

### COMMODITIES

#### LME cash price

	US\$/tonne	% change day on day
Aluminium	1,873	-1.2
Copper	5,894	-0.4
Lead	2,073	2.5
Nickel	11,707	0.7
Tin	21,120	1.5
Zinc	2,649	0.8
Cobalt	38,000	0.0
Molybdenum	24,880	0.0

#### Other prices

		% change day on day
Gold (US\$/oz)	1,283	0.3
Silver (US\$/oz)	15.36	0.5
Platinum (US\$/oz)	798	0.8
Palladium (US\$/oz)	1,322	-1.5
Oil WTI	53.07	1.9
USD:EUR exchange rate	1.130	-0.9
AUD:USD exchange rate	0.709	-0.7

#### LME/COMEX stocks

	Tonnes	Change
Aluminium	1,301,350	-475
LME copper	145,675	100
Comex copper	85,556	-899
Lead	85,200	-1,425
Nickel	203,088	786
Tin	975	-10
Zinc	117,475	-625

Source: LME, Comex, Nymex, SHFE, Metal Bulletin, Reuters, LBMA, Macquarie

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## Commodities Comment

### China's power demand – what slowdown?

#### Feature article

- Being concerned about the state of China's economy is a popular investor activity at the moment, [after its government expressed a willingness to stimulate growth](#). China's latest electricity demand data offer some relief for those pitching for upside: power generation bounced in December (+6.2% vs 3.6% YoY in Nov), holding form on robust industrial sector demand.
- Of China's power mix, more than two-thirds of 2018's demand growth delta was delivered from coal-fired generation, despite double-digit growth in renewables and nuclear. So why are coal prices struggling? Main reason is that China's domestic coal production rate is lifting from the NDRC-hit lows of 2016, up 5%yoy last year.

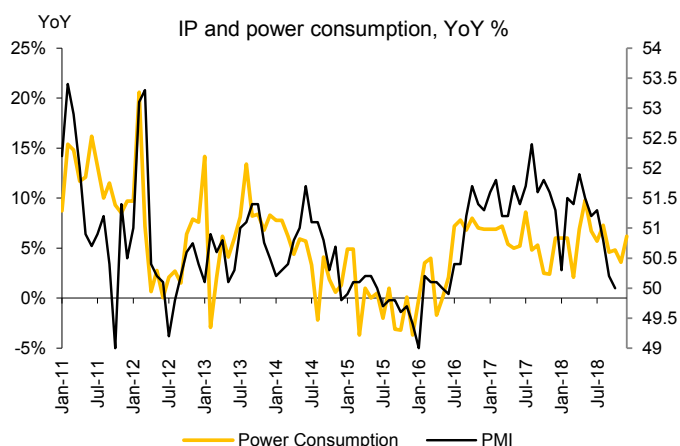
#### Latest news

- Mysteel updated China's **steel inventories** in the week to 24-Jan. Traders' inventory lifted 7%wow, mostly from long steel products. Meanwhile, mills' stock fell 2% on traders' seasonal restock (pre-CNY), consistent with this month's [Macquarie steel industry survey](#). So traders' inventories are up 2% this week; mills' inventories, lower 5%yoy.
- Australia's junior **iron ore** mining sector has sparked to life again. This week, MGX announced the first shipments from the reactivated Koolan Island. Also, Mineral Resources is pushing ahead with its Marillana 20-30Mtpa DSO hematite project, Western Australia (farm-in/50:50 JV with HK-based Brockman Mining). The deal requires a mine-to-ship deal involving an innovative 'Bulk Ore Transportation System' (BOTS): an elevated rail structure (promises to reduce upfront costs, minimal cut/fill earthworks) to take ore to Port Hedland. Project now seeks govt permits; financing agreements.
- A report from by the *Institute for Energy Economics and Financial Analysis* (energy industry think-tank) indicates that China's banks are currently financing over 25% of the total coal-fired utilities under construction in developing countries (esp. Egypt, Pakistan, Bangladesh and Vietnam), despite its own strategy to cut coal-fired capacity at home. We expect thermal coal imports from developing Asian countries (excl. India) to increase by almost 40Mt by 2025, as new coal-fired power generation comes online. The report is critical of China's policy to invest abroad (part of 2013 'Belt-Road' policy) in what IEEFA regards as 'costly, high carbon infrastructure'; no details for possible alternative, cost-effective power options are presented.
- Detailed China trade data for December shows a reduced pace of **gold** imports, with 53t of unwrought bullion imported, by far the weakest amount seen this year (which in total saw imports of 1,427t). This might reflect weaker end-use demand, end of year quotas or simply the higher gold price.
- Anglo American's 4Q18 **copper** output of 184kt was 16% [above our team's forecasts](#), the highest level since 4Q13. It was underpinned by record concentrate production at Collahuasi, on higher recoveries from an expanded float cell capacity. Anglo also confirmed a negative provisional pricing impact of US\$287/t vs. full year average price of US\$6,526/t.

