

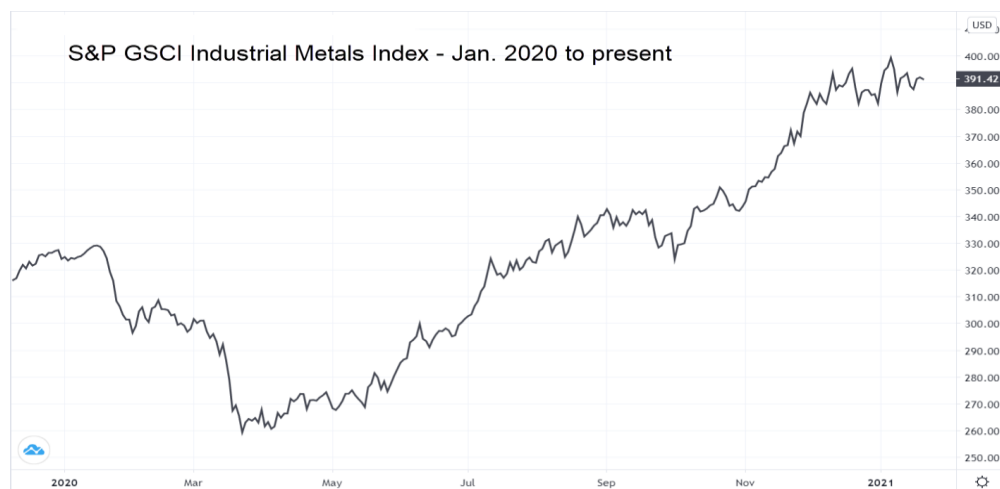


Philequity Corner (January 25, 2021)
By Wilson Sy

Multi-year highs for industrial metals

Last week, we talked about crude oil as one of the primary beneficiaries of the unprecedented monetary and fiscal stimulus, the Biden electoral victory, the Democratic blue wave, and the discovery of the COVID-19 vaccine. Another asset class that has benefited immensely is industrial metals.

Copper, nickel, and other industrial metals have soared the past year, not only because of a post-pandemic cyclical recovery but also because of increasing demand from nascent technologies like electronic vehicles (EV) and renewable green energy. In fact, the S&P GSCI Industrial Metals Index which tracks the listed futures contracts of copper, nickel, aluminum, lead, and zinc gained 17.9 percent in 2020.



Cyclical recovery underway

Like crude oil, industrial metals were crushed at the onset of the COVID-19 pandemic. It bottomed, however, in May 2020 as China's recovery from the pandemic gathered momentum. Today, with many economies already in recovery phases, demand for industrial metals is in a cyclical upswing.

At the heart of this rally is the rapidly improving factory activity around the globe. Led by China, and followed by the US, Germany, Australia, India, and Taiwan, global manufacturing activity as measured by the purchasing managers index (PMI), is now expanding. After hitting a low of 26.50 in April 2020, the global PMI has averaged 53 in 2nd half of 2020 as countries worldwide eased lockdown measures and economies gradually reopened.

Copper spikes to 8-year high

Copper has exploded from a low of \$1.97 per lb. in March to an 8-year high of 3.73 per lb. this month. Mainly used in construction, wiring, plumbing, and electricity transmission, copper has traditionally been a cyclical commodity whose demand ebbs and flows with economic cycles. In the 2nd and 3rd quarter of 2020, copper rallied more than \$1 per pound on prospects of a global recovery post-Covid-19. Biden's electoral victory in November further boosted the copper price by an additional \$0.75 per pound.



Nickel hits highest in six years

Nickel has surged from a low of \$5 per lb. in March 2020 to a high of 8.28 per lb. this month. Rising demand from nascent technologies such as electronic vehicles (EV) and renewable green energy sent nickel prices to their highest level in six years. Indonesia's nickel ore export ban, which has constricted global ore supply since January 2020, has also supported higher prices.



Secular tailwind

Industrial metal prices appear extended in the short-term and a possible correction may be coming soon. But prices are likely to go higher in the long run. The market is already pricing in a cyclical recovery as vaccines are rolled out worldwide and economies reopen. The record stimulus and liquidity, plus the sharply lower dollar, continue to reflate asset prices, including that of industrial metals. Additionally, the growing global emphasis on renewable energy, sustainable infrastructure and green transportation should provide a long-term secular tailwind for industrial metals.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email ask@philequity.net.