



REUTERS/Jamal Saidi

COMMODITIES: STILL (LARGELY) A CHINA STORY

BUT BEWARE UNRESTRAINED OPTIMISM

CLYDE RUSSELL

REUTERS

8 NOVEMBER 2017

(Clyde Russell is a Reuters market analyst. The views expressed are his own)



WHAT WE KNOW

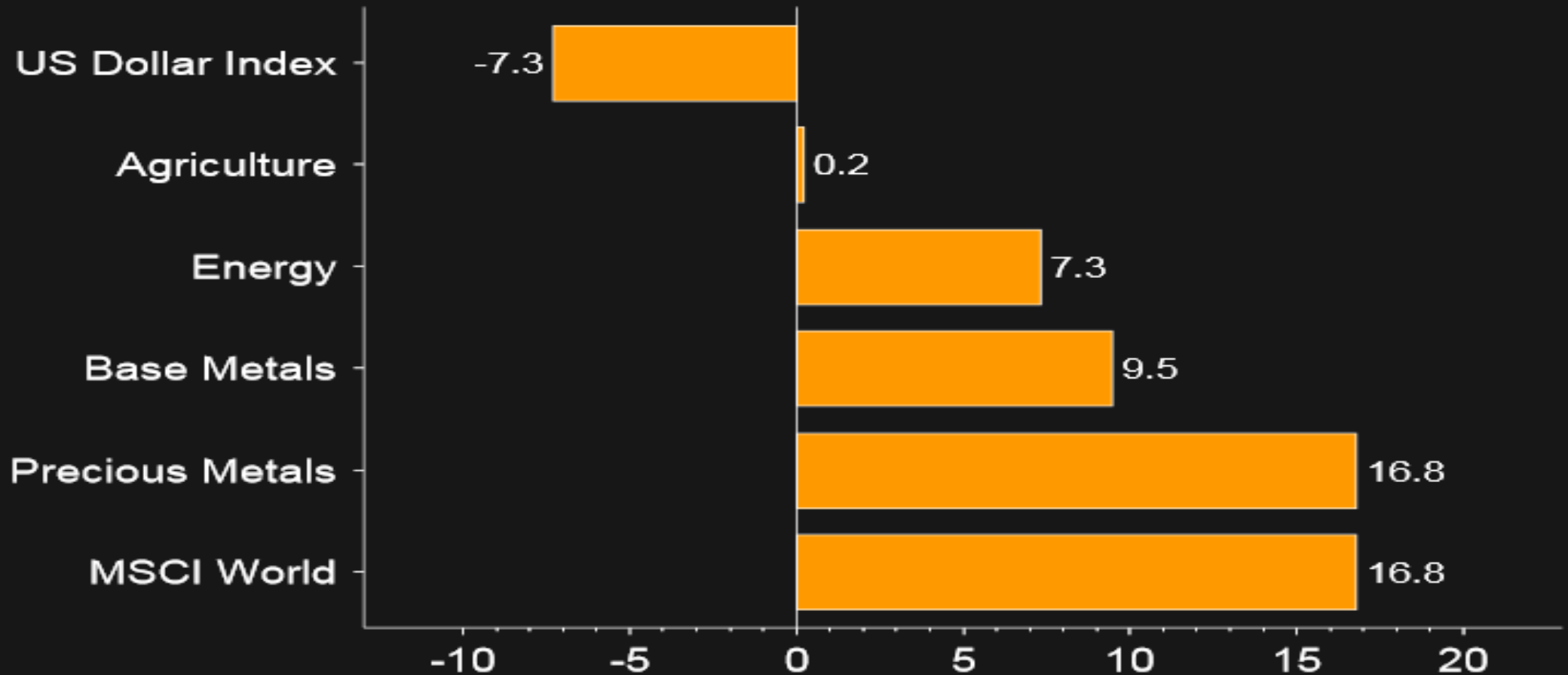
- China demand driving commodities prices higher in 2017
- China growth is solid, surprised to the upside
- China aims to close excess capacity
- Steel, aluminium, cement, ship-building targets
- Commodity import volumes still robust, more differentiated

WHAT WE DON'T KNOW

- Can China keep economic growth robust?
- Will China avoid hard landing (credit crisis, currency depreciation, capital outflows)?
- Will China be able to restructure heavy industries?
- Will China continue to stimulate construction, will it enforce coal, steel policies?

