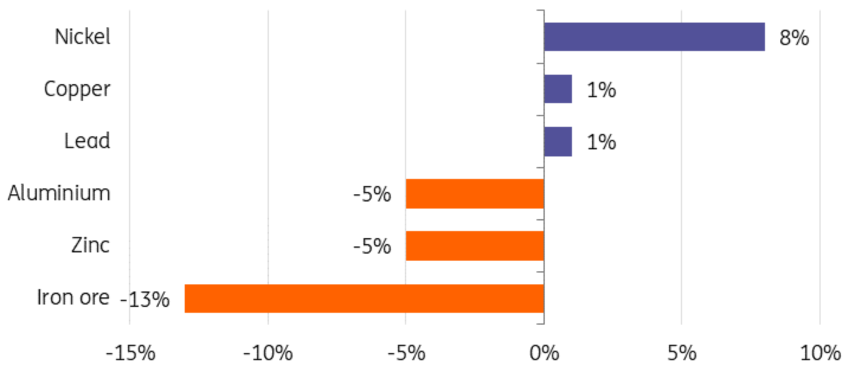
Industrial Metals Monthly: China's 2024 economic goals disappoint

Our monthly report looks at the performance of iron ore, copper, aluminium and other industrial metals. In this month's edition, we take a closer look at iron ore and nickel – the worst and the best performers in the complex

High-rise residential buildings in Chengdu, China

YTD metals performance %



Source: LME, ING Research

China's 2024 economic goals disappoint

Industrial metals have mostly struggled this year amid a disappointing recovery in China, with a property downturn and weak manufacturing continuing to weigh on prices.

This week China unveiled its economic targets for 2024 at the latest "Two Sessions", including a growth target of around 5%, largely in line with market expectations.

On the property sector – the pillar of commodities demand – there was an emphasis on the so-called "new model of real estate development," which is focused on increasing affordable housing and optimizing the supply-demand balance, but few details have been given at this stage. The property sector will likely remain a prolonged drag on growth, our China economist believes.

This suggests that there will not be a significant recovery in metals demand this year. The low level of housing starts will continue to weigh on industrial metals demand looking further ahead, given the lag between starts and metals usage.

We still believe that until the market sees signs of a sustainable recovery and economic growth in China, we will struggle to see a long-term move higher for industrial metals.

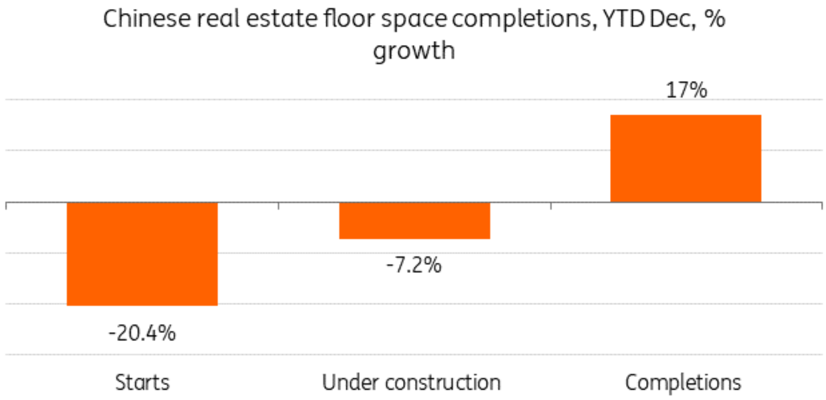
Iron ore slumps amid China property gloom

Iron ore prices have slumped more than 16% since a peak in early January to the lowest level since late October as steel demand in China disappointed and the gloom in the country's property sector continued.

The country's new home starts – the biggest steel demand driver – fell sharply in 2023, down more than 20%. This should continue to suppress steel demand in 2024.

China's Two Sessions failed to boost iron ore prices and expectations for a big stimulus package to revive China's ailing property sector, which has supported iron ore prices so far, are now fading.

