, with prices hovering around \$25,000/t. The market remained in surplus, primarily due to weak demand from the semiconductor industry, despite a ban on tin mining in Myanmar’s Wa region imposed last August. The Wa mines contribute to over 70% of Myanmar’s production, making the country the world’s third-largest tin producer and a key supplier to China’s smelters. According to Bank of America’s estimates, the tin market had a surplus of 5,800 tons last year, with global consumption reaching 360,400 tons. Although the Wa state authorized a partial resumption of mining from January 3, it made an exception for the Man Maw mine area, which is responsible for nearly all tin production in the region. The limited resumption of mining activities in the Wa region, especially excluding the crucial Man Maw mine area, is expected to keep tin prices under pressure by sustaining a supply limitation from one of the world’s principal tin-producing regions. Given the current low demand, however, significant market tightness is unlikely.

Tin LME Stocks vs LME Cancelled Warrants vs SHFE Stocks

Shanghai stocks have decreased since their last year’s high, while LME stocks remain at historically high levels.



Source: Bloomberg

Korean semiconductor exports have shown signs of recovery, rising for the fourth consecutive month in January from the previous year’s downturn, yet they still do not meet the expected trends. As the initial major economy to release monthly trade data, South Korea offers an early insight into global demand. However, the accuracy of its January and February figures can be affected by the Lunar New Year holiday’s variable dates. Policymakers hope that this ongoing monthly improvement will keep Korea’s economy growing this year. The economic slowdown in China, the leading chip consumer, continues to raise concerns. Weakened demand from China is partly responsible for the decline in worldwide semiconductor prices, which has negatively impacted the profits of key Korean exporters. Shipments to China in the first 20 days of January barely increased by 0.1% after a 19-month consecutive decline. While exports to the US increased by 3.6%, this gain was counterbalanced by a 9.4% reduction in shipments to the EU. The global economic downturn makes it challenging for tin prices to return to the highs experienced during the pandemic.

Considering that consumer electronics, which account for about half of the global annual refined tin usage, are underperforming economically, this sector is likely to face obstacles. The electronics demand boom in 2021, driven by increased remote work and home-based activities due to lockdowns, is reversing as financially strained consumers reduce spending. A recent report from S&P Global indicated a decline in the global electronics PMI to 47.0 in December, further evidence of the sector’s ongoing decline. This period marks the tenth consecutive month of shrinking global electronics production, which is attributed to reduced client demand.

Looking ahead into Q1 2024, with global demand for tin remaining weak, the market outlook suggests that prices will likely continue trading within a narrow range. China’s declining stockpiles may lead to increased international market activity as it seeks additional ore to supplement its needs. However, the transition is expected to be gradual, and with the global demand not showing signs of significant recovery, supply fundamentals are unlikely to face sudden pressure in the near term. We expect tin prices to continue steadily in the upcoming quarter, trading in the \$25,000-\$27,000/t range.

Zinc

"In line with lead, zinc is primarily influenced by structural and technical fundamentals, with macro factors playing a limited role in price trends."

The last quarter of the year witnessed continued fluctuations in the performance of construction materials. Despite initial optimism regarding the Chinese economic recovery in 2024, the sentiment waned at the start of this year. The elevated dollar, driven by easing expectations for interest rate cuts, weighed on base metals' performance. However, China's continued weakness has a profound impact on price momentum. The lacklustre state of the economy, coupled with no evident signs of near-term improvement, is weighing on the construction sector's confidence. Both primary and secondary home prices have fallen by the most in years, indicating the government's efforts to help homebuyers and developers have so far fallen short. In our view, the construction downturn is not over, and further weakness is due before marginal recovery takes place by the end of the year, albeit at a slower pace than in 2023. Government support is more likely to provide support than induce prices higher.

