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.

How Investors Can Access the Opportunity

WisdomTree Energy Transition Metals (WENT) offers a thoughtfully curated basket of 10 commodities critical to the energy transition. These include aluminium, cobalt, copper, lead, lithium, nickel, platinum, silver, tin, and zinc. The basket is designed in partnership with industry experts Wood Mackenzie, who identify key commodities in the energy transition and weight them based on their demand growth prospects and near-term supply-demand balance. Given China’s significant investment in the energy transition, WENT’s forward-looking approach provides investors with a promising way to capture potential upside in industrial metals.

WisdomTree Industrial Metals offers an alternative for those aligned with the Bloomberg Commodity Industrial Metals Subindex. This basket includes five key commodities – copper, aluminium, zinc, nickel, and lead – tracking the Bloomberg Index.

WisdomTree Copper is an ideal option for direct exposure to copper. Investors often turn to copper when China's economic outlook brightens. It's one of WisdomTree's many single-commodity exposures, allowing investors to tailor their strategies according to their market views.

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

Among the countercyclical measures, the 20Bps cut in the seven-day reverse repo rate is notable as prior cuts were typically 10Bps. The 50Bps RRR cut is in line with previous moves, but the forward guidance for another 25-50Bps cut by year-end signals a shift toward better communication for effective policy execution.

Lower mortgage rates will ease household burdens and stimulate consumption in the property sector. However, the enhanced re-lending facility for SOEs to acquire housing inventories may be less impactful. Despite preferential loan rates, only 29 out of 200 cities have shown interest in the program so far. Additionally, with public housing rental yields around 1.5%, SOEs may rely on capital gains for positive returns, given borrowing costs are roughly 2%.

The stock stabilisation fund aims to boost market sentiment in the short term by supporting equity markets and household wealth, although it is unlikely to address China's deeper structural challenges.

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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