

More metal stocks released from China's state reserves

China is set to release more metals from its state reserves, including copper, aluminium and zinc, as policymakers attempt to cool prices. The determination is clear but the initial market reaction has been mixed as uncertainty has only increased



China Jiangsu metal processing plant workshop

Following on from the first release from state reserves on 5 July, China will sell 30kt of copper, 90kt of aluminium and 50kt of zinc later this month, according to the National Food and Strategic Reserves Administration. This compares to 20kt of copper, 50kt of aluminium and 30kt of zinc from the first batch.

Since the official confirmation of the state reserve release on 16 June, metals prices have not fallen as much as the government had perhaps hoped. Based on LME 3M prices, aluminium has barely budged while copper and zinc had fallen by slightly more than 2% as of Tuesday's close. Hence, it seems sensible that the state reserve agency wants to raise its game in the second round.

Mathematically, the actual volumes from the second batch are generally higher than in the first batch. However, the market reaction has been mixed. Copper and aluminium initially moved higher on the announcement before paring some gains, though zinc looks more depressed. The

reaction to the second batch may have been the result of market expectations compared to the actual numbers. Anecdotal sources said that the market was generally expecting higher volumes from the second batch, including copper between 40-50kt and an even larger aluminium release of 180kt and 70-80kt of zinc. Hence, the second batch came in below market expectations, potentially explaining the initial knee-jerk reaction.

The state reserve does not reveal the balance of stocks in hand so the big question is how much firepower remains and also whether the higher volumes from the second batch have just been frontloaded in light of the recent supply disruptions due to power consumption rationing in Yunnan and other regions in China.

The agency also released a detailed list of metals stocks, including information about the brand, specifications, and when they were purchased. It's somewhat surprising that some of these metals were purchased back in the 70s and 80s and produced by both Chinese domestic and overseas smelters. Some market participants are interpreting this as a sign that the market consensus on state reserve stocks may be underestimated, as some dated metals reserves may not be fully captured. While the latest move shows that Chinese policymakers are determined to cool metals prices, it leaves the market with increased uncertainty on this front. While we don't expect volumes to continue to escalate throughout the rest of the year, any larger volumes from the release plan could continue to cap the upside.

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