

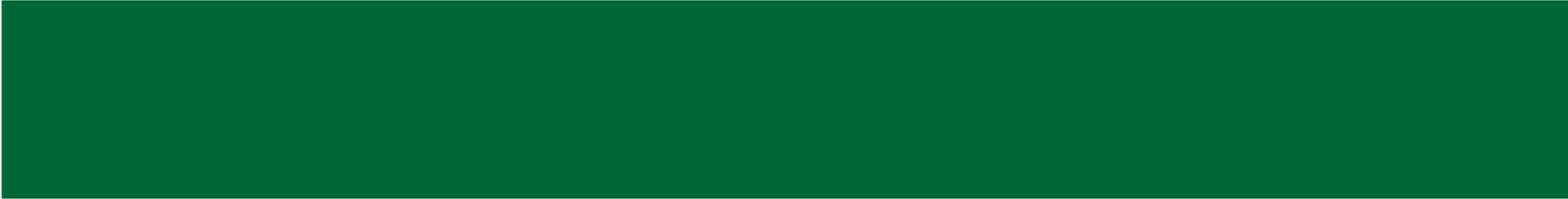
# Bubble, bubble – toil and trouble?

15 February 2011

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facilitating  
debate on the  
outlook for the markets





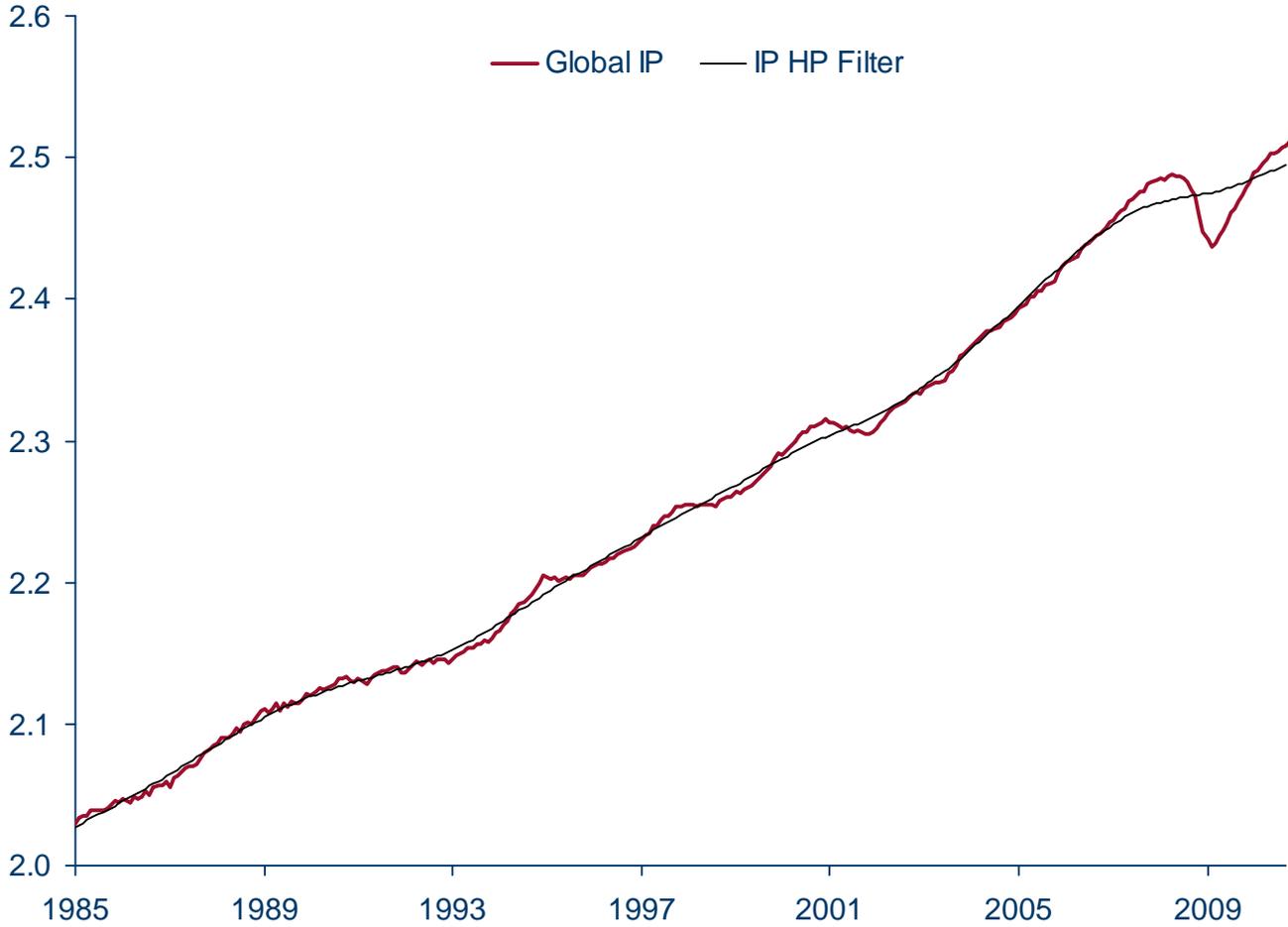
# Ric Deverell

Director - Commodities  
Credit Suisse

# Determinants of Commodity Demand

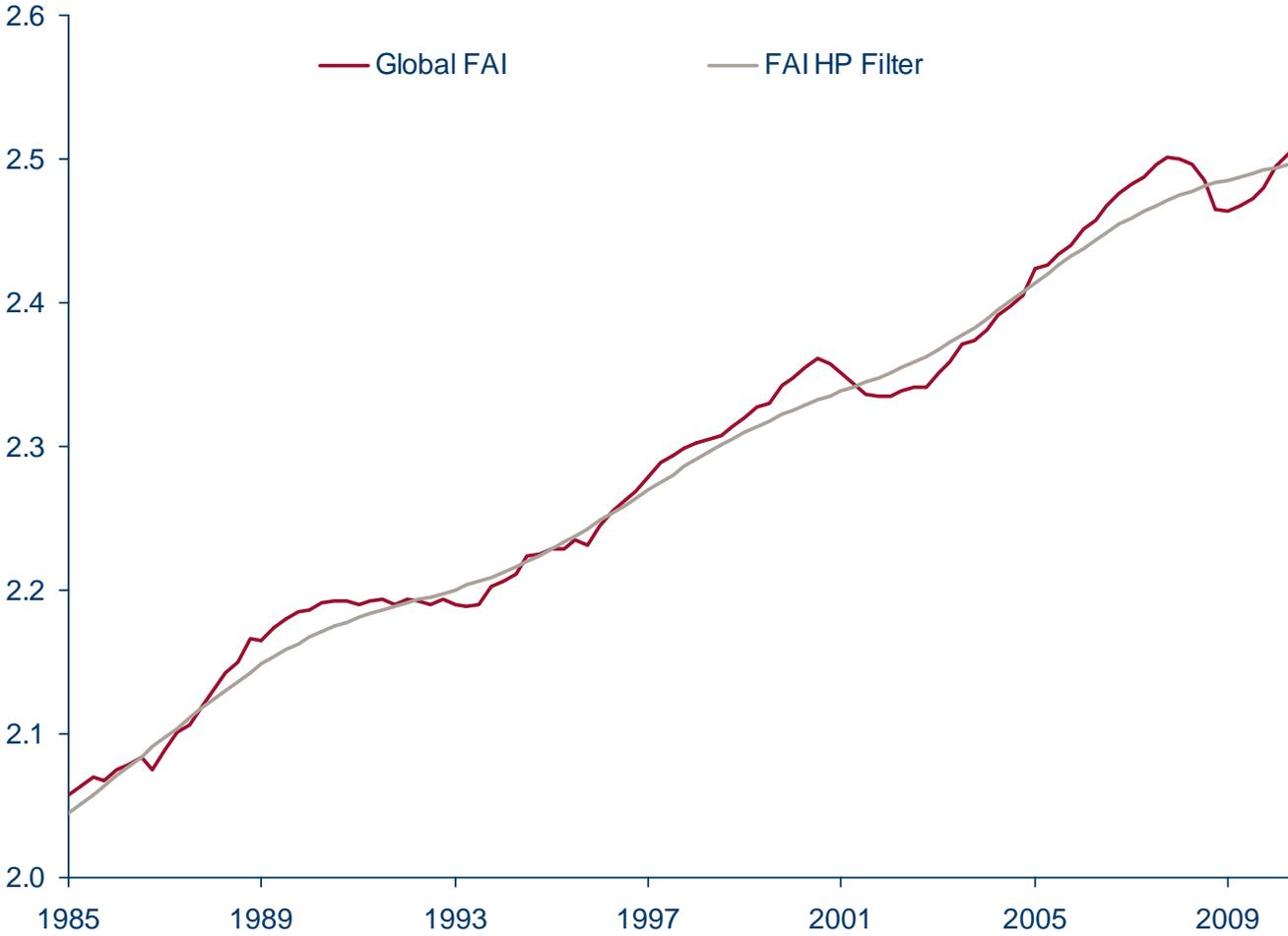
- When thinking about demand for many commodities, there are two main components.
- Global Industrial Production provides a good proxy for demand for commodities used to make goods.
- Global Fixed Asset Investment is a good proxy for demand for commodities used in the construction process.
- In addition the impact on price is a function of both the level of demand and the rate of change.

