

Commodity carnage

- Sharemarkets across the globe plunged on fears that the US and major European economies were at risk of slipping back into recession. Base metal prices slumped with copper down 7.5%. The US dollar rallied on a flight to safe-haven assets, putting downward pressure on the gold price. Silver plunged 9.5%. Crude oil prices fell with Nymex crude oil down 6.4%. US long-term treasuries rose sharply as investors reacted to falling equities markets and the FOMC's decision to buy long-term government debt.
- In the US, jobless claims fell by 9,000 to 423,000 in the latest week, close to the consensus result. Home prices rose 0.8% in July after a 0.7% lift in June according to the Federal Housing Finance Agency.
- Risk off was the theme yesterday across Europe in moves that followed the lead from the post-FOMC sell-off in the US the previous night. European equity indices plunged by 4-5%, Bunds and Treasuries rallied strongly. Even Spanish and Italian paper rallied in the flight to bond markets. Flash European PMIs all continued to drift lower in September. The aggregate Euro-zone composite PMI dipped back under the 50 mark to 49.2 for the first time since July 2009.
- Workers at Freeport McMoRan's Cerro Verde mine in Peru, said they would start an indefinite strike next Wednesday. The company is unlikely to meet 3Q2011 sales estimates because of a strike at its Grasberg mine in Indonesia.
- Chevron has won Australian government approval for its multi-billion dollar Wheatstone LNG project, but with strict environmental conditions. The project will have a capacity of 8.9mtpa of LNG. Production is scheduled to start in 2016.

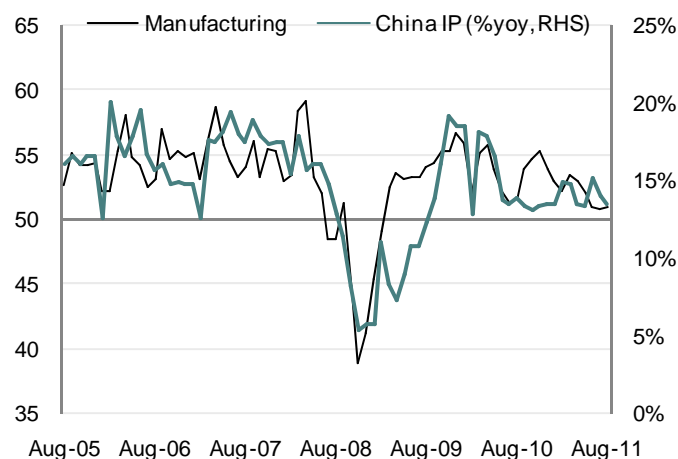
Chart of the Day: Industrial production resilient despite slight decline in China's manufacturing PMI

- The preliminary HSBC China Purchasing Manufacturers Index fell to 49.4 in September from a final reading of 49.9 in August. The preliminary HSBC PMI is known to be skewed towards small-medium sized businesses which are currently facing acute funding pressures. Larger state owned enterprises have much better access to credit and this is reflected in China's official manufacturing PMI remaining above 50 in August. Historically, China's manufacturing PMI and growth in industrial production (IP) have been relatively correlated (refer to chart). Growth in IP has remained relatively resilient while the PMI has declined (refer to chart). Despite China's PMI signalling that growth is slowing, yoy growth in IP has been running at 13-14%.
- PMIs are biased towards exports and net exports haven't contributed as strongly to China's GDP in recent quarters. Fixed asset investment and therefore growth in IP has been supported by China's investment in social housing, and the development of the central and western provinces. This has in turn supported demand for commodities and should continue to do so for some years yet.

Overnight Price Moves (full table over)		22-Sep-11	
New York (Dow Jones IA)		10,734	-3.5%
London (FTSE 100)		5,042	-4.7%
AUD/USD		0.9797	-4.0%
LME Metals (22-Sep)			
	USD/t	USc/lb	% chg
Aluminium	\$2,195	100	-3.9%
Copper	\$7,653	347	-7.5%
Lead	\$2,117	96	-5.3%
Nickel	\$18,855	855	-7.5%
Tin	\$19,776	897	-8.4%
Zinc	\$1,987	90	-3.2%
Iron ore & Steel			
	USD/t		% chg
Iron ore (62% Fe, cfr China)	\$175.70		-0.6%
Steel Billet (LME)	\$584		0.0%
Precious Metals			
Gold			
Spot (USD/oz)	\$1,739.63		-2.4%
Comex (USD/oz) *	\$1,738.60		-3.7%
AUD spot (AUD/oz)	\$1,775.68		1.7%
Silver (USD/oz)	\$35.93		-9.5%
Platinum (USD/oz)	\$1,687.75		-4.2%
Palladium (USD/oz)	\$650.00		-6.2%
Oil			
NYMEX light sweet crude (USD/bbl) *	\$80.26		-6.4%
Brent (USD/bbl)	\$107.69		-3.0%
Singapore TAPIS (USD/bbl)	\$118.70		-2.4%

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

Chart of the Day: China manufacturing PMI vs IP growth



Source: China Federation of Logistics and Purchasing, China Economic Information Network, Bloomberg, CBA



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