

Focus: Aluminium stock to price behaviour - The last time Aluminium was at current price levels, total LME inventories were some 2 to 3 million tonnes lower than the ~4.4 million tonnes currently sat in warehouses around the globe. While inventory levels have ceased to become relevant to prices, part of the shift in price behaviour may reflect metal tied up in warehouse rent deals.

- We expect no fireworks from precious metals today. **For gold, we still recommend selling into strength.**
- With sentiment on global growth having turned more bearish this week, **a rise in speculative shorts might be on the cards, especially for platinum, palladium and silver.**
- Any **dollar appreciation could be met with a fall in crude oil prices.**
- A stronger US dollar and generally poor macroeconomic data saw much of the base metals complex come under pressure on Thursday, though with the US heading off for a long weekend, intraday short covering activity saw the complex finish well above their lows.
- With the US on holiday, and no economic data to speak of, the base metals have been very quiet on Friday and are generally trading sideways.

Walter de Wet* CFA
+44 (20) 7815 2759
Walter.DeWet@standardbank.com

Leon Westgate*
+44 (20) 7815 4090
Leon.Westgate@standardbank.com

Manqoba Madinane*
+27 (11) 378 7220
Manqoba.Madinane@standardbank.co.za

Commodity price data (2 July 2009)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,643	1,640	1,668	1,617	-23	-1.38	1,611.00	1	-30.35
Copper	5,020	5,035	5,144	4,967	-55	-1.08	5,006.00	-36	-15.75
Lead	1,730	1,701	1,748	1,693	-39	-2.24	1,708.00	13	-22.25
Nickel	16,275	16,475	16,545	16,006	0	0.00	16,185.00	410	-76.00
Tin	14,600	14,475	14,600	14,180	-200	-1.38	14,490.00	30	70.00
Zinc	1,572	1,575	1,590	1,551	-35	-2.19	1,549.50	5	-27.25

Energy

	Open	Close	High	Low	day/day	Change (%)	ATM 1-m vol	ATM 6-m vol	ATM 1-y vol
ICE Brent	66.25	66.58	66.59	65.86	-0.07	-0.11%	46.74	42.07	35.46
NYMEX WTI	66.49	66.70	66.82	66.10	-0.03	-0.04%	47.59	42.38	35.46
ICE Gasoil	532.00	535.25	535.25	529.00	0.00	0.00%	-	-	-
API2 Q3'09	66.22	65.65	-	-	-0.57	-0.87%	-	-	-
ICE EUA Dec09	13.22	13.10	-	-	-0.12	-0.91%	-	-	-

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	936.00	929.50	941.00	927.40	930.50	-10.50	-0.20/0.20
Silver	-	13.44	13.77	13.31	13.40	-0.35	-2.0/0.0
Platinum	1,188.00	1,185.00	1,198.00	1,185.00	1,185.00	-12.00	4/8
Palladium	252.00	249.00	252.00	250.00	249.00	-3.00	0/3

Sources: Standard Bank; LME; Bloomberg

Please refer to the disclaimer at the end of this document.



Focus: Aluminium stock to price behaviour

Looking at the relationship between aluminium inventory levels and prices (see chart) the last time Aluminium was at current price levels, total LME inventories were some 2 to 3 million tonnes lower than the ~4.4 million tonnes currently sat in warehouses around the globe.

The rally in 3-month aluminium prices during late Q1 and throughout Q2 has occurred in spite of rising LME inventory levels. On the surface, this suggests that inventory levels have ceased to be relevant and that other factors, such as flow of money and FX markets, are dominating price behaviour. Another factor however may be the emergence of warehouse rent deals, and the subsequent tying up of material.

Estimates as to how much material is tied up in these deals vary, but recent numbers from the aluminium industry suggest that up to 75% could be tied up at any one time, equivalent to around 3.3 million tonnes. Using this 75% estimate, the price behaviour of aluminium in relation to stocks, is indeed quite similar to a market with the ~1.1 million tonnes of metal that would be left in free circulation.

By Leon Westgate

Base metals

A stronger US dollar and generally poor macroeconomic data saw much of the base metals complex come under pressure on Thursday, though with the US heading off for a long weekend, intraday short covering activity saw the complex finish well above their lows. In a similar pattern to the past couple of days, the base metals have again started very slowly, with aluminium in particular being very quiet. The exception however has been nickel, which has seen more than double the turnover on LME Select as seen in zinc. Overall, this lack of activity has seen the metals generally trade sideways.

With the US on holiday, and with no significant economic data to speak of, it appears that much of the market's attention will be centred on this afternoon's Wimbledon men's semi final match between the Andy Murray and Andy Roddick. Consequently, fluctuations in the dollar and technical signals will likely dominate price direction during the afternoon.

