Standard Bank
Also trading as Stanbic Bank

29 January 2015

Daily

Global | Commodities

Aluminium positioning and spreads – tail wagging the dog?

Volatility returned to the aluminium spreads in March 2014, with that volatility increasing in magnitude and frequency and leading to almost quarterly episodes of tightness in the nearby (Cash-3m) spreads.

With the speculative market going short in December, and with LME material heading out of warehouses likely going into ex-LME warehouse but still LME hedged locations rather than to real consumers, (2.5 Mt was removed from LME warehouses in 2014 yet physical premia nearly doubled while the market was technically in a 971 kt deficit) there again looks set to be another period of sustained spread tightness on the cards.

Looking at how the aluminium spreads have behaved in conjunction with prices, typically the cash-3m spread eases as prices sell-off. In copper, price weakness tends to see the nearby spreads tighten as cash buying (pricing) activity emerges. In aluminium the opposite is true with price weakness tending to see farther-dated consumer buying interest but nearby spread weakness. Some of this is undoubtedly due to the fact that the real LME aluminium cash price actually represents metal in a warehouse with a wait of maybe 600 days.

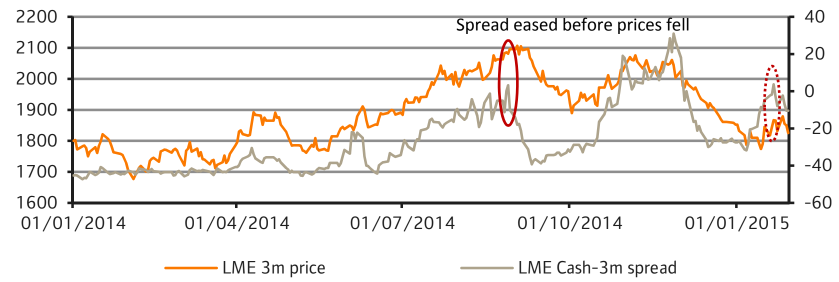
One notable difference however, and one that has happened a few times in the past, is that easing in the nearby spreads has heralded weaker outright prices. Whether this is because spreads easing is a signal for CTA-type traders to become more aggressive in their shorting of the metal, or the fact that it is less painful for shorts to maintain a position, remains unclear.

The forthcoming roll period is complicating the picture a little bit, with some pre-emptive activity perhaps emerging. The divergence between the spreads and prices is however a worry given past episodes where spreads have weakened in advance of prices. Also confusing things is our belief that the large short position built up in December will result in spread tightness heading into March-April and likely (if you include consumer buying interest) tightness along the forward curve out to Dec-15 too.

Given previous behaviour in the spreads we remain concerned that the current easing signals or maybe flags that aluminium prices are vulnerable to another short-term sell-off. Post the roll period however we believe nearby spreads will tighten back up again heading into March-April with headline prices recovering too.

By Leon Westgate

LME Aluminium price vs. Cash-3m spread

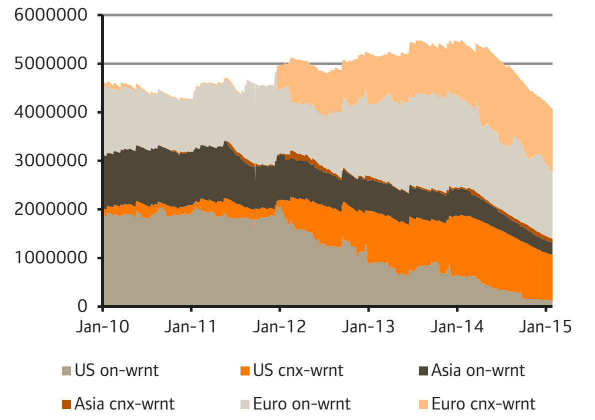


Source: LME

Commodities Strategist
Leon Westgate
Leon.Westgate@standardbank.com
+44-203-145-6822