# Contrary to most commentary – which focuses on US GDP - the level of Global IP is back above Trend...



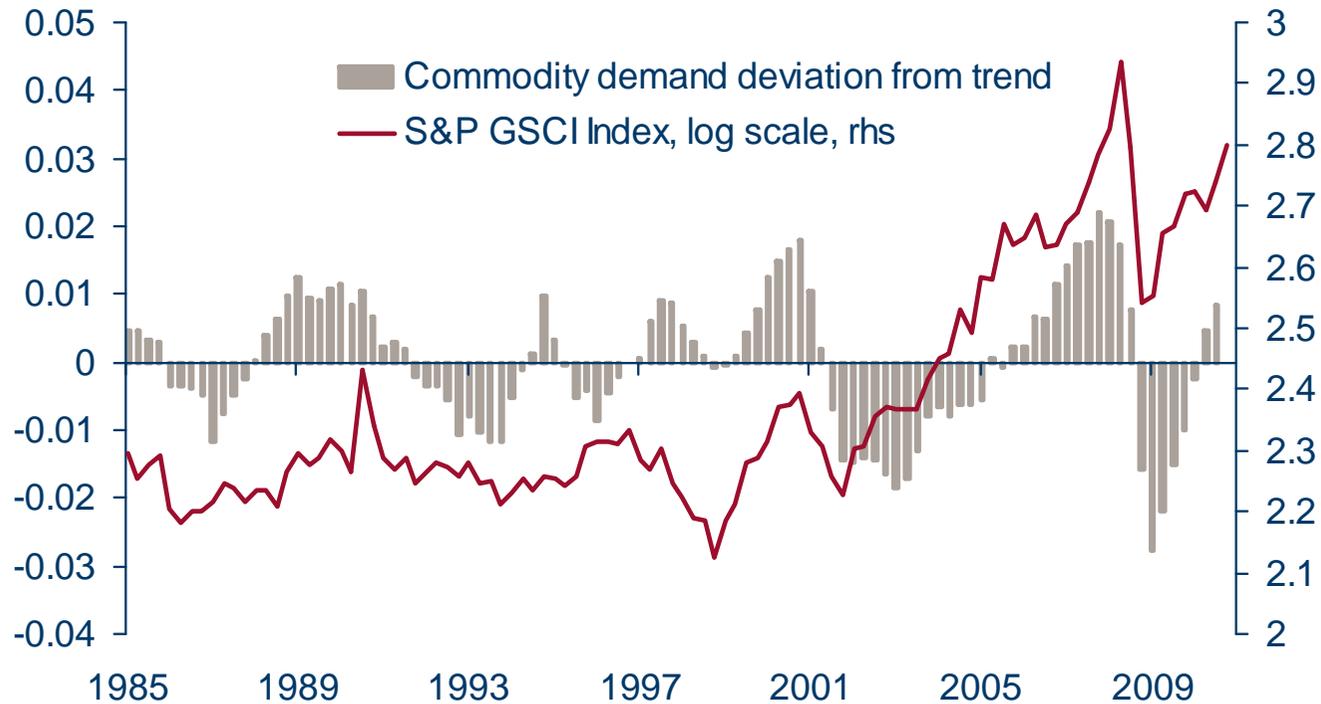
Source: Credit Suisse

# As is the level of Global FAI...



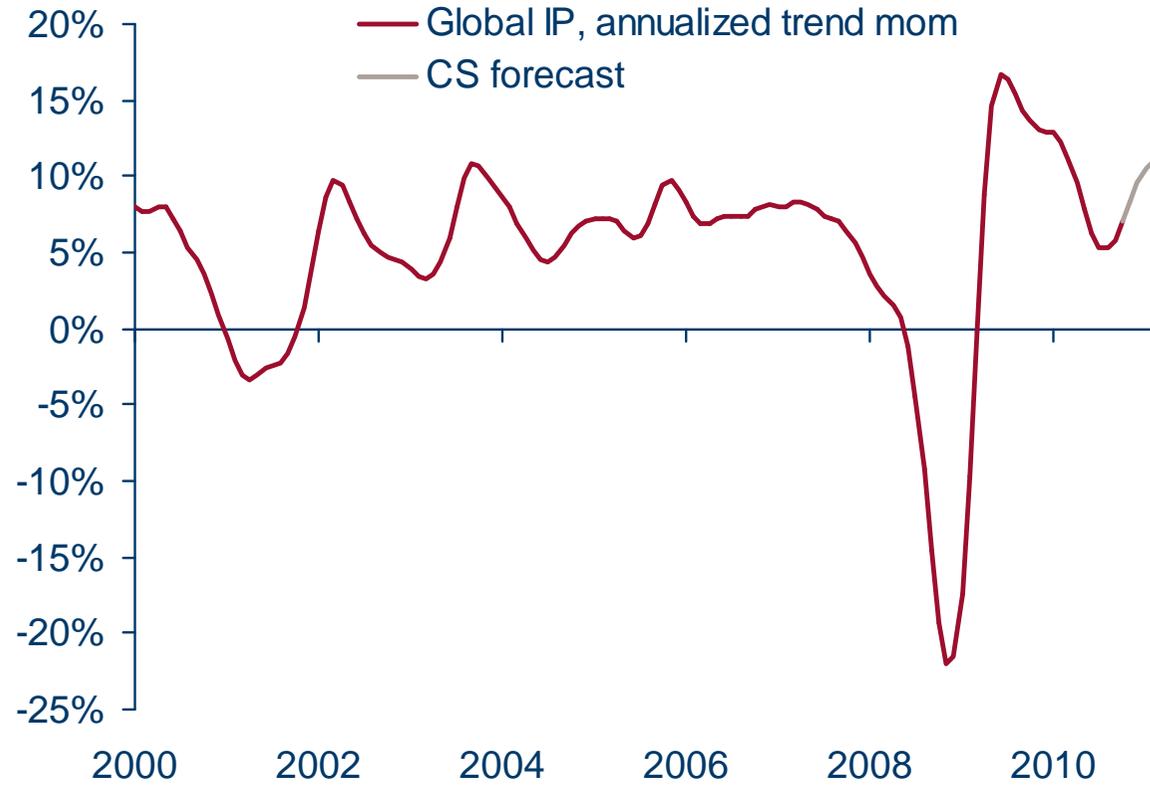
Source: Credit Suisse

Which means that demand for basic materials is now also well above trend – i.e., markets are really tight



