

## China's Covid battle intensifying sell-off risks in metals

The sell-off in base metals continues after Beijing ratcheted up Covid containment measures. The confidence shock in the market has seen copper briefly dip below US\$9,000/t. Despite this we expect demand to recover later; downside risks to prices dominate in the short-term market as cities in China continue ratcheting up with Covid containment measures



Workers on a copper foil production line in Jiangxi Province

Industrial metals remained under sell-off pressure, with copper briefly dipping below US\$9,000/t on Thursday in London after speculation that the capital city Beijing would begin a full lockdown. Officials initially denied a full lockdown but announced later that the city would start a full-scale nucleic test from Friday to Sunday and encourage people to work from home on Friday. This has heightened the fears that the city would unavoidably fall into a de facto lockdown if people are asked to work from home and schools have already been closed since the May Labour holidays.

This week has also seen China's financial centre Shanghai going into the hardest phase of lockdowns. However, with the capital and political centre Beijing now ratcheting up restrictive measures, it has further damaged confidence. As long as the officials emphasise the zero-tolerance strategy, the market becomes increasingly desperate. There is essentially a confidence shock as it's hard for many to see the light at the end of the tunnel.

The market has been paying great attention to the situation in China as it accounts for half of base metals consumption and more than 70% of seaborne iron ore for base metals. Could things get worse before they get better? Maybe, as the Covid cases in China may eventually subside. Maybe not, as some people believe that Beijing has done too little and too late to avoid an economic slowdown. Although we expect demand to recover once the Covid wave is brought under control, downside risks to the prices dominate in the short term until we see clear signs of things stabilising in China on the Covid control front.

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