### China's power demand – what slowdown?

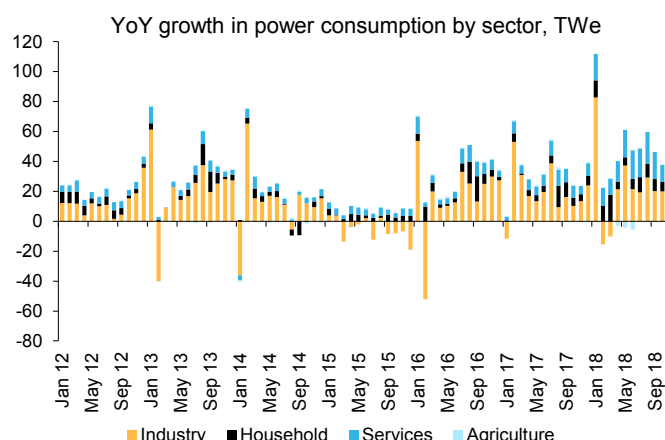
- Total power generation in China bounced in December (+6.2% vs 3.6% YoY in Nov), not just for heating, but on a robust lift in industrial sector demand – at odds with the recent pullback in manufacturing PMI – the major end-user of power in China (~70% of annual consumption).
- Some of the strength may be due to the lack of winter production cuts in China's heavy industries (aluminum and steel; both big power consumers). Seasonally stronger demand from households may have helped too, but a relatively mild winter and the much smaller share (Fig 2) still points to robust industrial sector activity as the primary short-term driver.
- Viewed together with the rebound in leading indicators ([proprietary MCBCI indicator](#)), recent power data provide an offset for the moderation in China's industrial economy, suggesting that any weakening in broader activity will probably be gradual.

Fig 1 The December bounce in power generation...



Source: CIEC, Macquarie Commodities Strategy, January 2019

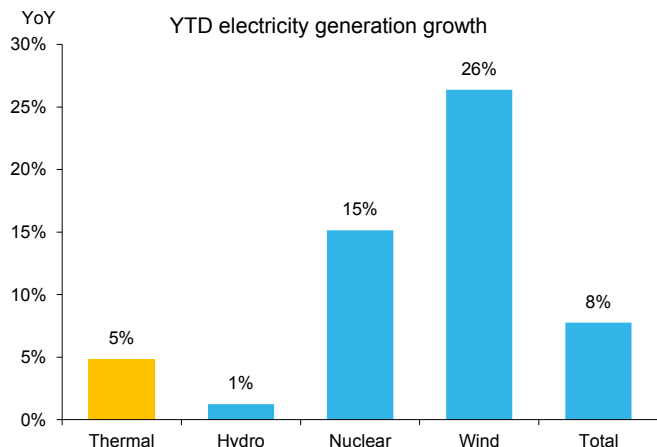
Fig 2 ...points to robust II strong industrial sector