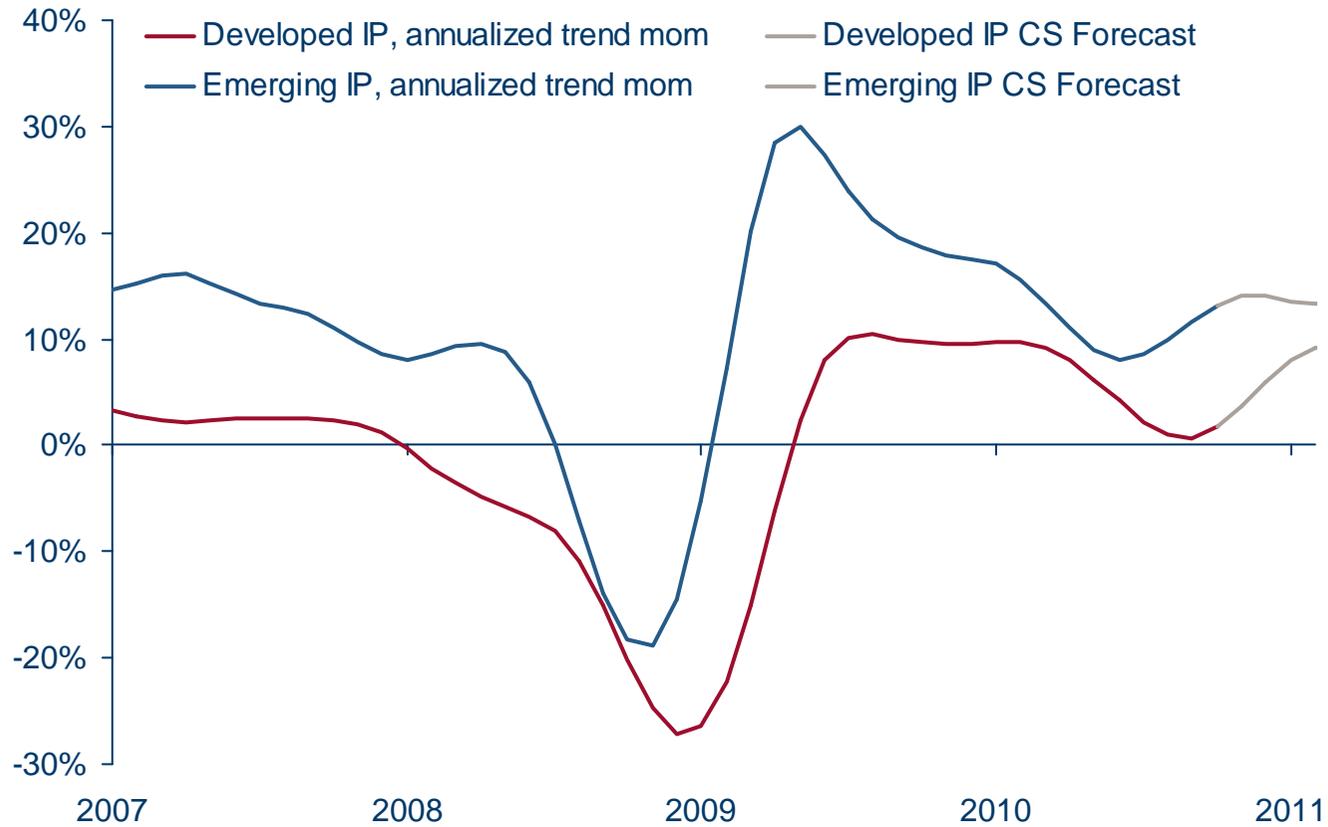
Source: Credit Suisse

## Growth is also above average – for Global Industrial Production



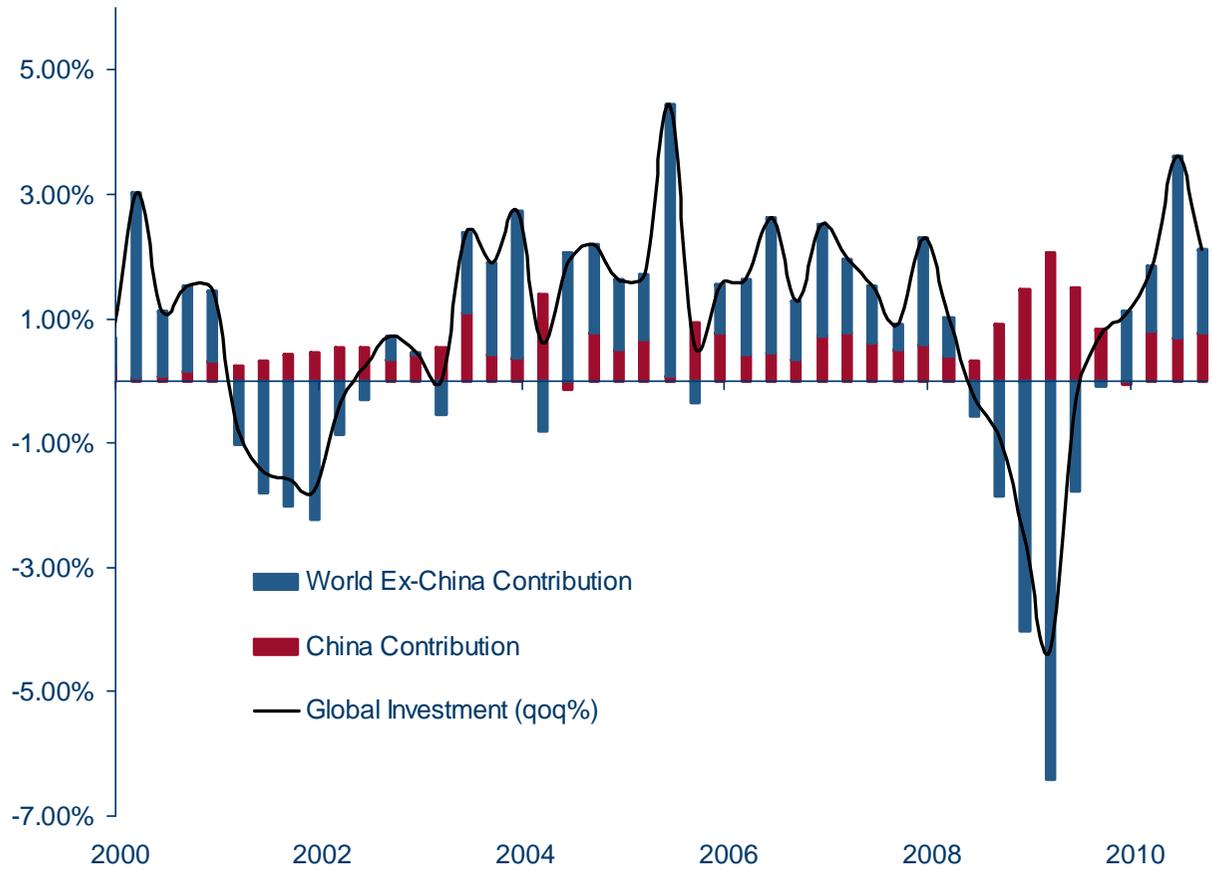
Source: Credit Suisse Global Strategy

## With a Global Rebalancing Under way



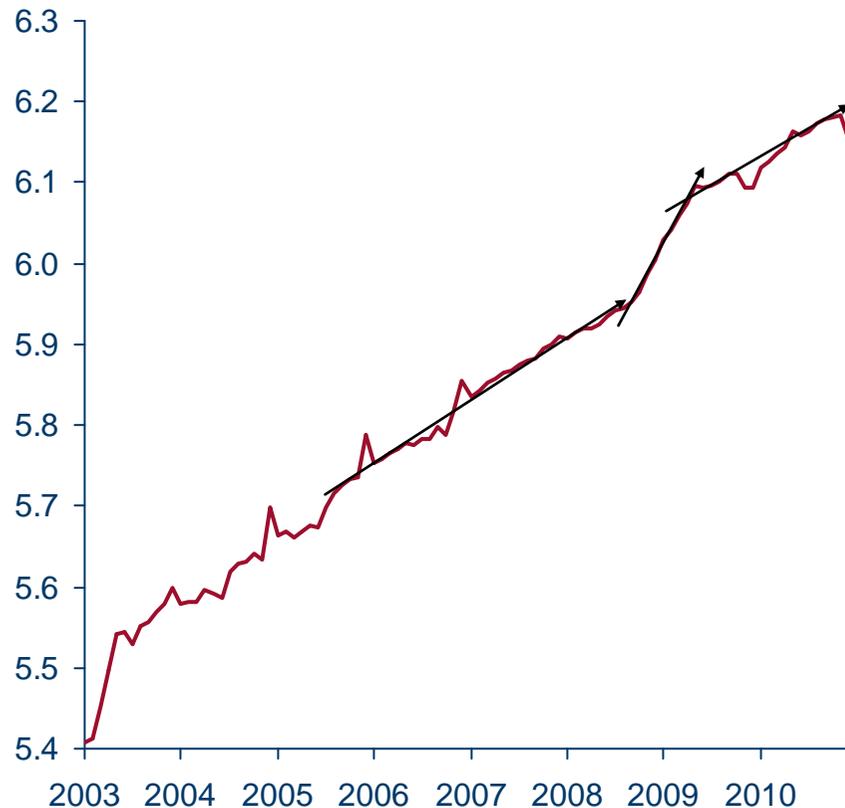
Source: Credit Suisse Global Strategy

# Global Real Fixed Asset Investment Is Also Growing Strongly



Source: Credit Suisse Global Strategy