Price Performance Across Various Asset Class

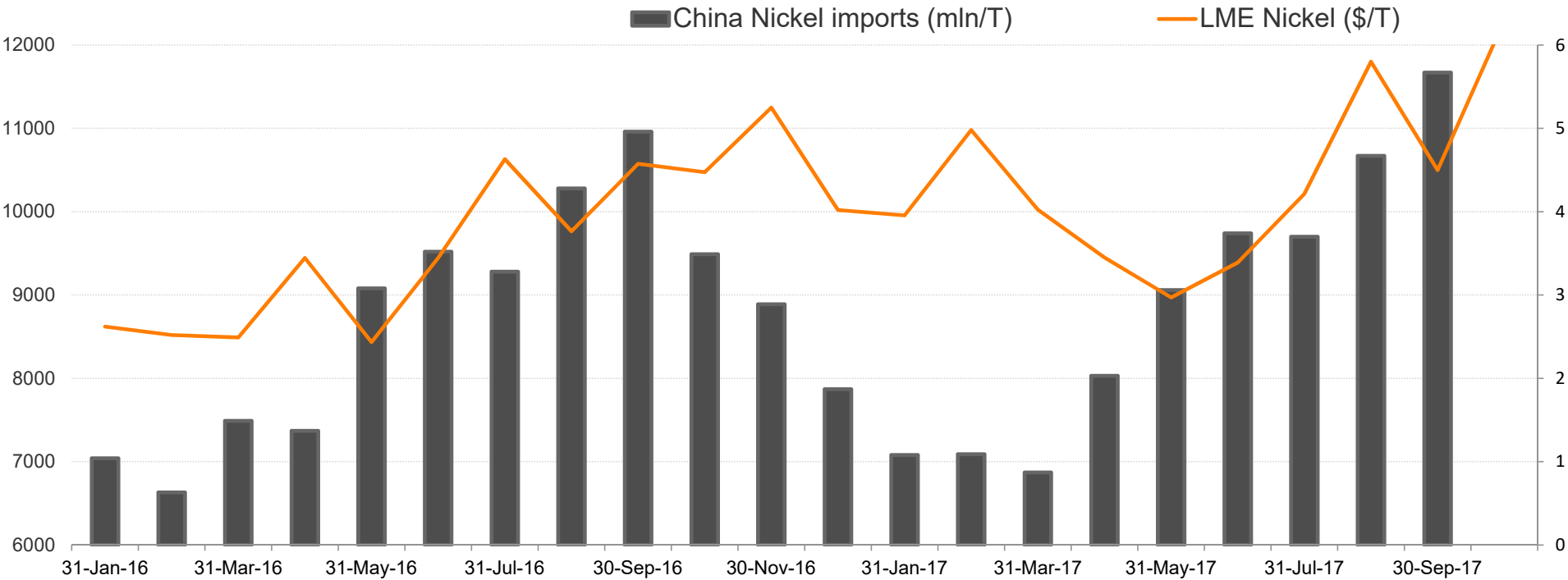
1st Jan 2017 = 0 (YTD)



