

# ***The Watched Pot...***

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Doubt that growth of the new creditor economies is the real driver for the metals market is waning ever more rapidly. Not everyone will view that as a good thing, but most will now look to China for the moment and to the other big areas of expansion in due course for cues on which direction the sector will take. That, and recognition of very real supply constraints, has been the HRA stance for most of this century. So it's time for us to do the worrying.

Last month we told *Dispatch* readers that we don't view China's resurgent economy as abnormal given its high savings rate, and that concern should be more focused on overheating of the economy. China's imports were up by 56% y/y in December, which is mirrored by a gain of almost that much for the year of iron ore import on a tonnage basis. It's true that China's exports are also finally growing again with a 17% y/y gain in December, which puts China ahead of Germany as the biggest exporter on the planet. Chinese auto sales nearly doubled last year, making *them* part of the biggest car market in the world, which 18 months ago wasn't expected to happen before the middle of this decade.

It is also true that some Chinese housing markets saw 50% price gains. We aren't amongst those who call this a bubble, at this point, since the supply excesses can be taken up eventually by the influx from the countryside. Some price spurts are to be expected in a rapidly urbanizing economy. However, spurts are the leading edge of spikes, and it's the other edge that hurts.

China is shifting to a tightening policy, which is wise before the housing and commercial space markets get any more heated. It is time for a check on the allocation of capital. Like other economies, China has a large dollop of government incentive charging it. Unlike most, it probably didn't need as much stimulus as was supplied and, equally important, it doesn't have a big government debt that requires things like tax holidays be rescinded or new taxes invented to cover it. The mood shift required to push housing prices that fast is the real worry. That could probably use some grounding, before it gets tied.

There has also been some heat under a series of new exploration deals coming to market, particularly if they encompass the building materials copper and iron. Some are doubling before the due diligence can be finished. That doesn't necessarily mean they are getting overvalued, and on the whole we like it when juniors are moving higher. It's also true that many of last year's big gainers have gone into neutral, so this has not been exuberance at play so much as a desire for newness. But, see above for comments about spikes and edges.

Over the next ten days Vancouver will host three separate conferences about resources and investment therein, and some of the early year enthusiasm relates to expectation of what may come from those gatherings. We will be looking for new deals as well looking

over ones already on the list. Both will be part of a sorting process over the first half of this year. We admit to a quandary about copper's dual gains for price and warehouse stocks, but can't see changing our stance before the red metal changes its capricious ways. We've been teased before.

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