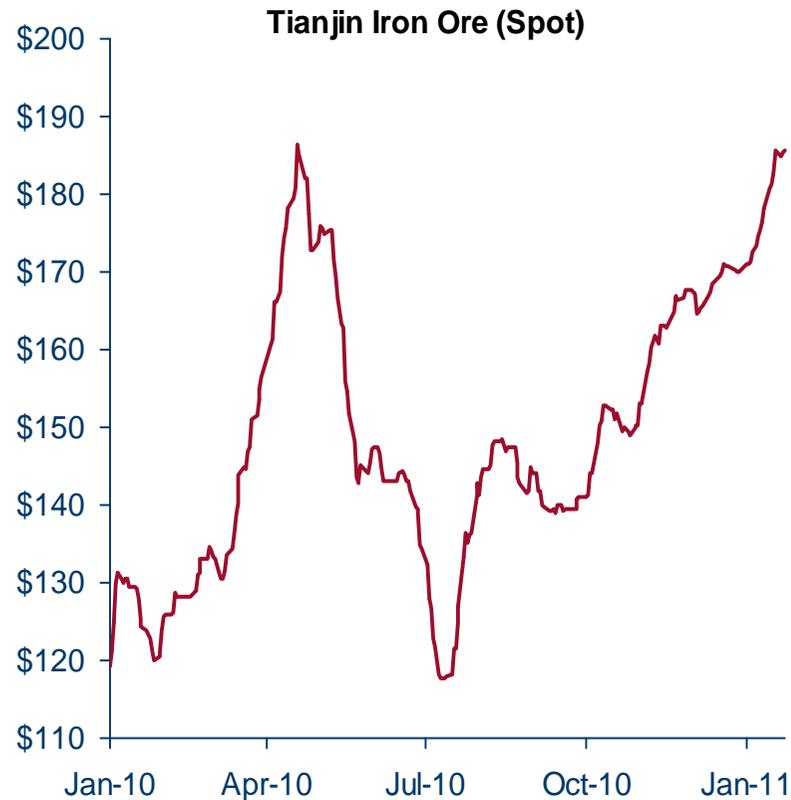
## China Fixed Asset Investment



- While the pace of Chinese investment growth has slowed from the surge in 2009, it remains around average.
- This is remarkable given the now higher base.
- Discussions with Chinese infrastructure firms suggest that investment will continue to grow next year.