Source: CIEC, Macquarie Commodities Strategy, January 2019:

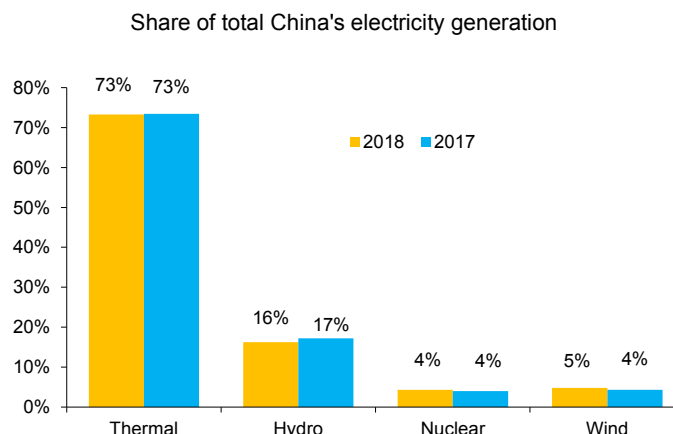
- **Big picture:** China basically 'added another Canada' to its (& global) power demand last year, +670TWh – or +8%yoy. It's a big lift from an already large base. Note, China is also still diversifying away from coal-fired power (2018 featured double-digit y-o-y growth in renewables/nuclear.). But more than two-thirds of 2018's demand growth delta was met by burning coal.
- Thermal power generation (i.e. coal + gas) rose by 5% last year – the fastest rate since 2013, partly on unusually weak year for hydro (+1%; weakest year since 2011). Note though, the vast majority of thermal power is generated by coal-fired capacity: gas contribution is small, and most of the additional LNG imports this year (+40%yoy) ended up in domestic/industrial heating.

Fig 3 Burning more coal, despite the lift in nukes/wind

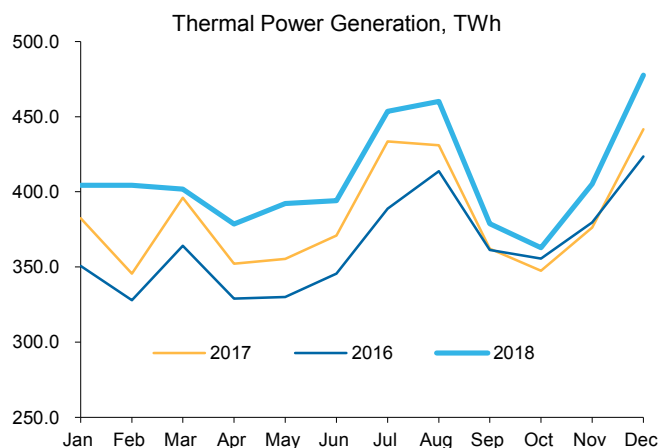


Source: CIEC, Macquarie Commodities Strategy, January 2019

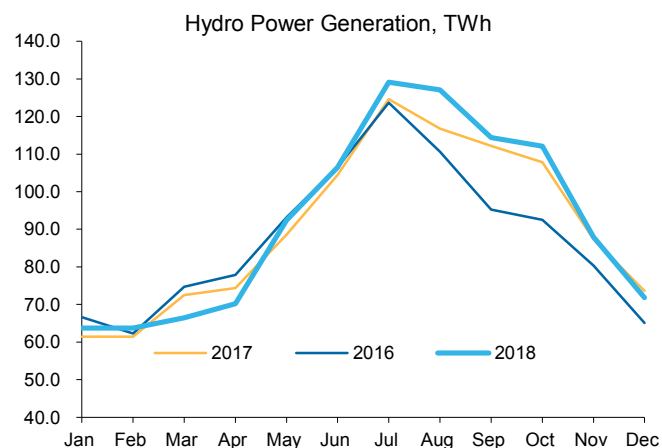
Fig 4 'Carbon-free' power = 25% of China's electricity mix



