

Zinc – market is getting more bullish but distractions remain

After a shaky start to the year, zinc has managed to find its feet and recover more or less back to where it started 2015. The metal received an extra fillip this morning with a large jump in cancelled warrants helping prices to recover after a weak close on Tuesday.

Speculative interest is nevertheless warming to the metal with the latest COT data showing the Money Manager long position is at the highest level since November 25th. Interestingly however, the Money Manager short position is at the highest level on record at 58,906 contracts. Overall however the Money Manager net long position is still increasing and is back to the highest level since December 10th. Worth noting is the correlation between money manager net positioning and zinc prices as the moment, albeit with dislocations and time lags that emerge from time to time.

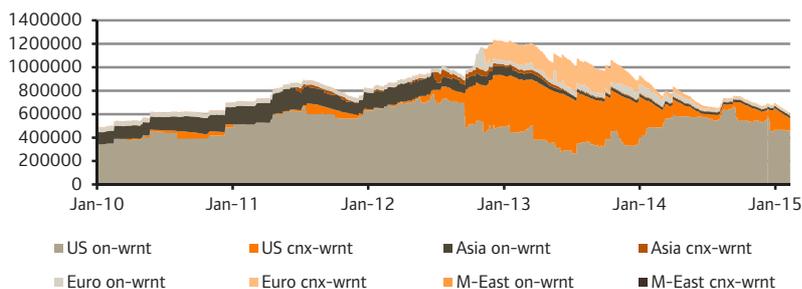
Overall however we are still waiting for a reason to become excited about zinc's near term price prospects. Yes the market is expected to tighten slowly from a fundamental perspective however as we noted previously (Commodities Daily -11th December 2014 – Zinc: Still a bit stinky) that process is buffered by a concentrate overhang and refined metal, overhang. Today's 91,400 mt fall in LME on-warrant inventory is yet another diversion or false start in our view, particularly in terms of those participants looking for that journey to begin.

The main reason for the decline in inventory was an 86,600 mt jump in cancelled warrants in New Orleans, combined with a 4,800 mt outflow of material at the same location. Of the four warehouse companies with facilities in New Orleans, the only warehouse with significant zinc inventory already had a 48-day queue (according to LME data) at the end of January. The cancellation this morning therefore seems unlikely to be due to a sudden pick up in physical demand, particularly as there hasn't been an equally dramatic increase in physical premia.

With the LME refined zinc market still blurred by stock movements and financing-related activity it still falls to the underlying physical markets to determine how zinc is actually doing. With speculative interest overlaid onto however, and reacting to at times more superficial data, there is little to suggest that zinc is set for anything other than a slow and rather choppy ride to recovery.

By Leon Westgate

LME Regional Zinc Inventory



Source: LME

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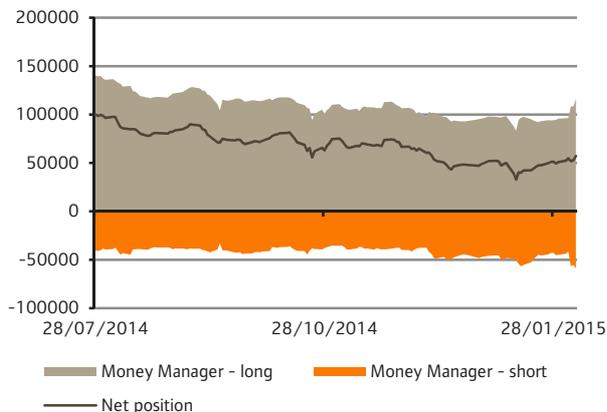
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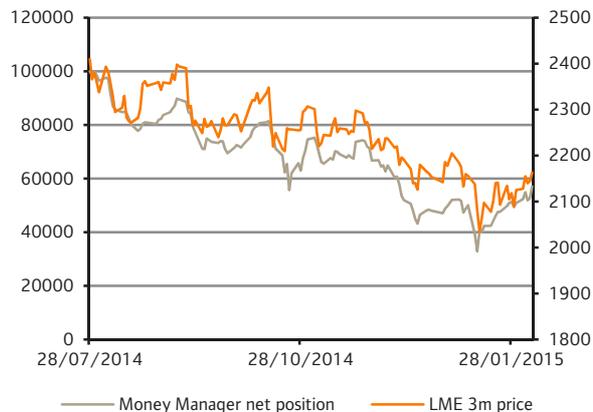
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LME Zinc COT Money Manager positions



Source: LME

LME Zinc 3m price vs. COT Money Manager net position



Source: LME

Base metals

The base metals came under heavy pressure yesterday afternoon along with the wider commodity and energy complex. The metals have managed to stabilise heading into Wednesday afternoon, though the initial bounce has run out of steam somewhat. Volumes are pretty disappointing across the 6 LME metals.

