WEEKLY ANALYSIS

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COMMODITIES: IMBALANCES WILL PERSIST IN 2023

180 degree turn by the Chinese government. Total opening of the country. Growth to resume in 2023. Energy sector supported by Asia. Historically low metal stocks and potential demand increases in 2023. High potential for appreciation in metal prices in the coming year.

Key points

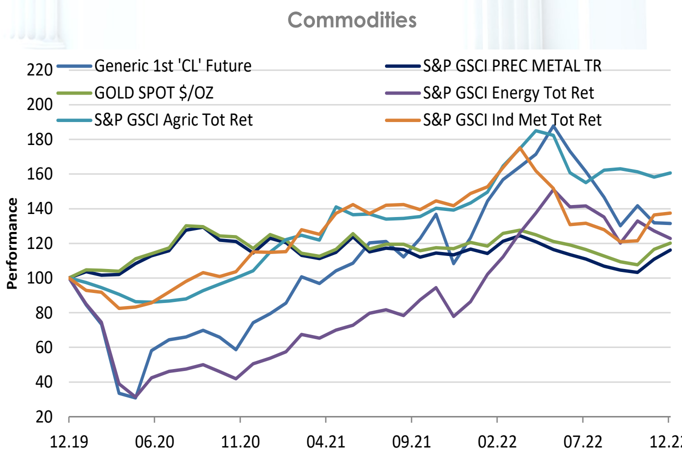
- End of China's zero Covid policy upsets forecasts
- Oil demand driven by Asia
- Low crude oil production in 2023
- Overall low metal inventories
- Industrial metals in supply deficit
- Macroeconomic environment finally favourable to gold?
- New record highs for precious metal prices?

End of China's zero Covid policy upsets forecasts

The end of China's zero Covid policy will bring new hope and opportunities for the commodities sector. A recovery in consumption and investment demand from the world's largest importer of raw materials should have a major impact on the supply and demand balances of a large number of specific commodities.

The decision by the Chinese authorities to end the policy of strict control of the evolution of the Covid pandemic in China, which has prevailed for several years, will have a significant impact on the global market, particularly affected in 2022 by a sharp drop in Chinese demand. The speed with which health measures have been abandoned is spectacular. China has gone from a zero Covid policy to a strategy of total openness, allowing a new freedom of movement and travel within China, but also abroad. The first effects of this opening up are catastrophic in terms of the health of the population, but the authorities seemed to have no other option and therefore accepted the likely consequences of this change in strategy. After an initial massive wave of Covid that could still affect China's economic dynamics, the authorities are counting on a clear upturn in activity which, according to them, will enable GDP growth in 2023 to be significantly higher, close to +5%. The year 2023 should thus prove to be much better than 2022, which certainly saw GDP advance by only around +3%. The first quarter could still be a little weaker, but the effects of the new policy will probably be more visible from the spring onwards.

In 2022, commodity markets were essentially affected by two very different sequences. In the first quarter, Russia's invasion of Ukraine completely disrupted global supply and demand forecasts and expectations. An immediate price surge occurred in response to the perceived sustained disruptions in the production and supply of certain commodities produced by Russia and Ukraine. Secondly, it was the risks of a cyclical slowdown, caused by the aggressive monetary tightening by developed country central banks such as the Fed, the ECB and the BoE from March onwards, which led to fears of a clear slowdown in the economic dynamic in Europe, while China, which was already very concerned by the evolution of Covid in the country, was implementing a severe health policy that was penalising its economic development.



Sources: Bloomberg, BBGI Group SA