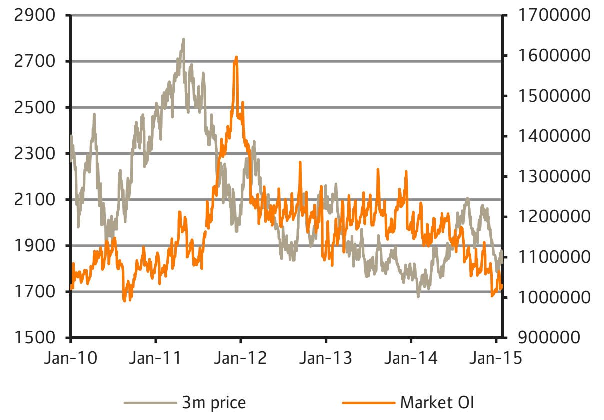
Commodities Strategist
Melinda Moore
Melinda.Moore@standardbank.com
+44-203-145-6887

Regional LME aluminium inventory



Source: LME

LME aluminium 3m price vs. Market Open Interest



Source: LME

Base metals

The base metals remain rather volatile, with recent stability in the dollar-euro having little impact. Volumes have continued to ebb away across the LME complex, and with little change from the FOMC overnight, range trading and technical factors are taking over.

Copper has again looked to test recent support with the metal remaining under pressure. What is interesting is not so much the nearby impact of weaker prices, but rather the response from miners. Freeport has already announced it will slash capex by $2.2 billion this year, with various other small mines already closing and purse strings generally being tightened. The disruption allowance this year is already climbing higher, owing to various already announced issues with production rates from the likes of Codelco, expected outages in Zambia (assuming no movement is made on the royalty front) along with other issues related to lower grades. With Q4 production reports also on the disappointing side from many producers, even with lower consumption rates from China (we are forecasting 6% apparent refined consumption growth in 2015) it is hard to see that the market will be any worse than balanced this year. With pressure now on mine managers to cut costs, the rate of unexpected outages and accidents are arguably also likely to rise.

While the bearish global macroeconomic argument seems to be ascendant, that stance is nevertheless at odds with copper's underlying fundamentals. On a purely positioning basis, the continued presence of a dominant holder of warrants, in spite of stead increases in LME inventory, and along with potential SRB activity suggests that the refined market remains tight and the downside (assuming of course China and Europe don't implode), remains limited.

Elsewhere, lead and zinc remain under pressure, with both metals tending to follow copper. After a period of relatively decent turnover, lead volumes have shrunk away over the past week or so back to the traditional apathetic levels the market had become used to.

Nickel has meanwhile stalled above the $15,000 level with the metal struggling to find the momentum needed to break higher. Tighter physical conditions in Asia have helped, however increasingly bearish sentiment from North America has found some traction and has temporarily curbed the enthusiasm it seems for the nickel bulls. Whether they now go into hibernation until after the Chinese New Year remains to be seen, however as with lead, volumes have started to tail off this week as the metal settles into sideways trading.

Leon Westgate

Precious metals

The precious metals are reacting to the aftermath of the Greek election (and fears over the Eurozone) and the FOMC statement. Gold longs are unwinding with open interest starting to decline. Technical signals are becoming increasingly important now that the fear factor has reduced with $1,272 and $1,253 looking like key support levels. In terms of wider currency effects, the extreme weakness seen in the Turkish Lira will undoubtedly have an impact in physical gold demand, with selling interest likely to increase.

Silver has come under heavy selling pressure, falling over 2% compared to a fall of less than 1% for gold, highlighting the metals relative beta to its shinier and more popular sibling.

After rallying very strongly yesterday, palladium remains steady, albeit also coming under a little pressure heading into US trade. Platinum meanwhile remains under pressure, with the metal to an extent following gold, but also coming under pressure from a weaker Rand and decent production figures from the South African mining industry.

