

COMMODITIES RESEARCH

FEEDING THE DRAGON

China's May 2010 commodity trade data



May's Chinese trade data release confirmed what the macroeconomic data has been indicating: a slowdown in the momentum of demand growth to more sustainable, but still robust levels, as the government implements its cooling measures. Government measures since April have led to the steady withdrawal of liquidity from the economy, as well as a significant drop in property market transactions. In our view, this is a positive, as we do not see the cooling measures as leading to a hard landing for the economy but rather as likely to lead to more sustainable and balanced growth. The outlook is for continued but slower growth in commodity demand.

In more detail, import demand growth moderated across some of the key commodities, but still remained very high: crude oil imports fell to 4.2 mb/d from a record high of 5.12 mb/d in April, but still constituted a 4.4% y/y increase. The data for the base metals was mixed, with slowing import demand suggesting some modest de-stocking. Net imports of refined copper fell for the second straight month, but still remained above last year's monthly average. China returned to being a net importer of both aluminium and lead. Chinese demand for the precious metals also held strong, but we expect demand for palladium to slow as auto sales continue to moderate. Agricultural trade data showed diverse trends, but broadly speaking, imports were lower m/m for cocoa, coffee and cotton while being higher for wheat, soybeans and soybean oil.

The People's Bank of China announced over the weekend that the CNY will now be pegged to a basket of currencies rather than to the USD, a significant step in the government's efforts to promote the international use of the currency, and one which would accommodate the need for increasing flexibility in the exchange rate. Despite this being positive for sentiment, as a strong CNY would boost purchasing power, we do not expect it to have any significant short-term impact on commodity imports. This is because any appreciation in the value of the CNY is likely to be gradual, and in any case, an increase in the flexibility of the CNY has long been expected.

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Base metals

Aluminium

China switched back to being a net importer of primary aluminium in May, but volumes are small (2.8Kt). This stemmed mainly from a 23Kt decline in gross exports from April, although we note that this was accompanied by increases in the exports of both semis (20Kt) and alloy (7Kt). Strong production growth remains a key feature of the Chinese aluminium market, and although smelter margins are being eroded, and over 40% of the market is incurring losses, there has been little evidence of significant production cuts as yet. If margins remain in negative territory however, we would expect production to be cut. Apparent consumption of primary aluminium grew by 8% y/y in May, which continues to lag behind the 29% y/y growth in apparent consumption of semis and points to destocking.

Copper

China's net imports of refined copper fell for the second straight month, but at 275Kt are still above last year's monthly average of 260Kt. While net refined imports fell by 18% y/y, domestic refined production was up by 18% y/y to 398Kt. This, together with a 32Kt fall in SHFE stocks over May, suggests that apparent consumption managed to grow by close to 10% y/y. We believe that little of the growth has gone into unreported stockbuilding and de-stocking likely continued into May. Scrap tightness has continued, with scrap imports falling by 12% m/m to 327Kt and domestic scrap discounts remaining narrow. Most indicators are still pointing to a relatively tight domestic market – the physical market remains in a small premium, SHFE/LME price spread remains at a level favourable for imports and import premiums have firmed.

Nickel

Net imports of refined nickel declined sharply in May, by 85% y/y and 60% m/m to just 3.6Kt, the lowest level since July 2005. While the NBS data showed that domestic refined output rose by 26% y/y, apparent consumption is likely to have fallen again in May, partly reflecting lower stainless steel utilisation. The missing piece in this equation is nickel pig iron (NPI) production, which has continued to grow strongly, supported by another month of strong concentrates imports (+114% y/y to 2.0Mt). While we expect NPI production to grow at a robust pace this year, rising electricity prices and measures to achieve better environmental standards are potential threats to growth in this area in the future.

Zinc

China's net imports of refined zinc fell slightly m/m in May but remained high by recent standards. This, coupled with another month of strong production increase, means that apparent consumption growth picked up to 5% y/y in May, from just 0.6% in April. We believe that the domestic market is in surplus, but poor margins are starting to result in smelter production cuts and a reluctance to sell (SHFE zinc stocks have fallen by 28Kt over the past two weeks), which should help move the market closer to balance. The price unattractiveness of imported concentrates is again reflected in the import data, which fell by 20% m/m and another 26% y/y.