Source: Thomson Reuters Datastream / Fathom Consulting

CHINA NICKEL IMPORTS TREND UP

Imports of nickel ores and concentrates vs. LME 3-month nickel

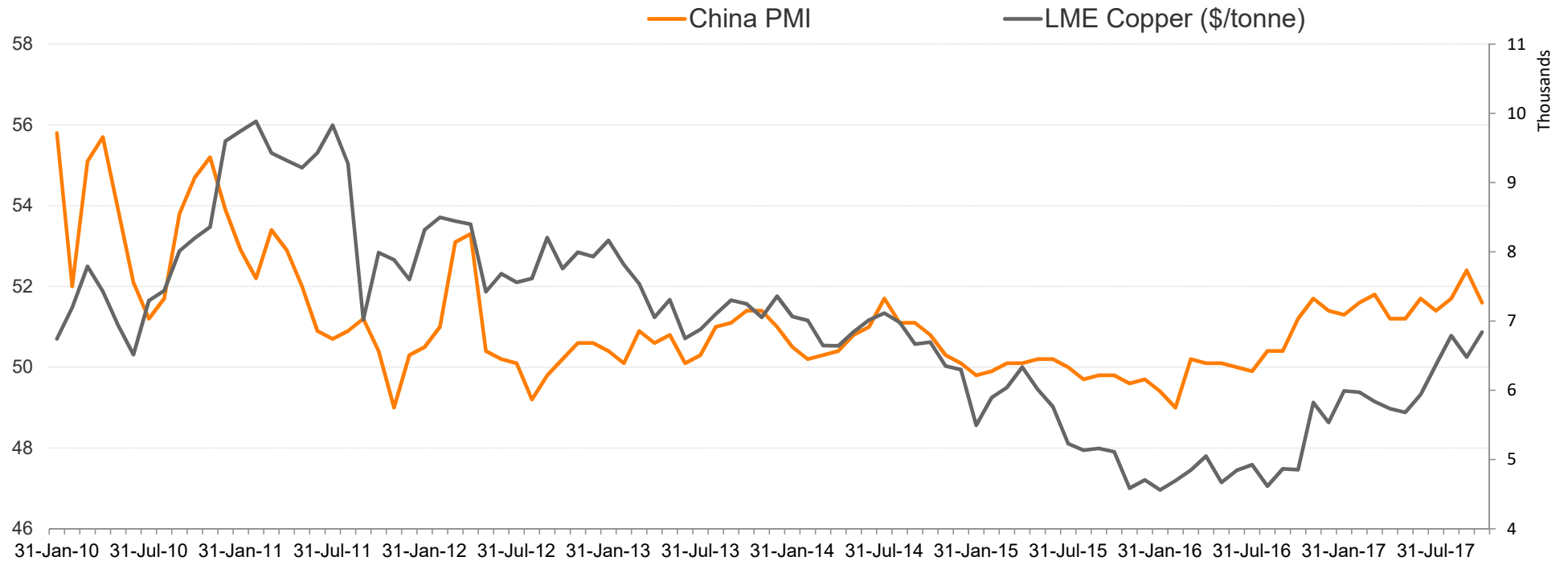


Source: Thomson Reuters Eikon Reuters graphic/Clyde Russell 07/11/17



COPPER RALLIES WITH CHINA PMI

NBS PMI vs LME 3-month copper