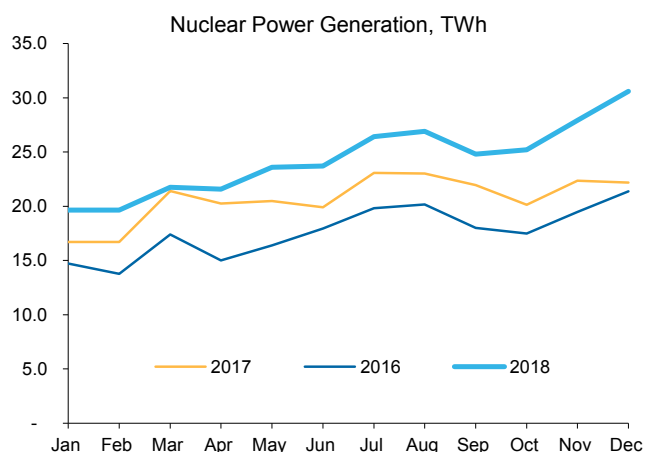
Source: CIEC, Macquarie Commodities Strategy, January 2019

**Fig 5 December data: strong year-end for thermal...**

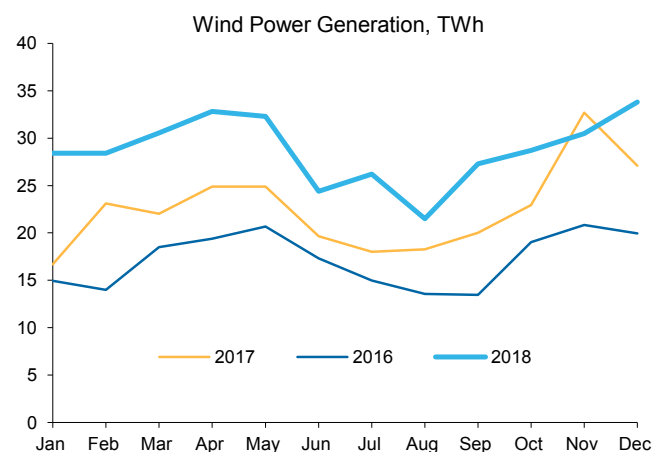
Source: CIEC, Macquarie Commodities Strategy, January 2019

**Fig 6 ...offsetting a dip in hydro.**

Source: CIEC, Macquarie Commodities Strategy, January 2019

**Fig 7 Nuclear took off in 2018, with 4 new reactors**

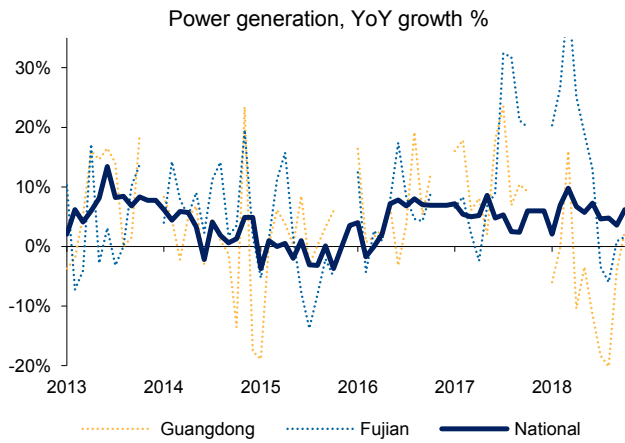
Source: CIEC, Macquarie Commodities Strategy, January 2019

