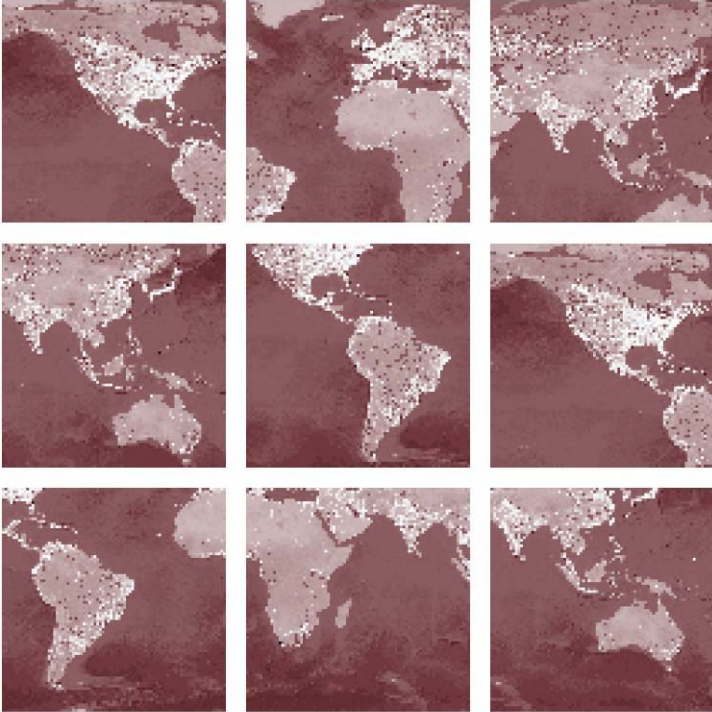


CHAPTER TWENTY

BRICS AND GLOBAL COMMODITIES MARKETS

May 2006





BRICs AND GLOBAL COMMODITIES MARKETS

Despite jittery markets, we think the BRICs will continue to fuel global demand for a wide range of commodities.

Another day, another record high in commodity prices. Prices for oil, platinum, aluminium, zinc and copper have set all-time highs since the start of the year and remain high despite recent market jitters. A key factor has been the rise of the BRICs, most notably China. Surging Chinese demand for oil and other commodities has strained commodity supplies and fuelled market speculation that the other BRICs—Brazil, Russia and India—will generate a further wave of demand.

We examine how much the BRICs are in fact contributing to global demand for a wide range of commodities. The data suggest that a mild slowdown would do little to derail the BRICs' demand.

China is driving much of the BRICs story, with its role in the BRICs' drive for commodities most obvious in **oil**. China's share of world oil consumption has risen by three-quarters over the past decade, and China is projected to account for half of the BRICs' total oil consumption this year. Interestingly, oil demand from the other BRICs has stagnated in both volume and share terms over the past decade (and Russia's share has declined), even as GDP growth in these countries has risen strongly. This is likely to reflect varying combinations of greater oil efficiency and increased use of alternative energy sources, as well as growth in the services sector.

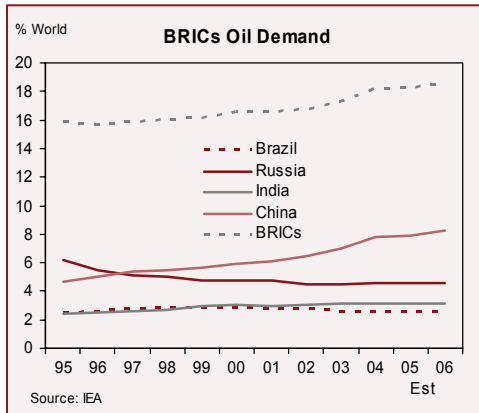
The China story is also clear in **base and industrial metals**. China is almost entirely responsible for the run-up in the BRICs' consumption in aluminum, copper and other industrial metals. Since 2000, China's share of world demand has nearly doubled for almost every industrial metal group.

The **precious metals** story will be a surprise to those who assume that rising incomes will lead to higher consumption of jewellery and gold. Although India is the largest gold consumer in the world—and by far the largest among the BRICs—its consumption has actually fallen, in both volume and percentage terms, since 2001. Indian silver consumption has also fallen off sharply.

Although rising per capita incomes would suggest that Indians should be buying more gold, recent financial liberalisation may be undercutting one of the chief rationales for gold ownership. If this pattern of regulatory opening continues, then we may not see the steep increases in Indian gold consumption that many expect.

