



Chinese metal demand is structural in our view, with over 60% of Chinese demand related to; infrastructure, property and industrial manufacturing. The remaining 40% is related to consumer demand.

Unfavourable demographics with an ageing working population is the main driver for slower metals demand in property related demand sectors. We forecast demand growth from the property sector to be essentially flat with lower "new" demand being offset by replacement demand as lower-quality buildings are upgraded. Metal demand from infrastructure is also likely to be low single digits, with many of the tier-1 and tier-2 cities close to being fully developed, in our view. Infrastructure build in the lower tier cities offers some upside as does the upgrading of some early infrastructure builds. However, the jury is still out as to whether the more limited employment and social benefits will entice the general population to relocate to these tier-3 cities. The over-capacity in many basic industrial sectors such as mining, metal refining and processing, ship-building has led to a significant decline in capex. Basic industry is unlikely to be a driver of metals demand until the over capacity is squeezed out of the market. Industries further down the value chain tend to be more knowledge driven and less metal intensive, and any growth in these sectors is unlikely to offset the weakness in the basic industries. Demand growth in Auto's and white goods remains the bright spot for Chinese metals demand.

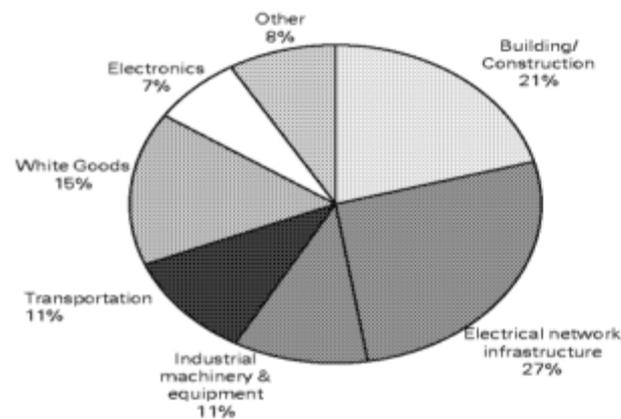
We forecast mid-single-digit demand growth with rising metals intensity per unit as higher specification models are purchased. The net result is flat to falling demand growth in steel and low single digit demand growth in the base metals.

Figure 9: Falling Chinese FAI



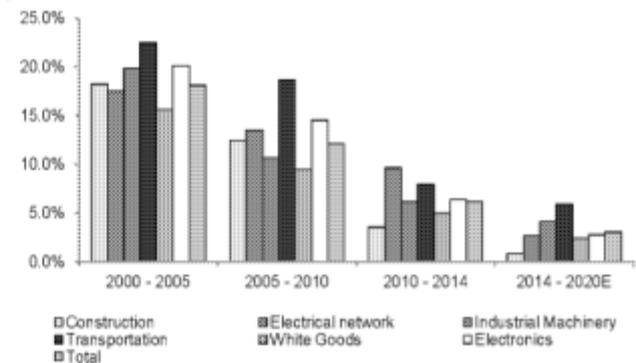
Source: Deutsche Bank Research, Wind

Figure 10: Chinese copper demand by sector: demand is weighted towards FAI



Source: Deutsche Bank Research

Figure 11: Chinese copper demand growth by sector: Demand growth remains positive, but structurally lower



Source: Deutsche Bank Research