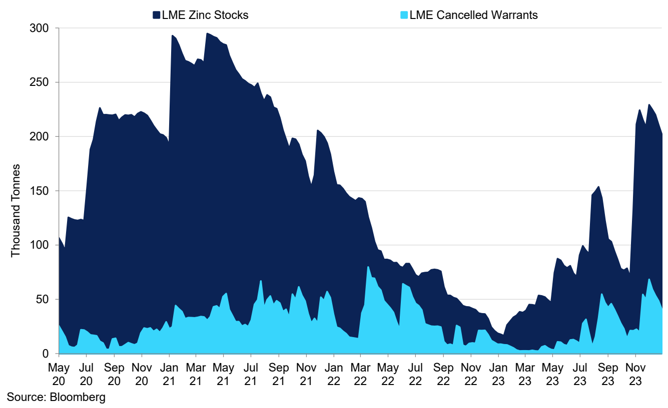
In line with lead, zinc is largely driven by structural and technical fundamentals, with macro noise having little impact on the general price trend. Notably, zinc's volatility exceeded macro-driven metals like aluminium and copper last quarter. Even significant events, such as Nystar's zinc miner shutdown in Budel, had little impact on zinc's trend, emphasising the importance of structural indicators in understanding price movements. Our outlook remains that China will be key in driving the general trend of the entire complex, likely resulting in rangebound zinc moves in the meantime. We see little downside for zinc, and continued drawdowns from the LME stocks support the current price momentum.

From the domestic standpoint, SHFE zinc stocks (ingots) continue to diminish as shipments go directly to downstream buyers. With the anticipation of Chinese New Year, downstream stocks have expanded even more, contributing to a rapid decline in China's imported zinc TCs to $80/mt. Zinc ore imports further highlight this trend, rising to February 2023 highs of 440k t in December 2023. That translated into higher concentrate inventory at Lianyungang at 13.5k tonnes in January. This suggests that Chinese smelters are now relying more on imported material as domestic mines are struggling to keep up at a time when overseas demand is low.

The cash to 3-month spread has remained in contango amid poor overseas consumption. LME zinc inventory has recently dropped by about 15,000 mt, with material expected to have arrived in China. Refined output increased by 2.05% m/m to 590,900 mt in December, but January domestic refined zinc production is set to drop by 17,500 mt m/m to 572,400 mt, according to SMM. The decline in production is mainly due to the approaching Chinese New Year and environmental protection-related maintenance from some smelters in Guizhou, Sichuan, Anhui, Jiangxi and Guangxi.

LME Stocks vs Cancelled Warrants

Prices are supported by recent drawdowns of LME inventories.



Nonetheless, smelters were also actively stocking up on zinc concentrate for production from January to February. TCs continued to be weak, but with import volumes increasing in the coming months, the decline might stall. Some companies may close earlier for Chinese New Year holidays in January, adding downward pressure on zinc prices. However, given the still-low social inventories and support from smelters and mines, any decline in zinc prices is expected to be limited. Zinc prices are anticipated to fluctuate within a wide range.

We expect zinc prices to follow a mean-reversion strategy in the coming weeks but continue on a slight upward trend in H1 2024. The resistance at $2,700/t is key; a break above it could trigger stronger gains on the upside. In the meantime, the market is not pushing that narrative, and we are likely to see a zig-zag pattern on the upside. Short-term upside potential is likely limited to bear market rallies, with resilience forecast for the second half of the year based on Chinese authorities successfully navigating the property market turmoil, aligning with our view for Q4 2024.

Iron Ore & Steel

"In our view, the construction downturn is not over, and further weakness is expected before a marginal recovery by year-end, albeit at a slower pace than in 2023."

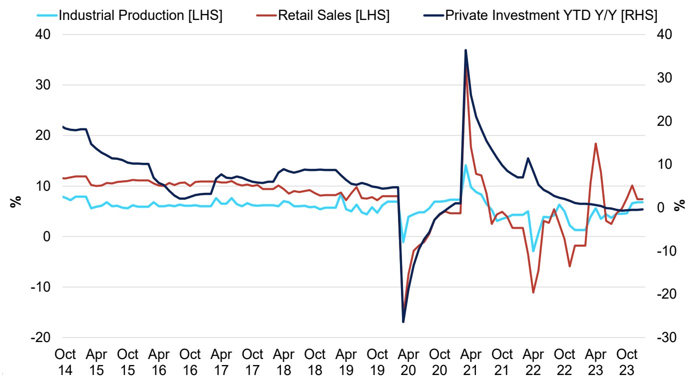
Source: Bloomberg, 30.01.2024

Iron ore prices rallied in Q4 2023 due to China's efforts to support the property market. This resulted in prices reaching levels not seen since June 2022. It seems that China's announcements have a disproportionally stronger impact on iron ore prices than base metals. Commencing the year above $140/mt, prices were buoyed by optimism surrounding China's economic recovery and the revitalisation of its steel-intensive property sector. Over the last couple of months, the Chinese government has moved forward with a series of stimulus measures to turn around its economy. In November, Beijing announced a $127bn plan to boost urban revitalisation, providing relief for the steel-intensive property sector. Subsequent support announcements in December supported further upside.