Lead

As we had expected, China turned back into being a net importer in May, for the first time in six months, albeit by a modest 1.8Kt, as domestic refined supply continued to slow, and domestic demand held firm. In our view, another fall in domestic production due to slowing scrap supply

as well as drought related and environmental closures suggest that apparent consumption fell by 11% y/y in May, marking the third consecutive month of decline. While growth momentum is slowing slightly, most macro indications remain firm, suggesting that this contraction in apparent consumption is partly a result of stock changes, ie stock builds this time last year and some de-stocking currently. The domestic/LME spread has been widening recently, and this bodes well for a continued pickup in imports in the coming months.

Tin

Tin refined imports were recorded at 1.6Kt in May, which represented a 33% m/m and 51.6% y/y decline. However, domestic refined production was robust during the month, up at 13.2Kt (+12% y/y, +2% m/m). This indicated domestic apparent consumption was up at 14.8Kt which only represented a slight moderation (-4% m/m, -2.2% y/y). End demand conditions remain robust in China with data showing electronic goods exports rose sharply y/y in May, with tin-using goods, such as mobile phones, televisions and computers, all rising firmly y/y with orders reportedly in a healthy state going forward.

Precious metals

China's appetite for platinum showed little sign of waning in the May trade data. Although platinum imports eased by 2% m/m they rose by a staggering 116% to 204koz with May being only the sixth month where imports have exceeded 200koz and all six of those months have materialised in the past year. Given China's auto market is predominantly a gasoline market, PGM use in auto-catalysts is biased towards palladium, and thus platinum is primarily consumed by the jewellery sector. Despite the strength in platinum imports, data has pointed to softer jewellery fabrication activity in China. However, underlying interest in platinum jewellery remains strong as a promising price reaction emerged in the sector in May following the sharp price drop in platinum during Platinum Week. Daily volume traded on the Shanghai Gold Exchange set a new high on 20 May as prices dipped to 360CNY/q and volume traded for the whole month of May was up by 70% y/y and marked the second strongest month on record. Platinum volume traded on SGE in June so far is still up 6% y/y even as prices have trended upwards. JM have noted that they have not found any evidence of stockpiling and, furthermore, following the announcement of China Jinchuan acquiring a controlling share in Wesizwe Platinum, highlights the need to secure future platinum supply. Palladium imports also rose in May, but by a less impressive 2% y/y as auto sales continued to grow but the growth rate has slowed. Auto sales rose by 28% y/y the lowest growth rate since April last year and sales eased by 7.5% m/m. As auto sales start to slow we would expect palladium imports to follow a similar trend. Meanwhile, silver imports rose by 72% y/y to 483 tonnes while exports fell by 44% y/y to 129 tonnes keeping China's trade status as a net importer of silver for the eight consecutive month.

Energy commodities

Chinese oil demand data is showing the first signs of levelling off, with May oil demand growing at about 700 thousand b/d, the slowest pace since August 2009, and somewhat of a slowdown from the above 1 mb/d of growth seen in the year-to-date. Yet, the health of the underlying economy remains robust, with implied demand reaching 8.531 mb/d in May, the second highest level on record. While crude oil imports fell to 4.2 mb/d from a record high of 5.12 mb/d in April, it still constituted a 4.4% increase y/y. Moreover, refinery runs continue to scale new highs, reaching 8.45 mb/d, up 14.8% y/y, as diesel and gasoline production levels touched all-time highs, reflecting the strength in underlying demand. With