Leon Westgate

Bulk commodities

Chinese financial steels rallied today, with investors taking the view that the recent sharp destock of up to 8mt of excess steel inventory has been cleared out, amid news that daily steel output had dropped by 5.09% since the 1st 10-days of January. DCE IO followed suit, although met coke and coal remain range-bound. ZCE thermal bounced slightly from yesterday, although remaining within recent lows.

For coal, the key driver yesterday surrounded news that Glencore is considering cutting 5mtpa of export coal from its SA Optimum assets, due to falling prices, while continuing to deliver to Eskom's Hendrina facility. Glencore's SA operations produce c.35mtpa, of which c.28-30mt are exported. The closures would represent c15% of its own exports. SA was targeting 75mt of exports this year. The loss would drop this to 70mt, although it will be interesting to see if there is a push for BEE or other lower cost mines to lift their exports instead, even despite this year's low prices.

Meanwhile in the Atlantic, a possible strike at JSW's 10mtpa met/thermal mine may also restrict regional supplies. The EUR is weakening, concerned about inflation figures today as well as consumer confidence levels. From the US, we have initial jobless claims and home sales.

Shanghai Equities fell 1.3% today to 3,262 points. 26/28 Chinese provinces have set lower 2015 growth targets. Shanghai has scrapped providing a target, while Tibet is retaining its 2014 target unchanged. The CSRC will launch an investigation into stock margin trading practices. Shanghai is to continue with its home purchase restrictions.

Shanghai 7-day interbank rates rose to 4.15%. The PBOC sold RMB 45bln in 28-day reverse repos at 4.8%. With RMB 50bln maturing, the PBOC has effectively injected RMB 55bln into money supply this week, ahead of Chinese New Year. New loans may exceed 10 trillion this year, with Jan to exceed 1 trillion. Spot Currency traded at 6.2468, while the PBOC reference rate set at 6.1335.

Shanghai Rebar Futures May-15 contract closed up RMB 33/t at RMB 2507/t, while the Oct-15 contract closed up RMB 34/t at RMB 2536/t. Dazong HRC Apr-15 futures shifted up RMB 29/t to RMB 2599/t, while SHFE HRC May-15 futures rose RMB 28/t to RMB 2622/t.

Among physical steels, a strange trading day emerged. Tangshan billet prices rose RMB 10/t to RMB 2,010/t. Rebar prices were flat in Shanghai, while rising RMB 20-30/t in Beijing. HRC prices rose RMB 70-90/t in Shanghai but fell RMB 40/t in Beijing.

CISA mills output fell 5.09% p/p to 1.6941mt by mid-Jan, while stocks rose 1.1256mt to 14.763mt. Laiwu Steel is believed to have shut a 1000cm BF due to weak demand, with anoterh 1880 BF likely to be closed ahead of CNY. China shut 31.3mt of (mostly outdated) steel-making capacity in 2014, with total capacity sitting at 1.15bln tonnes. New environmental laws could push further mills from the market this year. Baogang's Zhanjiang first BF has been installed, with operations expected to begin this September. Trafigura is looking to purchase assets in Brazil to shore up its port investments.

Dalian Commodity Exchange IO May-15 contract rose RMB 5/t to RMB 476/t, while the Sept-15 contract closed up RMB 5/t at RMB 462/t.

Among physical iron ore, RioT tendered a PB fines cargo at $63.18/t, while local Chinese platform COREX traded a IOCJ FE 64.91% Feb-cargo at $70.60/t. PB fines at Shandong ports remained at RMB 460/t.

The TSI Fe 62% China CFR price index was down $0.40/t to $62.30/t (MTD: $67.48/t). The Platts Fe 62% index was up $0.25/t to $63.25/t, while the TSI Fe 58% index was unchanged at $55.00/t (MTD: $60.47/t). The Metal Bulletin Fe 62% index was down $0.18/t to $63.27/t, while its Fe 58% index was down $0.11/t to $52.26/t. Argus Fe 62% printed at $62/t.

