

Trade war tensions and Chinese demand fears loom large in base metals

Trade war tensions and Chinese demand fears continue ruling the base metals market - another harsh week for LME base metals



Source: Shutterstock

4% Infrastructure spending
Jan-May
Lower than expected

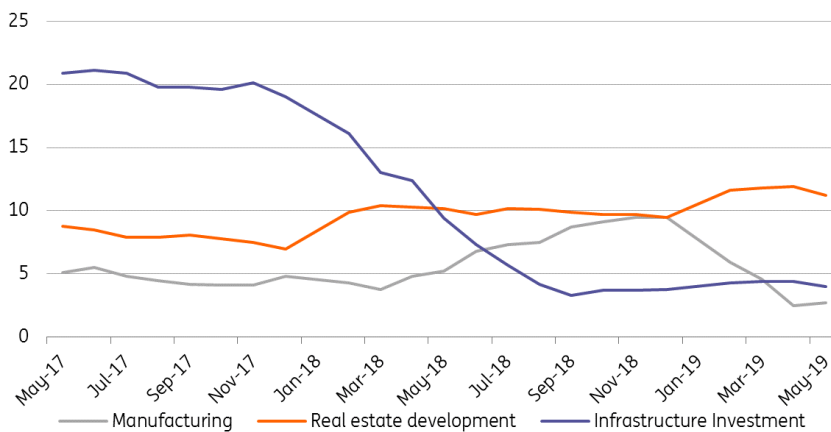
5.6% China total FAI
Jan-May
As expected

Base Metals

Industrial metals markets tumbled on a stronger dollar index on Friday. Meanwhile, weaker macro data (fixed assets investment and house construction) came out from China today continue adding to demand fears. With this backdrop, supply disruptions have failed to give copper a price boost.

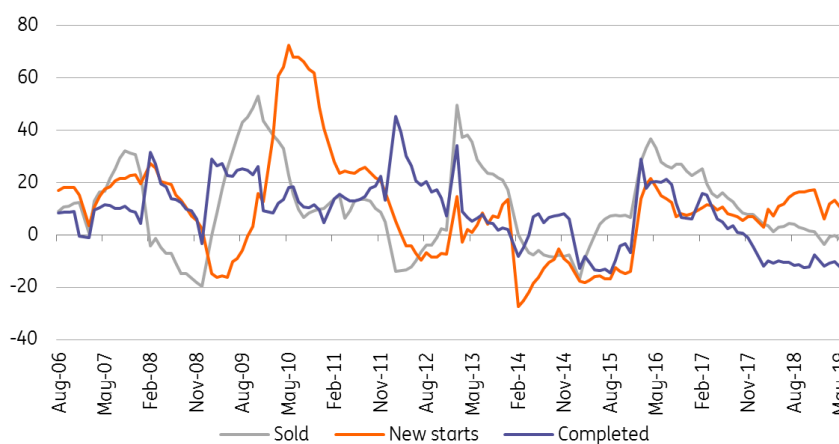
These supply disruptions include the beginning of strikes at Codelco's Chuquicamata mine in Chile today and Vedanta halted its Zambian Nchanga smelter. On the other hand, the LME warehouse continued seeing stock inflows further weighing in on prices.

China fixed assets investment growth (ytd %)



Source: NBS, ING

China house construction (in floor space, ytd %)



Source: NBS, ING

Nickel is the only winner for the week largely on the back of Indonesia floods after heavy rainfall in the Sulawesi province which is also the main nickel ore production region. The potential disruption to nickel ore production and shipment are boosting market sentiment in the short term, however, we expect this to fade as high nickel pig iron (NPI) supply and stainless inventories in China market have come back to the centre of attention.

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Looking at zinc, outflows of 1,275 tonnes in LME stocks have added to the tightness in nearby contracts spread and prices to \$2,572/t during the London morning trading session, but prices faded along with the rest of the base metals complex. What has been weighing on market sentiment is the large stock inflows of 19,241 tonnes in Shanghai Futures Exchange (ShFE) sheds on Friday that brings the total level to 79,945 tonnes.

The gains in ShFE herald an improved refined supply as a result of improved concentrate supply and smelters margins.

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