Now, however, we might be entering the stage when the reality is settling in, and unless construction data changes in a positive way, iron ore prices might weaken back to $115-135/mt. China's fixed investment in real estate continued to decline, falling by 8.0% y/ in the first 11 months of the year. The outlook signals the downturn in the property market is far from over, despite the government's rollout of measures primarily aimed at stoking demand for homes. We expect the measure to remain in the negative territory, but the decline is set to slow, with construction performance finding a bottom by Q2/Q3 2024. Still, this is unlikely to change the fundamental picture for 2024, as government stimulus is viewed as providing support at current levels rather than encouraging growth in the segment.

China's Economic Indicators

While consumer performance is remaining stable, the construction sector is feeling the brunt of economic decline.



Source: National Bureau of Statistics

It is China's residential property that bears the brunt of these challenges. Investment in property development has plunged 9.4% so far this year. A slump in home prices deepened, at -8.0%, with those in the secondary market falling by the most in nine years, indicating the government's efforts to help homebuyers and developers have so far fallen short. In the first 11 months of 2023, Asia's crude steel output rose by 0.79% y/y to 1.25bn mt, in line with 2022. As we head into the first half of 2024, crude steel output should increase in line with the cyclical seasonality, potentially leading to higher steel inventory in the coming months. At the same time, we have seen a higher proportion of total material being shipped overseas as domestic demand remains muted. This is driven in part by the preference for cheaper, lower-grade cargo. With freight costs jumping to pandemic highs due to the Red Sea conflict, a choice of more affordable cargo will help ensure consistently high exports. In October, China exported 8.0m mt, up 43% y/y, representing 7.6% of total production. This year, steel exports are expected to be more challenging according to CISA, given the tougher trade environment overseas. In finished products, inventories are in line with previous years' averages, putting China on a strong footing to export and consume internally in case demand from construction increases.

Considering the lack of a significant economic uptick at the beginning of 2023, the achievement of China's 5.0% growth target may be challenging. Some economists suggest that the government might introduce further stimulus measures to stabilise the market, possibly involving a central bank or fiscal funds to purchase excess housing directly. While the government's initiatives, such as reducing payments and encouraging lower mortgage rates, aim to revive demand for homes, the root issue lies in consumer confidence in the residential sector, which has not fully rebounded despite ongoing government support

In our view, the construction downturn is not over, and further weakness is due before marginal recovery by the end of the year, albeit at a slower pace than in 2023. Government support is more likely to provide support than induce prices higher. The authorities are more constrained in what they can do this year, and until we see the start of the cutting cycle from the US, metals prices will be capped. By then, Chinese authorities should have more room to provide support for the economy. Iron ore is expected to remain sentiment driven in Q1 2024, with PBOC announcements likely to lend support rather than prompt prices higher, given muted construction fundamentals. We expect iron ore prices to edge lower to $115-135/mt by the end of the quarter.

Gold

"...the potential for upward movement in gold prices will likely be limited by the strength of the US dollar and the heightened Treasury yields."