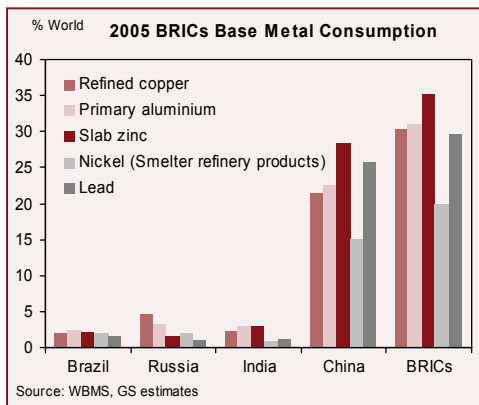
Finally, we look at **agricultural commodities**, where China's dominance of the global textile industry is evident in its nearly 40% share of the world cotton market. We also find that cultural patterns rather than income dominate data on meat consumption, with national preferences (for pork in China, poultry in Russia, beef in Brazil and a vegetarian diet in India) affecting global consumption patterns.

Sandra Lawson, David Heacock and Anna Stupnytska
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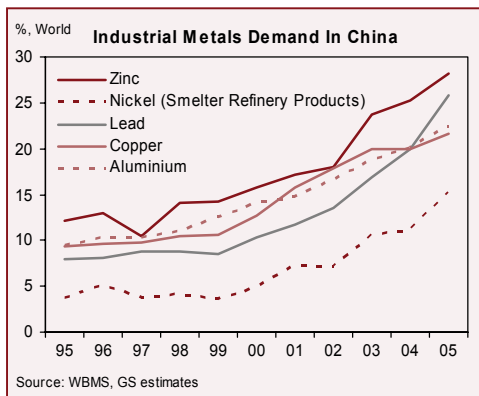
China Driving the Increase in BRICs Oil Demand...

- The BRICs' share of global oil demand has been on an upward trend since 1995, jumping from 15.9% then to an estimated 18.6% in 2006. This is almost entirely due to demand growth in China. The IEA estimates that China's share of global oil demand will reach 8.2% in 2006 from just 4.7% in 1995. Our own projections suggest that China's global share will peak at 16.5% in 25 years.
- Demand from the other BRICs has been relatively stagnant since 2000. In volume terms, Chinese oil demand has increased by 45% since 2000, compared with 14% in India, just 4% in Russia and 1% in Brazil.



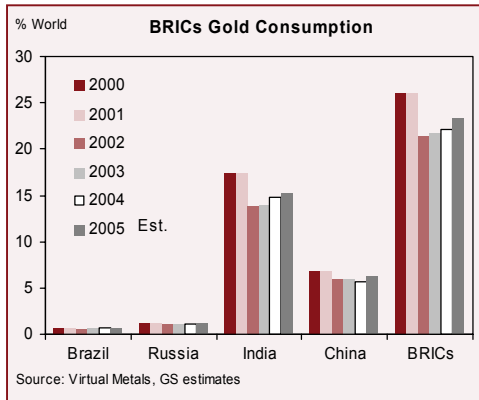
... in BRICs Base Metals Demand...

- BRICs' demand for base metals is strong and growing, with China again the dominant player. China is by far the largest BRIC consumer in all of the major base metal groups, accounting for nearly 30% of global demand for zinc and more than 25% of world demand for lead.
- The other BRICs account for a much smaller share of world demand, even in the commodities most important to their own economies. Russia accounts for nearly 5% of global copper demand, India for 3% of world zinc and Brazil for 2% of the world's aluminium consumption.



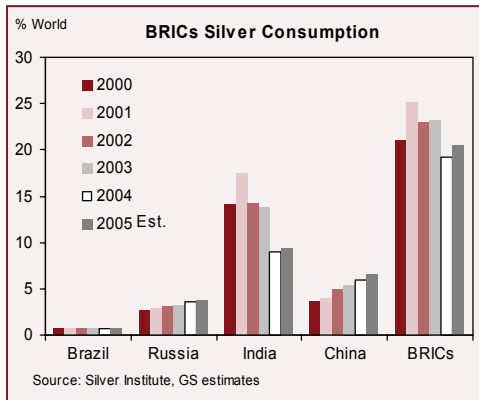
...and in Skyrocketing Industrial Metals Consumption

- Chinese demand for industrial metals has outpaced even the robust growth in its overall economy, which is 85% larger today than in 2000. Since 2000, China's share of world demand has close to doubled for almost every industrial metal group.
- Demand growth for nickel and lead has been the most dramatic. China's share of world nickel consumption has more than tripled since 2000, to 15% in 2005, and its share of lead demand has soared to 26% in 2005 from 10% in 2000.



