Copper receives a boost thanks to strong credit growth from China

China credit data coupled with some positives from the property sector have pushed the red metal out of its recent boring range

Positive news from China is helping to nudge the copper price higher

Copper prices began to rise on Wednesday and continued into this morning ahead of the US consumer price index (CPI) release. The LME 3M extended higher and touched US$10,278/tonne today, however stronger-than-expected US CPI data removed some of these gains. There are a few catalysts behind the latest price surge:

1. China's credit growth accelerated in January, and new yuan loans surged to a record in the month (see China's loan growth jumped in January). Copper has a long history of positive correlation with China credit growth. The data corroborates the optimism around China demand after Beijing re-pivoted its economic policies during last December's Central Economic Conference in which policymakers emphasised stability, and the authorities have responded with both monetary and fiscal measures.
2. There has been some positive news around China's property sector which has been plagued by unprecedented regulation campaigns and developer debt issues since the second half of 2021. There were even fears of a Lehman Brothers moment, which weighed on market sentiment and metals demand last year. However, there are more positive notes ahead. On Wednesday, China Evergrande vowed to bring home delivery to the pre-crisis level. The

company's chief executive aims to deliver 600,000 apartments this year, compared to 500,000 and 600,000 in 2019 and 2020, respectively. More recently, Chinese regulators have told state-owned firms to participate in the restructuring of weak developers and acquire stalled property projects. Meanwhile, they told bad debt managers that profit from transactions is a secondary concern. When we consider the 2022 outlook, we are of the view that we have probably seen the peak regulation campaign in the property sector, and that late-stage constructions shall pick up and support metals demand (especially those late-stage demand intensive ones such as copper and aluminium, both of which have large demand exposure to the nation's property sector). However, the government doesn't seem to want to over-stimulate the sector, but rather fine-tune some parts in order to avoid risk contagion and prevent growth deceleration. Therefore, we should keep an eye on construction data, such as the floor space of property completions and sales. The market meanwhile will be searching for more evidence such as copper semi-fabrications from China.

3. As we discussed earlier (Copper in a quandary), the broadening inflation pressure remains another tailwind for the copper and border commodities basket. Today's CPI data came stronger than expected at 7.5% year-on-year (versus the consensus of 7.3% prior to the release). Still, nobody knows when this will peak since the supply chain bottlenecks remain, and strong jobs data last week along with the wage growth pressure continues to add catalysts. But a stronger dollar following today's CPI release saw copper and overall metals complex erase some of the earlier gains.

The red metal is standing in front of a race between a growing hawkishness from the Federal Reserve and more pro-growth China policies. Currently, the positivity from the China side prevails and gives copper a nudge higher. As exchange inventories continue to draw down, the odds are against the bears who dare to short in the front end. Should the market see more evidence of demand picking up after China's pro-growth policies feed through the market, we may see further upside risks over the next few months.