China property sector is still struggling

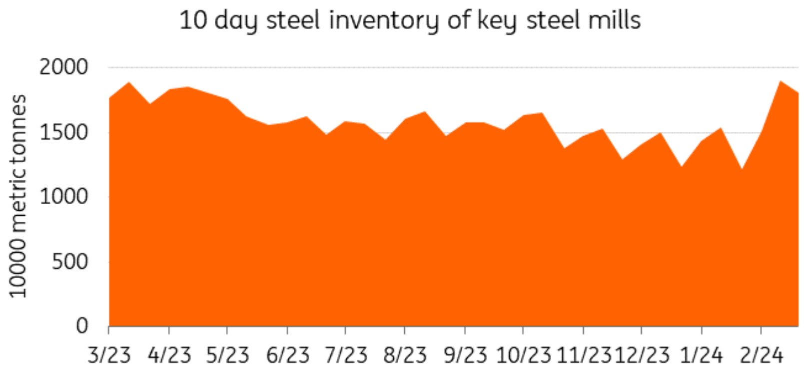


Source: National Bureau of Statistics, ING Research

Hopes of a Chinese steel market recovery after the Lunar New Year have now also faded, with iron ore and steel inventories climbing, particularly as China enters its peak construction season. The construction season in China typically starts around March, when steel and iron ore consumption usually recovers. However, there hasn't been much evidence that construction activity is picking up, with the factory sector in contraction since October.

Inventories at major Chinese steel mills were 3.4% higher in late February, compared to the same period last year, as ongoing woes in the property sector cap the need for steel. However, they were down 5.5% at 18 million metric tonnes from mid-February, when they jumped 25.7%, data from China Iron and Steel Association shows, with steel producers slowly restarting operations after the Lunar New Year holiday.

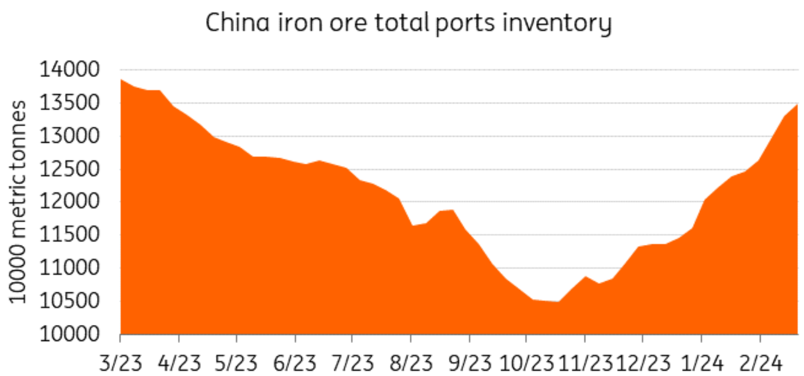
China's major steel mill stockpiles are elevated



Source: CISA, ING Research

Iron ore inventories at major Chinese ports are also rising and have recently hit the highest since April 2023. China's iron ore port inventory is a key indicator that reflects the supply and demand balance, as well as the safety net and imbalance between the iron ore supply and the steel mill demand. Iron ore imports have also been increasing, up 8.1% in the first two months of the year. However, Chinese demand growth may be insufficient to absorb the extra imports with domestic inventories already at multi-month highs. We believe high iron ore availability in China will continue to put pressure on prices.

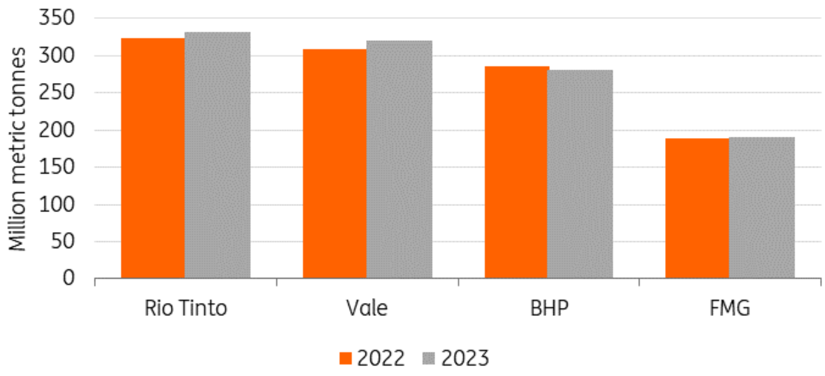
Iron ore stockpiles across China rise



Source: Steelhome, ING Research

On the supply side, total iron ore production from the majors – Vale, Rio Tinto, BHP and Fortescue Metals Group (FMG) reached 1.12 billion metric tonnes in 2023, 1.7% higher than in 2022. Rio Tinto, BHP and FMG raised their production or shipment guidance for this financial year versus 2023. We believe sufficient supply will further pressure iron ore prices.

