



## Oil down on Libya's doubtful ceasefire

- WTI and Brent crude prices finished lower on Friday as Libya announced an immediate ceasefire following the UN's vote in favour of military action in support of a no-fly zone to respond to Colonel Qaddafi's continued attacks on rebel forces. However, by the weekend, some doubts had emerged over whether Libya had actually downed weapons. Price volatility looks set to rise in the near-term.
- China announced another 50 basis point increase in required reserve ratios for banks, meaning the largest banks now face a required reserve ratio of 20%. More increases are expected in order to restrain lending growth and reduce inflationary pressures.
- Base metals ended mostly higher with copper and zinc being the laggards, as the latest increase in China's reserve requirement ratio renewed concerns about copper demand. Gold rose on safe haven buying as the UN gave the go-ahead for selected military intervention in Libya.
- Newcastle thermal coal spot prices fell 4.9% last week as immediate term disruptions to shipments resulting from port and infrastructure outages in Japan spooked Asian markets. But Atlantic markets firmed as a shutdown of one-third of Germany's nuclear power stations was seen to boost coal demand prospects. Should Atlantic coal remain well bid, we would expect Newcastle prices to move higher also.
- Spot iron ore prices rose for the second day as Chinese buying increased spurred by lower prices, and lower stockpiles. Vale has reaffirmed its commitment to quarterly pricing, saying it has "no intention" to switch to monthly prices at this time.
- South Korea's Hyundai Steel will build a 3<sup>rd</sup> blast furnace of 4Mtpa capacity. First metal is due in 2013 or 2014, and should increase South Korea's iron ore demand by ~7Mtpa, and coking coal demand by ~2-3Mtpa (including PCI).

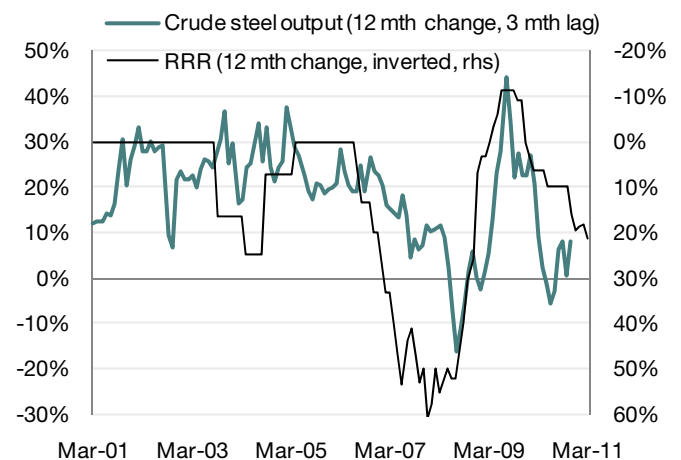
## Chart of the Day: China hikes reserve requirement ratio again; new lending slows but more to do

- The latest move to increase China's bank reserve requirement ratio to 20% (effective 25 March), from 19.5% currently, is the sixth such increase since October and results in the large bank reserve requirement ratio being about 20% higher today than it was a year ago (see chart).
- Higher bank reserves, by reducing lending, have been associated with slower growth in China's steel output. Latest moves should continue this trend. However, China's steel output growth rates have already cooled from rates a year or so ago. Mid-single digit yoy growth rates in steel output seem the most likely outcome in the near-term, consistent with moderate growth in iron ore and coking coal demand.

Overnight Price Moves (full table over)		18-Mar-11	
New York (Dow Jones IA)		11,859	0.7%
London (FTSE 100)		5,718	0.4%
AUD/USD		0.9959	1.6%
<b>LME Metals (18-Mar)</b>			
	USD/t	USc/lb	% chg
Aluminium	\$2,537	115	1.7%
Copper	\$9,513	431	-0.5%
Lead	\$2,699	122	1.3%
Nickel	\$26,749	1,213	3.2%
Tin	\$29,421	1,335	0.1%
Zinc	\$2,304	105	-0.3%
<b>Iron ore &amp; Steel</b>			
	USD/t	% chg	
Iron ore (62% Fe, cfr China)	\$164.70	0.5%	
Steel Billet (LME)	\$564	1.6%	
<b>Precious Metals</b>			
Gold			
Spot (USD/oz)	\$1,418.90	1.1%	
Comex (USD/oz) *	\$1,416.10	0.8%	
AUD spot (AUD/oz)	\$1,424.29	-0.5%	
Silver (USD/oz)	\$35.26	2.9%	
Platinum (USD/oz)	\$1,722.25	1.3%	
Palladium (USD/oz)	\$731.25	3.1%	
<b>Oil</b>			
NYMEX light sweet crude (USD/bbl) *	\$101.07	-0.3%	
Brent (USD/bbl)	\$114.30	-0.4%	
Singapore TAPIS (USD/bbl)	\$121.11	3.8%	

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

## Chart of the Day: China bank reserve requirements and steel production growth



Source: CEIC, WSA, Bloomberg, CBA.





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