Spot Gold $/Oz

Source: Bloomberg, 30.01.2024

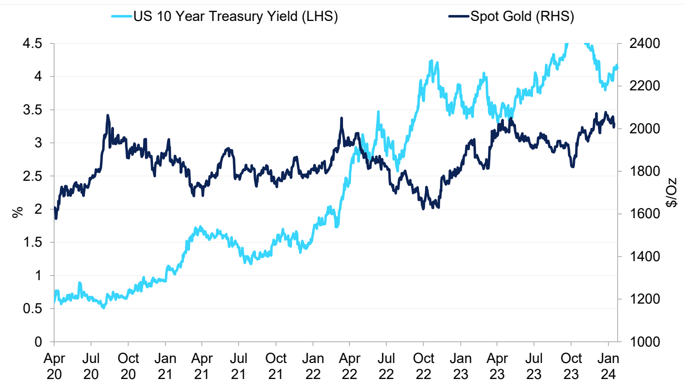
Gold experienced strong tailwinds in the last quarter of 2023, finishing the year near an all-time high at $2062.98/oz. A 13% surge in its price during Q4 was initially sparked by safe-haven demand amid the outbreak of conflict in the Middle East on 7 October. Subsequently, monetary policy regained prominence as the primary driver of precious metal prices. Softening inflation fuelled expectations of interest rate cuts, pushing longer-term yields lower, which raised the attractiveness of non-yielding bullion. At the end of the year, it appeared that gold was poised to breach the $2,100/oz level. However, January witnessed a shift in investor sentiment when policymakers in the US and Eurozone cautioned about persisting price pressures and the necessity to maintain interest rates at elevated levels for an extended period. On the last day of December 2023, forward swaps signalled a 90% chance of a rate cut in March. Yet, as January 2024 progressed, this probability dropped sharply to 40%. This shift led the 10-year US Treasury yield to rebound above the 4% mark, adversely affecting gold prices. In January 2024, the correlation between gold and the 10-year US Treasury yield over a 30-day period intensified to -70%. We expect that the direction of precious metal prices this quarter will continue to be heavily influenced by the guidance on monetary policy.

Recent economic data from the world's largest economy show continued strength despite the prolonged period of high-interest rates. The latest GDP print pointed to a higher-than-expected growth in Q4'23 at 3.3% QoQ. At the same time, the Fed's preferred gauge of inflation - the core Personal Consumption Expenditure index –fell from 3.2% YoY in November to 2.9% YoY in the last month of 2023. This suggests that the price pressures continue to subside amid high borrowing costs even as US consumers continue to show resilience. Given the robustness of the world's largest economy, there is no immediate need for the central bank to ease monetary policy prematurely. As the current approach of higher-for-longer interest rates continues to bear fruit, we expect the policymakers to stick to a data-dependent narrative throughout this quarter, limiting any upside momentum for gold.

Gold's physical demand remains robust, significantly fuelled by major central bank acquisitions, with China taking the lead. The PBoC has consistently augmented its gold reserves, moving towards diversification from its dollar holdings. In 2023, the PBoC boosted its gold holdings by 225t, reaching 2,235t by year-end. China has also significantly contributed to the demand for gold in jewellery. The onset of January, marked by the Lunar New Year, traditionally strengthens gold demand as consumers ramp up festive purchases. Notably, the Shanghai Gold Exchange's Au9999 contract trading volume hit a seven-year peak in the second week of January, reflecting heightened physical gold demand. While Chinese buyers are currently favouring gold jewellery over options like platinum, the near-record high gold prices in yuan might temper the translation of this vigorous wholesale demand into retail buying.

Spot Gold Price vs 10yr US Treasury Yield

In January 2024, the correlation between gold and the 10-year US Treasury yield over a 30-day period intensified to -70%.



Source: Bloomberg

Overall, we expect gold to trade range-bound until there is a definitive indication from the Fed regarding the start of monetary easing. In the meantime, the potential for upward movement in gold prices will likely be limited by the strength of the US dollar and the heightened Treasury yields. Given the combination of strong economic performance coupled with continued discounting regarding the monetary cutting cycle, we expect the dollar to remain elevated above 102.50. We see little downside to the greenback's performance in Q1'24 and as the negative correlation between the dollar and gold asserts itself, we expect the precious metal's price to trade in the $2000 - $2100/oz range.

Silver

"… any downward movements in silver's price will likely be more significant than those of gold, as weak economic growth impacts the industrial demand for silver."