Copper rallied all the way up to \$5,680 this morning boosted by short covering activity before coming back under pressure again. Overall the metal is range bound and has yet to break back above key trend line resistance, though flits from looking absolutely terrible to well supported. Overall, particularly with mine-supply disruptions picking up and demand conditions remaining ok, the metal is looking good from a fundamental perspective.

What will be interesting is to what extent the Zambian government is prepared to negotiate over its plan to implement a new royalty system. That plan has already prompted Barrick to put its Lumwana mine on care and maintenance if it goes ahead, with the workforce reduction starting next month. With prices at current levels miners are already struggling on the Copperbelt even before the royalty plan comes into force with projects being delayed amid cuts in spending. Even if the royalty plan doesn't come into force, it's worth noting that Vedanta's Konkola Copper Mines unit, one of the largest producers in the region, reported that for the FY ending 31st March 2014, C1 cash costs were \$5,256/mt.

Leon Westgate

Bulk commodities

Chinese financial steels remained range-bound for most of the day, although a last-hour surge caused some excitement, on the back of further rate cut rumours and news that Shagang had rolled over its rebar prices for mid-Feb sales.

News and data remained sparse, drying up ahead of Chinese new year hols late next week, with Jan's new loan still to be published. Comments from the PBOC regarding its inflationary expectations has the market expecting further rate adjustments by or in 2Q. This has helped prop up IO swap relativities btm 1Q and 2Q pricing.

ZCE thermal rallied into the close, together with steel coal/coke, potentially due to rate cut rumours, which would be focused on helping demand from 2Q onwards. At a micro level, coal miners may also look to extend output cuts, which would help

oversupplies. Shenhua may look to lower its contract offer prices by RMB 20/t during key miner meetings today with the Coal Association. The weekly BSPI fell RMB 2/t to RMB 508/t. For Atlantic coals, the key focus will be in the EU meeting later today for the currency, while the recent oil rally appears to have topped out on the back of IEA forecasts suggesting OECD stocks will remain at a record 2.83bln barrels by mid-15. Meanwhile the c.6 hour nightly ban on Fenoco coal railings is to go ahead from this week.

Shanghai Equities rose 0.51% today to 3,158 points on falling liquidity. China has approved an additional 593 flights to Taiwan Island during CNY. China's PLA is to spend a year investigating non-compliant expense violations in the army over the past 24 months. China's auto sector sold 2.32m units in January, up 7.6% y/y, although off 3.8% m/m. China produced 23.5m units in 2014, up 7% y/y. Shanghai 7-day interbank rates rose up to 4.61%, with liquidity remained tight on CNY and IPO funding requirements.

Spot Currency traded at 6.2419, while the PBOC reference rate was set at 6.1315. The PBOC's 4Q14 report said that the Bank will continue to pursue a steady monetary policy, in a "neutral & adequate" environment – sounds very Goldilocks! The Bank's inflationary expectations appear to be toning lower, suggesting more room for rate or RRR cuts in March or April may be feasible to help stop the current "rot". The PBOC also suggested that policy should not over-react to oil price volatility. One SAFE official suggested the PBOC may cut rates in 2 tranches of 25bp, as well as lower the RRR by 50bp in 3 tranches this year.

Shanghai Rebar Futures May-14 contract closed up RMB 1/t at RMB 2,490/t, while the Oct-15 contract was unchanged at RMB 2,558/t. Dazong HRC May-15 futures shifted RMB 9/t higher to RMB 2,573/t, while SHFE HRC May-15 futures rose RMB 20/t to RMB 2,602/t. Among physical steels, Tangshan billet prices fell a further RMB 10/t back to prior support levels of RMB 2,000/t on demand weakness and as traders move to cut inventories ahead of CNY. The weekly Yangang billet tender went through at RMB 2,030/t, off RMB 15/t w/w. Rebar prices traded flat in Shanghai and Beijing. Shagang, Zenith and Yongang kept their mid-Feb prices flat, while Hebei increased its rebar prices by RMB 50/t for March sales. HRC prices remained flat in both Shanghai and Beijing. Ningbo Steel is to reduce its March HRC price by RMB 200/t.

