GLENCORE

OUR MARKETING BUSINESS

Annual Report cross reference guide

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MARKET REVIEW AND OUTLOOK

Pandemic-related uncertainty drove industrial metal prices down in the first half, before a rapid recovery on robust Asian demand, and markets pricing in Covid's impact on commodity supply. Energy markets had a tough year, which also presented trading opportunities

Financial overview

US$ million	**Metals and minerals**	**Energy products**	**Corporate and other[1]**	**2020**	Metals and minerals	Energy products	Corporate and other[1]	2019
Revenue◊	54,847	69,290	–	124,137	73,561	120,627	–	194,188
Adjusted EBITDA◊	1,768	2,053	(89)	3,732	1,169	1,515	(47)	2,637
Adjusted EBIT◊	1,667	1,761	(89)	3,339	1,089	1,324	(47)	2,366
Adjusted EBITDA margin	3.2%	3.0%	n.m.	3.0%	1.6%	1.3%	n.m.	1.4%

1 Corporate and other Marketing activities includes $211 million (2019: $58 million) of Glencore's equity accounted share of Glencore Agri.

HIGHLIGHTS

Marketing delivered an outstanding performance. Adjusted EBIT of $3,339 million was up 41% up on 2019, building on the record first half contribution, which particularly benefitted from heightened market volatility, dislocation and supportive pricing curve structures. Financial and commodity markets were extremely volatile in the face of Covid uncertainty, where risk assets were initially heavily sold in March/April, later being met by enormous liquidty injections and economic stimulus worldwide and selective industrial demand recovery, particularly in China. Our diverse suite of commodities responded at different times through this period:

- base metals initially plunged to multi-year lows on demand-side fears, but many have since reached multi-year highs. The market's confidence in demand has returned, also recognising that supply growth has been weak, having itself been disrupted by the pandemic;
- energy prices were depressed through most of 2020, but ended the year on an upward trajectory as economic activity, particularly in China, picked up and supply reductions began to take hold;
- average prices for precious metals were markedly higher due to their often countercyclical characteristics

Our major commodity trading units performed well during this difficult year. Year-over-year EBIT increased by approximately $1 billion, of which $578 million was attributable to the Metals business, partly reflecting the reversal of the challenging cobalt market conditions from 2019 which led to significant marketing inventory writedowns in the base period. Energy Products EBIT increased by $437 million as exceptional price movements and dislocations across crude oil and refined products, combined with soaring demand for and prices of storage and logistics, enabled our oil department to deliver a record yearly performance.

Our 50% share of earnings from the Viterra agricultural business (captured within Corporate and Other) was $211 million (post-interest and tax) compared to $58 million in 2019.

Selected marketing volumes sold

	Units	**2020**	2019	Change %
Copper metal and concentrates[1]	mt	3.4	4.1	(17)
Zinc metal and concentrates[1]	mt	2.8	3.1	(10)
Lead metal and concentrates[1]	mt	1.0	1.1	(9)
Gold	moz	2.0	2.1	(5)
Silver	moz	64.9	68.3	(5)
Nickel	kt	149	181	(18)
Ferroalloys (incl. agency)	mt	8.5	9.5	(11)
Alumina/aluminium	mt	7.2	11.0	(35)
Iron ore	mt	57.6	65.5	(12)
Thermal coal[2]	mt	67.1	86.7	(23)
Metallurgical coal[2]	mt	1.3	6.5	(80)
Crude oil	mbbl	791	973	(19)
Oil products	mbbl	738	779	(5)

1 Estimated metal unit contained.
2 Includes agency volumes.

Market highlights

Copper

2020E global copper mine production[1]
-1.4%

Global visible copper inventory end-2020
c.11 days' consumption[1]

Incremental copper demand from grid distribution and storage by 2050[2]
8.7Mt

1Mtpa
Forecast annual average demand growth from 2020 to 2050 under a Rapid Transition decarbonisation pathway[3]

Zinc

2016-2020E cumulative global zinc metal deficit[5]
c.2Mt

Global visible zinc exchange inventory end-2020
c.6 days' consumption[6]