Iron ore output from majors edges higher in 2023



Source: BNEF, company announcements, ING Research

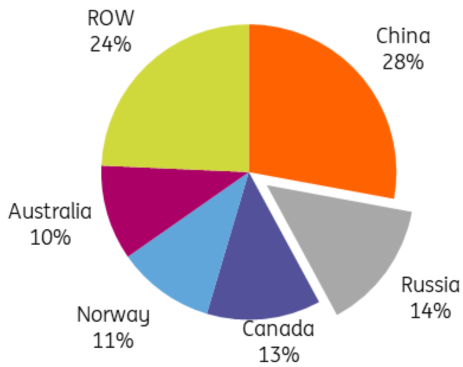
We believe China will continue to drive iron ore prices going forward. A further boost for China's property sector will be crucial in supporting demand.

Looking ahead, we believe downside risks are likely to prevail in the near term for iron ore prices amid subdued demand. With the recovery path for China still bumpy, we believe iron ore will remain sensitive to Chinese policies. Prices are therefore likely to remain volatile, at least in the short term.

Nickel to resume downtrend

LME nickel prices jumped to the highest level in over three months in February on speculation that the US government could impose sanctions on nickel from Russia, triggering a short-covering rally. Russia is the world's second-largest producer of refined class 1 nickel behind China.

Russia is a major refined class 1 nickel producer



Source: S&P, Antaike, INSG, SMM, ING Research

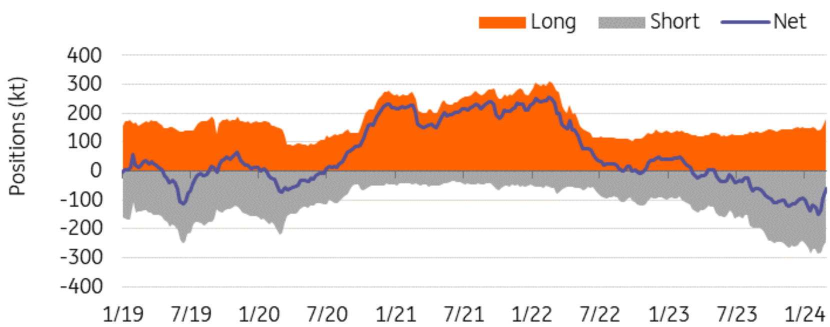
However, with Russian nickel escaping sanctions from the US government, we believe LME nickel prices will come under renewed downward pressure with the market's attention returning to concerns over oversupply, driven by rising primary nickel output from Indonesia. Nickel smelting has expanded in Indonesia since the government imposed a permanent ban on nickel ore exports in January 2020 in a drive to attract foreign investors, encourage domestic processing and further downstream use of its raw materials. The ban has enticed foreign investors, mainly from China, to build local smelters and has helped to boost the value of Indonesia's exports. Indonesian nickel production grew more than two and a half times in just three years.

Indonesia's supply boom has already forced several mines to close. Since the start of the year, the nickel market has seen a number of announcements regarding mine suspensions and closures from producers in Australia and New Caledonia struggling amid low nickel prices. Last year, nickel was the worst performer on the LME with prices falling 47%.

Indonesia, the world's largest mined and primary nickel producer, is unlikely to slow down its nickel supply to the global market, at least for now. The country is likely to be more resistant to output cuts, benefiting from inexpensive labour, subsidised power and abundant raw materials. However, delays in the approval of new mining quotas caused Indonesia's nickel pig iron (NPI) production, which represents the bulk of the country's primary nickel output, to fall 5.3% month-over-month in January, according to the Shanghai Metals Market.

