



BIR CONVENTION - China's copper use as collateral for loans to slow on government oversight - JPMorgan

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Singapore 24/05/2011 - The use of physical copper as collateral for bank loans in China will slow as the government continues to take steps to curb lending and rein in inflation, Christian Schirmeister, executive director of global commodities at JP Morgan said on Tuesday.

China's monetary tightening policy led Chinese entrepreneurs to turn to copper to convince banks to lend them money, causing copper stocks in bonded warehouses within the country to rise to a record high of 750,000 tonnes, he said at the BIR convention.

"An entrepreneur who wants to build hundreds of flats in Beijing today has no means to get the necessary investment as he is turned down by the banks," Schirmeister said. "So he opens up a small metals trading company and returns to the bank to apply for a loan for physical metal trading... The bank manager grants the loan against the physical material."

A large proportion of bonded copper stocks are used as financial securities, which explains why these stocks have dropped "only modestly" even during the peak copper demand period in the second quarter.

"Unless copper goes to \$12,000 per tonne or so, it doesn't make sense to exchange the copper into money and then use the cash," Schirmeister said.

Nevertheless, he warned, the use of copper as collateral "will not continue at the present rate."

"The Chinese government has clearly identified the situation - interest rates are going up and the property boom is slowing down significantly," he said, adding that bonded stocks would therefore slowly be reduced and sold to copper end-users in China.

"It will find its way to the final consumer but it will take 12 months," he said.

China's central bank has raised key interest rates four times since mid-October and curbed lending by raising banks' reserve requirements to rein in inflation that has exceeded the government's 2011 target of 4 percent every month this year.

(Editing by Gregory Holt)