2020E growth in Chinese zinc metal consumption[5]
+1.0%
2020E global zinc metal demand growth: -5.5%[5]

2020E zinc mine supply[4]
12.5Mt
2020 forecast one year ago: 14Mt

Nickel

2016-2020E cumulative nickel market deficit[7]
40kt

Global visible nickel inventory end-2020
c.35 days' consumption[7]

Primary nickel demand in batteries: 2016-2020E CAGR[8]
+25%

c.1Mt
Incremental primary nickel demand from EV batteries by 2030[8]

Coal

2020E Pacific seaborne thermal coal demand growth[8]
-7.2%

Coal share of 2030 forecast primary energy demand[9]
17%

2020E Pacific share of global seaborne thermal coal demand[8]
89%

2030E coal demand[9]
4.9bt
vs 2019 coal demand of 7.8bt

1 Wood Mackenzie Copper long-term outlook Q4 2020. Visible inventories comprise LME, SHFE, Comex and estimated Chinese bonded warehouse stock
2 Glencore modelled estimates under a Rapid Transition (IEA SDS) scenario, compared to 2020
3 Glencore, 2020 Investor Update, 4 December 2020, Slide 6
4 Wood Mackenzie Zinc long-term outlook Q4 2020 update compared with Q4 2019 update
5 Wood Mackenzie Zinc long-term outlook Q4 2020 update
6 Wood Mackenzie Zinc long-term outlook Q4 2020 update, exchange inventories comprise LME and SHFE.
7 Glencore estimates, visible inventories comprise LME and SHFE
8 Glencore estimates
9 Glencore modelled estimates under a Rapid Transition (IEA SDS) scenario

MARKET VARIABLES

Select average commodity prices

	Spot 31 Dec 2020	Spot 31 Dec 2019	Average 2020	Average 2019	Change in average %
S&P GSCI Industrial Metals Index	382	324	318	326	(2)
S&P GSCI Energy Index	164	207	138	199	(31)
LME (cash) copper price ($/t)	7,749	6,149	6,186	6,005	3
LME (cash) zinc price ($/t)	2,729	2,280	2,269	2,548	(11)
LME (cash) lead price ($/t)	1,976	1,914	1,826	1,999	(9)
LME (cash) nickel price ($/t)	16,554	13,950	13,803	13,944	1
Gold price ($/oz)	1,898	1,517	1,771	1,393	27
Silver price ($/oz)	26	18	21	16	31
Metal Bulletin cobalt price 99.3% ($/lb)	15	15	15	16	(6)
Ferro-chrome 50% Cr import, CIF main Chinese ports, contained Cr (¢/lb)	73	70	70	77	(9)
Iron ore (Platts 62% CFR North China) price ($/DMT)	154	86	105	90	17
Coal API4 ($/t)	93	79	64	72	(11)
Coal Newcastle (6,000) ($/t)	82	68	61	78	(22)
Oil price – Brent ($/bbl)	52	66	43	64	(33)

Currency table

	Spot 31 Dec 2020	Spot 31 Dec 2019	Average 2020	Average 2019	Change in average %
AUD : USD	0.77	0.70	0.69	0.69	–
USD : CAD	1.27	1.30	1.34	1.33	1
EUR : USD	1.22	1.12	1.14	1.12	2
GBP : USD	1.37	1.33	1.28	1.28	–
USD : CHF	0.89	0.97	0.94	0.99	(5)
USD : KZT	421	383	414	383	8
USD : ZAR	14.69	14.00	16.46	14.45	14

COPPER

Having started the year above $6,000/t, the spread of Covid-19 and the associated deteriorating demand outlook resulted in copper prices reaching a low of $4,372/t in March. Up to this point, the impacts to mine and scrap supply were limited. The low price environment was temporary, as supply disruptions from containment measures extended globally, particularly mine supply from South and Central America, while consumption in China began to improve, supported by significant monetary and fiscal stimulus. Refined copper inventories subsequently reached multi-year lows, signaling a tight physical market. Net imports of refined copper to China increased to record monthly levels from mid-2020. Cathode premiums consequently improved to their highest levels in five years and strong competition for concentrates saw treatment and refining charges moving to levels last seen in 2012.

