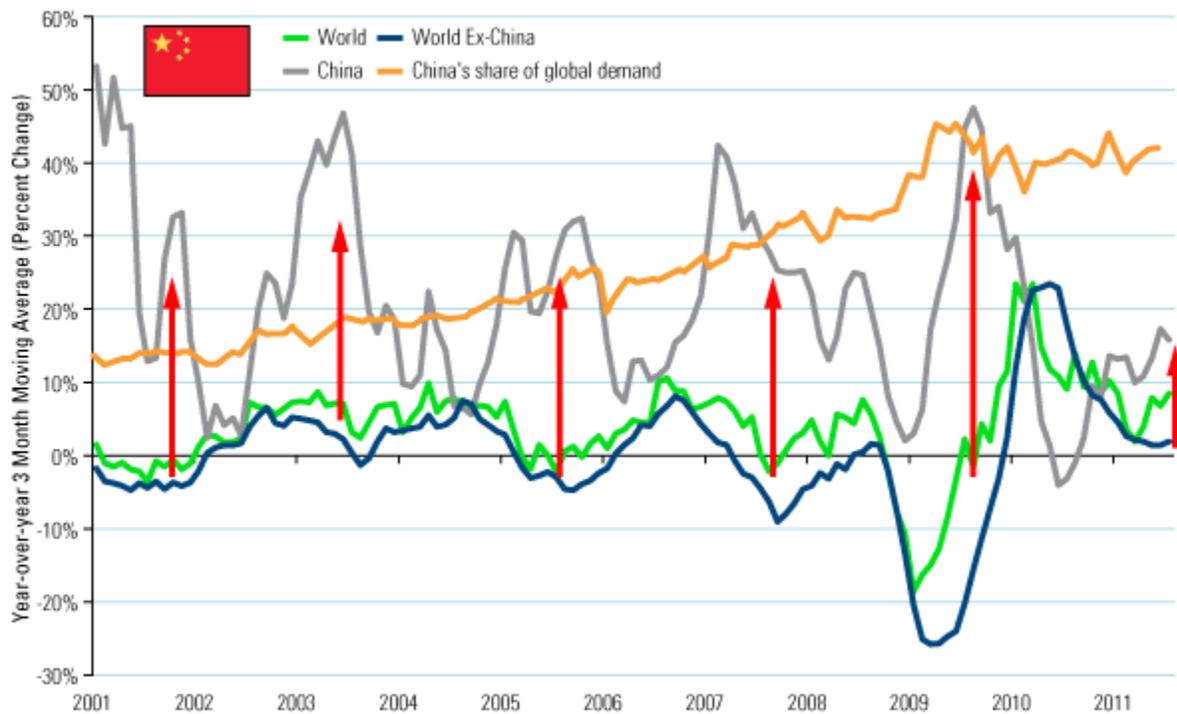


China--The Great Stabilizer
U.S. Global Investors
By Frank Holmes
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For the past ten years, whenever global base metals demand dissipated, China's voracious appetite stepped in to gobble up the leftovers. Since 2001, China has increased the country's share of total global demand for base metals from about 15 percent to over 40 percent in 2011, as shown in the yellow line. This has made China more important to commodities than ever before, according to Macquarie.

China's Base Metals Demand Counter to World Demand



Source: INSG, ILZSG, ICSG, IAI, worldsteel, Chinese trade data, CNIA, Macquarie Research, September 2011

Macquarie says China has been a “great stabilizer” for commodities: “As growth elsewhere in the world tends to weaken, Chinese call on supply from the rest of the world tends to rise and visa versa when demand weakens.”

As global demand declines, the world “exports disinflationary pressures to China in the form of lower Chinese export demand and also lower energy and other commodity prices. When inflationary pressures ease in China, the Chinese authorities have generally eased monetary and fiscal policies, leading to a strong restocking and domestic demand recovery,” says Macquarie.

The stabilizing effect we’ve seen over the past decade could be in danger if Chinese demand continues to weaken. So far this year, China’s metals demand has slowed despite continued growth in industrial production and construction.



Macquarie thinks there are near-term downside risks in prices due to weak financial markets but things look rosier farther out on the time horizon. The firm says demand for base metals will be weak but not “disastrously” so. Industrial growth in many developed economies has mostly recovered from the Japan earthquake in March and Chinese industrial production growth will likely remain strong around 12 percent on a year-over-year basis in 2012.

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