

October 24, 2013

## MARKET HIGHLIGHTS

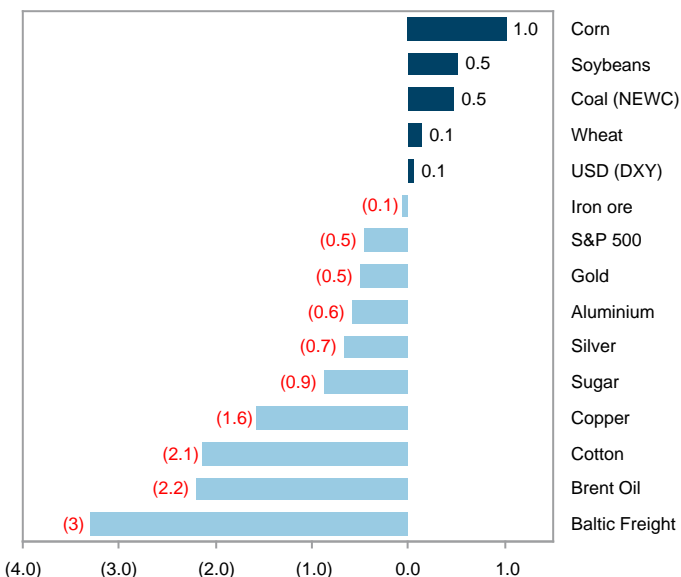
- **Focus on China with flash PMI out today**
- **Base metals and crude oil lower**
- **Precious metals largely unmoved overnight**
- **Cotton prices down 2%**

## KEY THEMES

**Overnight themes** – The markets' attention has quickly moved on from the US to a renewed focus on China. What's under the hood at China's banks has also been the subject of much speculation, especially after the severe cash crunch mid-year that led to a spike in funding rates. Yesterday, Bloomberg reported that the amount of bad loans written off by China's five biggest banks had tripled in H1 (to USD3.65bn), raising market fears that banks may be cleaning up their books ahead a fresh wave of defaults.

China's seven-day repo rate jumped 47bps in response; the Shanghai composite index fell 1.5% in half an hour, and the AUD fell around one US cent. Regulators have been pushing China's banks to lift capital buffers following a rampant surge in lending in recent years, as GDP growth continues to moderate. The focus on China in the past 24 hours will make the China HSBC/Markit Flash Manufacturing PMI for October - released today - potentially more market-moving than usual.

## OVERNIGHT RANKED PRICE MOVES (%)



Note: Coal (NEWC) refers to front month futures  
 Sources: Bloomberg, ANZ Commodity Strategy

## COMMODITY WRAP

- **The bullish trend continued in the thermal coal market** yesterday as seasonal demand remained strong. Newcastle thermal coal futures settled at USD86.9/t yesterday. Cumulative gains are now 13% since early September. Coal prices in China's major consuming region also rebounded, showing signs of reversal in price weakness for the last 18 months. Vessel congestion in key export terminals including NSW's PWCS and South Africa's RBCT eased, due to strong loading performances in the last few weeks.

The iron ore market was unchanged, but port stockpiles in China have risen to an eight-month high. Market sentiment in China became less optimistic and steelmakers are likely to maintain the wait-and-see attitude until a clearer direction in the market appears.

- **Gold was largely unmoved** in the overnight session. Asia was heavy, with gold trading down from the day's highs above USD1,342/oz to the low reached on the London open just below USD1,330/oz. From there the price action was sideways into the close, and closely mirrored across the rest of the precious metals.

Physical demand in gold remains soft, though we are seeing good turnover in silver, mainly from Indian counterparts. On the macro front, markets will be watching the China Flash PMI today, though we expect little reaction in the precious metals market as the commodity focus is generally on energy and industrial commodities. US Initial Jobless Claims will be the focus tonight.

- **Cotton prices fell 2% overnight**, making it one of the worst performing commodities. Increased concern over China's debt situation resulted in what looks like fund liquidation, pressuring prices. Speculative positioning was particularly long going into the US government shutdown for both cotton and crude oil – neither of which performed well last night.

Corn prices bounced higher, but remain stuck within a well-defined range set in the past week. However, soybean prices edged higher, making it the sixth day where prices have closed in positive territory. Meanwhile in India, the expectation is for a large planting of winter crops, after an excellent monsoon season and high water storage levels for irrigation. There is the potential for India to match or even better last year's output of wheat, rapeseed and chickpeas, assuming no major weather or disease damages the upcoming crops.