Source: the BLOOMBERG PROFESSIONAL™ service, NBS

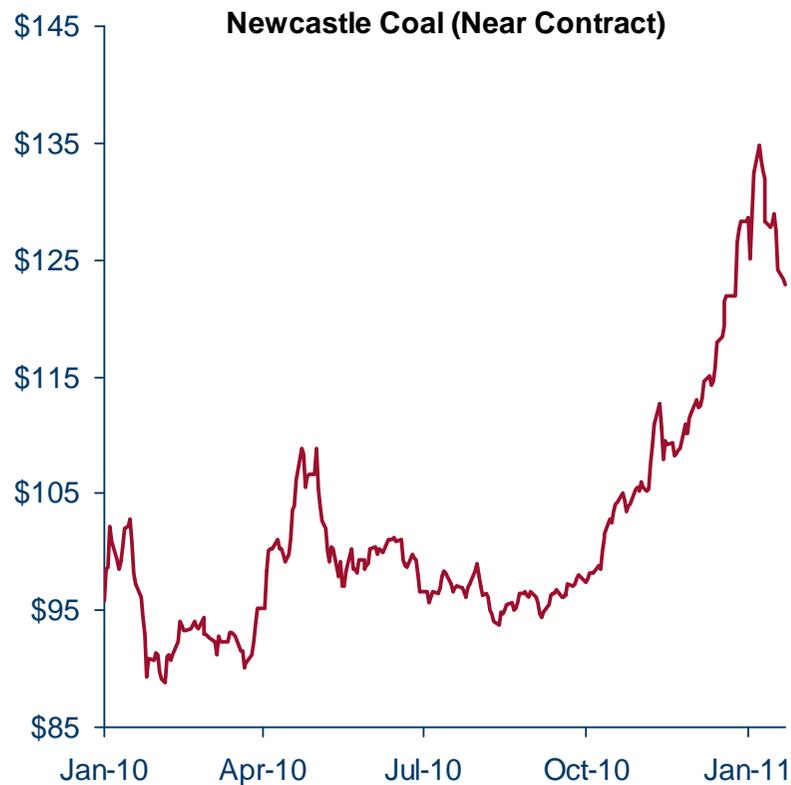
# Iron Ore



- Despite the energy restrictions in China, iron ore prices have increased substantially over recent months.
- While global steel production is rebounding, so is supply.
- If Karnataka drops the export ban, prices may be near a peak.

Source: the BLOOMBERG PROFESSIONAL™ service

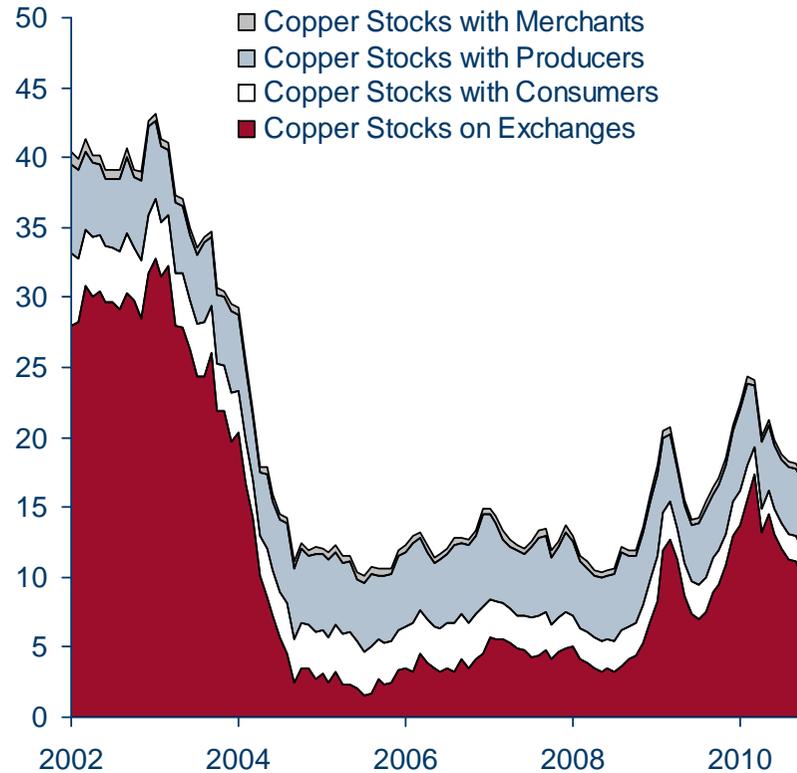
## Thermal Coal (Newcastle)



- Thermal Coal Prices have also moved significantly higher over recent weeks.
- The most recent spike is related to the Australian Floods.
- Prices have probably peaked, but the risk of more bad weather remains.
- But further out the outlook does not look as strong as for some other commodities.

Source: the BLOOMBERG PROFESSIONAL™ service

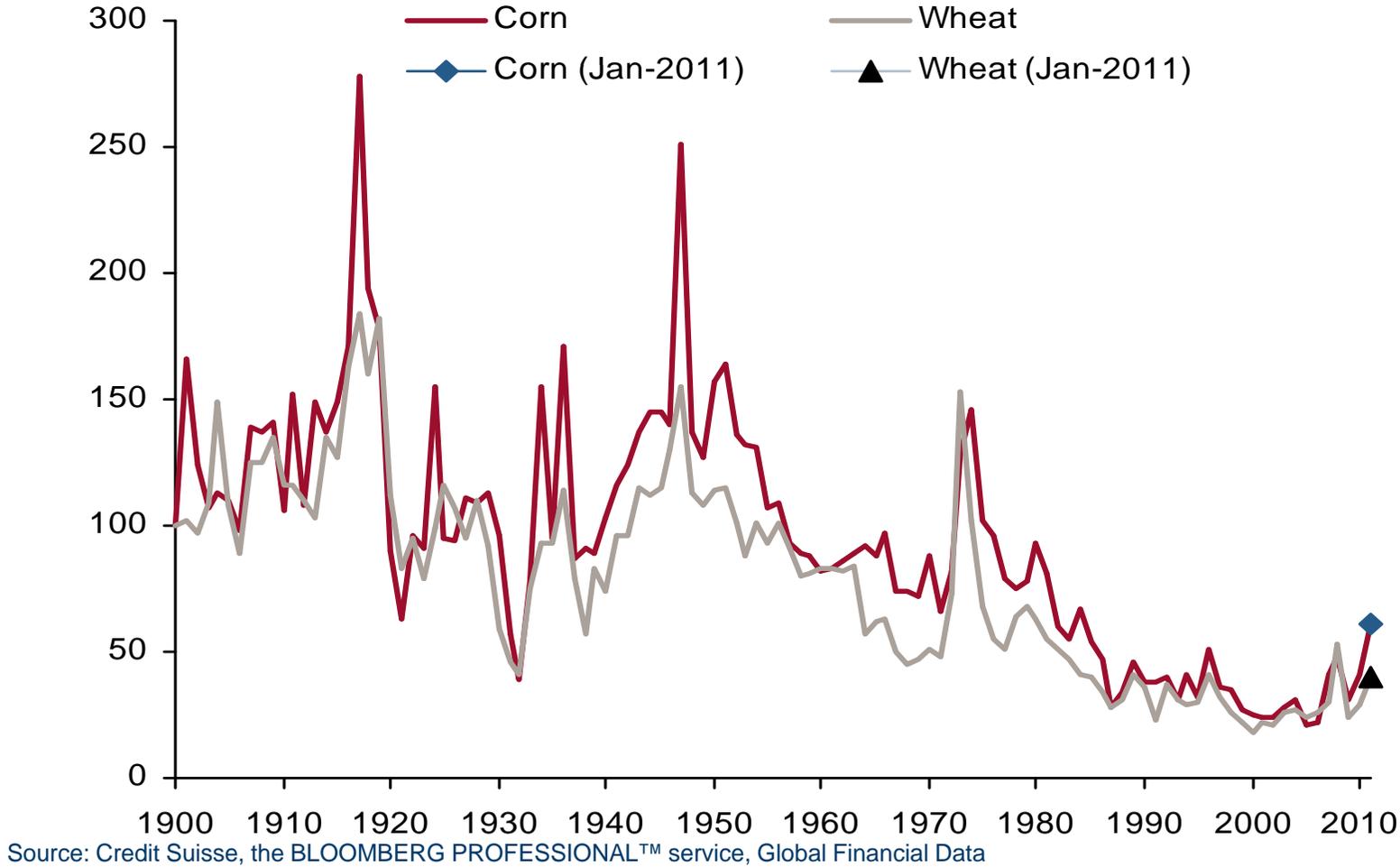
# Copper Inventories



- Base metals have performed strongly since mid 2010, with copper remaining our favorite buy, despite hitting new highs.
- Demand is likely to outstrip supply next year, with inventories already depressed – particularly those held by end consumers.