The improving global demand conditions during the second half of the year and continued financial stimulus measures, resulted in a strong recovery in copper prices, supported by ongoing strong demand from China, declining visible inventories and more recently, improved demand growth expectations with regards to the longer term energy transition. Mine supply and logistics disruptions persisted into the second half, although to a lesser extent. Net-speculative positioning continued to move long in the run-up to year end and the copper price moved above $8,000/t in December, an increase of more than 80% from the low-point in March, and reaching the highest level since early 2013.

Looking forward, mine supply is expected to continue to be impacted by measures taken to contain the spread of Covid-19, with projects under construction likely to experience further delays. Supply growth is also constrained by ageing assets, declining ore grades and a diminished project pipeline. For 2021, annual treatment and refining charges settled at their lowest levels in 10 years and benchmark annual cathode premiums rolled over at 2020 levels, reflecting the positive demand outlook for copper consumption and anticipated restocking through supply chains. In the near term, we expect demand to continue to recover ex-China and to remain strong in China, supported by economic stimulus measures, Covid vaccine rollouts and a return to steady growth rates longer term, driven by population growth and rising living standards in emerging economies. In addition, climate change policies will be a key driver for copper growth sectors going forward, from renewable power generation and distribution, to energy storage and electric vehicles.

COBALT

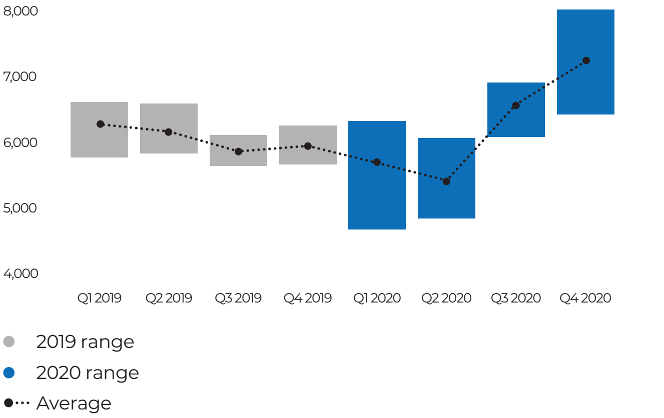
Late 2019 brought stability in the cobalt price at c.$15/lb, with lower stock levels across the cobalt supply chain and expectations of improved demand conditions into 2020. This materialised with an initial 13% price rally to a 2020 high of $17.00/lb, before the pandemic-related retracement to reach a 2020 low of $13.75/lb in July. The average price for the year was $15.40/lb, 4% lower than 2019. Metal demand sectors, notably aerospace, suffered a more pronounced impact than battery and other sectors.

Cobalt hydroxide payability was relatively resilient over the first half of the year, maintaining a range of 60-70% with the support of logistics disruptions, emerging European EV sector demand and solid consumer goods battery demand. African logistics disruptions associated with Covid-19 reduced availability of hydroxide from the DRC, which is responsible for c.70% of global supply and almost all cobalt in the form of hydroxide. Although bottlenecks eased during H2, given stronger European EV demand and Chinese EV demand showing solid signs of recovery, payability pushed above 80% in the last quarter.

2021 has started strongly from a demand and pricing perspective, most notably as Chinese and European EV demand builds momentum. A level of stockpiling of key strategic materials, particularly in China, has also supported demand. EV model releases by global automakers, coupled with strong consumer demand and government support, should underpin EV sales growth in key markets, pointing to a constructive cobalt market. Vaccination roll-out is expected to bolster a wider economic recovery, benefiting non-battery demand segments including aerospace.