the commissioning of almost 2 mb/d of refining capacity over 2009 and continuing into 2010, China has strived to achieve self-sufficiency in products, while remaining a large net importer of crude. As a result, China's product imports remained muted and fell back in May to 80 thousand b/d, the fourth lowest level. Across individual products, China remained a net exporter of gasoline, and diesel, with the latter's net exports levels remaining steady from April's levels. Net exports of jet fuel, however, remained at negligible levels, with a 41% m/m increase in exports being offset by a 46% m/m rise in imports. Residual fuel oil imports remained elevated at about 457 thousand b/d, though net imports fell back 85 thousand b/d m/m. Gasoline demand growth has flat-lined, while the middle of the barrel has picked up sharply, with distillate demand growing by 10.7% y/y and jet fuel demand by 11.6% y/y. While residual fuel oil demand has continued to remain weak for several months now, the top and middle of the barrel are taking the lead in Chinese oil demand growth as growth in the petrochemical sector moderates (which has been the key driver of demand growth so far). We continue to expect Chinese oil demand growth to be the stalwart of global oil demand growth this year, growing by 0.76 mb/d, and level off around current robust levels. We do not, however, expect the appreciation in the CNY to have any material short-term impact on oil imports, and see it more as a driver of sentiment. The flexibility in the yuan has been long expected and is likely to take the form of a gradual appreciation, rather than any one-off move higher. With the yuan now pegged to a basket of currency, we once again see this as yet another measure which puts Chinese domestic demand on a longer-term sustainable path, similar to the policy measures directed towards addressing the overheating of the economy, as the engines of domestic growth become more widespread, rather than solely relying on export competitiveness. Ultimately, Chinese oil imports remain a function of the underlying economic strength, which continues to remain robust and factors like exchange rate, are peripheral at best. We see Chinese oil demand now as embarking on sustainable path, with policy measures now aimed at controlling the overheating of the economy, thereby driven towards a soft landing of the economy, and hence a positive development according to our macro-economists.

Agriculture

China Customs agricultural trade data for May showed diverse trends. Broadly, imports were lower m/m across a number of agricultural markets including cocoa, coffee, cotton while being higher for wheat, soybeans and soybean oil. In soybeans - where China is the key demand-side dynamic – imports were robust at 4.4mn tonnes, coming in at their loftiest level since December 2009's all time highs of 4.78mn tonnes. The pact of import demand soybeans has been strong in 2010 so far, coming in above 4mn tonnes every month except for weakness in February and YTD averaging half a million tonnes higher compared to year ago levels. Meanwhile, we believe greater CNY flexibility is likely to be positive for sentiment in the near term but does not change our view with regards to China and its import demand across any agricultural market. Certainly, a stronger CNY boosts import attractiveness and implies stronger purchasing power for agricultural commodities but is not likely to stimulate a large increase in imports, in our view, and markets like soybeans have already seen high imports in 2010 so far, which are unlikely to continue to climb solely due to import attractiveness on the CNY move. With ample domestic availability, we would expect Chinese soybean imports to moderate in H2. In the corn market, imports rose as well, but were more than offset by the surge in exports. Corn imports came in at 4.9Kt (up 36% m/m and a hefty 616% y/y) while exports rose further, up 9Kt or 144% m/m to 16.1Kt, keeping China a net corn exporter of 11Kt in May. China's wheat imports stayed high in May at 190.6Kt, up by 45% m/m and 169% y/y. In cotton, where again like soybeans, China is the world's largest consumer and importer, imports in May fell 39% m/m and came in at 198Kt, having

averaged 293Kt in the first four months of 2010. However, we do not believe this constitutes a period of weakness in Chinese cotton demand with its textile industry likely to recover in line amid a broader global economic recovery. Sugar was notable, with China's imports in May rising almost 600% m/m to 116.5Kt while exports more than halving m/m to 5.7Kt. Across the rest of the soft commodity complex, Chinese imports in May continued to exude weakness. China's cocoa imports fell by 27% m/m in May after dropping by 48% m/m in April but at 1.7Kt were still up 87% y/y. China's coffee imports meanwhile more than halved in May to 1.1Kt while exports stayed elevated at 4.2Kt, keeping China a net exporter for the fifth successive month.

