

Vega on the option Vega = \$20.27/mt. Source: DB Commodities Trading, 5/12/14

As you know, China announced its "New National Nine Rules" (in contrast to the earlier "National Nine Rules" issued in 2004), which outline meaningful changes to increase openness in Capital Markets out of China on 5/9. DB research summary below, bottomline takeaway: "Under such endeavor, China capital markets will be much more diverse, structured and transparent in the future, and will a) mobilize massive private savings; b) encourage inward portfolio flows; and c) lift market sentiment and valuation."

From Matt's team:

"Copper is a popular choice for use as collateral in financing trades. Now China is proposing that local governments would be able to issue bonds rather than rely on, among other things, using copper as collateral for financing trades. Indeed it is expected that use of SPVs will be come increasingly difficult. This should be bearish for copper after the regulation is passed. Meanwhile, we think that before the regulation is passed, people are trying to secure as much copper-backed financing as they can, which has resulted in a scramble for copper, and a spike in price. I would further qualify and say that the news announcement has not resulted in a scramble for physical copper yet, but an expectation for the scramble, which itself is sufficient to spike up the price. "

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From: Amy Tan/db/dbcom@DBCDEX
To:
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Subject: DB China unveils agenda for comprehensive capital market reform

Deutsche Bank - Fixed Income Research

Data Flash - China unveils agenda for comprehensive capital market reform
11 May 2014 (2 pages/ 81 kb)

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On May 9, the State Council of China issued the "Guiding Principles for the Healthy Development of Capital Markets", which layouts the detailed roadmaps of China's future capital market development in nine major areas, including overall requirements, stock market, bond market, private equity, futures market, the competitiveness of the securities and futures sector, capital market openness, financial risks and market regulation. The policy is also referred as the "New National Nine Rules", in contrast to the earlier "National Nine Rules" issued in 2004. Under the nine broad guidelines, details on the directions and goals of reforms for thirty-three areas are specified, signaling the unprecedented resolution of Chinese government to push forward the comprehensive capital market reforms. It is government's aim to establish multi-layer capital markets, enlarge corporate and household investment channel, encourage efficient capital allocation as well as promote the economic restructuring. From macroeconomic perspective, we highlight the