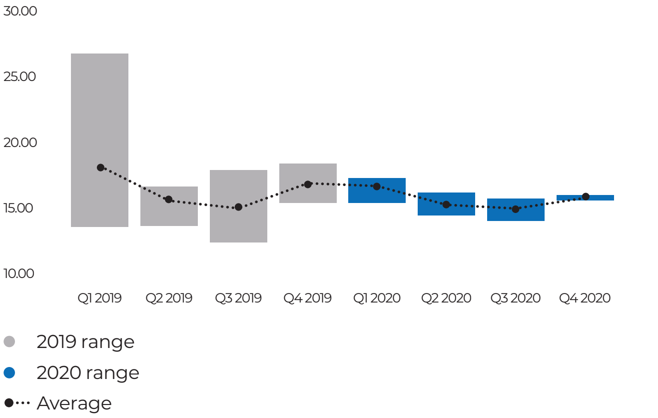
LME copper price (high, low, average)
($/t)

As the pandemic took hold, copper and other industrial metal prices reached multi-year lows due to demand uncertainty. With overall demand proving relatively resilient and growing fears on mine supply, prices increased dramatically.



MB cobalt price (high, low, average)
($/lb)

Cobalt was one of the more stable markets in 2020.



ZINC

Covid-related disruptions on the supply side resulted in an unanticipated zinc concentrates deficit in 2020 and, in turn, lower metal production than initially expected. However, global metal demand fell faster than supply, resulting in higher visible metal stocks, although still only representing seven days relative to global demand. Average metal prices reduced by 11% to $2,269 in 2020, but by year end, demand had recovered, with prices rising to $2,631 on average in Q4 2021.

The demand recovery in H2 2020 was stronger in China than in the rest of the world, as evidenced by SHFE stocks at similar levels in both December 2019 and 2020, while other exchange stocks increased. Meanwhile, Chinese mine production slightly decreased in 2020 per NBS (-1.8% YoY), metal imports were curtailed by Covid disruption elsewhere and Chinese smelters continued to process at full capacity, driving concentrates imports up 20.1%, which absorbed excess concentrates stocks ex-China. Spot TCs reduced from c.$300/dmt in Q1 2020 to $85/dmt in December 2020, as smelters competed for concentrates.

Towards the end of the year, market publications revised their zinc metal surplus estimates for 2020 to below 0.5mt, compared to earlier forecasts of a 1mt surplus in the midst of the crisis in Q2 2020. The recovery in the zinc price throughout H2 reflects renewed optimism for metal demand in 2021, while pricing in potential additional disruptions in mine supply and a weaker US dollar.

We expect ex-China mine supply to recover in 2021 (although with risk as Covid measures remain) and be absorbed by post-Covid increases in ex-China smelter production and some global smelter restocking. Indications for demand recovery are encouraging, underpinned by economic stimulus.

In lead markets, Covid disruptions drove TCs down from $180/dmt in January to $100/dmt by December. Refined metal production was not severely affected by the mine disruptions (-2.4% YoY) and metal consumption fell by 4% YoY, in which context, the average price for the year reduced by 9% to $1,826

NICKEL

In 2020, primary nickel consumption declined year on year, whilst supply growth was driven by Indonesia. The resulting surplus was larger in H1 2020 as the outbreak of Covid-19 had a greater impact on demand than on mine supply, however it then narrowed in H2 2020 on increased nickel consumption from Chinese stainless steel producers.

Global stainless steel production was down on the prior year due to the pandemic. Notable exceptions were China and Indonesia, whose production, particularly for the high-nickel containing 300-series, experienced a strong rebound from Q2 with total 2020 melt exceeding levels seen in 2019.

