

LME Week: The Fed, China, and rising protectionism in focus

A look ahead to the biggest gathering of the metals industry



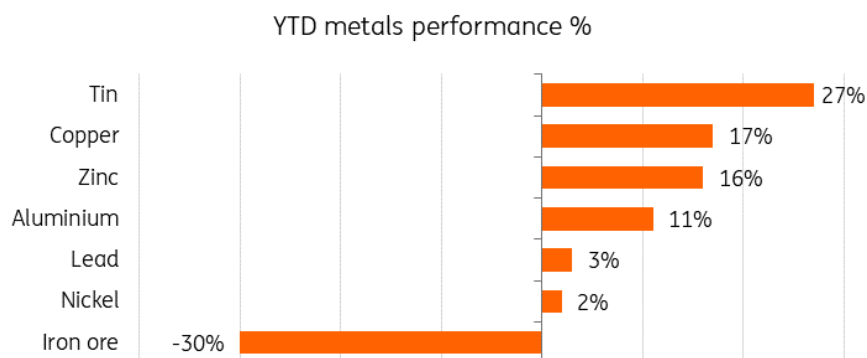
Source: Shutterstock

As the metals market enters the last quarter of what has been another turbulent year, the industry prepares to gather in London for a week of meetings and contract negotiations.

Although the macro conditions are starting to look brighter, and the Federal Reserve's long-awaited rate cut has calmed sentiment, uncertainty surrounding the forthcoming US presidential election is dampening risk appetite.

With geopolitical tensions lingering, a still uncertain recovery path for China's economic recovery, despite the recent stimulus boost, and rising protectionism, the uncertainty in the metals markets is far from over. Here's what we expect people to be talking about:

Fed cut, China stimulus give metals a lift



Source: LME, SGX, ING Research

The Fed

Elevated rates and a stronger dollar have been a drag on industrial metals consumption. The Federal Reserve had held its key policy rate in a target range of 5.25% to 5.5% - the highest level in more than two decades - since last July until earlier this month when the central began an easing cycle with a 50bp cut to interest rates and signalled further reductions at remaining meetings this year.

This has boosted sentiment in the metals complex. We believe a weaker US dollar and declining borrowing costs resulting from the coming rate cuts will slowly improve demand and help the recovery in interest-sensitive sectors like construction and building, with lower rates easing borrowing costs for manufacturers.

However, there is a risk that demand could weaken further if inflation remains persistent or if it rebounds, potentially triggered by tariff increases from a new government.

[Our US economist's forecasts](#) are broadly in line with what the Fed is indicating - with rates expected to come down to 3.5% or a bit below by next summer on the basis that prompt action from the Fed allows the US economy to avoid recession. However, he acknowledges that the jobs market outlook is more concerning and the risks are indeed skewed to the Fed having to do more, and more quickly.

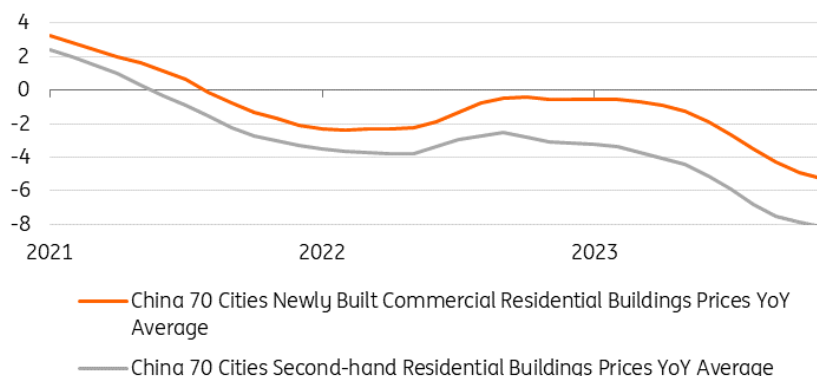
China

China, the world's biggest consumer of metals, has been a drag on metals demand for over two years. A broad economic slowdown and, in particular, the crisis in the property sector has seen copper and other industrial metals prices slump.

But this week, copper and other industrial metals got a boost after Beijing called for more measures to support its property sector, crucial for metals demand, and vowed to reach the country's annual economic goals.

On Thursday, the official Xinhua News Agency reported that China's Politburo will push for the real estate market "to stop declining" and called for "forceful" rate cuts. This followed a raft of stimulus measures earlier in the week to boost its flagging economy.

China new home prices fell in August at the fastest pace since 2014



Source: National Bureau of Statistics, ING Research

We have seen plenty of property support measures this year, but they have thus far been insufficient to have a meaningful impact on industrial metals demand.

[Our China economist believes](#) that this month's measures are a step in the right direction, especially as multiple measures have been announced together rather than spacing out individual piecemeal measures to a more limited effect. However, he continues to believe that there is still room for further easing in the months ahead and if we see a large fiscal policy push as well, momentum could recover heading into the fourth quarter.

For a recovery of the property market, our China economist believes, two things need to happen. First, we need to see prices stabilise if not recover. Second, we need to see excess housing inventories come down towards historical norms. Until then, the drag on growth will continue.

We believe the continued weakness in the sector remains the main downside risk to our outlook for industrial metals. We 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.

Protectionism

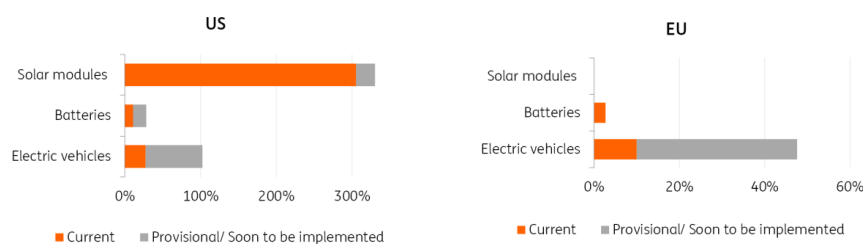
In recent years, the energy transition has been hit by a surge in protectionist policies in an attempt to rein in China's clean-tech supply chain dominance.

China is the biggest producer of electric vehicles and EV batteries globally and every automaker relies on China for its EV batteries and other components. It also dominates global supply chains of critical raw materials needed to make EV batteries. This is a result of Beijing's early push towards electrification, particularly through subsidising EVs.

The energy transition has become a key focus for many governments while global trade and political tensions have prompted a reconsideration of global supply chains.

The US and the EU are both poised to raise duties on China's clean-tech sector [to protect their domestic manufacturers](#).

Import tariffs on Chinese clean-tech are to set to rise



Source: BNEF, ING Research

The push for localisation represents a shift away from the era of unrestricted free trade in recent years with supply chains and trade flows likely to undergo significant changes in the coming years while geopolitical tensions continue to linger.

The rise in protectionist measures, if successful, could foster more resilient supply chains, however, it could also slow down the pace and increase the cost of the energy transition, impacting the scale of investments, supply, and prices. We believe policy and politics will continue to play an increasingly large role in the future of clean-tech supply chains while a continued trade war could be another drag on metals demand long term.

Author

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.