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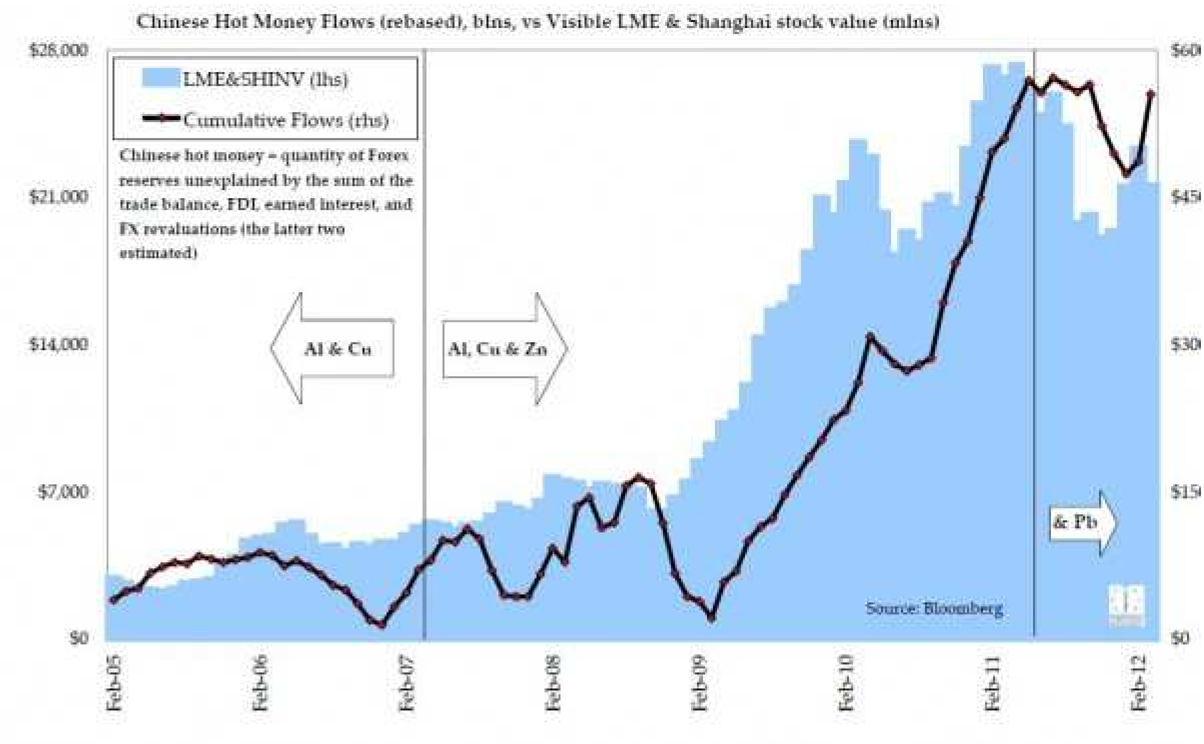
Is China at it again?

Posted by **Izabella Kaminska** on Apr 16 09:48.

Sean Corrigan at Diapason Commodities has sent us another fascinating chart. It shows the hot money inflows into China which are unaccounted for by the sum of the trade balance, FDI, interest earned and FX revaluations.

That's to say there's still a large chunk of inflows left over after all of the above is considered, the volumes of which happen to correlate very nicely with changes in the combined aluminum, copper and zinc (and lead from 2011 onwards) stocks of Shanghai and the LME.



The point being, to what degree are the above metals being bought in the marketplace for the sole purpose of raising money for the Chinese? And to what degree is this skewing the underlying supply and demand picture?

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Comments

at least 90% of copper cathode imports into China is for financing purposes through the L/C system and not for material destined for furnaces - a sure illustration that credit remains tight despite the euphoria on March lending which was nore to do with roll-over and refinancing of existing debt than real new lending. Business at mills in China is very weak. Producers and analysts use these import numbers to show that the market is tight - its a spurious one!!

Hats off to Mr. Corrigan. Fantastic work!

At least we have Mr. Corrigan provide some real data, because the ones coming from the official chinese office are not believed even by the Chief Data Collector of China.
http://www.wantchi...;id=20120410000108
However, the rest of the world believes them.

FXGuy

You're arguing about causation not correlation.

IMHO you're wrong and Corrigan's right.

And to address Izzy's underlying point, such financial demand completely destroys commodity markets as a pricing mechanism.

You have a spurious correlation here. Hen global liquidity is loose, metals prices rise, and China (along with most other EM's) sees capital inflows. It does not necessarily follow that metals are being driven by "China buying."