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

Alissa Lefebre
Economist
alissa.lefebre@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
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

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.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.schroder@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