



Global Commodities Daily

China's pollution crisis and power rationing

The Day Ahead

Time (GMT)	Country	Event	Previous	Market View
05:00	Japan	Leading index (March)	97.6	
06:00	Japan	Machine tool orders (YoY) (April)	-24.10%	
12:30	US	Chicago Fed nat activity index (April)	-0.23	
20:00	US	USDA crop progress report		

Overview

Reducing the extreme levels of air pollution in China has moved to the top of the political agenda for the new government this year. Without reform, China's air pollution could worsen by another 70% in 2015. Figure 1 illustrates that construction and industrial emissions contribute to 20% of PM2.5 levels. We expect measures to address this crisis may have important implications for industrial sector activity. In fact, the forthcoming power rationing in Hebei province highlights that provincial governments may step up their effort to tackle pollution crisis. According to Bloomberg, Tangshan city will shut 199 polluting factories by rationing their power supply from May 20. Power supply for three ore-sintering lines at Tangshan Steel and two at Guofeng Steel will be cut. Operations won't be resumed until desulfurizing devices are added to satisfy environmental standards. Furthermore, outdated, unlicensed and illegal facilities in Tangshan will also be closed by May 31. If these measures are implemented strictly, we expect this could support steel prices while depress iron ore demand.

In agriculture, focus continues to be on planting progress. Today's Crop Progress report from the USDA will be closely watched. We estimate that corn planting progress will come in the 65%-range. The range is wide at 55% to upwards of 70%. What will this mean for yields? In the last WASDE, the USDA brought its yield estimate down to 158 bu/acre from 163.6. Based on the USDA's regression and assuming all other variables are held constant, this would imply Mid-May planting of about 60% (vs. 80% on average) for an 8-state region. If planting progress comes in as expected on Monday at 65%, that would equate to about 44% planted on May 15-on a pro-rated basis, corresponding to a yield of 153-154 bu/acre. Hence, USDA's yield estimate appears slightly high, holding all other variables constant. Importantly, we believe the market is pricing in a yield in the 148 bu/acre range. As a result, with the new crop corn market already incorporating a weather premium, we do not see upside, at this point, for new crop futures. Going forward, planting will be more challenged with the weather outlook calling for rains in the next 5-7 days. On the flipside, rains over North Dakota and Minnesota should help alleviate persistent drought in those regions.

Commodities & Global Markets

Commodities News In Brief

- Japan's 10 regional power utilities imported 4.74 million tonnes of liquefied natural gas in April, the Federation of Electric Power Companies said. While, the coal imports rose 26% to 4.52 million tonnes last month.
- Antofagasta said its copper output grew 12.8% YoY to 183,800 tonnes in the first quarter due to increased output at Esperanza mine.
- China Shenhua Energy Co. Ltd. said its commercial coal production rose 3.3% YoY to 25.3 million tonnes in April.
- According to the American Iron & Steel Institute, US steel shipments rose 6.5% MoM to 7.92 million tonnes in March.
- Russia's natural gas output was 239.4 billion cubic meters in the period January-April 2013, the Energy Ministry said. Also, Gazprom decreased its gas output by 3.9% to 174.9 billion cubic meters during this period.
- According to the China Iron & Steel Association, the country's daily steel output grew 3% to 2.19 million tonnes in early May.

Global Markets News In Brief

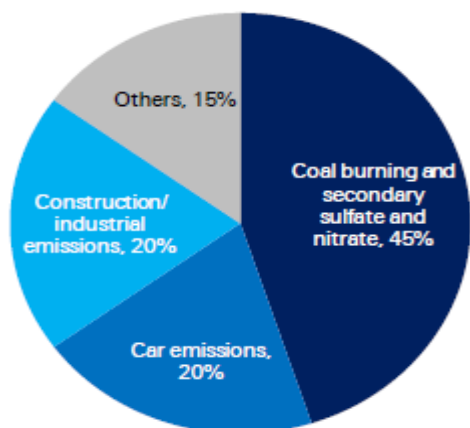
- US U. of Michigan confidence for May rose to 83.7 from 76.4 in Apr.
- US leading indicators rose to 0.6% in Apr from -0.1% in Mar.

