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Commodities another front in China's campaign to control market excess

Campaign has not yet had significant effects

China is attempting to curb surging commodities prices to protect its economic recovery and stymie "excessive speculation." For the first time in a decade, China announced on Tuesday the release of 20,000 tonnes of copper, 30,000 tonnes of zinc and 50,000 tonnes of aluminium from its strategic reserves. The release is set to be the first of several to ease rising prices of raw materials and reduce pressure on the cost base of Chinese industry.

Separately, this week, China's chief market regulator and economic planning body – the National Development and Reform Commission (NDRC) and the State Administration for Market Regulation – launched a probe into commodity suppliers and prices. It warned local steel manufacturers that it would "severely punish" those engaging in stockpiling, colluding or price gouging.

The moves are consistent with China's broader efforts to control market excess at the provincial and central level – particularly in the infrastructure and property development sectors. It has restricted property purchases in popular districts to avoid economywide decisions like raising interest rates. China's strategic reserve release announcement had some initial impact. The price of iron ore and most base metals prices retreated, though they have since rebounded. According to the London Metal Exchange, the price of copper has risen nearly 4 percent since the announcement. If commodity prices fail to stabilise, more market intervention should be expected.

Biden military realignment in the Middle East reflects US' new strategic priorities

More on-the-ground instability likely in the short term

The **Biden** administration is scaling back its military footprint in the Middle East as part of a global force posture review and re-alignment effort. It is removing Patriot and THAAD antimissile systems from **Iraq**, **Kuwait, Jordan** and **Saudi Arabia**. It is on track to fully withdraw from **Afghanistan** by September 11 and has cut the number of troops in Iraq in half to 2,500.

The move is unlikely to have much impact on the Gulf's overall security. The US' security guarantee remains in place. It will, for example, continue to provide defensive support to Saudi. However, Riyadh is hedging its bets. It has invested heavily to boost its own military capabilities and is bolstering diplomatic relations across the region. Saudi has signalled interest in restoring relations with **Iran** and **Syria** and has mended ties with **Pakistan, Iraq** and **Qatar** using infrastructure investment and free or heavily discounted oil as incentives. The UAE is doing the same with **Israel**.

The long-term trajectory for fragile states following the US' troop drawdown is less certain. More instability on-the-ground in currently contested areas seems certain. Preliminary moves towards peace in **Afghanistan** appear to be unwinding, quickly. More districts are now controlled by the Taliban and a number of actors including Iran are establishing and funding private militias. Amidst this backdrop, a network of **Iran**-sponsored proxies including **Lebanon**'s Hezbollah, Yemen's Houthis and militias from **Palestine**, Iraq and **Syria** have coalesced to beef up the pre-existing "Axis of Resistance" that further threatens regional stability. **Russia** and to a lesser extent **China** will attempt to take advantage of the vacuum. Foreign Minister Sergei Lavrov's Gulf arms tour in March is an early example of Russia's hallmark strategic and commercial opportunism.

Coal runs out of steam along the BRI

Despite some still questionable projects, the Belt and Road Initiative (BRI) is trending green

A recent study by the Beijing-based International Institute of Green Finance's Green BRI Center reveals the extent to which coal investments are floundering along **China**'s BRI. Of the 52 Chinese-backed coal-fired power projects announced since 2014, only one has actually gone into operation. Instead, the trend is towards mothballing or outright cancellation. In total, investments of more than US$65 billion in coal-fired plants have been shelved or cancelled. No new Chinese-backed coal-fired plants were announced in 2020. Last year was also the first year where renewable energy made up the bulk of BRI energy investments.

Fundamental economic realities rather than a newfound focus on ESG appears to be the main factor driving the declining investment in coal. Whilst from a systems perspective it is difficult to make a like for like comparison, on some counts, the price of electricity from new coal-fired station is approximately 500 percent more expensive than energy from new solar plants. Solar power costs have dropped by at least 80 percent over the last decade, whilst financing costs for coal-fired stations continue to increase. Chinese investors and host nations including **Pakistan**, **Indonesia** and **Bangladesh** (which have all recently announced plans to phase-out new coal investments), seem to have read the writing on the wall. Gone are the freewheeling days of the BRI's peak in around 2015. Chinese investors are now under pressure from the centre to make more financially sound investments. Assuming the West and **Japan**'s Build Back Better Initiative gets off the ground (admittedly a fairly big 'if') and China acts on its green BRI rhetoric, the end result could be a race to green the developing world.

China firms up CPTPP push

What initially looked like a PR gimmick is becoming more serious

Fresh from negotiating the ASEAN-led Regional Comprehensive Economic Partnership, paramount leader **Xi Jinping** in November last year flagged **China**'s intention to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). With former President Trump still in the White House, Xi's telegraphed interest in the CPTPP was clearly intended to herald China's role as the primary driver of free trade and globalisation.

Yet, it was far from clear that Xi was actually serious about joining the trade pact. Numerous CPTPP provisions, particularly those relating to free cross-border data flows, labour rights and the limiting of subsidies to state-owned enterprises, appear to make China a highly unlikely candidate. Each CPTPP member including **Australia**, **Vietnam**, **Japan** and likely soon the **UK**, would also have a veto over China's accession. Despite these seemingly insurmountable obstacles, China has reportedly reached out unofficially to **Singapore**, **New Zealand** and even Australia about the prospects of CPTPP membership. Foreign policy circles in China have also been discussing whether national security exceptions (allowed under CPTPP rules) could be used to avoid adhering to rules that Beijing finds objectionable.

At this stage, it is still highly uncertain whether China will actually join the CPTPP. Japan played a leading role in reviving the pact, in part to provide an economic counterbalance to China. It seems unlikely that Tokyo would be willing to let the fox into the proverbial hen house. More than anything, China's tentative exploration of CPTPP membership, which would have seemed laughable some years ago, highlights the US' absence from the region's economic architecture. It remains to be seen whether **President Biden** has the necessary political capital to change this.

Japan's hydrogen bet

Australia will be hoping that hydrogen can be the next resources boom

As **Japan**'s push to decarbonise its economy gathers pace, there are no shortage of innovative developments happening in Japanese hydrogen technology Japan's islands, many of which are densely populated or covered in mountains and forest, are not particularly conducive to renewables. Partly for this reason, fuel-cell vehicles will be favoured rather than EVs. Notwithstanding ambitious plans for offshore wind, Japan will rely on imported hydrogen more than most.

Dovetailing with Tokyo's own plans to reduce hydrogen costs, Japan's Eneos and Chiyoda have announced plans to build a plant capable of cutting costs to US$3 per kilogram. Eneos and Chiyoda's proprietary technology simultaneously electrolyses water and toluene to create methylcyclohexane (MCH). Water and toluene are normally electrolysed separately, meaning that Eneos and Chiyoda's technologically is theoretically capable of slashing facility investment costs by half. Liquid MCH can be shipped at ambient temperatures to power plants, where hydrogen is extracted for energy. This creates further cost efficiencies, as hydrogen itself typically requires shipping at minus 253 degrees Celsius in purpose-built ships.

Japan's hydrogen push entails clear opportunities for **Australia** – which is endowed with ample land and vast renewable resources. For their part, both Eneos and Chiyoda are looking at Australia as a possible location to build their first plant in 2030. Lower costs associated with shipping liquid MCH versus hydrogen have the clear potential to make long-haul exports from Australia to Japan far more viable. Going forward, hydrogen has the potential to be an increasingly important part of Australia's traditional role as an energy supplier for East Asia.