Spot Silver $/Oz

Source: Bloomberg, 02.02.2024

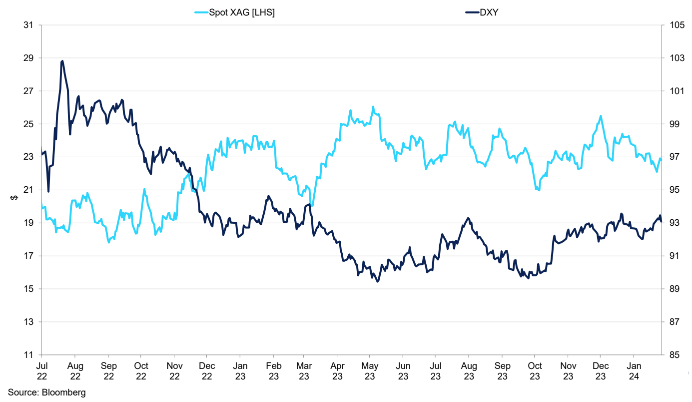
Silver closely followed gold in the first half of Q4 2023, climbing to $25.48/oz at the start of December as the dollar depreciated amid growing expectations of the start of monetary easing. As we approached the end of year, however, silver found it challenging to maintain pace with gold, as the deteriorating global economic landscape exerted a downward pressure on the industrial demand for the white metal. In January, investor sentiment underwent a significant shift following warnings from officials in both the United States and the Eurozone regarding persistent inflationary pressures and the necessity to sustain elevated interest rates for longer. At the end of December 2023, forward swaps indicated a 90% likelihood of a rate reduction in March. However, this likelihood significantly decreased to 40% as January 2024 unfolded. This alteration caused the 10-year US Treasury yield to rise above 4%, negatively impacting the price of precious metals. Consequently, silver dipped to $22 per ounce, which we anticipate will be a critical support level throughout the quarter.

While a variety of factors driving gold's price upward also benefit silver, the substantial demand for silver in industrial applications creates a tug-of-war with these bullish influences. The broader global economic environment continues to worsen, impacting the demand for goods. Given that 50% of the silver's demand is attributed to industrial uses, underwhelming economic data from China and a weakening global economy will likely create headwinds for the white metal, potentially causing it to fall short of gold's performance. Silver is extensively used in electronics manufacturing and valued for its superior electrical conductivity and resistance to corrosion, making up about 20% of its total annual demand. A recent S&P Global report pointed to a drop in the global electronics PMI to 47.0 in December, indicating continued weakening in the sector. December marked the tenth consecutive month of declining global electronics production, driven by diminished client demand. The electronics outlook is clouded for Q1 24 as consumer purchasing power dented by months of elevated inflation and tight credit conditions discourage consumers from upgrading their devices or buying new models altogether.

According to the Silver Institute, global physical silver demand is estimated to have fallen by 21% YoY in 2023 to 263moz. Sales of silver bullion at the Perth Mint, highly sought after by German retail investors, fell by 36% to 14.9 million ounces, a drop likely influenced by the introduction of a 19% VAT on all silver bullion coins. Moreover, elevated silver prices have resulted in a downturn in the Indian market, which is the principal consumer of silverware and jewellery. India's silver imports were down 59% YoY, signalling that consumer demand is considerably lower when the white metal's price exceeds $22/oz.

Spot Silver Price vs Dollar Index

Given the inverse correlation between silver and the dollar index, the strong greenback is poised to cap any upside movements of the white metal's price.



Source: Bloomberg

Overall, we expect silver to follow a similar path to that of gold in Q1 2024 as the monetary policy guidance remains the main driver of precious metal prices. We expect interest rates to remain elevated for longer, and the first cuts may not occur until June. The US remains the most resilient out of all major economies in the tight monetary policy environment, which continues to be reflected in the dollar's enduring strength. Given the inverse correlation between silver and the dollar index, the strong greenback is poised to cap any upside movements of the white metal's price. Meanwhile, any downward movements in silver's price will likely be more significant than those of gold, as weak economic growth impacts the industrial demand for silver.

Palladium

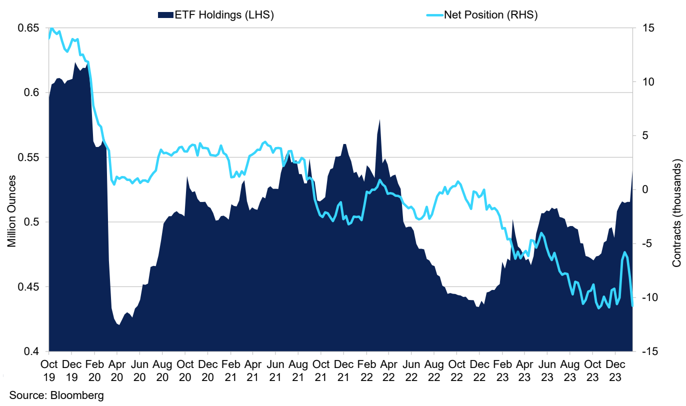
"The continuous decline in palladium prices throughout 2023 indicates that macroeconomic factors have a minimal impact on palladium in contrast to other precious metals."