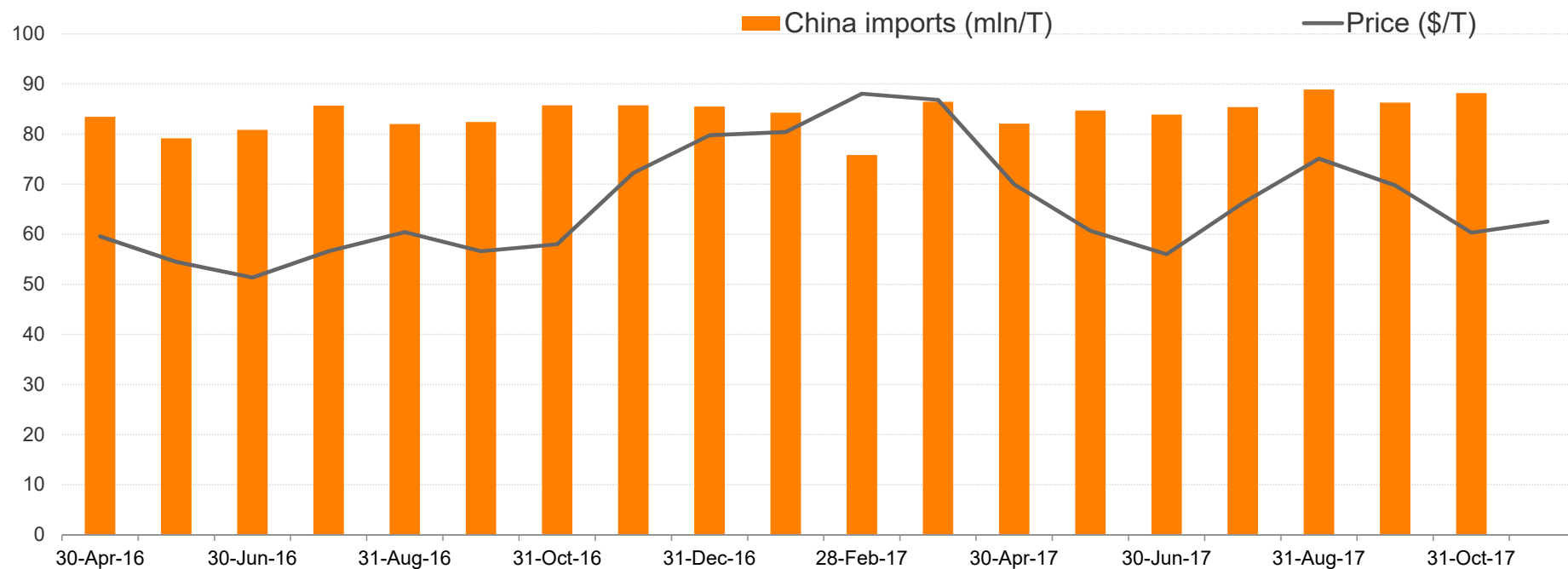


Source: Thomson Reuters Eikon Reuters graphic/Clyde Russell 07/11/17



CHINA'S STRONG IRON ORE IMPORTS

Seaborne vessel-tracking iron ore imports vs. SGX iron ore contract



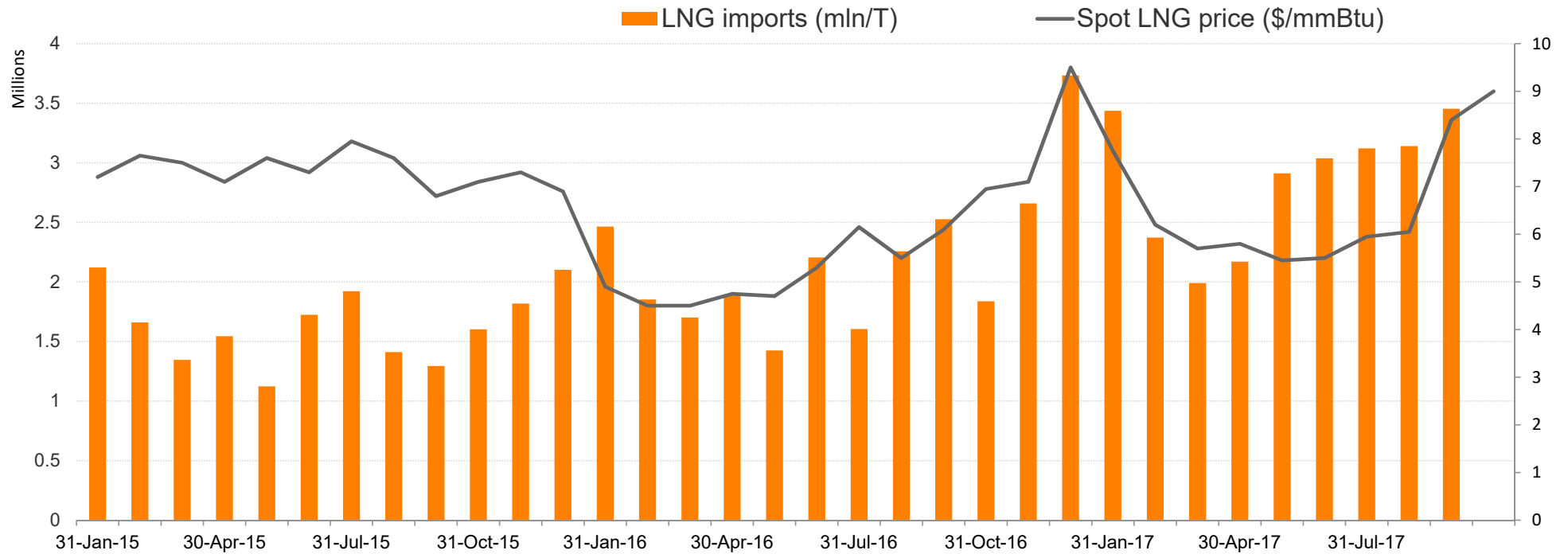
Note: November iron ore price is average to date