In IO supply news, Anglo Kumba saw 4Q14 exports of 11.7mt, up 23% y/y, while Minas Rio produced 0.7mt. Mt Gibson is still targeting c.5mt in 2015, after finding 0.4mt of exportable Fe 59% ore at Koolan Island. In 4Q14, the miner shipped 1.2mt, due to Koolan flooding, while Tallering Peak is depleting. 4Q average prices were $60/t FOB, vs $65/t in 3Q14. FMG shipped 41.1mt in 4Q14, up 47% y/y and off 1% q/q, while guiding to c.155-160mt in 2015. Realised prices were $63/dmt, compared to $41/wmt in costs. Net debt sits at c.$6bln. Metalloinvest shipped 0.465mt ot China in 4Q14, up 93% y/y.

The Baltic Exchange Cape index shifted 6.7% lower to $5,972/day, with C3 at $10.715/t and C5 at $4.164/t, while C4 is $4.685/t and C7 is $6.415/t. FFA Cal15 capes are trading in the $11,500/day range, while 2Q15 trading in the $9,400/day range.

For Q2:15 thermal coal prices, API 2 is trading at $57.85/t; API 4 is trading at $57.45/t; while Newcastle is trading at $58/t. Among physical globalCOAL deals, March ARA traded at $58.95/t and March NEWC traded $64.50/t

Zhengzhou Futures May-15 thermal contract prices fell RMB 1.4/t to RMB 468.80/t, while the Sept-15 contract was up RMB 0.8/t to RMB 473/t. QHD stocks rose 0.4% to 7.68mt . The Bohai index fell RMB 7/t yesterday.

China expects its domestic fuel demand to rise 3.6% in 2015 to 534mt, with gas demand up 7.7% y/y to 112mt. The country controlled 141m bbl of strategic oil reserves at the end of 2014.

China's thermal coal imports, including bituminous, sub-bituminous and lignite, fell 6.34% y/y to 198.58mt in 2014. China imported 17.25 mt of thermal coal in December, down 28.27% y/y but up 21.22% m/m. Thermal coal exports totalled 2.60 mt in 2014, down 31.74% y/y, with December exports at 0.15 mt, off 38.39% y/y and 37.13% m/m.

Premium Hard Coking Coal spot prices are trading in the $107-112/t Qld FOB range, with China CFR prices ranging $113-118/t. TSI FOB Qld printed at $112.60/t, while China CFR printed at $113.60/t. MB Premium Hard Coking Coal spot prices are trading in the $112.60/t Qld FOB range, with China CFR prices ranging $113.60/t. The Argus Qld fob index printed at $107.31/t. Australian PCI is being offered into EU at c.$100/t, in line with Russian materials.

Anglo's Moranbah mid-vol met coke mine continues to be impacted by longwall mechanical issues, which rectification not expected until 3Q15.

On the Dalian Exchange, May-15 coke price traded down RMB 2/t to RMB 1,025/t, while the Sept-15 contract was unchanged at RMB 1,043/t. Among Dalian HCC prices, May-15 contract prices closed down RMB 3/t to RMB 726/t, while the Sept-15 contract was up RMB 1/t to RMB 737/t.

By Melinda Moore

Commodities Data

LME 3 month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	1,861	1,850	1,875	1,843	-11	-0.59	1,793.00	-29	-31.25
Copper	5,419	5,484	5,510	5,411	66	1.21	6,216.00	-93	68.50
Lead	1,872	1,889	1,890	1,859	17	0.88	1,833.00	-12	-14.75
Nickel	14,775	15,050	15,070	14,670	275	1.86	14,585.00	-295	-74.00
Tin	19,375	19,245	19,500	19,205	-130	-0.67	19,650.00	250	15.50
Zinc	2,115	2,118	2,140	2,110	3	0.14	2,155.00	-29	-11.00