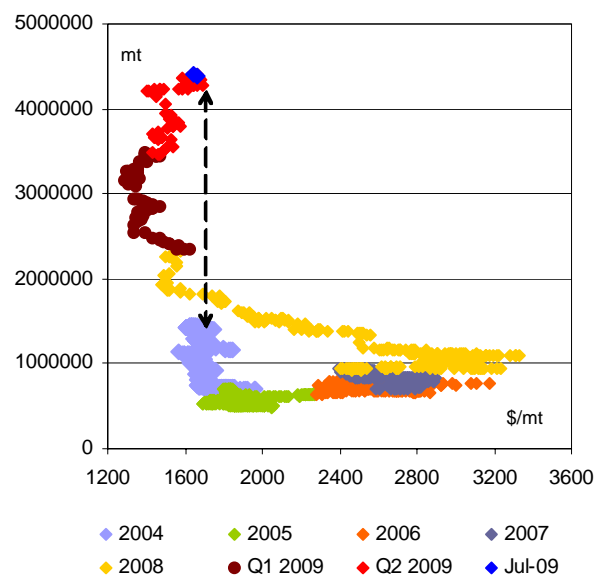
Copper once again fell below \$5,000 during early trade, with expectations of a rise in Shanghai copper inventories weighing on prices overnight. SHFE copper inventories did increase, gaining by 3,892 mt to 59,980 mt, though the gain was less than some had expected. LME stocks also increased, gaining 4,050 mt, though a delay in the LME feed mitigated the impact on prices. Copper has since picked up heading into the afternoon, though volumes remain fairly subdued. Elsewhere, China has reportedly increased the import duties on copper scrap. According to the Bureau of International Recycling, the duty increased from between 5¢ and 25¢/lb depending on the quality.

Aluminium has been very quiet, with less than 900 lots trading on LME Select by midday. That lack of activity has been reflected in the price, with the metal trading sideways heading into the afternoon. It has been a similar story elsewhere, with a lack of volume and a lack of conviction seeing the rest of the metals also trade sideways.

In other news, BHP Billiton has sold its Yabulu nickel refinery in Australia for an undisclosed fee to Clive Palmer, Australia's fifth richest man. Mr Palmer has also stated his interest in purchasing BHPB's Ravensthorpe mine, if it was offered for sale. Rather than emerging totally out of the blue, Clive Palmer is Chairman and a key backer of Gladstone Pacific Nickel Ltd, which recently announced to the LSE that it would not be renewing an MoU with China Metallurgical Construction Corp. to arrange the commercial funding for the proposed A3.65 billion Gladstone refinery project.

By Leon Westgate

Aluminium: LME Stocks vs 3-month Price



Sources: Standard CIB Global Research; Bloomberg

Precious metals

We expect no fireworks from precious metals today. With the US on holiday, markets should be quiet. The only noteworthy data due today was Eurozone retail sales. It came in much worse than expected at -0.4% m/m (expected: -0.1%).

Participants should therefore consider next week's activity for positioning their portfolios. We believe that conditions favour a neutral-to-bearish view on metals:

Firstly, the G8 meeting next week, and whether the subject of alternative reserve currencies will be on the agenda, should keep the dollar bulls at bay. But we do not believe that the dollar's status as reserve currency is under threat. **Therefore, for gold, we still recommend selling into strength.**

Secondly, we expect greater clarity on the outcome of wage negotiations between platinum mines and labour union NUM in South Africa. Regardless of the negotiations' outcome, we believe prices will be supported. While output losses due to strikes would be averted should a deal be reached, mines will face a higher wage bill. They also face increased electricity bills, therefore, costs are on the rise. **We believe that platinum should be bought on the dips as it approaches \$1,100.** Palladium is still steady at \$250, and we remain more bullish on palladium than platinum.

Thirdly, we will scrutinize the CFTC data this afternoon. With sentiment on global growth having turned more bearish this week, **a rise in speculative shorts might be on the cards, especially for platinum, palladium and silver.** However, we would also look to crude oil speculators for an indication of any correction in commodity prices.

We expect gold to trade in a fairly tight range today. Support is at \$923 and \$900, with resistance at \$938 and \$947.

Silver support is at \$13.20 and resistance at \$13.70.

By Walter de Wet

Energy

The crude market should also be quiet today. We expect next week to be focused on the dollar. Given our view that crude oil fundamentals remain weak, any **dollar appreciation could be met with a fall in crude oil prices.**

The energy complex is under pressure. Both US and Eurozone labour statistics have confirmed worsening labour market conditions. In the US, non-farm payrolls contracted 467,000 in June, against market expectations for 365,000. The US unemployment rate climbed to 9.5% m/m in June, albeit lower than market consensus for 9.6% m/m. Eurozone unemployment climbed to 9.5% m/m in May, against market expectations for 9.4% m/m.

Front-month ICE Brent crude oil fell from \$69.14/bbl in Asia to \$66.21/bbl in electronic trade in New York. After dipping to \$65.85/bbl in Asia this morning, front-month Brent rallied back to \$66.90/bbl ahead of London trade.