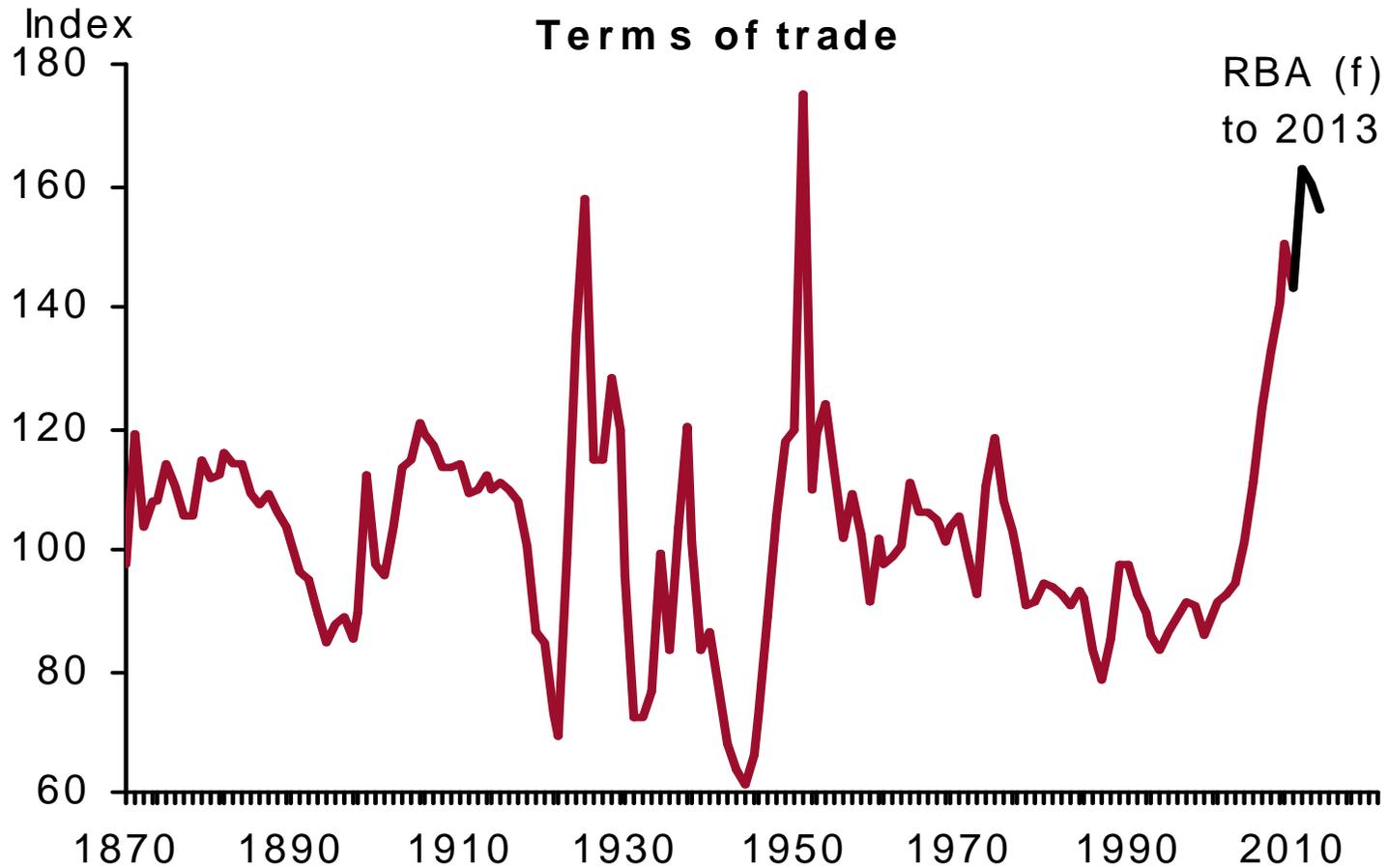
Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, WBMS

# Grains: The Long Run Downward Trend May be Coming to and End



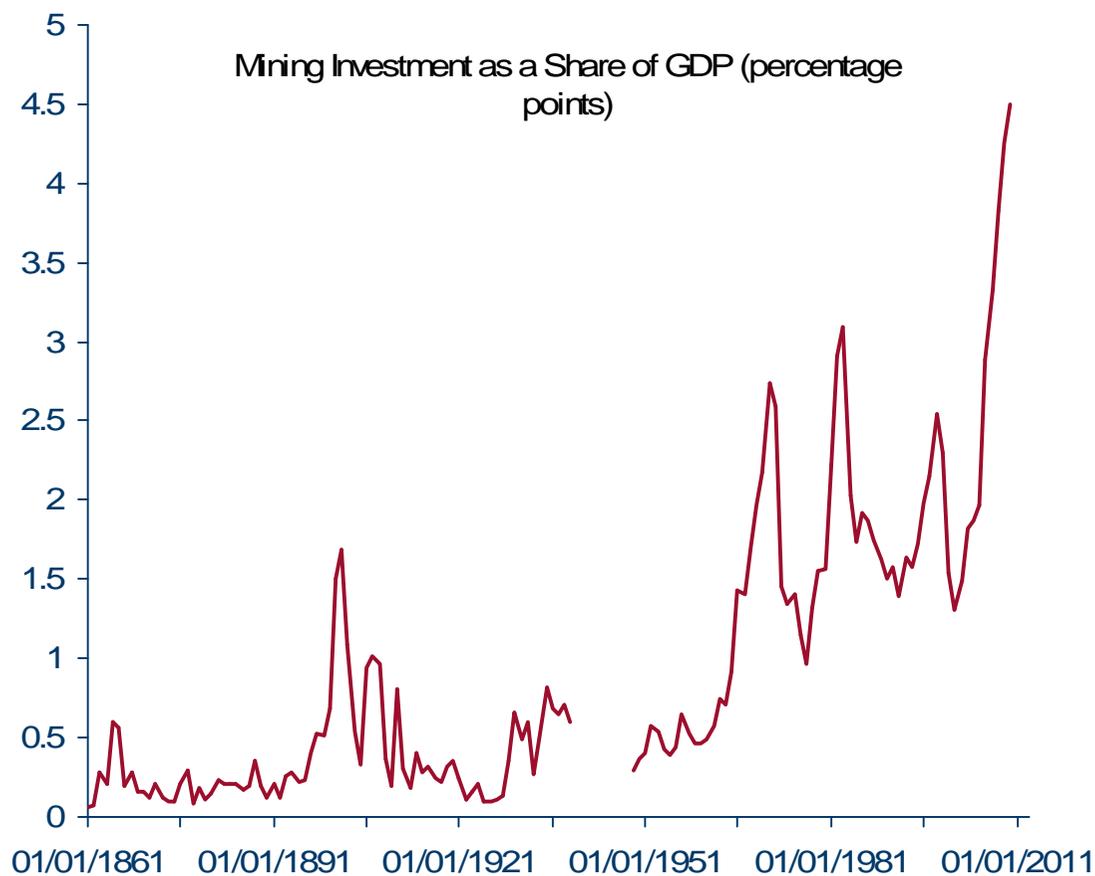
The Implications of What Looks Like a Structural Change in Global Relative Prices will Have Profound Implications For Aus.....