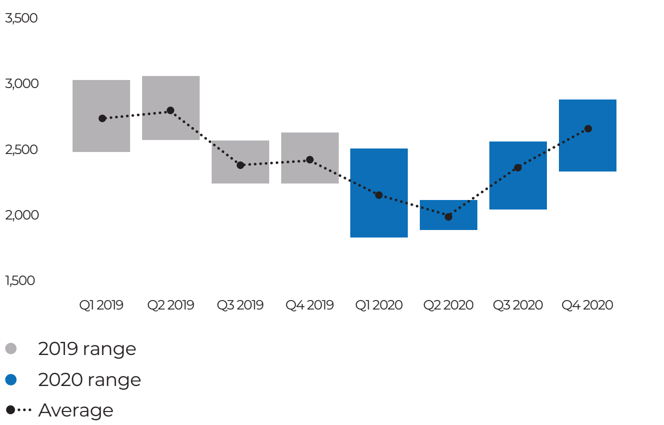
Outside the stainless steel segment, nickel demand from alloys and special steels was negatively affected by the pandemic's impact on key end-use sectors such as aerospace, oil and gas and automotive. The consequences of travel restrictions and stay-at-home orders for the aerospace industry have been dramatic and the effects on downstream demand are likely to be long lasting. Automotive production significantly declined in the second quarter, prompting year on year double-digit sales declines in almost all markets, except China, where the drop was more modest. Conversely, after a weak first quarter, the electric and hybrid vehicle markets exceeded even the most optimistic forecasts, albeit from a lower base than traditional automotive. In Europe, the strong policy response prompted by Covid-19 pushed sales above 1 million units, turning it into the world's largest EV market. In China, from August, New Energy Vehicles sales were back to growth mode. We expect the recent positive trend to support a strong rebound in 2021 nickel demand, as major economies and automakers have committed to aggressively support the transformation to EVs.

Meanwhile on the supply side, pandemic-related production losses from traditional nickel suppliers were not as large as initially feared and these were more than offset by continued growth in production of nickel pig iron ("NPI") in Indonesia, which for the first time, surpassed China as the world largest producer of NPI.

Despite the positive demand outlook, we expect the market to remain in surplus in 2021, driven by increasing nickel supply from Indonesia.

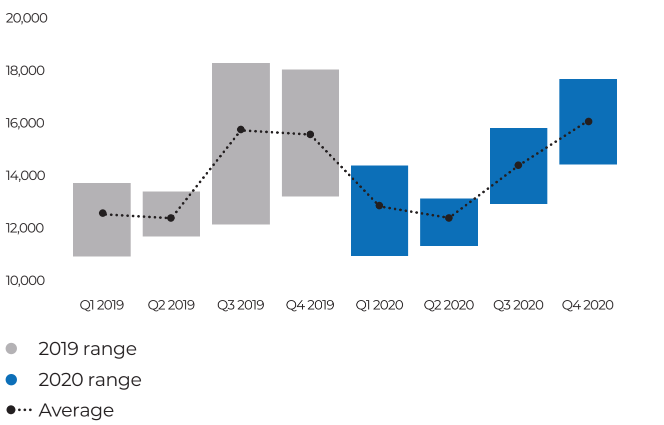
LME zinc price (high, low, average)
($/t)

China's consumption of zinc broadly continued at 2019 levels.



LME nickel price (high, low, average)
($/t)

Nickel is closely tied to stainless steel markets, and the development of NPI production in Indonesia.



FERROALLOYS

Global ferrochrome production decreased by 11% in 2020, with South Africa declining 25% year on year due to rising cost pressures and Covid lockdown restrictions. South African chrome ore exports reduced by 10% (basis YTD November)

Chrome demand recovered during H2, mainly supported by growth in stainless steel production in China and Indonesia, with all other major regions decreasing production in 2020.

Vanadium consumption from carbon steel production decreased considerably during H1 2020 due to Covid-19 related impacts. Demand from the aerospace industry was particularly weak. H2 demand improved, largely due to the carbon steel industry in China.

ALUMINIUM

The aluminium and alumina markets experienced a turbulent 2020 due to the pandemic.

The LME 3M contract reached a 4-year low of $1,462 towards the end of H1, as Covid-19 impaired ex-China demand, causing a large supply surplus. In China, a strong demand rebound lead to higher domestic prices, opening the import arbitrage window which supported ex-China prices and attracted 10-year record primary aluminium imports. With this dynamic in place and an improved global macro sentiment, the LME 3M closing price reached a yearly high of $2,055 before ending the year at $1,974.

In the U.S., with demand weakening, the delivered Midwest premium declined in H1 from 14.5c/lb to 9c/lb, before staging a recovery in H2 to end the year at 14.65c/lb, on the back of demand recovery and re-introduction of quotas on Canadian imports. The CIF Main Japanese Port premium finished the year at $127/t, up from $78/t at the beginning of the year, as customers sought to draw aluminium shipments away from China.