Source: Thomson Reuters Eikon Reuters graphic/Clyde Russell 07/11/17



CHINA'S LNG IMPORTS TREND HIGHER

China LNG imports vs. spot Asian price

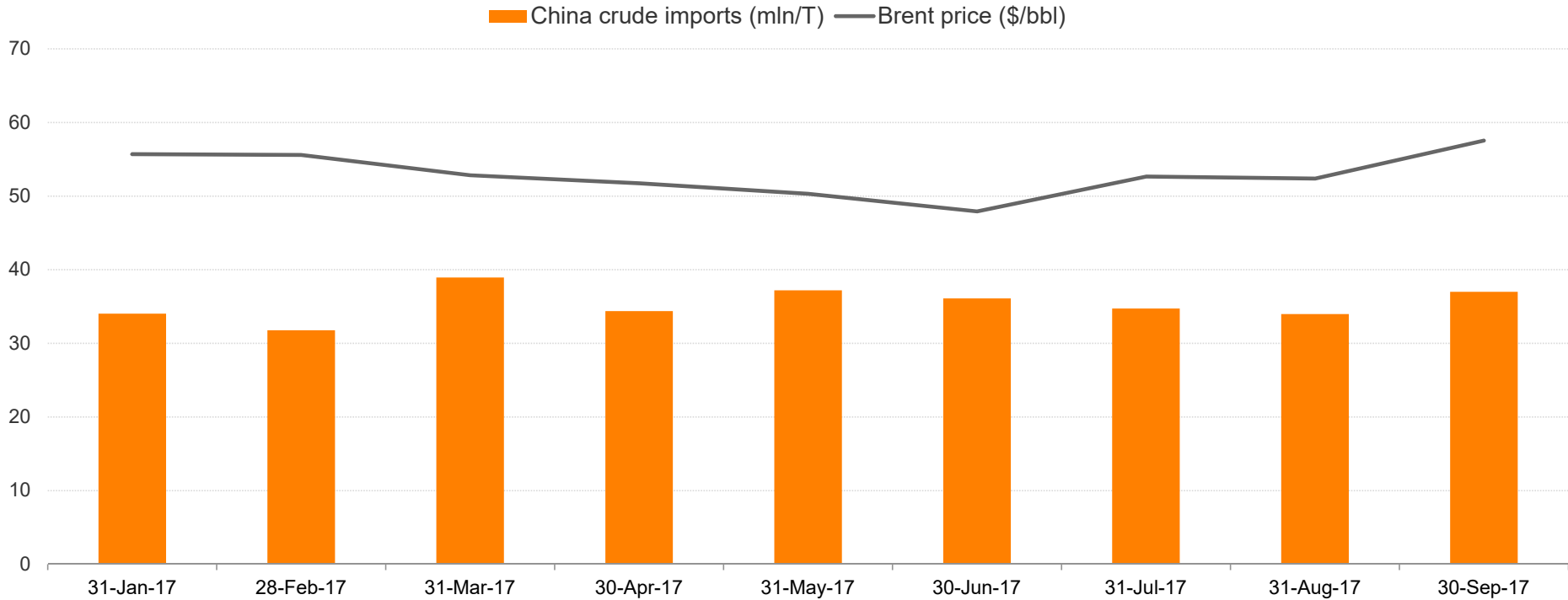


Source: Thomson Reuters Eikon Reuters graphic/Clyde Russell 07/11/17



CHINA CRUDE OIL IMPORTS

China crude oil imports vs. Brent price

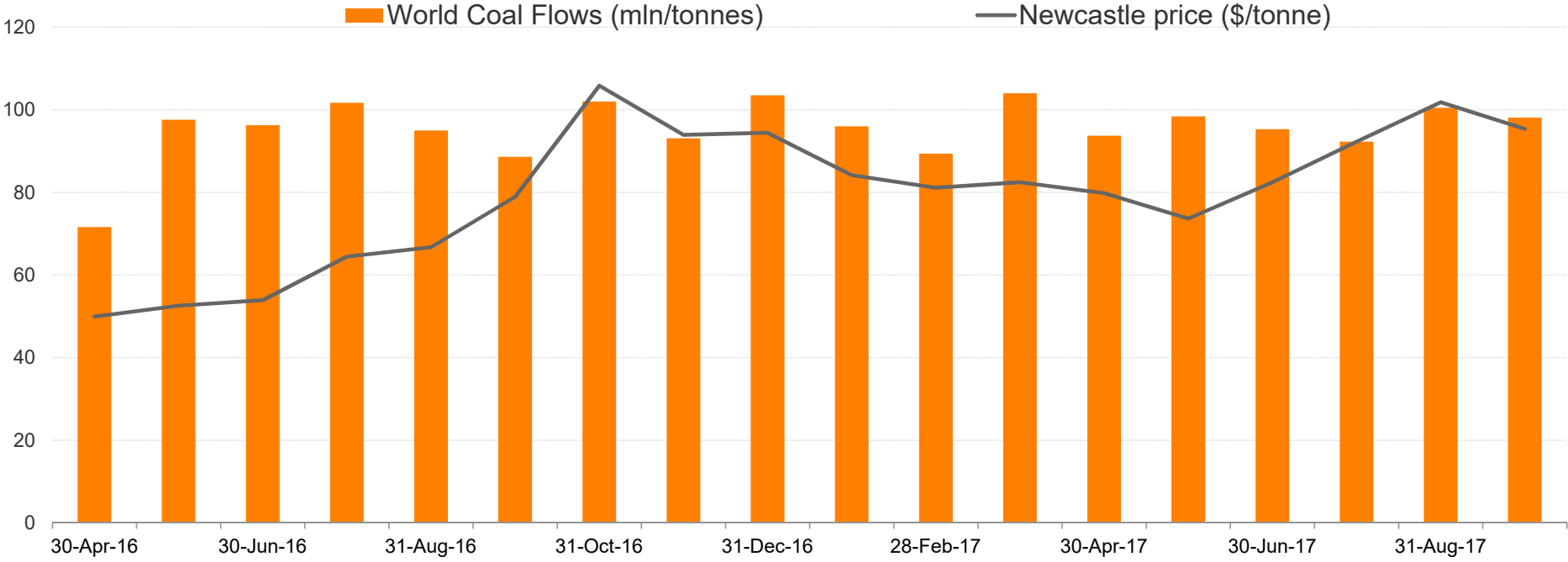


Source: Thomson Reuters Eikon Reuters graphic/Clyde Russell 07/11/17



GLOBAL COAL TRADE FLATLINING

Total seaborne coal flows vs. Newcastle Index

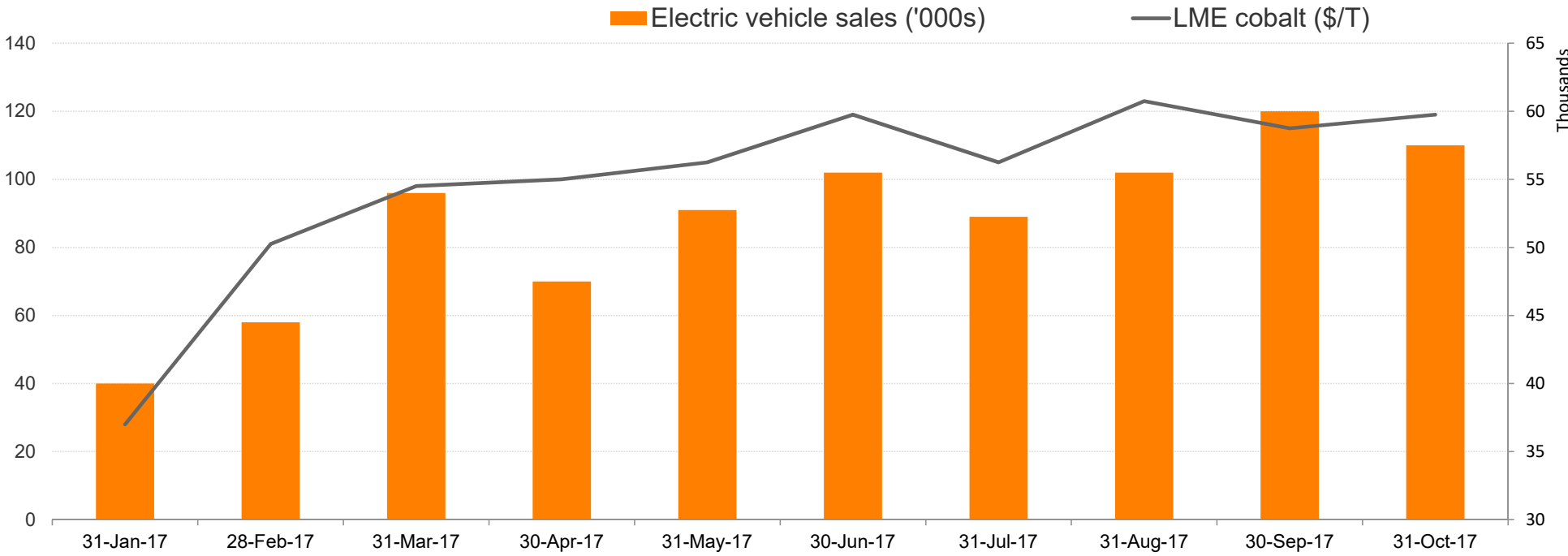


Source: Thomson Reuters Eikon Reuters graphic/Clyde Russell 19/10/17



ELECTRIC CARS BOOST COBALT

Sales of plug-in cars vs. LME cobalt



