

## PBoC tightens monetary policy again

- The People's Bank of China has tightened monetary policy again, lifting bank reserve requirements by 50 basis points to a record 19.5% - refer to Chart of the Day below. Group of 20 finance ministers say the global economic recovery "is strengthening but is still uneven and downside risks remain." The IMF warned G20 ministers that record high food and energy prices pose a growing risk to the world economic recovery, and that they would welcome a weaker US dollar. German producer prices rose almost twice as fast as expected in January to be 5.7% higher over the year, against 5.1% forecast. The US dollar ended lower.
- Base metal prices ended mostly higher with nickel the laggard. Zinc and aluminium led gains. Gold ended higher on continued escalation in Middle East unrest. Protests turned violent towards end last week and over the weekend in Libya, while protests continue in Bahrain, Yemen and Iran.
- Vale announced that its #2 smelter at the Copper Cliffs nickel works in Sudbury, Canada, was closed and to remain on shutdown for 16 weeks. A total of 15,000 tonnes, or a touch over 1% of world supply, will be lost to the stoppage.
- US crude oil prices slipped 0.2% lower as Egypt allowed Iran to send 2 warships through the Suez canal. UK Brent prices also ended slightly lower, but the Brent to WTI spread remains ~USD 16/bbl.
- Japan's crude steel output rose 10.7% yoy to 9.66Mt in January according to the Japan Iron and Steel Federation. Demand was weak domestically but exports to Japanese owned car factories located in China remained strong.
- Spot iron ore prices (delivered China port) eased 1.4% to USD 189.30/t.

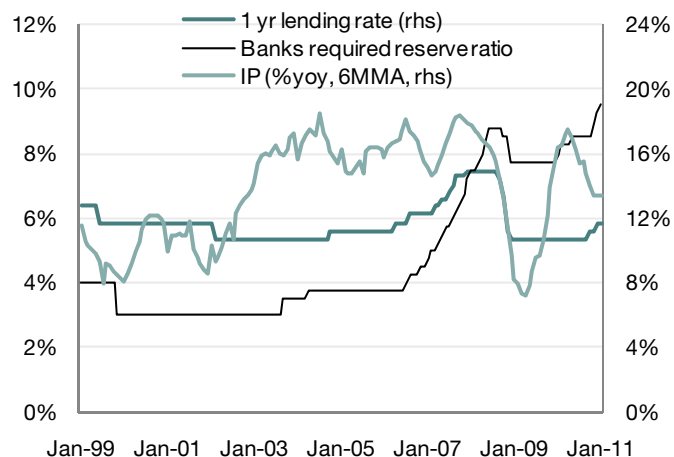
### Chart of the Day: China's bank required reserve ratio lifted again, all about moderating growth...

- The People's Bank of China once again lifted the bank required reserve ratio – the ratio of capital required to be held as reserves to provide liquidity – to 19.5%, the highest level in over a decade (refer to chart). The last time required reserves were raised aggressively was through 2007 into 2008 which, combined with the GFC, was associated with a big fall in industrial output growth.
- We don't expect China's IP growth to fall precipitously this time around. The rest of the world is in economic recovery mode, not heading into the worst financial crisis since the Great Depression. Moreover, tighter monetary policy is about moderating growth and crimping inflation – the Chinese government's mandate depends on continued economic growth. However, until inflation growth moderates, further tightening in monetary and credit conditions cannot be ruled out.

Overnight Price Moves (full table over)		18-Feb-11	
New York (Dow Jones IA)		12,391	0.6%
London (FTSE 100)		6,083	-0.1%
AUD/USD		1.0147	0.2%
<b>LME Metals (18-Feb)</b>			
	USD/t	USc/lb	% chg
Aluminium	\$2,509	114	1.4%
Copper	\$9,806	445	0.1%
Lead	\$2,613	119	1.0%
Nickel	\$28,285	1,283	-0.1%
Tin	\$31,775	1,441	1.0%
Zinc	\$2,517	114	2.3%
<b>Iron ore &amp; Steel</b>			
	USD/t	% chg	
Iron ore (62% Fe, cfr China)	\$189.30	-1.4%	
Steel Billet (LME)	\$560	1.8%	
<b>Precious Metals</b>			
Gold			
Spot (USD/oz)	\$1,389.53	0.4%	
Comex (USD/oz) *	\$1,388.20	0.3%	
AUD spot (AUD/oz)	\$1,369.50	0.1%	
Silver (USD/oz)			
	\$32.65	2.8%	
Platinum (USD/oz)			
	\$1,835.00	-0.6%	
Palladium (USD/oz)			
	\$851.13	0.8%	
<b>Oil</b>			
NYMEX light sweet crude (USD/bbl) *			
	\$86.20	-0.2%	
Brent (USD/bbl)			
	\$102.19	-0.3%	
Singapore TAPIS (USD/bbl)			
	\$106.18	-1.5%	

Source: Bloomberg, globalCOAL, CBA. Prices are indicative and subject to change. Oz refers to troy ounce. \* Near month.

### Chart of the Day: China required reserves, lending rates rising, industrial production slowing...



Source: PBoC, China NBS, Bloomberg, CBA.





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