**Fig 8 Wind power: capacity has almost doubled since 2015**

Source: CIEC, Macquarie Commodities Strategy, January 2019

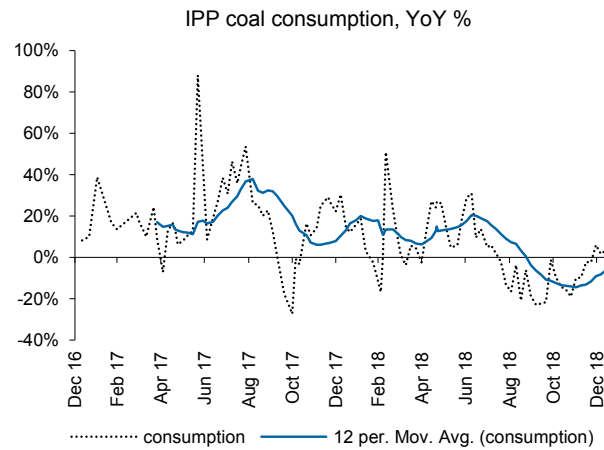
- The Dec-18 bounce in thermal generation is probably a surprise, given the pullback in the daily coal consumption at coastal IPPs (widely watched, high-frequency indicator; SxCoal), including provinces of Guangdong, Fujian and Zhejiang (Fig 5 & 6).
- National data confirm that total coal demand remains robust, perhaps stronger than suggested by corresponding coal burn data for coastal provinces. It highlights a regional divergence in power generation/consumption, probably on rising inter-provincial power transmission capacity. It may also explain why imports have been so weak in Nov/Dec, and seaborne/domestic arb's so wide.
- Importantly, a key driver of 2018's year-end slump in all key thermal coal price indices (down 10-15%) is the lift in China's domestic coal mine supply ([Supply incoming; bearish on thermal coal sector 09-01-2019](#)), not a marked deterioration in demand, as some in the market reported. Dec-18's monthly raw coal production rate was the strongest since the NDRC-led supply-side reforms began in 2016. We see a net addition of 50/100Mt (+1%/3%) for 19/20E.
- Some of this local production growth momentum has already been lost in recent weeks, after a mine accident in Shaanxi earlier this month triggered a new round of inspections. High frequency indicators, such as rail throughput, vessels queues – all point to a drop in domestic shipments for Jan-19.
- In the context of still stable demand though, China's imports are probably set to lift short term.

**Fig 9 Weak power generation in coastal provinces...**



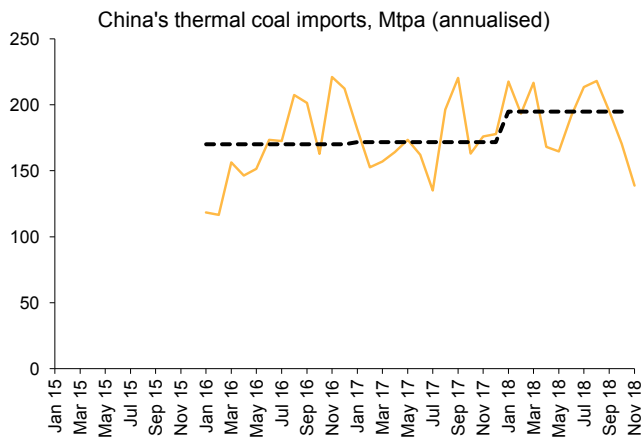
Source: CIEC, Macquarie Commodities Strategy, January 2019

**Fig 10 ...is behind a slump in coal burn at IPPs**



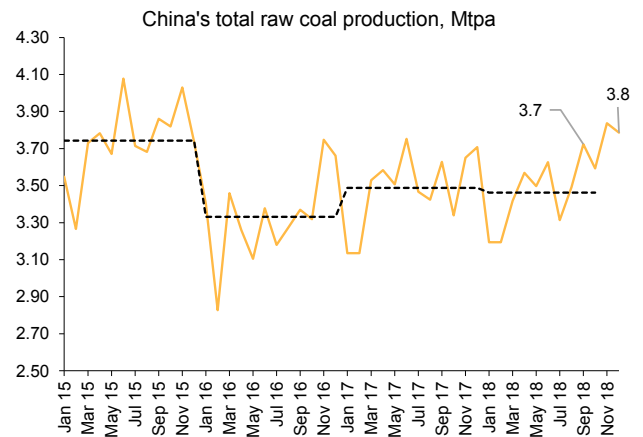
Source: CIEC, Macquarie Commodities Strategy, January 2019