China's metals trade data

000s tonnes Aluminium	May-10	Apr-10	Mar-10	May10 Y/Y chge	YTD chge	2009	2009 Y/Y chge
Bauxite Imports	2452	2456	2573	60%	99%	19,692	-23%
Alumina Imports	461	154	507	-4%	3%	5,141	12%
Primary Imports	28	29	28	-89%	-80%	1,496	1129%
Primary Exports	25	49	2	9689%	2118%	46	-58%
Net Trade	-3	20	-26	-	-	-1450	-
Alloy Imports	12	13	13	-50%	-38%	243	76%
Alloy Exports	49	42	40	412%	290%	264	-64%
Net Trade	37	29	27	-	-	21	-
Copper	May-10	Apr-10	Mar-10	May10 Y/Y chge	YTD chge	2009	2009 Y/Y chg
Concentrate Imports (gross weight)	479	606	541	-5%	15%	6,132	18%
Concentrate Imports (est. metal content 28%)	134	170	151	17%	20%	1,717	18%
Refined Imports	280	310	337	-15%	-4%	3,185	119%
Refined Exports	5	5	2	2823%	1344%	73	-24%
Net Trade	-275	-305	-335	-	-	-3112	-
Scrap Imports	327	372	365	0%	15%	3,998	-28%
Lead	May-10	Apr-10	Mar-10	May10 Y/Y chge	YTD chge	2009	2009 Y/Y chg
Concentrate Imports (gross weight)	82	90	102	-25%	-12%	1,605	11%
Concentrate Imports (est. metal content 55%)	45	50	56	-19%	-9%	883	11%
Refined Imports	3	0	1	-88%	-94%	157	409%
Refined Exports	1	4	4	-23%	78%	23	-31%
Net Trade	-2	4	3	-	-	-134	-
Nickel	May-10	Apr-10	Mar-10	May10 Y/Y chge	YTD chge	2009	2009 Y/Y chg
Concentrate Imports (gross weight)	2014	1847	1635	127%	112%	16,421	34%
Refined Imports	11	17	19	-57%	-5%	250	112%
Refined Exports	7	8	7	1633%	1369%	34	413%
Net Trade	-4	-9	-12	-	-	-217	-
Tin	May-10	Apr-10	Mar-10	May10 Y/Y chge	YTD chge	2009	2009 Y/Y chg
Refined Imports	2	2	2	-51%	-25%	24	84%
Refined Exports	2	0	0	-	13%	0.7	23%
Net Trade	0	-2	-2	-	-	-24	-
Zinc	May-10	Apr-10	Mar-10	May10 Y/Y chge	YTD chge	2009	2009 Y/Y chg
Concentrate Imports (gross weight)	224	212	192	-25%	-4%	3,850	61%
Concentrate Imports (est. metal content 50%)	112	106	96	-39%	3%	1,925	61%
Refined Imports	31	31	18	-68%	-70%	670	265%
Refined Exports	4	4	5	42396%	605%	29	-59%
Net Trade	-26	-27	-13	-	-	-640	-
Precious metals	May-10	Apr-10	Mar-10	May10 Y/Y chge	YTD chge	2009	2009 Y/Y chg
Platinum Imports (000 ounces)	204	207	378	116%	117%	1,738	117%
Palladium Imports (000 ounces)	73	69	104	2%	74%	807	32%
Silver Imports (tonnes)	483	443	544	72%	55%	4,630	-25%
Silver Exports (tonnes)	129	141	129	-44%	-53%	3,729	-11%
Net Silver Trade	-354	-302	-415	-	_	-900	_

Note: There are three Chinese trade data releases. The data in the table above are from the third and final dataset. The 2009 figure is an annual total. Net trade data: A positive figure denotes net exports and a negative figure denotes net imports. Source: China Customs, Barclays Capital