China alumina imports throughout the year also offered a floor to ex-China alumina prices. Price levels were beneficial to smelters during H2 as LME prices outperformed alumina prices.

IRON ORE

Chinese steel production reached record levels in 2020, led by strong infrastructure spending, which in turn led to the iron ore market being in deficit for most of year. Iron ore prices rose to levels not seen over the last five years. In H2 2020, ex-China demand also returned, with prices responding. Despite iron ore prices at multi-year highs, steel mill margins have generally been positive, having been able to pass on the higher raw material costs to their customers. Prospects for a significant increase in iron ore supply are limited in the near term, with prices thereby supported, subject always to the demand side of the equation.

OIL

2020 marked one of the most dramatic periods in the history of oil markets, the implications of which are far-reaching and structural across many industries. The start of 2020 saw oil prices at their highs for the year, with Brent over $69 per barrel. By the end of January, the fear of Covid spreading and its anticipated impact on oil demand caused market panic, starting a rout in oil prices.

The collapse of the OPEC+ production cut agreement in early March, temporarily increasing supply, exacerbated the sell-off. Volatility surged to historical highs, with near dated Brent implied volatility topping 100%. Due to the global pandemic, most countries entered some form of lockdown at different stages. With transportation severely curtailed, in particular air travel, near term global oil demand destruction was expected to reach unprecedented levels, even as actual supply was increasing. With oil prices in free fall, OPEC+ finally came to an agreement for production cuts on a massive scale of close to 10 million barrels per day.

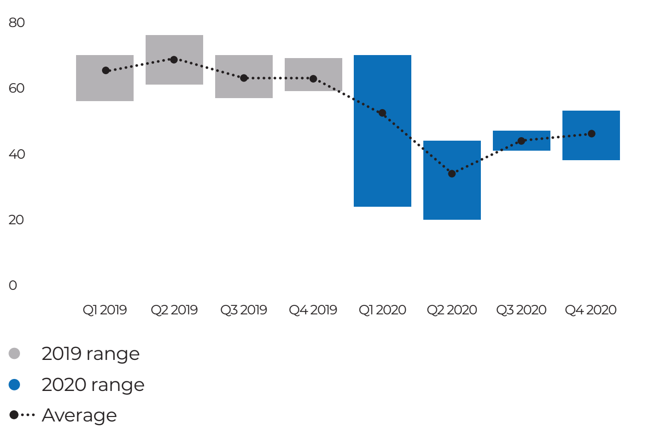
As governments extended lockdowns, global oil storage edged towards capacity. Tanker freight rates surged and the oil price curve structure moved into deep contango, as the market forced more oil into storage. Brent dropped below $20 per barrel, its lowest level in more than 20 years. Oil in some parts of the world, in particular the US, even priced negative for a short period.

In May, oil prices started to recover as more countries lifted restrictions. Oil inventories looked to have peaked, demand showed signs of recovery and OPEC+ extended production cuts. The optimism was short lived as Covid-19 second waves hit a number of countries in Q3, resulting in renewed restrictions, which kept a lid on oil prices and the curve dropped back into a deep contango. It was only midway through Q4, when reports emerged of possible high-efficacy vaccines, that the oil price strength resumed, closing around $52 per barrel by the end of the year. At the same time, the price curve moved from contango into a strong backwardation, signaling expectations for a tightening in future market conditions.

The oil market has been working to find price equilibrium in an extraordinarily disruptive period, creating material market imbalances and volatility. Physical oil traders, like ourselves, saw the usage of storage and logistics soar and unprecedented price dislocations in markets for crude oil, refined products and freight, generating material trading opportunities.

Brent crude (high, low, average)
($/bbl)

Demand shock in March/April 2020 met ultimately with supply reductions. Key tensions are OPEC+ policies and the range of scenarios for demand growth.