**Fig 11 China's coal imports have dropped...**



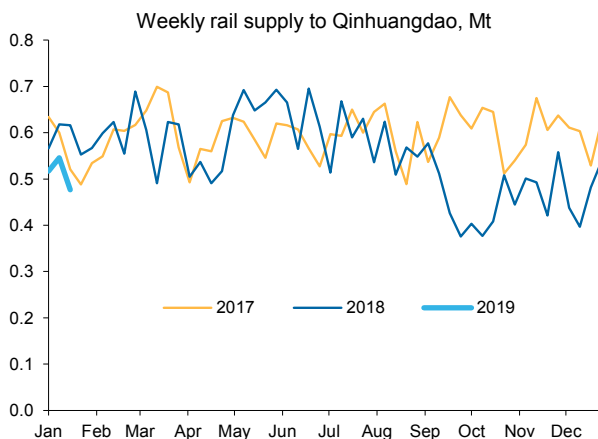
Source: SxCoal, Macquarie Commodities Strategy, January 2019

**Fig 12 ...as local output recovers from 2016's NDRC-hit lows**



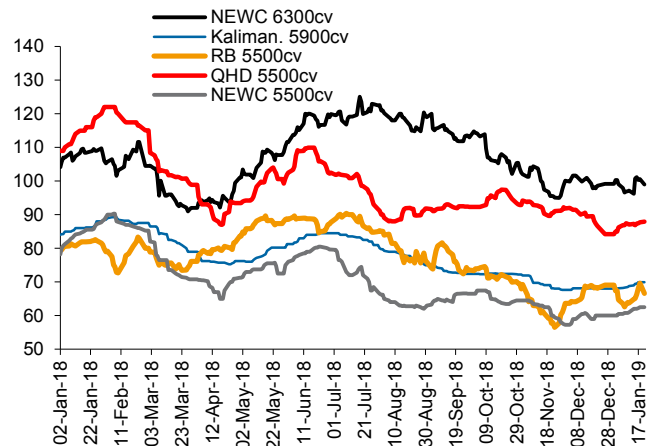
Source: SxCoal, Macquarie Commodities Strategy, January 2019

