Strong fundamentals behind Tin's rally

Published 5 February 2021

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The price of front-month tin futures was up almost 13% in January extending the metal's surge since November. As of 04 February, tin's price has rallied to its highest level since the third quarter of 2011. Tin's gains have been fueled by a combination of strong fundamentals as well as broader tailwinds behind industrial metals. With a diverse and growing set of applications, tin is not just a metal that's hot right now but is one to look out for in the future.

Strong demand and weak supply

Sharp backwardation in tin's futures curve illustrates the strong fundamentals for the metal right now. Backwardation – a symptom of supply tightness relative to demand – is normally an unusual state for an industrial metal curve (see figure below).

Source: WisdomTree, Bloomberg. Data as of 04 February 2021.

According to the International tin Association (ITA), China's imports of tin were up 521% year on year in 2020 driven by a strong manufacturing rebound in the country. China's tin supply from Myanmar, one of the largest tin producers in the world, has also been disrupted since August last year as heavy rains have caused several mines to become flooded and therefore inaccessible. While China is beginning to look elsewhere – including Africa and Australia – to source its Tin, this transition is likely to be gradual.

When demand initially fell due to the pandemic last year, Indonesia – the largest tin exporter globally – also cut its exports to the lowest level in four years. However, the strong manufacturing rebound in China meant that tin ended up in a supply deficit last year and is expected to remain undersupplied this year – according to the ITA.

Macro tailwinds

Industrial metals have generally been buoyant especially since November last year with vaccine news boosting risk assets. Healthy fourth-quarter economic data for China has particularly reinforced industrial metals. Due to its strong fundamentals, however, so far this year tin has strongly outpaced the Bloomberg Industrial Metals Subindex – a basket composed of aluminium, copper, nickel, and zinc.

Diverse demand growth

Tin's industrial applications include soldering – the process of joining different metals, production of industrial chemicals, usage in lead-acid batteries, and the making of copper alloys which get used in

electronics. With 5G connectivity poised to fuel the internet of things economy in the future, tin's demand in electronic applications is expected to grow. Similarly, electric vehicles also present an exciting avenue of growth for the metal going forward.

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