## COMMODITY DATA

## PRICE DATA

Commodities	Close	1 Day	1 Wk % Change	1 Mth	3 Mth
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## LME BASE METALS (USD/t)

Aluminium	1,822	(0.6)	0.7	3.7	0.9
Copper	7,201	(1.6)	(0.5)	0.4	2.3
Nickel	14,580	(1.5)	3.7	6.0	2.0
Zinc	1,915	(0.7)	1.4	3.5	3.5
Lead	2,159	(1.3)	0.9	5.5	5.0
Tin	22,905	(1.2)	(0.2)	(1.0)	17.7

## PRECIOUS METALS (USD/oz)

Gold	1,333	(0.5)	4.0	(0.1)	0.8
Gold (A\$/oz)	1,385	0.3	3.0	(2.7)	(4.0)
Silver	23	(0.7)	5.4	3.5	11.8
Platinum	1,434	(1.1)	2.4	0.5	(1.0)
Palladium	745	(1.1)	3.9	3.1	(0.3)

## ENERGY (USD/bbl)

WTI Oil*	96.9	(1.0)	(5.3)	(5.6)	(8.1)
Brent Oil*	107.6	(2.2)	(3.0)	(0.7)	0.3
Sing Gasoil 0.5%	121	(1.7)	(3.0)	0.6	(1.0)
Sing Fuel Oil 180cst (US\$/t)	615	(0.2)	(0.1)	0.9	0.7

## OTHER (USD/t)

China HR Coil (RmB/t)	3,517	0.0	(1.1)	(1.6)	(2.9)
Richards Bay Coal	89	4.5	11.5	15.4	18.3
Newcastle Coal*	86.9	0.5	2.8	7.3	12.9
Australia Coking Coal**	148	...	(0.4)	(2.2)	12.9
Iron Ore Spot	133.2	(0.1)	(0.4)	(0.4)	0.8

\*Front-month futures \*\*Weekly FOB price

Commodities	Close	1 Day	1 Wk % Change	1 Mth	3 Mth
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## AGRICULTURE (US\$/bu)

Corn	443	1.0	0.0	(2.6)	(7.8)
Wheat	702	0.1	3.0	4.7	5.7
Soybeans	1,304	0.5	2.3	(1.5)	3.4
Cotton (US\$/lb)	80.7	(2.1)	(3.0)	(4.7)	(5.9)
Sugar (US\$/lb)	19.3	(0.9)	1.4	6.0	14.5
Live Cattle (US\$/lb)	132.8	(0.2)	(0.4)	1.1	3.5

Key Indices	Close	1 Day	1 Wk % Change	1 Mth	3 Mth
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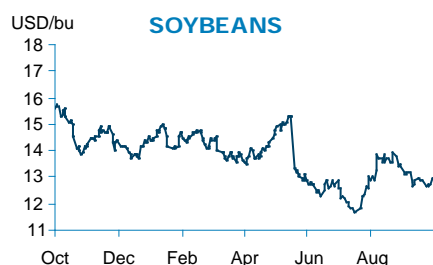
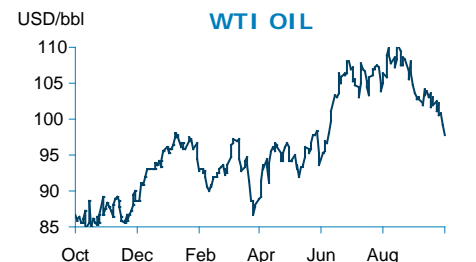
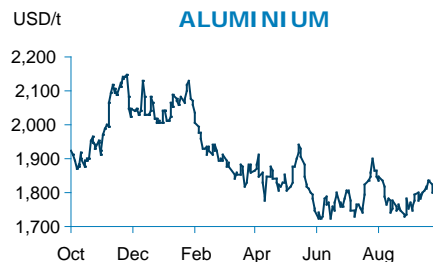
S&P 500	1,746	(0.5)	1.4	3.2	3.6
VIX Volatility Index	13	0.7	(8.8)	(4.2)	1.8
CRB Index	282	(1.0)	(2.0)	(1.4)	(2.1)
LME Metals Index	3,122	(2.0)	(0.6)	1.0	2.1

Freight	Close	1 Day	1 Wk % Change	1 Mth	3 Mth
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Baltic Freight Rate	1,786	(3.3)	(9.1)	(16.0)	59.9
Baltic Capesize	2,943	(5.4)	(15.4)	(32.0)	52.0
Baltic Panamax	2,010	(1.4)	(1.0)	15.2	75.5
Baltic Handysize	639	0.5	0.8	10.9	18.6

Currencies	Close	1 Day	1 Wk % Change	1 Mth	3 Mth
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DXY - USD Index	79.3	0.1	(1.5)	(1.3)	(3.7)
AUD/USD - Aussie	0.963	(0.8)	1.0	2.7	5.0
NZD/USD - Kiwi	0.839	(1.5)	(0.3)	1.6	5.8



Notes: \*Front-month futures \*\*Weekly prices

Sources: Bloomberg, McCloskey, ANZ Commodity Strategy

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