LME Week takeaways: Metals find their footing

LME Week, the biggest gathering of the metals industry, brought a cautiously upbeat tone to metals markets this year. While macro uncertainty, particularly around China-US trade negotiations, continues to cloud near-term demand, participants broadly see a turning point as physical tightness and supply disruptions come into focus

Is it the beginning of copper's bull run?

The mood on metals has been positive in recent weeks, with copper trading near all-time highs and other metals also rising. A supportive macro backdrop, falling US dollar, rate cuts and low inventories have lifted metals prices.

Copper is the standout performer in the base metals complex. Prices surged more than 20% year-to-date despite concerns that trade frictions would undermine global growth. The surge in copper prices comes as the US Federal Reserve has begun its monetary easing cycle. Supply disruptions are stacking up, most recently Freeport's declaration of force majeure at its giant Grasberg mine in Indonesia. Grasberg is the world's second-largest copper mine, contributing around 4% of global

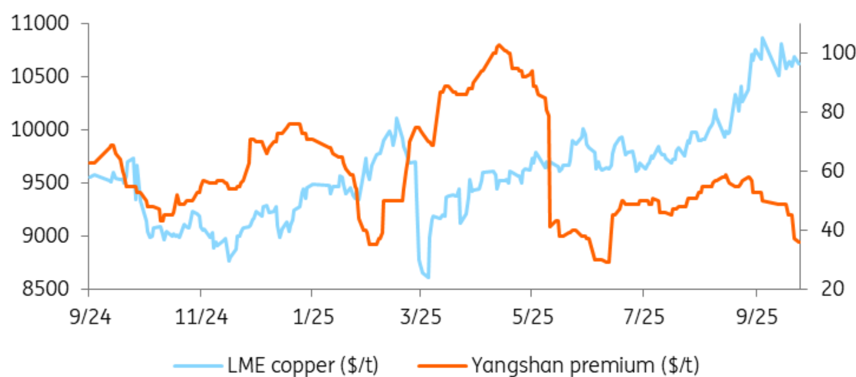
production. The disruption adds to the already high number of supply disruptions this year.

Macro uncertainty, particularly around US-China trade negotiations and its implications on copper demand, continues to cloud the near-term demand outlook. Yet the long-term bullish narrative remains intact for the base metal, supported by structural demand from grid, electrification and renewable infrastructure and, increasingly, from data centres and AI infrastructure.

For now, China is showing some signs of price sensitivity, with mainland smelters planning to step up shipments abroad, Bloomberg recently reported, as higher prices deter domestic buyers. The Yangshan premium, paid by traders for imported metal and a key indicator of physical demand in China, has slumped more than 20% since late September.

While near-term demand indicators remain mixed, supply disruptions will keep a floor under prices around the $10,000/t level. However, to push that rally further, copper will also need to see strong demand growth, especially from China, the biggest consumer. But in the near term, prices are likely to remain range-bound.

China's Yangshan physical copper premium is declining



Source: LME, SMM, ING Research

Will China's aluminium capacity cap hold?

China's aluminium output is close to its self-imposed 45 million tonne capacity cap. The global aluminium market looks largely balanced for next year, assuming the cap holds. This is also weighing on exports, keeping markets ex-China tight.

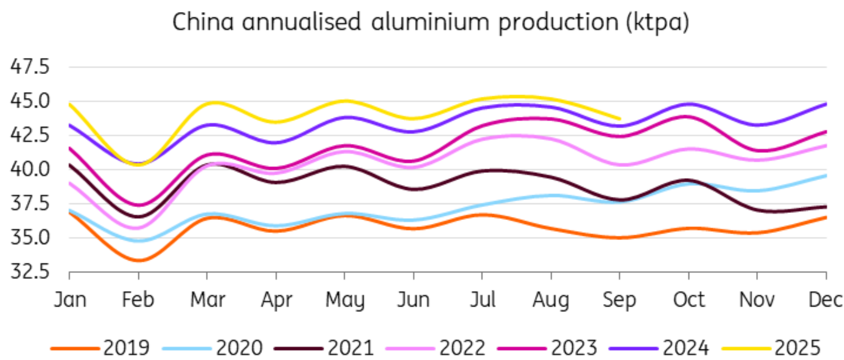
China's aluminium capacity cap was introduced in 2017 to curb oversupply and reduce emissions. For now, we assume the cap will hold. However, there are discussions about whether renewable power smelters could be exempt from the cap, as a growing number of Chinese smelters switch to renewable power.