In the last quarter of 2023, the prices of precious metals saw an upward trend, largely driven by gold's strong performance. However, palladium stood out as the exception, continuing its downward trend through December. At the beginning of the final month of 2023, the price of palladium dropped to $939/oz, marking its lowest level since 2018. It briefly rebounded, reaching the $1220/oz mark amid growing optimism about the onset of monetary easing, but it quickly gave back all of its gains, trading at $937/oz as of 26 January. The continuous decline in palladium prices throughout 2023 indicates that macroeconomic factors have a minimal impact on palladium in contrast to other precious metals. The fact that its price has fallen by almost 40% over the past year suggests a diminishing interest and confidence in the metal. Given that Russia contributes to approximately 40% of global palladium production, the ongoing conflict in Ukraine has led automakers to reduce their dependence on palladium, casting a bleak outlook for a metal once the preferred choice for autocatalyst production.

In 2023, the automotive sector experienced a surge in demand, driven by significantly higher-than-expected light-vehicle production. This uptick was fuelled by robust consumer interest and the resolution of the semiconductor chip shortages that previously constrained production in 2022. However, despite this positive trend, palladium prices fell due to a shift from palladium to platinum in autocatalyst production. Looking ahead, the pace of light-vehicle production growth is set to decelerate amid high borrowing costs. Since a large portion of new vehicle purchases are financed, higher monthly payments have made vehicles less affordable for consumers. This situation, coupled with a potentially weaker economic climate, might lead to new vehicle sales falling short of expectations. In December 2023, European car sales witnessed their first decline in over a year, with a 3% drop year-on-year to 867,052 new passenger car registrations. This downturn marked the end of a 16-month streak of gains. The European Automobile Manufacturers' Association (ACEA) anticipates a slowdown in new car sales growth to 2.5% in 2024, down from around 12% in the current year, which could dampen palladium demand further. Additionally, the automotive industry's significant pivot towards electric vehicles (EVs), driven by global efforts to achieve carbon neutrality, is expected to impact the demand for metals used in traditional autocatalysts. The ACEA projects that the market share of battery electric vehicles (BEVs) in Europe will rise markedly from approximately 15% in 2023 to over 20% in 2024, further reducing the demand for palladium.

Palladium ETF Holdings vs Net Position

ETF Holdings have increased in recent months.



From the supply perspective, the upcoming quarter is expected to see a slight decrease in Russian supply due to smelter maintenance affecting refined production. In contrast, South African output is anticipated to see a modest increase as stockpiled material gets processed.

In North America, the Stillwater mine is poised to boost its output, factoring in the cost-cutting measures recently announced, thanks to the continued recovery from incidents that hampered production in 2023. The drop in palladium prices has impacted the revenues of companies and rendered the most expensive mines unprofitable. This situation may lead to production reductions, although such adjustments could be delayed due to the necessary procedural steps, including consultations before layoffs. While there's a possibility of production cuts in 2024, they are unlikely to occur in the next quarter. With palladium prices still having the potential to decline, we expect the metal to trade around 920/oz over the coming months.

Platinum

"...the price swings in platinum are more pronounced due to its lower liquidity compared to gold and silver, which heightens its susceptibility to broader price volatility."

Spot Platinum $/Oz

Source: Bloomberg, 30.01.2024

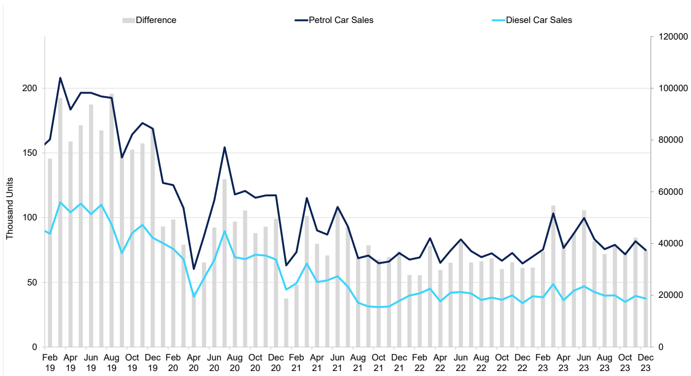
In recent months, platinum prices have mirrored the fluctuations of gold and silver, influenced by changing expectations regarding the onset of monetary easing. However, the price swings in platinum are more pronounced due to its lower liquidity compared to gold and silver, which heightens its susceptibility to broader price volatility. With the dollar gaining strength in November, the price of platinum took a significant hit, dropping to the $850/oz mark – a low not seen since October. Towards the end of December, a resurgence in gold's strength lifted platinum prices, briefly pushing them towards the $1000/oz threshold. Since that peak, platinum has decreased in value, stabilising at around $880/oz, a support level we anticipate will hold through the first quarter of 2024.

