

Metals continue their 2021 rally

Both macro and fundamental forces have propped up the metals market so far this year. But not all metals are performing as strongly as others



Copper remains most sensitive to macro trends

In the three weeks of trading so far this year, the metals complex has maintained most of the buoyancy it experienced at the end of 2021. While some metals have extended their rallies, copper has lagged. We think there are three key themes behind the metals market at the moment.

Macro tailwinds prevail ahead of a key Fed meeting next week

While macro markets have been debating the scale and timing of the Federal Reserve's tapering, interest rate hikes, and rundown of its balance sheet in the months ahead, there is still ample liquidity in the market to keep asset prices afloat. Meanwhile, the rally in the greenback in the fourth quarter has since taken a breather, with the trade-weighted dollar index slipping this year and easing pressure on metals.

The spreading Omicron variant and related supply chain bottlenecks have done little to help the supply and demand dislocations, and some regional premiums in the physical market have surged. Commodities, regarded by some as a hedge against inflationary pressures, have continued to benefit from the current macro environment. And there may be some asset reallocation, with

funds being diverted into commodities amid a stretched equity market.

There is some caution ahead, however. Some investors are wary ahead of the Fed meeting next week – as our economists discuss in more detail [here](#).

✓ China unveils more pro-growth measures with a tilt towards more green projects

While the US is on a path to tighten monetary policy this year, China has been going in the other direction. After a change in rhetoric at the Central Economic Conference last December, which emphasised stability, Chinese authorities have responded with both monetary and fiscal measures.

On 17 January, the People's Bank of China cut a key rate for the first time since April 2020. The nation's top economic planning agency, the National Development and Reform Commission (NDRC), has repeatedly called to 'front load' special bond quotas to sustain growth and speed up investment in infrastructure projects which are planned for the 14th Five Year Plan (2021-25).

A point worth noting is that the move towards renewable projects - as the country seeks to speed up its energy transition - is a priority, and President Xi Jinping has pinpointed two key targets to decarbonise the economy (i.e. peak carbon emissions by 2030 and carbon neutrality by 2060). A power crunch during the last quarter of 2021 may have encouraged the state to accelerate those projects for energy security purposes. To support these targets, the State Grid has just unveiled a record-high budget for 2022 at more than 501bn yuan (US\$79bn). Last week, the China Passenger Car Association (CPCA) released its latest data for December on new energy vehicles (NEV), with retail sales growing 129% year-on-year. Total NEV sales grew by 169% in 2021. There was strong growth in the EV sector because higher copper demand intensity together with a continued recovery in the large internal combustion engine (ICE) vehicles markets, supported copper demand in China, helping to offset some weakness in the property sector last year.

We think that China should remain a major driver of growth for metals exposed to the energy transition. Following strong growth in 'green' areas last year (as we noted in our [copper outlook](#)), copper and aluminium, among other materials, should continue to benefit from China's government-led investment in renewable power projects, including wind and solar installations going forward.

It remains to be seen how quickly these measures feed through to China's market. However, we think demand could beat the market's expectations, particularly if the property sector, which is the traditional engine of demand, shows signs of picking up this year. A potential upside risk to prices could come if demand reemerges in China before the US Fed has taken any meaningful action to combat inflation.

✓ Fundamentals remain supportive

Against the backdrop detailed above, fundamentals still appear to be supportive, with low observable inventories being a key feature across some London Metal Exchange (LME) base metals, including copper, nickel, zinc, while aluminium has been playing catch-up in its inventory drawdown.

As a result, traders are wary of building any significant shorts in metals which may be at risk of a

short squeeze. After a historic squeeze in copper in October 2021, which took the Tom-Next spread to extreme levels, nickel seems to be following suit, with spreads spiking to the highest level seen in more than a decade, backed by strong fundamentals (as we [discussed](#) last week).

Copper has remained most sensitive to macro trends. Prices tentatively broke higher, above \$10,000/tonne in London, last week. However, it has so far failed to maintain its year-to-date gains. There are some early signs of copper inventories starting to build in the LME, with the recent uptrend in Comex. As of 18 January, LME copper stocks have risen for three days in a row, gaining more than 10kt chiefly in European warehouses, easing fears of spot supply tightness. Year-to-date, it has gained 5.6kt to 94.5kt.

Stocks in Comex, meanwhile, have also risen by 8.4kt to 78kt. Copper stocks are starting to build in China's market, tracking both social inventory and bonded warehouse inventories. Total bonded warehouses increased by 13kt last week to more than 217kt as of 14 January, rising for three weeks in a row. Though it remains to be seen how much further the LME copper inventory drawdown can go, the current synchronised inventory building across major regions has weighed on market sentiment this week. Investors may remain cautious about copper ahead of next week's key Fed meeting and data from the US.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic
420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com