**Fig 13 Weak rail volumes highlight some hiccups recently...**



Source: SxCoal, Macquarie Commodities Strategy, January 2019

**Fig 14 ...this may lead to an uptick in trade/prices soon.**



Source: SxCoal, Macquarie Commodities Strategy, January 2019

## Thursday 24 January 2019

	Prices							
	Closing price *		Closing price *		% ch. day on day	2019 YTD US\$/tonne	Ave 2018 US\$/tonne	
	24-Jan-19 US\$/tonne	24-Jan-19 US\$/lb	23-Jan-19 US\$/tonne	23-Jan-19 US\$/lb				
<b>LME Cash</b>								
Aluminium	1,873	85	1,896	86	-1.2	1,840	2,110	
Aluminium Alloy	1,449	66	1,449	66	0.0	1,414	1,670	
NAASAC	1,421	64	1,408	64	1.0	1,360	1,668	
Copper	5,894	267	5,919	268	-0.4	5,904	6,523	
Lead	2,073	94	2,021	92	2.5	1,968	2,242	
Nickel	11,707	531	11,628	527	0.7	11,290	13,122	
Tin	21,120	958	20,814	944	1.5	20,379	20,154	
Zinc	2,649	120	2,628	119	0.8	2,523	2,922	
Cobalt	38,000	1,724	38,000	1,724	0.0	40,441	72,747	
Molybdenum	24,880	1,129	24,875	1,128	0.0	26,000	23,947	
<b>LME 3 Month</b>								
Aluminium	1,891	86	1,909	87	-1.0	1,854	2,115	
Aluminium Alloy	1,475	67	1,475	67	0.0	1,447	1,695	
NAASAC	1,448	66	1,435	65	0.9	1,403	1,703	
Copper	5,922	269	5,952	270	-0.5	5,932	6,542	
Lead	2,075	94	2,027	92	2.4	1,980	2,252	
Nickel	11,770	534	11,700	531	0.6	11,350	13,189	
Tin	20,925	949	20,700	939	1.1	20,273	20,073	
Zinc	2,640	120	2,620	119	0.8	2,497	2,894	
Cobalt	38,000	1,724	38,000	1,724	0.0	41,000	73,014	
Molybdenum	25,000	1,134	25,000	1,134	0.0	26,000	23,947	
<i>* LME 2nd ring price - 1700 hrs London time. Year-to-date averages calculated from official fixes.</i>								
Gold - London 3pm price (US\$/oz)		1,283		1,280	0.3	757	1,268	
Silver - London 3pm price (US\$/oz)		15.36		15.28	0.5	15.53	15.70	
Platinum - London 3pm price (US\$/oz)		798		791	0.8	804	882	
Palladium - London 3pm price (US\$/oz)		1,322		1,342	-1.5	1,324	1,019	
Oil WTI - NYMEX latest (US\$/bbl)		53.07		52.07	1.9	50.95	64.52	
EUR : USD exchange rate - latest		1.130		1.140	-0.9	1.141	1.181	
AUD : USD exchange rate - latest		0.709		0.714	-0.7	0.714	0.748	

	Exchange Stocks							
	24-Jan-19	23-Jan-19	Change since last report		Cancelled	End-18	Ch. since	
(tonnes)			Volume	Percent	warrants	stocks	end-18	
LME Aluminium	1,301,350	1,301,825	-475	0.0%	452,700	1,273,125	28,225	
Shanghai Aluminium	687,999	687,999	0	0.0%	0	672,185	15,814	
<b>Total Aluminium</b>	<b>1,989,349</b>	<b>1,989,824</b>	<b>-475</b>	<b>0.0%</b>	<b>452,700</b>	<b>1,945,310</b>	<b>44,039</b>	
LME Copper	145,675	145,575	100	0.1%	19,075	132,175	13,500	
Comex Copper	85,556	86,455	-899	-1.0%	-	99,869	-14,313	
Shanghai Copper	100,878	100,878	0	0.0%	-	118,686	-17,808	
<b>Total Copper</b>	<b>332,109</b>	<b>332,908</b>	<b>-799</b>	<b>-0.2%</b>	<b>19,075</b>	<b>350,730</b>	<b>-18,621</b>	
LME Zinc	117,475	118,100	-625	-0.5%	49,750	129,000	-11,525	
Shanghai Zinc	29,434	29,434	0	0.0%	-	20,103	9,331	
<b>Total Zinc</b>	<b>146,909</b>	<b>147,534</b>	<b>-625</b>	<b>-0.4%</b>	<b>49,750</b>	<b>149,103</b>	<b>-2,194</b>	
LME Lead	85,200	86,625	-1,425	-1.6%	44,100	107,375	-22,175	
Shanghai Lead	31,582	31,582	0	0.0%	-	15,826	15,756	
<b>Total Lead</b>	<b>116,782</b>	<b>118,207</b>	<b>-1,425</b>	<b>-1.2%</b>	<b>44,100</b>	<b>123,201</b>	<b>-6,419</b>	
Aluminium Alloy	9,760	9,860	-100	-1.0%	680	11,120	-1,360	
NASAAC	129,100	129,400	-300	-0.2%	26,600	133,200	-4,100	
Nickel	203,088	202,302	786	0.4%	57,162	206,400	-3,312	
Tin	975	985	-10	-1.0%	235	2,165	-1,190	
Source: CME, LBMA, LME, Reuters, SHFE, Macquarie Commodities Strategy								

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