China's energy commodity trade data

000 bpd							
Crude oil	May-10	Apr-10	Mar-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	4213	5165	4974	4%	30%	42926	14%
Exports	46	47	66	-60%	-57%	912	38%
Net trade	-4167	-5118	-4908	-	-	-42014	-
Gasoline	May-10	Apr-10	Mar-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	0	0	0	-100%	-100%	13	-98%
Exports	147	197	163	73%	107%	1381	143%
Net trade	147	197	163			1368	-
Diesel	May-10	Apr-10	Mar-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	26	26	66	-18%	-13%	453	-71%
Exports	136	141	114	42%	32%	1112	615%
Net trade	110	115	48		-	659	-
Jet fuel	May-10	Apr-10	Mar-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	136	93	92	7%	-9%	1576	-6%
Exports	140	99	172	44%	22%	1526	11%
Net trade	4	6	80		-	-50	<u>-</u>
Fuel oil	May-10	Apr-10	Mar-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	457	551	449	-10%	-9%	5167	17%
Exports	183	192	163	107%	70%	1787	34%
Net trade	-274	-359	-286	-	-	-3380	
LPG	May-10	Apr-10	Mar-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	102	85	61	-40%	-53%	1552	58%
Exports	29	21	21	28%	-9%	326	28%
Net trade	-73	-64	-40		-	-1226	-
000 tonnes							
Coal	May-10	Apr-10	Mar-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	10998	13517	15223	17%	114%	126317	209%
Exports	1461	1708	2262	23%	-16%	22434	-51%
Net trade	-9536	-11808	-12961	-	-	-103883	-

Note: There are three Chinese trade data releases. The data in the table above are from the third and final dataset. The 2009 figure is an annual total. Net trade data: A positive figure denotes net exports and a negative figure denotes net imports. Source: Customs, Barclays Capital

China's agriculture trade data

000 tonnes								
Cocoa	May-10	Apr-10	Mar-10	Feb-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	1.7	2.3	4.5	2.0	87%	136%	21	-61%
Coffee	May-10	Apr-10	Mar-10	Feb-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	1.1	2.8	2.1	1.7	6%	36%	22	41%
Exports	4.2	4.5	7.6	4.6	0%	14%	33	45%
Net Trade	3.1	1.7	5.6	2.8	-	-	11	-
Corn	May-10	Apr-10	Mar-10	Feb-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	4.9	3.6	2.1	1.1	616%	967%	84	70%
Exports	16.1	6.6	5.9	0.3	1%	146%	130	-49%
Net Trade	11.2	3.0	3.9	-0.8	-	-	46	-
Cotton	May-10	Apr-10	Mar-10	Feb-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	198.0	323.8	323.8	221.0	31%	141%	1526	-28%
Exports	1.5	1.1	0.6	0.0	66%	-37%	8	-50%
Net Trade	-196.5	-322.7	-323.2	-221.0	-	-	-1518	-
Sugar	May-10	Apr-10	Mar-10	Feb-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	116.5	16.7	74.3	6.1	-18%	65%	1064	37%
Exports	5.7	13.4	19.0	8.1	-41%	104%	64	9%
Net Trade	-110.9	-3.3	-55.2	2.0	-	-	-1001	-
Soybeans	May-10	Apr-10	Mar-10	Feb-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	4367.3	4195.0	4008.7	2949.0	24%	13%	42552	14%
Exports	19.0	34.2	21.8	8.5	-50%	-52%	347	-25%
Net Trade	-4348.3	-4160.8	-3986.8	-2940.5	-	-	-42205	-
Soyoil	May-10	Apr-10	Mar-10	Feb-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	34.2	14.9	48.9	22.6	-94%	-70%	2391	-8%
Exports	84.6	7.0	4.3	2.4	96%	14%	69	-48%
Net Trade	50.3	-7.9	-44.6	-20.2	-	-	-2322	-
Wheat	May-10	Apr-10	Mar-10	Feb-10	May Y/Y chge	YTD chge	2009	2009 Y/Y chge
Imports	190.5	131.4	191.6	95.0	169%	206%	894	2704%
Exports	0.0	0.0	0.0	0.0	-100%	-100%	8	-93%
Net Trade	-190.5	-131.4	-191.6	-95.0	-	-	-885	-

Note: There are three Chinese trade data releases. The data in the table above are from the third and final dataset. The 2009 figure is an annual total. Net trade data: A positive figure denotes net exports and a negative figure denotes net imports. Source: Customs, Barclays Capital

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