Event Risks

- Minutes of FOMC meeting on May 22.
- EU Leaders hold summit in Brussels on May 22.
- US GDP on May 30.
- US Chicago PMI on May 31.
- OPEC meeting on May 31.
- G20 Finance Ministers' and Central Bank Governors' Deputies meeting in Russia on June 06-07.

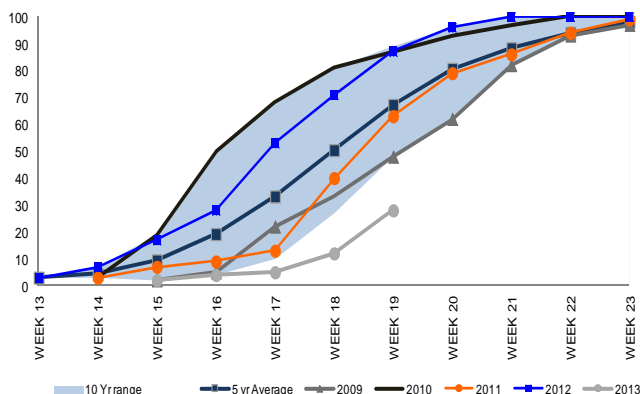


Figure 1: Contribution to PM2.5 by sector



Source: Deutsche Bank

Figure 2: US Corn Planted by Week (%)



Source: USDA

Commodity Price Summary

Energy	WTI (bbl)	Brent (bbl)	Gas (mmBtu)	RBOB Gas (g)	Heating Oil (g)	API 4 (t)
Close (USD)	96.02	104.64	4.06	2.91	2.94	81.25
Daily price change	0.9%	0.8%	3.1%	0.9%	1.0%	0.3%
YTD price change	4.6%	-5.8%	21.0%	3.4%	-3.5%	-8.0%
Precious Metals & FX	Comex Gold	Comex Silver	Nymex Platinum	Nymex Palladium	EURUSD	USDJPY
Close (USD/oz) (level)	1364.70	22.34	1468.00	740.25	1.29	102.37
Daily price change	-1.6%	-1.3%	-1.2%	-0.1%	-0.1%	-0.3%
YTD price change	-18.6%	-26.0%	-4.6%	5.2%	-2.5%	18.0%
Industrial Metals	Aluminium	Copper	Lead	Nickel	Tin	Zinc
LME close 3M (USD/t)	1849	7305	2014	14825	20975	1840
LME close 3M (USc/lb)	83.9	331.3	91.4	672.5	951.4	83.5
Daily price change	-0.2%	0.3%	1.0%	-0.5%	0.1%	0.4%
YTD price change	-10.8%	-7.9%	-13.6%	-13.1%	-10.4%	-11.5%
LME Stocks (t)	5,238,500	629,950	240,875	177,948	14,075	1,113,875
Daily change (t)	7,575	5,550	-2,375	-828	-120	-2,100
Agriculture & Livestock	Corn (bsh)	Cotton (lb)	Live Cattle (lb)	Soybeans (bsh)	Sugar (lb)	Wheat (bsh)
NY close (USc)	652.75	86.41	119.40	1448.50	16.89	683.25
Daily price change	1.8%	0.4%	-0.4%	1.5%	0.4%	-0.7%
YTD price change	-6.5%	15.0%	-8.1%	2.1%	-13.4%	-12.2%
Other prices	Baltic Dry Index	Iron Ore	Steel US HRC	Ethanol	EUA (CO2) Dec13 (Euro)	U3O8 USD/lb
Close (level)	841	120.4	582	2.67	3.54	40.75
Daily change	-1.1%	-0.2%	0.0%	1.6%	-4.3%	0.0%
YTD change	20.3%	-16.2%	-9.7%	22.0%	-46.9%	-6.3%
Indices	DBLCI-OY	DBLCI-MRE	DB Harvest	SPGSCI	DJUBS	SPWCI
NY close (level)	1216	314	285	4738	265	360
Daily change	0.2%	0.7%	-0.3%	0.6%	0.6%	0.4%
YTD change	-5.3%	-2.0%	-1.4%	-3.1%	-5.3%	-7.0%

Source: Deutsche Bank



Appendix 1

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