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## China (PRC) | Metals & Mining

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# China basic materials trip key takeaways

We wrapped up our China basic materials trip recently. Property related demand continues to be sluggish and not turning around, but manufacturing and exports show resilience. Supply constraint is intact in aluminum/ copper, while lithium restarts/ expansions are advancing after disruption risks being priced, and discipline in steel is a long-term fight. Prefer aluminum/ copper > lithium > steel in China.

**Aluminum: incremental improvement in domestic market**. LME price increased by 26% by end of May YTD, while China spot was only up by 8%. The relatively high social inventory, which suggests soft domestic demand, has been an overhang. Key reasons: First, it takes time for downstream to digest this year's price level, with limited appetite for in-house inventory build. Besides, China tax authorities strengthened inspections on trade invoices, which makes some 'hidden' inventory usually at traders' hands become visible social inventory. Moreover, with resilient aluminum price, the market has seen some producers increase actual output, eg by enhancing electrical current, which technically is not restricted by regulators now. Such "over-production" is usually by low-single-digit %, and significant overproduction is not expected as it harms the pots' useful life.

Looking ahead, given the price arbitrage, the market is watching for growing aluminum product export to drive a meaningful destock. Major fabrication producers saw significant order growth and Apr was 20-30% higher vs previous years. The increase is expected to sustain in May/ Jun, and aluminum product export is likely to reach 650kt+ per month (vs record high of 680kt) according to Aladdiny. Post our trip, smelter utilization in some provinces experienced marginal decline, which is reportedly due to inspections on overproduction esp those non-compliant, eg starting new potlines via capacity swap before fully closing the old ones. Thus, with strong expectation on export and incremental output contraction/ supply ceiling intact, aluminum market is expected to remain constructive, making the upcoming slow season different this time.

**Copper: a well-loved commodity**. Sulfur supply risk arising from the Middle East war is not affecting the big miners in terms of availability so far, since high copper margin enables them to pay for supply. While some small SX-EW copper producers in DRC face challenges, feedback from traders suggests the volume impact can be quite limited and thus no major concern in the next 3-4 months. The long-term theme is unchanged. Solid demand outlook driven by grid/ renewable energy, AI etc is the consensus, but is yet to be reflected in the price, and the strength in price since late last year has been mainly driven by supply disruptions. The well-discussed issues on the supply side do not seem to be improving, i.e. aging mines only add to resource scarcity and production recovery from major disruptions takes time. Looking from a higher level, the fact that more countries emphasize on critical minerals and supply security can lead to at least a partial segmentation of the global market (e.g. stockpiling in the US). Thus, some expect its strategic importance to also play a part in pricing in the future.

**Lithium: near term SD holds, but medium term view is mixed**. Companies we visited are confident in 2026 lithium demand, and the expectation is usually at least 60% YoY ESS growth, but the visibility in 2027 esp 2H27 is low. The uncertainties mainly include 1) front-loaded ESS demand in 2026, & 2) potentially narrowed peak-valley arbitrage of power tariff after a surge in ESS projects, which can affect IRR from the revenue perspective.

(continued overleaf on lithium supply/ price, steel, and property)

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On the supply side, the recovery of Zimbabwe export is confirmed, and the relevant companies are positive to keep whole year volume unaffected and reiterated the "quota" can be renewed, while others still talk about policy risks. Companies are active in restarting previously suspended mines and commissioning new/ expansion projects, adding medium term supply even under the assumption of a long-lasting disruption in Jiangxi.

On lithium price outlook, given the hike YTD, the price tolerance has increased over the past months. Most of the companies we visited believe lithium price is now supported at RMB150k/t and acceptable to downstream. The market needs to test RMB200k/t level on the upside, and the key concerns are implications on ESS IRR (cost perspective) and mine restarts/ capex additions. Sodium battery is also discussed. It is becoming a reality, but volume is limited in the near term. Its cost parity vs lithium battery is the key, and the rough range is RMB120-150k/t long-term lithium price. All in all, since supply recovery takes a few months, we do not see a deterioration in the near term despite recent correction, but medium term outlook is dynamic.

**Steel: not turning around**. There is no dispute that demand continues to slide slowly, and the expectation around 2030 is generally 850-900mtpa. In 2026 specifically, property remains sluggish, auto and home appliances also lack highlights after 2025 trade-in subsidies. Infra can be supportive driven by gov led projects in the first year of the $15^{th}$ 5-year-plan, and manufacturing demand such as machinery, shipbuilding etc remains resilient, but is not sufficient to offset the weakness in other sectors. Direct steel exports dropped by 10% YoY in Apr YTD on a high base. Despite headwinds from trade barriers (e.g. anti-dumping investigations, CBAM), stronger RMB, and crackdown of illegal export, China steel stays competitive globally and MySteel expects ~110mt export this year, i.e. some YoY decline but still a relatively high level vs historical. Indirect exports via finished goods, which is estimated to have reached 150mt in 2025, is expected to increase further in 2026 and more than offset the decrease in direct exports, also indicating the resilience in China's manufacturing industry.

Supply discipline is essential but can take time to progress. China updated capacity swap regulations recently, including tightening nationwide swap ratio from 1.25:1 to 1.5:1, and encouraging consolidation, i.e. capacity swap across companies is only allowed within 2 years, and 2 years later capacity swap must be within the same company/ group, or M&A needs to happen first. Steel producers and industry associations view the policy update positively, while acknowledging this is a long-term campaign. On the other hand, we hear some traders skeptical about the effectiveness of such policies, as the track record has not been satisfactory. What's more, there is not much more that gov can do to increase market concentration, because their influence is mainly on SOEs and consolidations among major SOEs are already mostly completed at central and provincial levels. M&A among non-SOEs is likely to be largely market-driven, which also takes time.

**Property: still seeking bottom**. We met with Centaline, a nationwide property agent. They estimate 7% YoY decline of residential GFA sales in 2026 to 680mn sqm (vs 9%/13% decline in 2025/2024) and believe the bottom could be around 600mn sqm per year.

Residential sales and prices indeed stabilized in tier 1 and popular tier 2 cities recently, but it's mainly driven by relaxed purchase restrictions rather than a real improvement in fundamentals. Since only Beijing, Shanghai and Shenzhen still control purchase eligibility and the rest of the country already have no restrictions, there is not much room for further policy relaxation to boost the market. Tier 1+2 cities only account for ~20% of China's new home sales, and it can be hard for the lower tier cities to follow the momentum due to population outflow/ aging, cautious outlook on employment/ income etc. Thus, the market as a whole still looks challenging. In addition, new home inventory is still on the rise, and Centaline's estimate is 25-26 months by end of last year.

Centaline does not expect a massive stimulus either. China is working to reduce reliance on property, and China's GDP growth/ economy still shows resilience (e.g. export doing well) despite the property downturn. Thus, it's probably something the gov wants to achieve to begin with. In addition, after 4 consecutive years of decline, GFA sales has dropped by over 50% vs peak, and property's incremental impact is fading as well. More importantly, the effectiveness of supportive policies in the past years has been temporary, i.e. not changing the big trend. Thus, from cost-effective perspective, the fiscal money might be better spent in other booming industries. While gov might step in if there's a significant acceleration of decline, or if it triggers systematic risks, it's unlikely to be the case in the near term, and a moderated correction can be tolerated.

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