Outside of China, there have been few recent European or US restart announcements, largely due to difficulties in securing long-term power contracts at viable prices. This is the challenge facing the South 32 Mozal smelter, which plans to shut down in March due to a lack of confidence in securing sufficient and affordable electricity beyond that time.

This should keep global inventories low, while prices are expected to see a further modest upside next year, in our view.

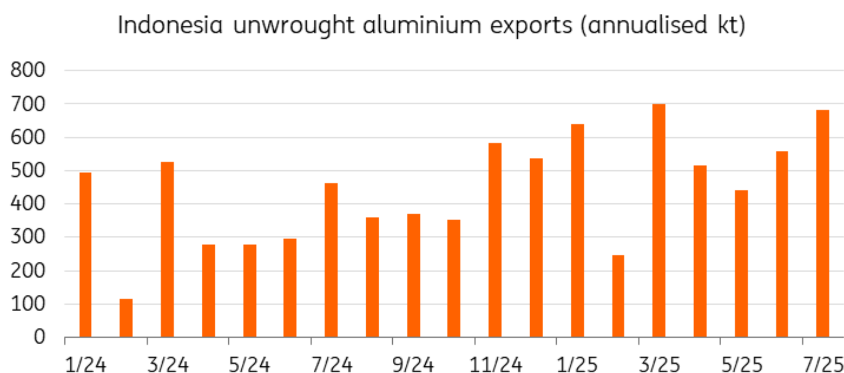
With China reaching its capacity cap, Indonesian supply growth is now in focus, with annualised exports from the country up 40% year-to-date as projects in the region ramp up. For now, we think the aluminium market can absorb the growing Indonesian supply, although sustained expansion could test global balance later in 2026.

China's aluminium output is close to capacity cap



Source: IAI, ING Research

But Indonesia's exports are rising



Source: TradeMap, ING Research

Are tariffs here to stay?

For aluminium, tariffs continue to be the key driver shaping trade flows and pricing. US primary imports have slowed down considerably since the tariffs took effect, with Canadian volumes in particular under pressure. Premiums, meanwhile, have seen a dramatic divergence between regions, with the US Midwest premium reaching record highs and European premiums falling on concerns over Canadian material being rerouted away from the US.

Although tariffs on aluminium and steel are likely to remain for now, they may evolve in form. We do expect some form of rollback as US demand softens, with consumers increasingly resistant to high prices. This could take the form of quota-based systems or bilateral agreements with key exporters, rather than blanket removal.

Most recently, the US-Canada trade negotiations are in focus. Canada has the potential to supply 75% of the US's unwrought aluminium needs. Earlier this week, Canada offered tariff relief on

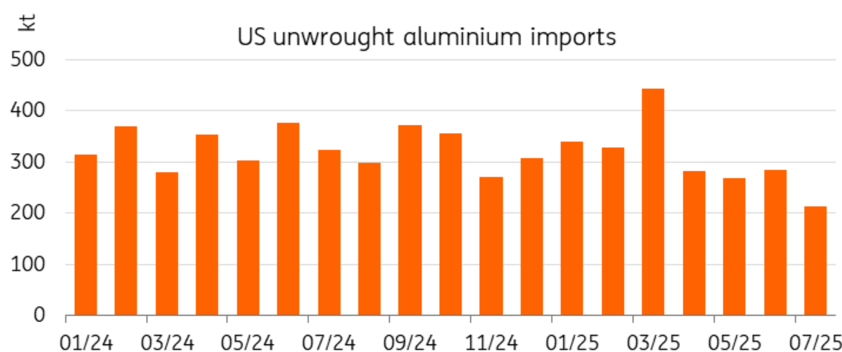
some steel and aluminium products imported from the US and China to help domestic businesses battered by a trade war on two fronts.

In March, the US placed a 25% tariff on Canadian steel and aluminium, prompting Canada to enforce a 25% retaliatory tariff on American steel. In June, the US doubled its tariffs on Canadian steel and aluminium to 50%. Canada also has a 25% tariff on Chinese steel and aluminium.

Earlier this year, the UK trade deal included a reduced 25% tariff on aluminium and steel imports. The agreement with the EU also included potential carve-outs for steel, aluminium and copper.