Meanwhile, last month's short-covering rally shows LME nickel prices remain vulnerable to violent price spikes amid a build-up in nickel short positions on the exchange.

LME nickel remains vulnerable to violent price spikes

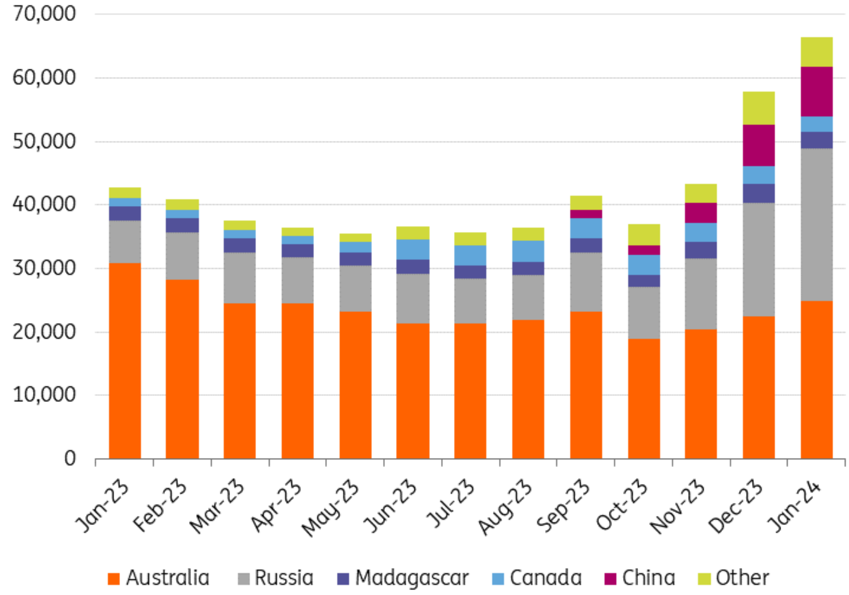


Source: LME, ING Research

Russian-origin material increases in LME sheds

Meanwhile, Russia's share of LME nickel continues to increase, driving exchange inventories higher. In January, Russia-origin refined class 1 nickel stocks increased by 6,342 tonnes to 24,114 tonnes. This compares to 6,756 tonnes in January 2023. Russia-origin material is behind Australia-origin metal, which stood at 24,858 tonnes in January.

Russia's share of LME nickel increases since September 2023



Source: LME, ING Research

If European consumers continue to shun Russia-origin material, this could result in more Russian material being delivered to the LME warehouses. This could put downside pressure on nickel prices. Although, since the invasion of Ukraine, Russia has redirected its European and US supplies of refined class 1 nickel to China, Europe is still one of the key destinations for Russian metal. If we see more Russian metal being delivered into LME warehouses, it could potentially mean that LME prices trade at discounted levels to the actual market.

China-origin material, meanwhile, has continued to increase in LME sheds with 1,476 tonnes arriving in January. China-origin stocks now stand at 7,884 tonnes, compared 1,236 tonnes in September 2023, which marked the first arrival of China-origin nickel into LME warehouses since the exchange started publishing the country-of-origin stock data in January last year. The LME has approved several new nickel brands from Chinese producers GEM, Huayou Cobalt and CNGR Advanced Material in the past year, to boost volumes on its contract.

We believe there could be more Chinese-origin material delivered to the LME warehouse system in the next few months as Chinese producers continue to submit fast-track LME nickel brand applications. This will allow them to deliver their class 1 material to LME warehouses.

Looking ahead, we believe nickel prices are likely to remain under pressure, at least in the near term, amid a weak macro picture and a sustained market surplus.

ING forecasts

	Q1	Q2	Q3	Q4	2024
Copper	8,400	8,500	8,700	8,900	8,625
Aluminium	2,220	2,250	2,270	2,300	2,260
Nickel	16,600	16,800	16,850	17,000	16,813
Zinc	2,450	2,500	2,550	2,550	2,513
Lead	2,090	2,100	2,100	2,200	2,123
Iron ore	125	120	115	110	118

Source: ING Research

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