COAL

Seaborne coal trade was dramatically impacted during 2020 by the economic fallout from Covid-19 and the necessary reshuffling of trade flows as China restricted Australian coal purchases. The rapid drop in global energy demand created oversupply, which drove prices to unsustainable lows, comparable with the 2016 downturn. By September, producers had realigned thermal coal production in line with prevailing demand. Further economic recovery in Q4 and a cold northern hemisphere winter led prices higher, particularly domestically in China. At year end, coking coal markets remained temporarily subdued due to the overhang of market players needing to resell excess inventory of Australian coal destined for China.

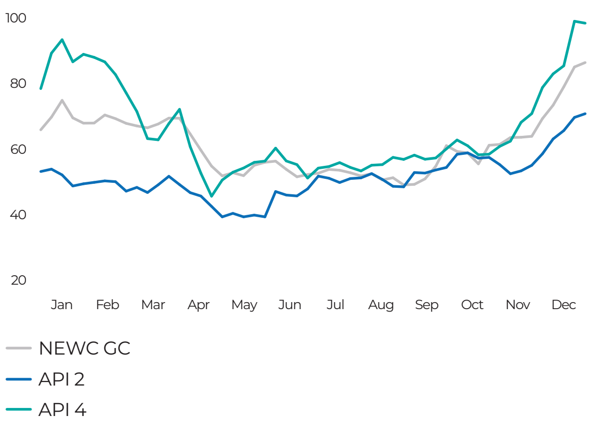
Global seaborne thermal coal demand in 2020 declined by in excess of 100Mt or 10%, however important pockets of growth could be seen in Vietnam, Malaysia, Indonesia, Pakistan and Bangladesh. In Asia overall, demand fell by some 60Mt, mainly into China, South Korea (preferential use of LNG) and India, due its extended Covid-19 shutdown. Atlantic market demand declined by 40Mt against a backdrop of Covid-19 demand declines, record low LNG import prices, higher carbon prices and growth in renewables power.

Overall, seaborne thermal markets ended 2020 in a balanced position due to lower supply, mainly from the USA, Colombia, Indonesia and Australia, in each case, as producers responded to the lower demand and price environment.

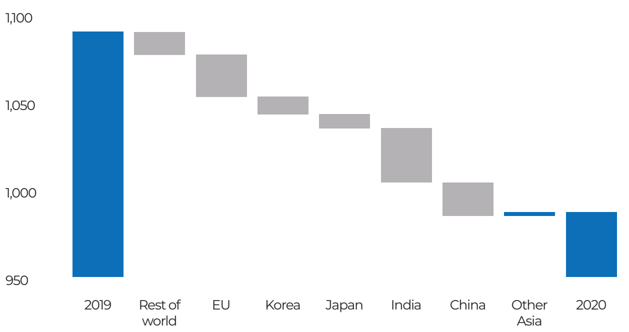
Despite markets starting the year in good shape, noting the above, prices were weak from late February until mid-September, as markets reached a balance, sparking a price recovery from unsustainably low levels. For the year to September, the Newcastle, API4 and API2 indices fell 26%, 42% and 27% from their opening levels to their lows, at which point nearly 60% of the global seaborne supply was selling at cash negative margins. Towards year end, prices improved substantially with Newcastle, API4 and API2 closing the year 32%, 26% and 34% above their year opening price levels. Overall for 2020, the average index prices for Newcastle, API4 and API2 were 22%, 11% and 18% respectively lower than during 2019.

Global pig iron production was down slightly YoY, however metallurgical coal import countries ex-China reported a 14% reduction in production. The resulting reduction in global seaborne coking coal demand caused spot HCC prices to fall from above $160/t during February to below $110/t at the end of August. Recovery of global steel production ex-China in H2 2020 provided brief support for prices during September / October before the Chinese restrictions on Australian coal imports pushed prices to $100/t levels by year end, leaving some 40% of seaborne suppliers facing negative cash margins. Improving demand, and destocking of coking coal and coke, has since supported a price recovery in early 2021

Coal prices (major relevant indices in 2020)
($/t)



Changes in thermal coal imports (2019-2020)
(Mt)



Source: IEA

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