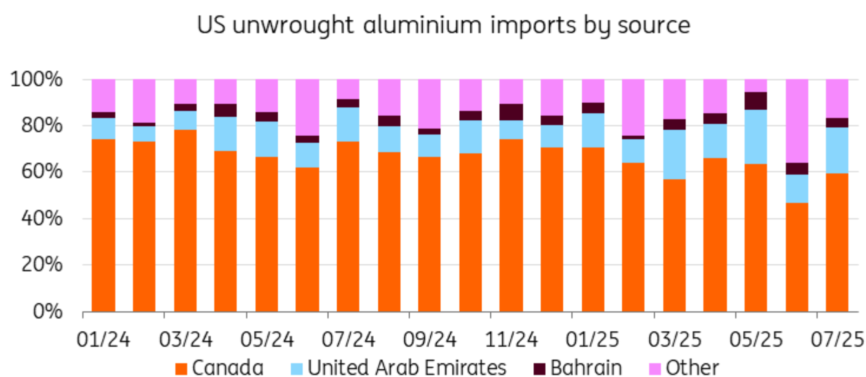
Yet until additional tariff agreements are reached, volatility in the aluminium market will persist, with premiums reflecting ongoing uncertainty.

US tariffs have slowed down aluminium imports



Source: TradeMap, ING Research

With Canadian volumes under pressure



Source: TradeMap, ING Research

Has gold gone too far?

Gold drew attention during LME Week, with prices up by around 60% this year. The rally has been driven by uncertainties over global trade, heightened geopolitical tensions, US fiscal stability and the Fed's independence. The start of the Fed's easing cycle also boosted gold, which doesn't pay any interest. The rally has been driven by physical buying, with central banks and private investors accumulating gold at record volumes.

But after a weeks-long rally that saw the precious metal hitting successive record highs, gold slid the most in 12 years this week. This signalled that some momentum might have been stretched. Gold was dragged down by a combination of factors, including profit-taking across precious metals, easing seasonal demand from Diwali, positive trade talks between China and the US, uncertainty over investor positions amid the US government shutdown, and a stronger dollar. The pullback underscores the risk that the rally might have moved ahead of underlying fundamentals.

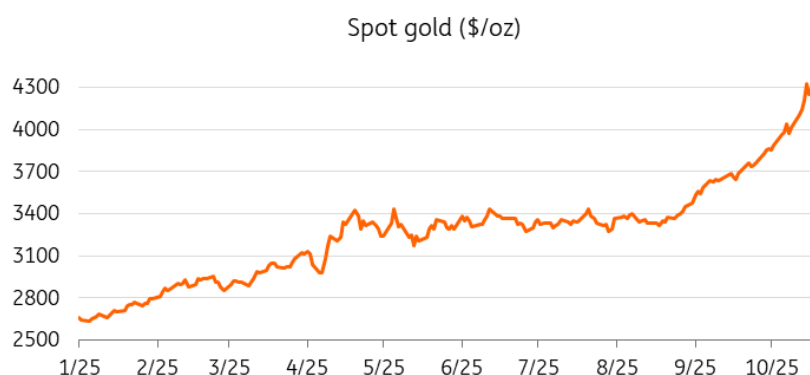
But despite this sharp pullback, gold's outlook remains constructive, underpinned by macro uncertainty and diversification demand.

The shift in central banks' purchases has been structural, with the pace of buying doubling in 2022 following Russia's invasion of Ukraine. Central banks' appetite for gold is driven by concerns from countries about Russian-style sanctions on their foreign assets, as well as shifting strategies on currency reserves. The top year-to-date buyer has been the National Bank of Poland, and it just announced it aims to increase its reserves from 21% to 30%.

ETFs have been another powerful force behind gold's record-breaking rally this year, with holdings surging in recent weeks. In fact, gold ETFs have added as much gold in September alone as central banks did during the first quarter of this year combined, according to the World Gold Council. With ETF holdings still shy of a peak hit in 2022, there could be room for further increases.

The downside should be limited, supported by geopolitical concerns, sustained central bank demand and expectations of further monetary easing, although near-term volatility may persist. For now, gold's pullback looks like a healthy correction within a still-positive trend.

Gold tumbles as rally comes to a halt



Source: Refinitiv, ING Research

Author

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

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