Global demand for platinum in autocatalysts is expected to remain relatively stable as slower growth in light-vehicle production and the rising popularity of Battery Electric Vehicles (BEVs) is balanced out by increased adoption of platinum-based gasoline autocatalysts. However, challenges persist, particularly with the demand for diesel autocatalysts in Europe, which is anticipated to decline further. This is due to the expanding implementation of low-emission zone initiatives across European cities, impacting diesel's market share. Diesel autocatalysts, both light and heavy-duty, account for 70% of platinum autocatalyst demand in Western Europe. Data from the ACEA shows that as of November 2023, only 13.7% of all new cars registered in the EU were diesel-powered, while pure electric vehicles made up 14.2%, equating to approximately 1.4 million units. Diesel's share of the light-vehicle market in Europe is set to decrease further in 2024, having dropped to 12% in October 2023, which could diminish platinum demand. Additionally, the heavy-duty sector in the region may face challenges due to subdued growth in the fourth quarter of 2023 and the first half of 2024.

At the same time, the downturn in China's platinum jewellery market is anticipated to persist this year, as the nation's economic expansion continues at a subdued pace, marked by weakened consumer spending. The world's second-largest economy is the largest platinum jewellery market, accounting for 50% of worldwide demand. Heraeus reports that Chinese jewellery consumption has experienced the most substantial decline among various markets over the past decade. This reduction in demand for Chinese platinum jewellery has impacted the platinum market more than twice as much as the decrease in diesel autocatalyst demand in Western Europe. Although a rise in gold prices could enhance the appeal of platinum jewellery to consumers, demand growth is expected to remain significantly below pre-pandemic levels of 650 koz.

Germany Petrol vs Diesel Car Sales

Diesel cars are becoming less and less popular among German consumers.



Source: Federal Motor Vehicle Office

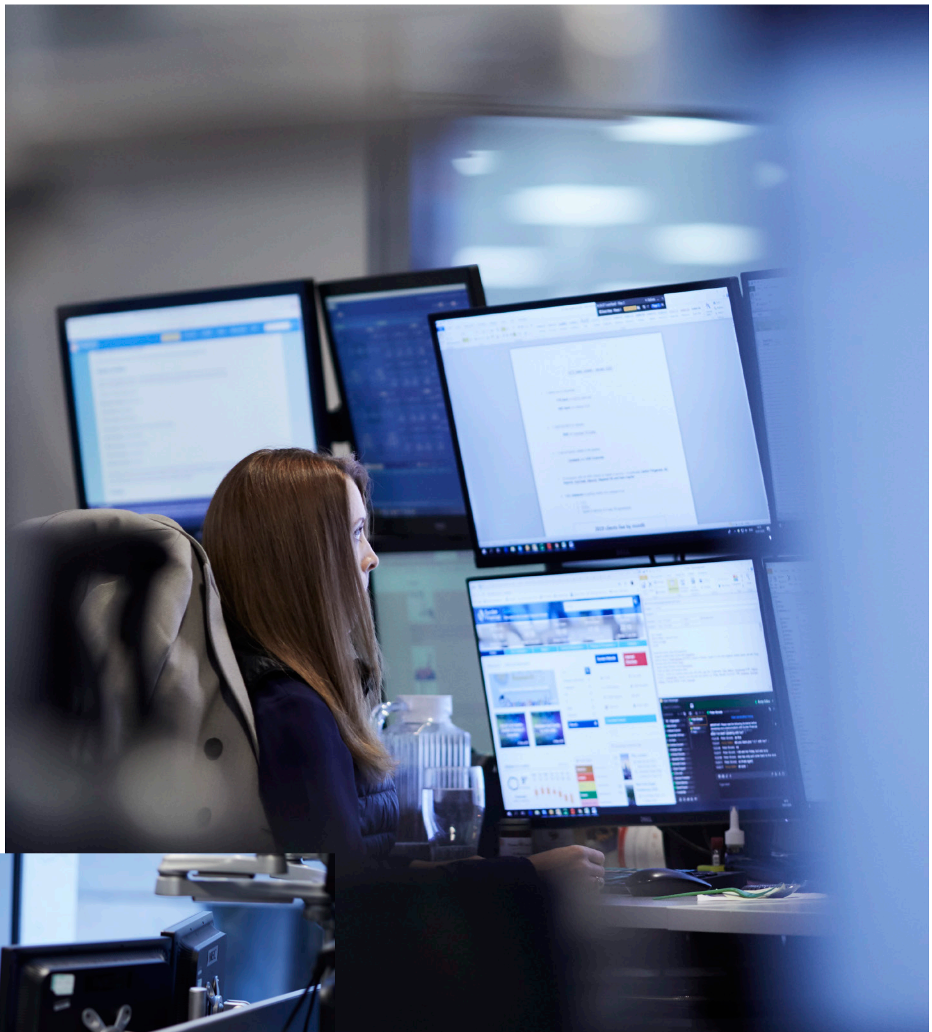
From the supply side, The World Platinum Investment Council forecasts a 3% YoY rise in platinum mine supply for 2024. In the near term, platinum production is anticipated to increase as South African producers strengthen their power generation capacity in the latter part of 2023. Northam Platinum, a leading platinum producer in the region, has observed a 10.6% increase in its 6E PGMs refined metal year-on-year production from its operations during the second half of 2023. This growth stems from the ongoing expansion efforts at the Booysendal and Eland mines and the implementation of more mechanised mining techniques, leading to enhanced operational efficiency and reduced costs. However, the sector faces challenges; the drop in PGM prices during 2023 has significantly affected the economic viability of a considerable portion of the platinum mining industry, raising the possibility of restructurings or shutdowns of economically marginal mines this year.