LME inventory	Today	Yesterday	In	Out	One day change	YTD change (mt)	Cancelled warrants (mt)	Cancelled warrants (%)	Contract turnover
Aluminium	4,058,300	4,068,450	0	10,150	-10,150	-151,975	2,326,725	57	142,634
Copper	247,450	244,675	3,000	225	2,775	70,425	22,850	9	130,122
Lead	215,050	215,075	0	25	-25	-6,925	7,800	4	32,502
Nickel	425,562	423,726	2,772	936	1,836	12,414	113,232	27	60,375
Tin	11,860	11,865	20	25	-5	-185	685	6	6,696
Zinc	633,175	636,725	0	3,550	-3,550	-58,425	138,475	22	86,371

Shanghai 3-month	Open	Last	1d Change		COMEX	Open	Close	Change	Change (%)
Aluminium	12870	12840	-10		Ali Feb'14	-	-	-	-
Copper	39710	39520	-170		Cu Feb'14	247.95	244.7	-3.25	-1.31
Zinc	19,375	19,245	0						

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Daily change
Gold	1,211.00	1,200.00	1,294.27	1,279.80	1,284.15	52.38
Silver	-	16.29	18.16	17.94	18.00	0.81
Platinum	1,214.00	1,206.00	1,267.45	1,251.50	1,252.50	-2.60
Palladium	797.00	794.00	798.40	775.60	793.90	14.60

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.085	0.0975	0.1075	0.125	0.16
Silver	0.62	0.616	0.618	0.612	0.568
USD Libor	0.168	0.211	0.2526	0.3554	0.6224

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.41	1,190.03	1,195.25	1,215.32	1,256.10	1,269.80	1,283.67
Silver	48.14	15.92	16.07	17.14	18.56	17.45	17.96
Platinum	47.11	1,206.52	1,207.76	1,272.72	1,366.39	1,239.32	1,254.52
Palladium	49.53	803.73	803.18	807.86	821.46	785.83	794.28

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
Settlement	1210	16.255	798.25	1210.9	1210.4	4634	1204
Open Interest	379292	152659	32802	65754	735	73137	21
Change in Open Interest	-15140	19372	-3536	4720	-531	-29605	-292

Energy

Energy futures pricing	1 month	Change	2 month	Change	3 month	Change	6 month	Change
Sing Gasoil ($/bbbl)	62.808	0.02	61.693	0.41	62.23	0.46	64.2	0.59
Gasoil 0.1% Rdam ($/mt)	477	-1.50	476.25	-1.75	477.5	-2.00	491.75	-1.75
NWE CIF jet ($/mt)	528	0.39	524.2	5.02	524.83	5.32	536.85	5.37
Singapore Kero ($/bbl)	63.685	0.07	64.243	0.60	64.25	0.54	65.46	0.62
3.5% Rdam barges ($/mt)	237.604	-0.86	238.773	-7.18	242.029	-7.52	252.729	-7.12
1% Fuel Oil FOB ($/mt)	238.44	-1.19	245.96	-7.06	250.15	-7.47	262.27	-7.19
Sing FO180 Cargo ($/mt)	278.597	-1.02	278.106	-8.12	276.613	-8.25	283.562	-7.23

Thermal coal	Q3 14	Change	Q4 14	Change	Q1 15	Change	Cal 15	Change
API2 (CIF ARA)	74.50	-0.50	77.05	-0.45	78.65	-0.35	80.45	-0.40
API4 (FOB RBCT)	73.85	-0.15	74.05	-0.20	75.25	-0.05	76.75	-0.10

Source: LME, Comex, Nymex, SHFE, Standard Bank Plc

Commodity Data cont.