Source: Thomson Reuters Eikon, EVvolumes.com Reuters graphic/Clyde Russell 07/11/17



Air pollution: Delhi vs Beijing

Delhi has been struggling with its worst pollution in 17 years. Levels of PM 2.5, tiny particulate matter that reaches deep into the lungs, rose to over 30 times the World Health Organization's mean guideline of 25 micrograms per cubic meter on average over a 24-hour period.

SEASONAL CYCLES

30-day rolling average - PM2.5 concentration in micrograms per cubic metre



THE TRUMP FACTOR

- Trump's policies still a work in progress
- Investors have priced for “good” Trump, but so far we've only seen “bad” Trump
- Is there a genuine risk of a trade war with China, others?
- How will commodities perform in such an environment of uncertainty?

WHAT'S HOT, OR RISKY

- Battery metals are most promising
- But are extremely hard to invest in
- Pricing looks to be running ahead of demand
- Especially in nickel, cobalt
- Gold depends on your view of the world
- Long-term trends still very positive
- Consumer commodities most constructive

CONCLUSIONS

- China still drives many commodities
- But supply-constrained commodities likely to outperform
- With China and Trump, actions speak louder than words.
- But words matter too for sentiment
- What China gives, China can take away

“They suck the blood
out of us, and we owe
them money.”

— Donald Trump