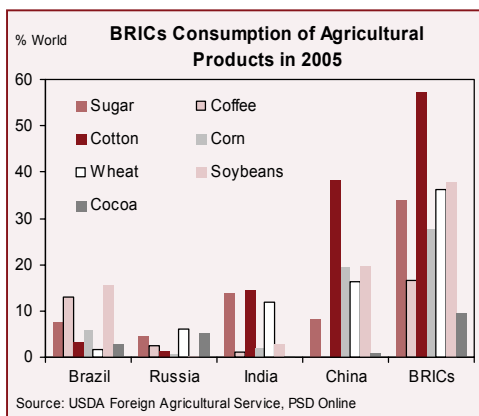
India and Gold: A Surprising Story

- Strong growth in the BRICs has led to a steady increase in gold demand since 2002, with the BRICs now accounting for nearly a quarter of total world demand.
- India is by far the largest buyer of gold among the BRICs, now accounting for 15% of total world demand. But India's consumption is actually below its peak in 2001—in both volume and percentage terms—despite expectations that the economic boom there would spark higher consumption. This may reflect financial liberalisation, which is undermining one of the traditional drivers of Indian gold consumption.



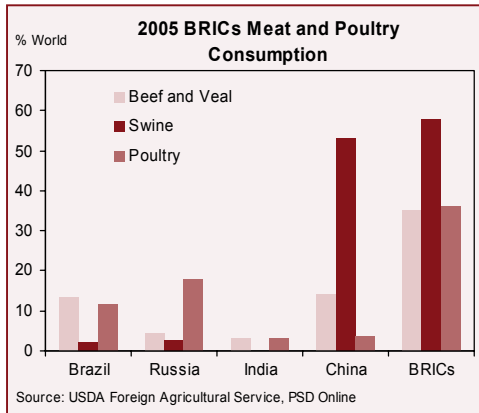
India's Silver Demand Dragging, China's Picking Up

- Unlike gold, silver demand from the BRICs has failed to make a strong comeback from its 2001 peak. The BRICs' share of world silver demand has fallen considerably, from 25% in 2001 to an estimated 20.4% in 2005. The main cause is a nearly 50% decline in Indian consumption. Nonetheless, India remains by far the largest silver consumer within the BRICs.
- In contrast, China's silver demand has jumped by 60% in volume terms, rising from 4.0% of the world total in 2001 to 6.5% in 2005.



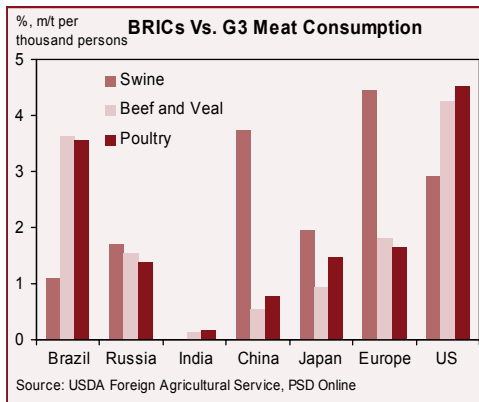
High Populations Driving Agricultural Consumption

- The four BRICs account for 43% of the total world population, so agricultural demand is substantial. Brazil and China are the two largest consumers of soybeans, at roughly 16% and 20% of world consumption, respectively, while the BRICs together account for 36% of worldwide wheat consumption.
- China is the world's largest consumer of cotton and accounts for nearly 40% of total world demand. This is due largely to the size of its textile export industry, the most competitive in the world.



Meat Consumption Split Along Cultural Lines

- Meat and poultry consumption across the BRICs exposes strong cultural differences within the group. China accounted for more than half of the worldwide swine consumption in 2005. India comprises only a tiny fraction of total world meat and poultry consumption, reflecting both a cultural preference for vegetarian diets and the lowest income per capita among the BRICs.
- Russians favour poultry; 2% of the world's population consumed 18% of the world's poultry last year. Brazil's 186mn people consumed only slightly less beef and veal than China's 1.3bn.



BRICs Meat Consumption Looking More Like G3

- As the income of the BRICs countries grows, the consumption of meats and other luxury food items is likely to look more like that of the G3, although it will continue to reflect cultural differences.
- Chinese swine consumption has risen significantly over the past decade, from .03m/t per capita in 1995 to nearly .04m/t per capita in 2005. Over the same period, Brazil's poultry consumption has risen from .02m/t per capita to .036m/t. Poultry consumption has seen the largest increases within the meat categories, both across the BRICs and the G3.