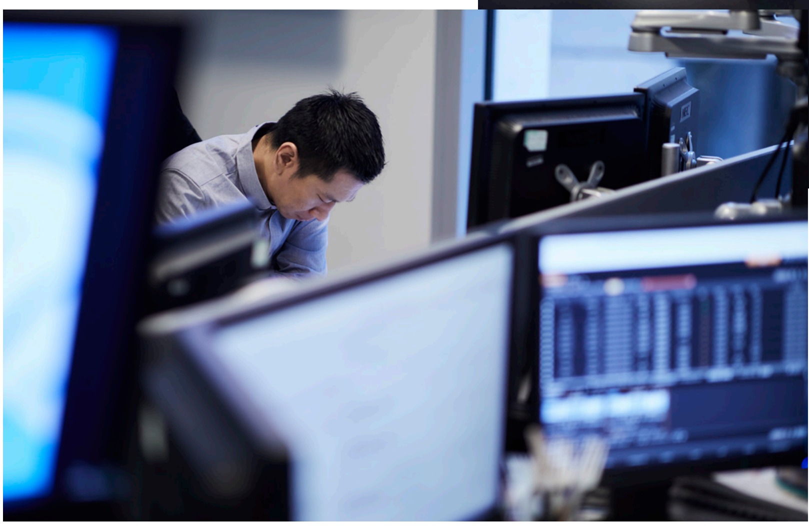
Sucden Financial — Multi-asset expertise

We offer multiple trading and technology solutions, engineering opportunities across FX, fixed income and commodities.

Sucden Financial's experienced and knowledgeable teams are central to our success, drawing on their expertise to exploit ever-changing markets, technology and trading environments, to keep our clients ahead. We are open minded, constantly evolving and adapting to tackle today's and tomorrow's opportunities.

Stability and strength
We appreciate how important it is to feel secure in your trading requirements. We are proud of our long-term financial stability and substantial balance sheet of over USD190m.





Sucden Financial

United Kingdom
Sucden Financial Limited
Plantation Place South
60 Great Tower Street
London
EC3R 5AZ

Tel: +44 (0)20 3207 5000
Email: info@sucfin.com

Hong Kong
Sucden Financial (HK) Limited
Unit 1001, 10/F
Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Tel: +852 3665 6000
Email: hk@sucfin.com

USA
Sucden Futures Inc.
156 West 56th Street
12th Floor
New York, NY 10019

Email: ny@sucfin.com

www.sucdenfinancial.com/QMR