Industrial Commodities – 4 reason to remain "very cautious".

1. The National People's Congress of China (which began in the week of March 5) announced a growth target for 2012 of 7.5% (it came as a surprise to the market, which placed the estimation in 8.5% for 2012 and 2013). It is true that this news alone should not be seen as an inevitable downward shift in commodity prices (recall that since 2005 growth target set by China has been 8% per year, but this has not prevented the annual average growth to be 11% throughout this period).
2. Nevertheless, Premier Wen, has revealed that this 7.5% target for 2012 is an alignment with the objective of growth in the Five Year Plan, which is 7% per year ... which means that while China may grow every year over the target (as it did in the period 2005-2011) it will do at a much lower rate than in the past. This is simply a reminder that the rates of double-digit GDP, belong to the past.
3. Additionally, the massive demand for raw materials from China has been due not only to the commodity-intensive activity (as most people think). Much of this demand has been driven by an unprecedented (and unsustainable) investment demand (see chart 1).
4. And what is more, the "timing" of this boom in commodity investing is a much better explanation for the surge in metal prices than the pace of urbanization, as very few think (see chart 2)

Chart 1: Investment as % of GDP (2011)

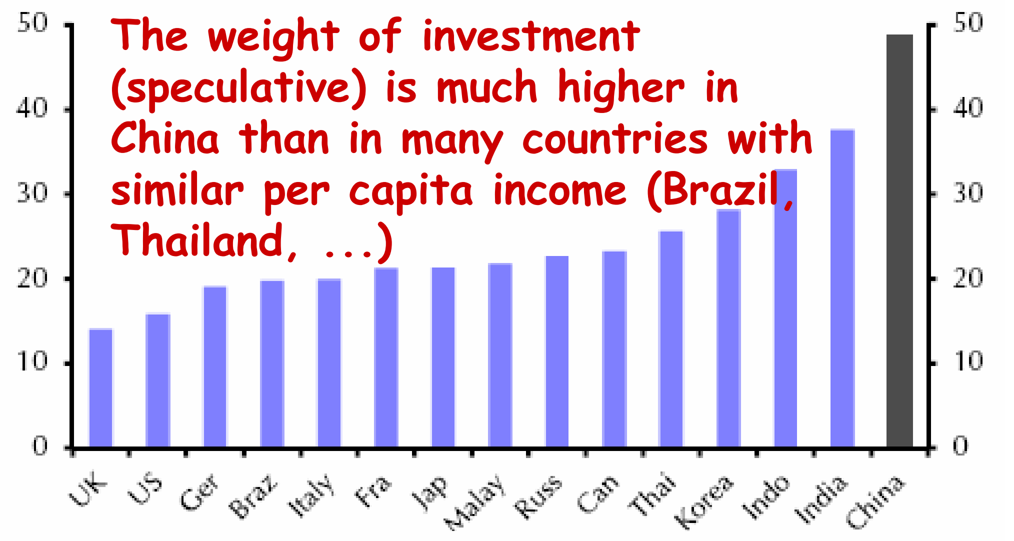
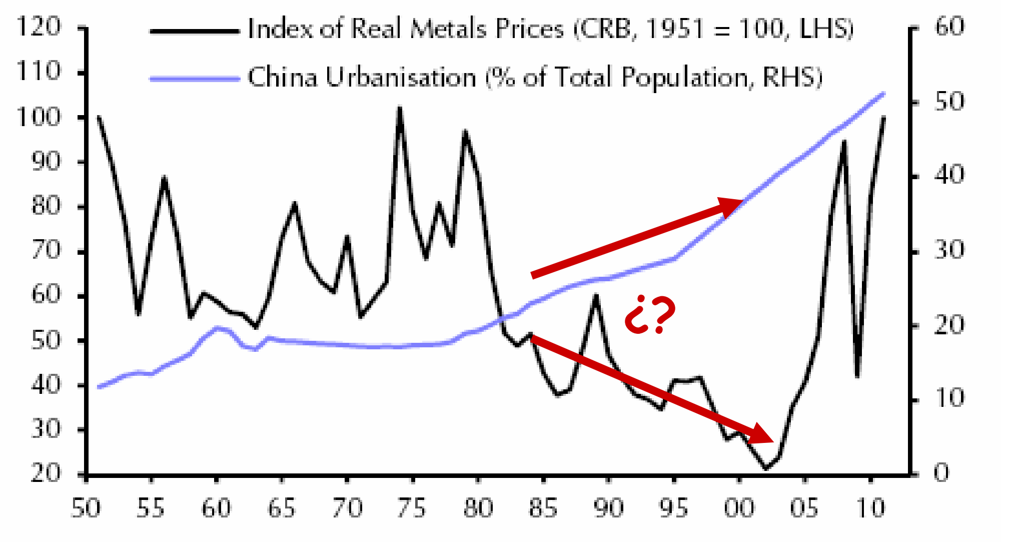


Chart 2: Global Metals Prices & China's Urbanisation



Source: IMF, Thomson Datastream, C.Economics

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