What's Hot: A roaring rebound for industrial metals

Published 4 October 2024

Mobeen Tahir
Director, Macroeconomics and Thematic Research

Key Takeaways

- China’s monetary stimulus is igniting demand for industrial metals.
- Copper and nickel are seeing strong gains due to supply concerns and construction demand.
- Silver shows upside potential, fuelled by its hybrid industrial and precious metal role.

Industrial metals have seen a significant price uptick in recent days, driven by favourable macroeconomic conditions. The sector began its recovery when risk assets rallied following the US Federal Reserve's 50 basis point interest rate cut last month. However, it was the monetary stimulus from the People's Bank of China (PBOC) that truly ignited momentum in the industrial metals market.

In a recent blog post, we break down the key components of this stimulus package and explain why it is poised to benefit industrial metals. Since the package's announcement, along with the Chinese government's promise of additional fiscal stimulus, markets have responded positively, particularly towards Chinese equities. Industrial metals have also surged, riding this wave of optimism.

Sentiment in industrial metals has revived but could go much further



Source: WisdomTree, Commodity Futures Trading Commission (CFTC), Bloomberg. Weekly data as of 01 October 2024. Price reflects the Bloomberg Industrial Metals Subindex Net Total Return, which includes five metals – copper, aluminium, zinc, nickel, and lead. Net speculative positioning covers the same commodities. **Historical performance is not an indication of future performance and any investments may go down in value.**

Since May, when investor sentiment toward industrial metals briefly spiked (as shown in the chart above), net speculative positioning in the sector has been steadily declining. This decline has been driven largely by the perception that metals are well-supplied in the near term, particularly considering a cooling global economy and slowing demand from China. Rising inventory levels on futures exchanges have further reinforced this view. However, recent monetary stimulus from China and the prospect of additional fiscal measures are now fuelling hopes that base metal demand could increase meaningfully, even in the short term.

Industrial metals were up notably in September

Copper	**8.5%**
Nickel	4.4%
Aluminium	7.6%
Silver	8.5%
Zinc	7.3%
Tin	3.0%

Lead	1.7%
Platinum	5.5%
Cobalt	0.6%
Lithium	-8.6%

Source: Bloomberg, data shows returns for September using the price of generic first futures contracts. Historical performance is not an indication of future performance and any investments may go down in value.

Copper has seen the most pronounced impact from China's recent stimulus. Among the measures introduced by the People's Bank of China (PBOC) are relaxed rules for homebuyers and lower mortgage rates, aimed at reviving the country's struggling property market. Markets interpret this as a signal of a potential rebound in demand for construction materials like copper. However, China's Caixin Manufacturing Purchasing Managers' Index (PMI) fell into contractionary territory with a reading of 49.3 in September[1]. All eyes are now on how quickly activity picks up and whether we see an expansionary print in October.

Nickel prices have risen despite the International Nickel Study Group's (INSG) forecast of a 170,000-ton surplus this year, largely due to lower demand projections, especially from the electric mobility sector. Nonetheless, market optimism fuelled by China's stimulus measures and rising stainless steel prices has lifted nickel prices. With stainless steel production accounting for about two-thirds of nickel demand, markets are increasingly betting on an uptick in Chinese manufacturing activity. Another factor for nickel is the potential risk of supply disruptions, as Russia, one of the top five nickel producers, is considering limiting metal exports to the West.

Silver, a hybrid precious and industrial metal, is also worth mentioning. It has benefitted from the strong rally in gold this year. However, the gold-to-silver ratio is currently around 84, still significantly higher than the 20-year average of 69[2], suggesting further potential upside for silver, particularly if the industrial sector maintains positive momentum.

To conclude, we believe industrial metals remain reactive to evolving cyclical macroeconomic conditions. If China introduces fiscal stimulus in the coming weeks, this could be another catalyst to further fuel the rally in the sector. Investor sentiment too, as measured by net speculative positioning, still has considerable room to move upward.

[1] Trading Economics, October 2024.
[2] Bloomberg, data as of 03 October 2024.

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice.

The application of regulations and tax laws can offen lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.