Copper to benefit from China's policy pivot

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Key Takeaways

- At its Politburo meeting, China signalled a potential shift toward a more aggressive economic policy stance.
- The shift to revitalise its economy, comes after years of being constrained by a weakened real estate sector and other economic challenges.
- Copper, which has already been supported by China’s tilt towards high-tech sectors, such as EVs, batteries and solar, could get a further boost as traditional sources of demand are also bolstered.

This year, we have been anticipating China's so-called "bazooka"—a metaphor for a large-scale economic stimulus aimed at countering an ailing real estate sector and economy. However, so far, the country has only brought out a "pistol." Last week, at its Politburo meeting, China signalled a potential shift toward a more aggressive stance. While no new concrete measures have been announced, the policy direction from China's leaders appears more assertive.

Politburo: Key discussions and decisions

1. Monetary Policy Adjustment

The Politburo announced a transition to a "moderately loose" monetary policy for 2025, marking the first such easing since 2010. This approach aims to enhance economic vitality by expanding credit availability and reducing borrowing costs.

2. Proactive Fiscal Measures

Leaders committed to a more proactive fiscal policy, indicating plans to increase government spending to boost domestic demand and consumption. This includes potential expansions in public investment and support for key industries.

3. Stabilising Key Markets

The Politburo emphasised the importance of stabilising the housing and stock markets, recognising their critical roles in economic stability and consumer confidence.

4. Addressing External Trade Pressures

In light of anticipated US trade policies under President-elect Donald Trump, which may include increased tariffs on Chinese imports, Chinese authorities are considering allowing the yuan to depreciate. This strategy aims to make Chinese exports more competitive and mitigate deflationary pressures.

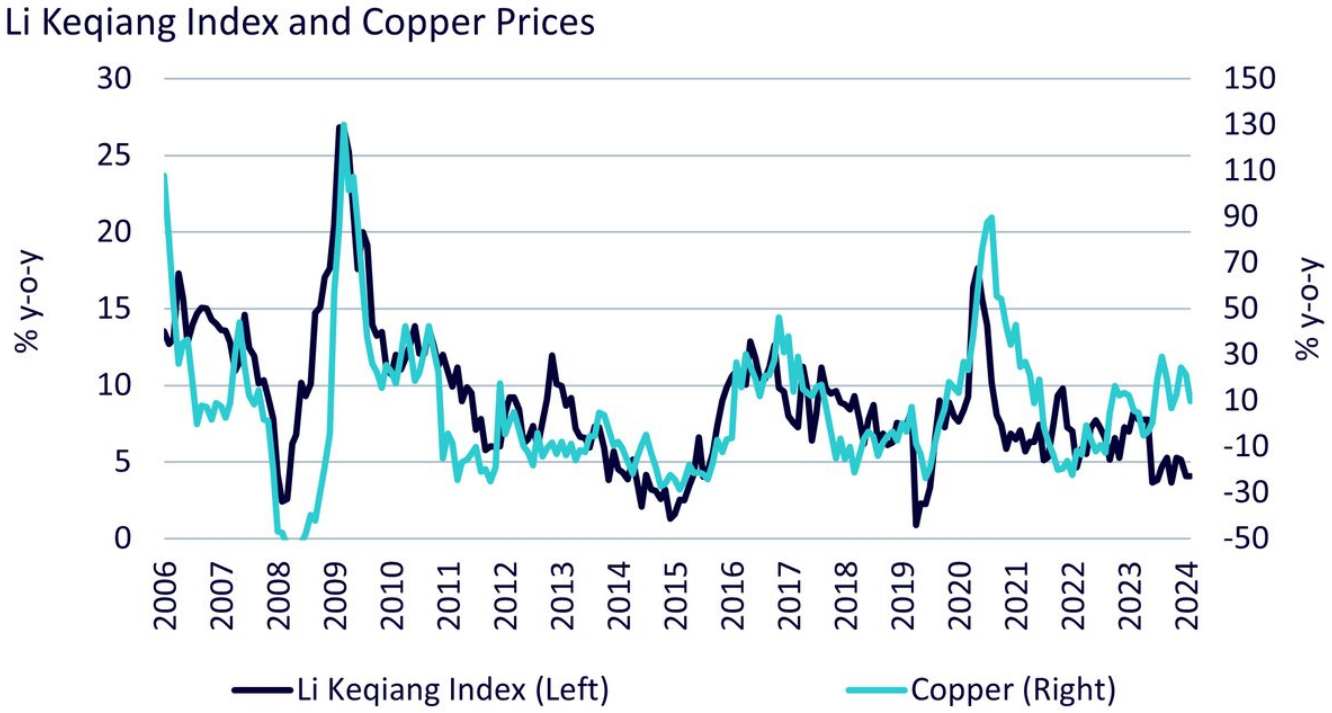
What China eventually delivers may not match the scale of the economic stimulus seen in 2008/2009. However, we believe it will represent a significant step up compared to the past two years.

Dr. Copper what's your prognosis?

Copper is often referred to as "Dr. Copper" because of its reputation as an accurate predictor of economic health. China consumes more than half of the world's refined copper[1], and over the past two decades, copper prices have been a reliable indicator of Chinese economic activity.

The late Chinese Premier Li Keqiang once remarked to a US diplomat that China's GDP data was "manmade." To track growth, he preferred to observe changes in bank lending, rail freight, and electricity consumption. The Li Keqiang Index, represented in the chart below, is a weighted average of these indicators. While the index may underrepresent China's recent pivot to high-tech sectors such as electric vehicles, batteries, and solar cells, it still serves as a reasonable indicator of economic health.

With Chinese electric vehicle sales and electric grid spending at record highs, these two copper-intensive industries have supported copper prices at higher levels than we would have had we looked at the Li Keqiang Index alone.



Source: WisdomTree, Bloomberg. January 2005 – November 2024. Li Keqiang index: 40% outstanding bank loans, 40% electricity production, 20% rail freight volume. Copper: Bloomberg Commodity Index Total Return – Copper Subindex. **Historical performance is not an indication of future performance and any investments may go down in value.**

If China successfully boosts its broader economy beyond the new tech sectors, we anticipate additional support for copper prices. Targeted support for the real estate sector is an obvious avenue, given copper's use in construction. Additionally, broad-based consumer support could spur increased consumption of durable goods, such as electronics, further driving copper demand.

[1] Source: International Copper Study Group, 2024

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