## The Terms of Trade is currently at an Historical High



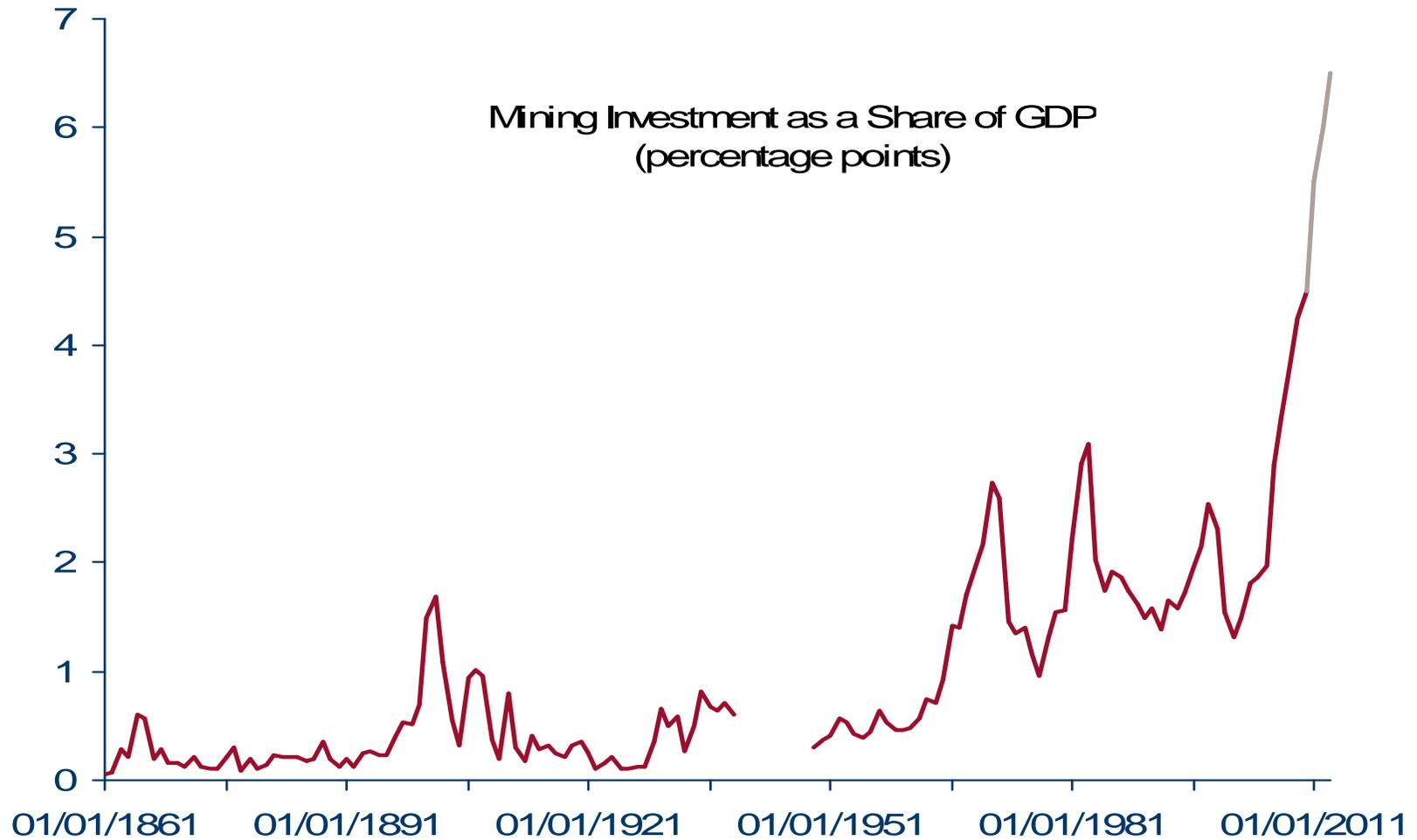
Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, WBMS

## So it is not Surprising that Mining Investment is Also Really Strong



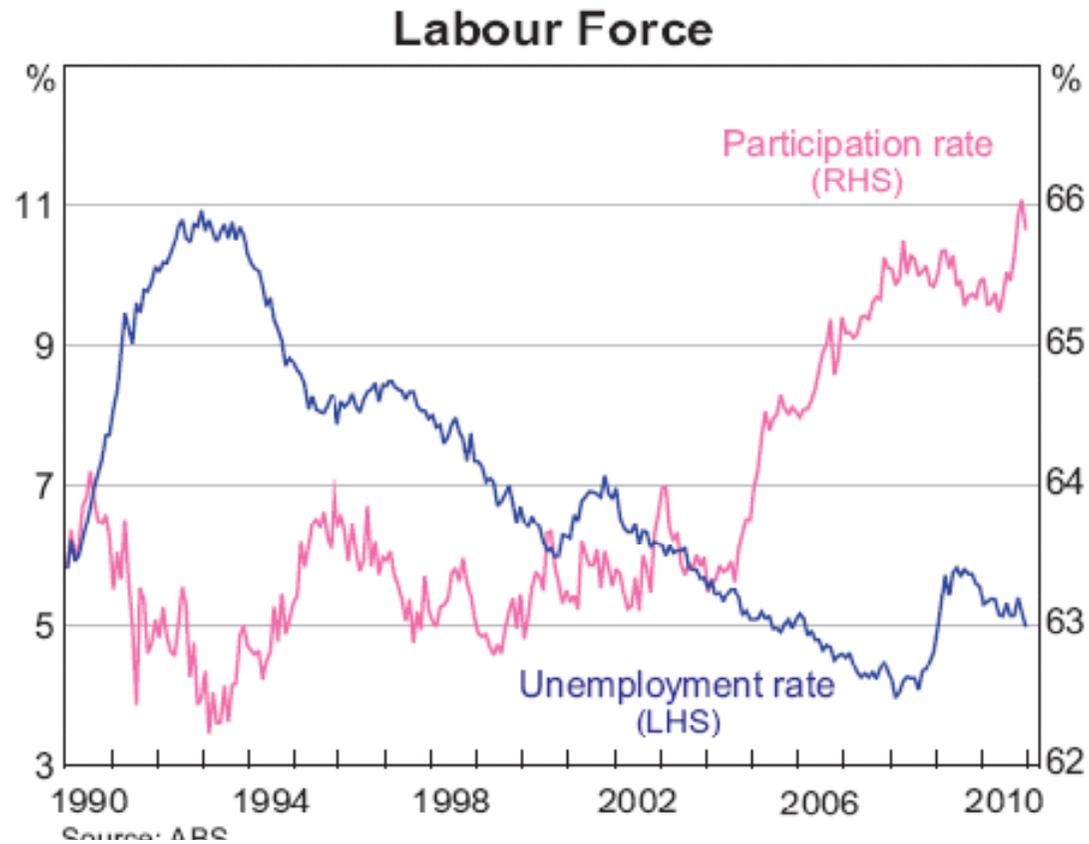
Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, WBMS

