Industrial metals get a policy boost from China

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Key Takeaways

- China’s broad stimulus package aims to boost economic growth, with markets reacting positively.
- Industrial metals stand to benefit from China’s policy measures, particularly in infrastructure.
- Early signs show the stimulus is already lifting investor sentiment and supporting the metals market.

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The People’s Bank of China (PBOC) has announced a broad policy package to inject growth into the Chinese economy, with additional fiscal support pledged by the country’s leadership. The immediate market reaction has been positive. We believe industrial metals, a sector closely tied to China’s economic health, stands to benefit from any impact the stimulus measures may have.

China’s policy announcements and why they matter

Beijing recently held a surprise Politburo meeting in September1, underscoring the urgency of addressing the country's economic situation. China’s leaders have committed to intensifying fiscal support for the world’s second-largest economy2. This announcement follows a series of measures from the central bank and financial regulators aimed at bolstering economic growth3.

The PBOC’s policy package is one of the most comprehensive in recent times, spanning interest rate cuts, property sector support, and stock market stabilisation efforts. Key components include:

Source: South China Morning Post, WisdomTree, as of 24 September 2024

Industrial Metals and the Chinese Economy

China’s announcements as the world’s second-largest economy and top consumer of commodities have spurred a sharp rise in industrial metals. While the measures alone are unlikely to resolve the housing crisis, they could stimulate infrastructure investment, benefiting the metals market. Base metals are likely to receive firm support in the short term. If the Politburo’s announcements are accompanied by fiscal stimulus, such as the Ministry of Finance's planned issuance of 2 trillion yuan ($284.43 billion) in special sovereign bonds, the recovery in industrial metals could gain even more momentum.

Our latest Commodity Monthly Monitor noted that investor sentiment toward industrial metals has been cautious, as evidenced by weak speculative positioning in futures markets, driven by concerns over short-term oversupply. For months, we argued that rate cuts from the Federal Reserve and improved sentiment towards China were key to lifting the sector. Both catalysts have now emerged, providing the potential for a sector-wide boost from what we view as undervalued price levels. Early signs indicate that the sector is beginning to respond positively to China’s policy support.

1 Financial Times, 26th September 2024

2 Xinhua 26th September 2024

3 Reuters as of 24th September 2024

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