Bulks

	Latest Price	1-day	1-week	1-month	3-month	6-month
Turkish Scrap 80:20 (Iskinderun CFR) $/t	298.59	-2.05%	-1.74%	-7.16%	-19.18%	-20.86%
China Tangshan Steel Billet $/t	330.00	-0.90%	-7.56%	-17.71%	-25.84%	-30.67%
China HRC export (Shanghai FOB) $/t	405.00	-7.32%	-10.79%	-15.98%	-21.21%	-24.30%
North Europe HRC domestic (ex-works) $/t	390.00	0.00%	0.00%	-6.59%	-5.45%	-12.36%
North America HRC domestic (Midwest FOB) $/t	554.00	-4.15%	-8.88%	-13.84%	-18.53%	-17.44%
Steel—Futures						
LME Billet Cash $/t	490.00	0.00%	0.00%	6.52%	17.79%	36.11%
LME Billet Futures (1-mth) $/t	490.00	0.00%	0.00%	6.52%	16.95%	35.36%
LME Steel Billet Stocks—change	0.00	-	-	-	-	-
Shanghai Rebar Futures (Active contract) $/t	354.04	-4.43%	-14.91%	-18.34%	-32.24%	-33.31%
Shanghai Rebar Futures On-Warrant Stocks—change	0.00	-	-	-	-	-
China Steel Inventory (million tonnes)	10.26	1.44%	4.94%	-6.95%	-18.26%	-28.60%
Iron ore						
China Iron Ore Fines (62% Fe; CFR Tianjin) $/t						
China Iron Ore Fines (58% Fe; CFR Tianjin) $/t						
SGX AsiaClear IO Swaps 62% Fe $/t (1-mth)	67.58	-0.62%	-1.69%	-15.70%	-29.42%	-47.31%
China Iron Ore Inventory (million tonnes)	92.06	-0.59%	-3.25%	-6.88%	-12.11%	2.54%
Coking coal						
Premium Hard Coking Coal (Qld FOB) $/t	113.45	0.00%	-0.31%	2.25%	-1.13%	-12.60%
Capesize freight						
Saldanha South Africa-Beilun China	8.25	0.00%	18.71%	-56.12%	-37.02%	-42.11%
Financials pricing						
RMB Currency	6.25	0.61%	0.36%	2.21%	1.05%	3.17%
China 7-day repo	4.16	-5.02%	-10.34%	8.05%	0.24%	-22.24%
Shanghai Equities Composite	3262.30	-2.42%	2.98%	37.47%	49.43%	59.14%

Source: LME, Bloomberg, Standard Bank Plc

Disclaimer

This material is non-independent research. Non-independent research is a "marketing communication".

This material is "non-independent research". Non-independent research is a "marketing communication" as defined in the UK FCA Handbook. It has not been prepared in accordance with the full legal requirements designed to promote independence of research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Additional information with respect to any security referred to herein may be made available on request. This material is for the general information of institutional and market professionals' clients of Standard Bank Group (SBG) only. Recipients who are not market professionals or institutional investor customers of SBG should seek advice of their independent financial advisor prior to taking any investment decision based on this communication or for any necessary explanation of its content. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendations in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The information, tools and material presented in this marketing communication are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This material is based on information that we consider reliable, but SBG does not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. The information and opinions contained in this document were produced by SBG as per the date stated and may be subject to change without prior notification Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update the material in this report on a timely basis, but regulatory compliance or other reasons may prevent us from doing so.

SBG or its employees may from time to time have long or short positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. Where SBG designates NON- INDEPENDENT Research to be a "marketing communication", that term is used in SBG's Research Policy. This policy is available from the Research Compliance Office at SBG. SBG does and seeks to do business with companies covered in its non-independent research reports including Marketing Communications. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

SBG has published a Conflicts of Interest Policy that is available upon request which describes the organisational and administrative arrangements for the prevention and avoidance of conflicts of interest. Further disclosures required under the FCA Conduct of Business Sourcebook and other regulatory bodies are available on request from the Research Compliance Department and or Global Conflicts Control Room, unless otherwise stated, share prices provided within this material are as at the close of business on the day prior to the date of the material. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of SBG. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of SBG or its affiliates.

SBG believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of this communication were obtained or derived from sources SBG believes are reliable, but SBG makes no representations as to their accuracy or completeness. Additional information is available upon request. SBG accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to SBG.

The services, securities and investments discussed in this material may not be available to nor suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss. Past performance is no guide to future performance. In relation to securities denominated in foreign currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Some investments discussed in this marketing communication have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make them investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.