More signs of thermal coal demand weakness in China, coupled with lower crude oil prices yesterday, saw thermal coal contract prices drift lower. API2(CIF ARA) for Q3:09 delivery shed \$0.57/mt, to \$65.65/mt. API4(FOB) for Q3:09 delivery slipped \$0.60/mt, to \$61.85/mt. China's electricity council is due to lower its power demand growth forecast from a previous 5% y/y for 2009 following a fall in Chinese demand in the five months to May this year. Weakening Chinese domestic demand has seen stockpiles at China's Qinghuangdao terminal climb to 6.5 metric tonnes — weighing on port prices. The Baltic Dry index also fell 1.87% yesterday, warning of lower global dry bulk trade volumes — which could also weigh on thermal coal today.

Carbon emissions contract prices also came under pressure. ICE EUA for December delivery fell EUR0.12/mtCO₂, to EUR13.10/mtCO₂. Active-year CER slipped EUR0.11/mtCO₂, to EUR11.79/mtCO₂.

By Manqoba Madinane

Base metals

Daily LME stock movement (mt)

Metal	Today	Yesterday	In	Out	One day change	YTD change (mt)	Cancelled warrants (mt)	Cancelled warrants (%)	Contract turnover
Aluminium	4,400,725	4,397,325	7,900	4,500	3,400	2,071,825	130,450	2.96	214,215
Copper	268,275	264,225	4,525	475	4,050	-71,500	12,250	4.57	112,356
Lead	92,500	92,250	250	0	250	47,350	75	0.08	22,966
Nickel	109,584	109,584	0	0	0	31,194	834	0.76	27,510
Tin	17,235	17,230	70	65	5	9,445	500	2.90	20,154
Zinc	352,600	353,125	0	525	-525	99,100	6,050	1.72	65,725

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	13,440	13,560	100	Ali July'09	77	76.50	0.00	0.00%
Copper	39,840	40,230	-370	Cu July'09	231	230.10	-0.45	-0.20%
Zinc	13,360	13,410	-50					

ZAR metal prices (2 July 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	12,570	39,059	13,327	126,283	113,058	12,090	7.8025
3-month	13,020	39,972	13,500	130,792	114,914	12,504	7.9388

Energy

Energy futures pricing	Price Change		Price Change		Price Change		Price Change		Price Change	
	1-month forward	2-month forward	3-month forward	6-month forward	1-year forward					
Sing Gasoil (\$/bbl)	72.73	-2.75	72.93	-2.86	73.74	-2.87	77.93	-2.83	82.70	-2.47
Gasoil 0.1% Rdam (\$/mt)	535.25	0.00	544.00	-1.50	551.75	-4.75	586.50	-20.75	627.50	-18.75
NWE CIF jet (\$/mt)	593.33	-20.97	601.83	-21.84	613.83	-21.41	642.98	-20.58	686.44	-18.41
Singapore Kero (\$/bbl)	73.38	-2.55	74.33	-2.66	75.64	-2.77	80.43	-2.78	85.05	-2.47
3.5% Rdam barges (\$/mt)	372.19	-7.92	370.09	-9.26	369.45	-9.96	371.73	-10.92	385.30	-12.53
1% Fuel Oil FOB (\$/mt)	375.94	-7.67	381.84	-8.76	385.95	-9.21	402.48	-8.67	427.80	-10.03
Sing FO 380 Cargo (\$/mt)	395.59	-6.26	392.70	-7.46	390.95	-9.09	394.96	-9.99	407.45	-12.35
Sing FO180 Cargo (\$/mt)	403.94	-6.42	399.84	-6.76	398.20	-7.96	399.48	-9.92	407.45	-12.35
Thermal coal	Q3-09		Q4-09		Q1-10		Cal 11		Cal 12	
API2 (CIF ARA)	65.65	-0.57	72.25	-0.40	88.55	-1.60	96.00	-2.20	101.00	-2.70
API4 (FOB RBCT)	61.85	-0.60	67.25	0.00	80.15	-1.60	86.25	-1.95	91.00	-2.50
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	12.97	-0.11	13.10	-0.12	13.59	-0.14	14.28	-0.18	15.27	-0.19
ICE - ECX CER (€/mt)	11.80	-0.15	11.79	-0.11	11.60	-0.07	11.69	-0.11	12.09	-0.08

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.20857	0.30429	0.37000	0.47429	0.66143		
Silver	0.43571	0.44286	0.51000	0.53857	0.60429		
USD Libor	0.30438	0.40688	0.57750	1.07875	1.57625		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	50.30	933.04	937.65	928.16	876.98	924.00	941.00
Silver	46.06	13.78	14.22	13.63	12.22	13.22	13.73
Platinum	51.60	1,184.74	1,209.19	1,145.96	1,025.19	1,178.00	1,200.00
Palladium	56.53	245.26	246.95	226.18	209.12	248.00	257.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Aug'09	Sep'09	Oct'09	Oct'09	Aug'09	Jun'10	Aug'09
Settlement	933.30	13.4200	252.00	1,193.30	933.00	2,888.00	930.00
Open Interest	378,359	100,969	16,733	22,807	729	100,012	3,347
Change in Open Interest	-840	-3,625	289	-189	-37	426	120

Date: 2 July 2009

Sources: Standard Bank; LME; Bloomberg

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