## But it About to Get MUCH Bigger – led by LNG



Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, WBMS

## But There is Little Spare Capacity

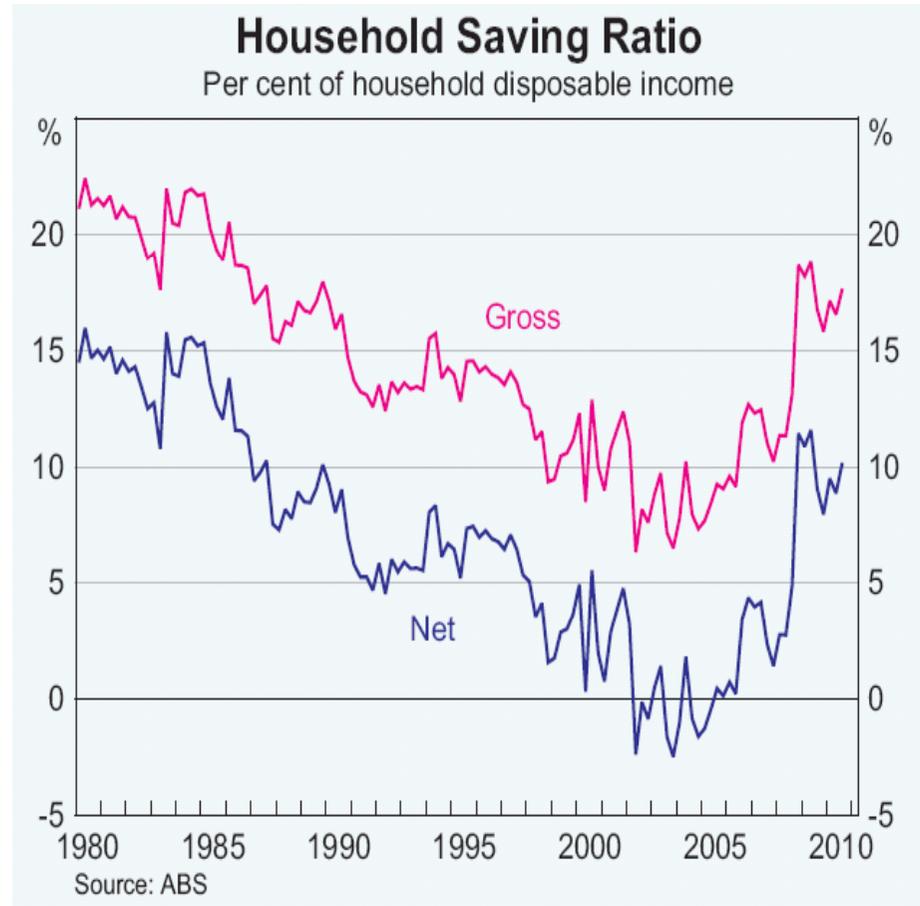


Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, WBMS

So For Mining Related Industries to Grow Above Average, Others will have to Grow Slower.

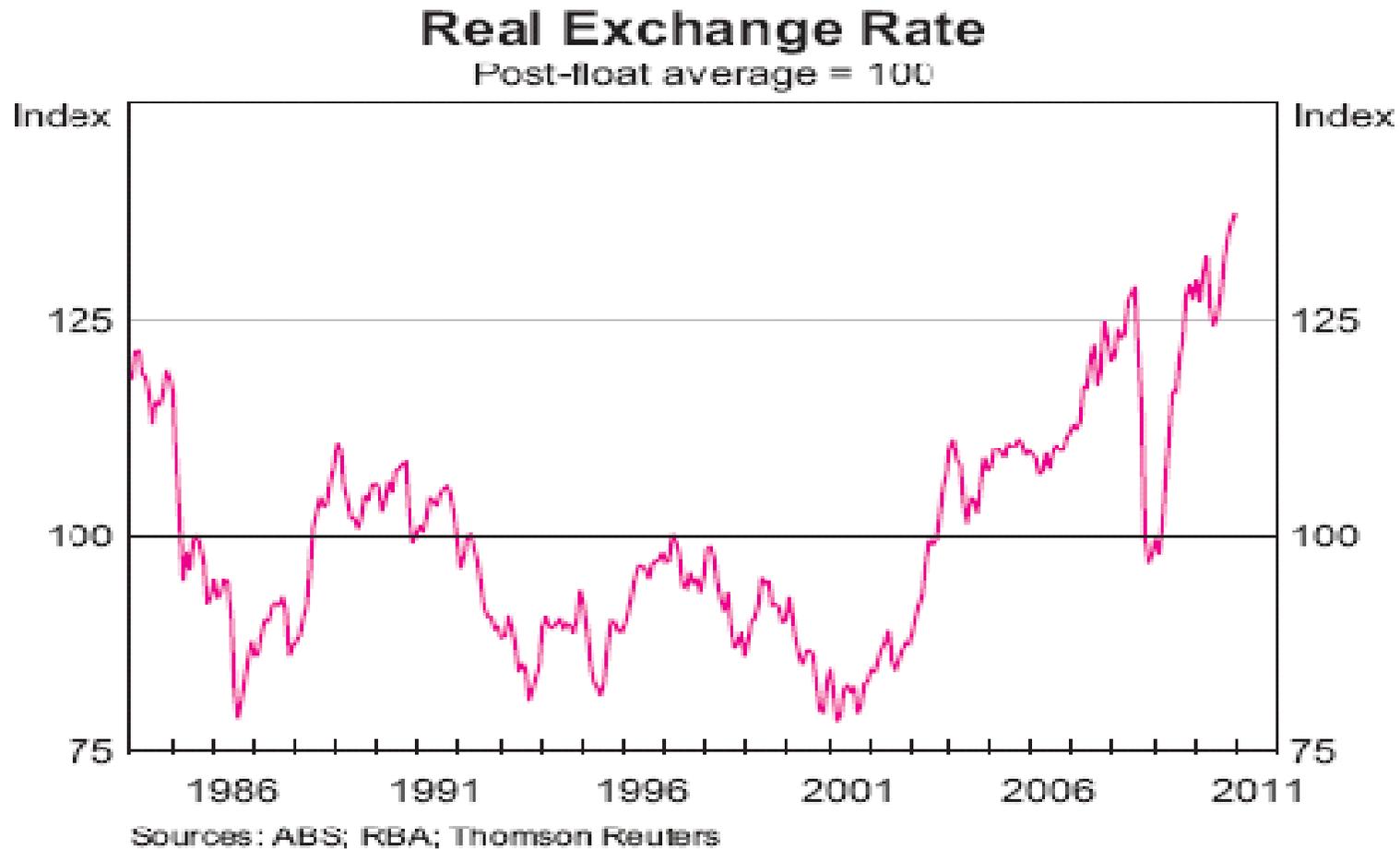
The Mechanism Will Be Higher Interest Rates and Exchange Rate.

## Sectors Exposed to Interest Rates Will on Average Struggle – Retail is an obvious example



Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, WBMS

And those Influenced By the Dollar will also be Challenged...



Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, WBMS

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