Dalian Commodity Exchange IO May-15 contract was up RMB 1/t to RMB 481/t, while the Sept-15 contract closed up RMB 1/t at RMB 474/t. Among physical iron ore, globalORE traded a PB fines Fe 62% March cargo at 35 cents. Mysteel's Fe 62% index remained flat at \$62.50/t, while its Fe 58% index rose 25 cents to \$53/t. In IO supply news, Brazil shipped 5.3mt last week, down from 6.71mt the prior week. Vale has finally received approval to dock Valemaxes at China ports, however load capacities will be limited at 250,000 dwt, limiting Vale's "superhighway" freight cost reduction aims.

The Baltic Exchange Cape index shifted 1.2% lower to \$5,731 /day, with C3 at \$10.712/t and C5 at \$4.514/t, while C4 is \$4.39/t and C7 is \$6.215/t. FFA Cal15 capes are trading in the \$11,300/day range, while 2Q15 trading in the \$8,400/day range.

For Q2:15 thermal coal prices, API 2 is trading at \$63.50/t; API 4 is trading at \$62.45/t; while Newcastle is trading at \$62.25/t. Among physical globalCOAL deals, a ARA Feb-cargo traded at \$59.50/t, while an April-cargo traded at \$63.50/t. Australia shipped 13.85mt from NSW and 17.94mt from Qld in January, with the totals up 4.2% y/y from 30.51mt to 31.79mt. Colombian producers are planning to keep coal output stable with 2014 levels, given market demand weakness & margin squeeze. French coal demand dropped 57% y/y from 7.8mt to 3.4mt.

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Glencore produced 54.6mt (48.1mt) of thermal coal in Australia, together with 22.71mt (22.9mt) of exports from South Africa and 19.5mt (18.6mt) from Colombia's Prodeco operations, as well as 11.2mt (11mt) from its stake in Cerrejon. Its 2014 prices fell however, with Australia off from \$83/t to \$72/t; SA from \$76/t to \$68/t; Prodeco off from \$83/t to \$75/t and Cerrejon dropping from \$73/t to \$67/t.

Zhengzhou Futures May-15 thermal contract prices traded RMB 1.4/t higher to RMB 463.20/t, while the Sept-15 contract closed up RMB 0.6/t to RMB 467.20/t. Total port stocks were up 0.6% to 19.67mt, while GZ stocks were down 2.7% to 1.28mt. QHD stocks rose 1.8% to 8.08mt. The BSPI fell RMB 2/t from RMB 510 to RMB 508/t.

Premium Hard Coking Coal spot prices are trading in the \$105-110/t Qld FOB range, with China CFR prices ranging \$110-115/t. On the Dalian Exchange, May-15 coke price traded RMB 1/t higher to RMB 1,036/t, while the Sept-15 contract was unchanged at RMB 1,054/t. Among Dalian HCC prices, May-15 contract prices were unchanged at RMB 733/t, while the Sept-15 contract was unchanged at RMB 743/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	1,872	1,836	1,872	1,836	-36	-1.92	1,793.00	-29	-31.25
Copper	5,674	5,595	5,693	5,561	-79	-1.38	6,216.00	-93	68.50
Lead	1,855	1,832	1,855	1,830	-23	-1.24	1,833.00	-12	-14.75
Nickel	15,165	14,825	15,165	14,720	-340	-2.24	14,585.00	-295	-74.00
Tin	18,335	18,200	18,545	17,950	-135	-0.74	19,650.00	250	15.50
Zinc	2,155	2,115	2,158	2,114	-40	-1.86	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	3,993,400	4,001,125	0	7,725	-7,725	-216,875	2,262,225	57	291,822
Copper	288,450	289,200	275	1,025	-750	111,425	26,275	9	175,259
Lead	214,250	212,700	2,250	700	1,550	-7,725	9,275	4	66,123
Nickel	426,018	426,090	474	546	-72	12,870	109,314	26	84,172
Tin	11,865	11,840	50	25	25	-180	2,615	22	5,767
Zinc	602,675	608,000	0	5,325	-5,325	-88,925	199,375	33	122,452
Shanghai 3-month	Open	Last	1d Change	COMEX	Open	Close	Change	Change (%)	
Aluminium	13190	13120	-110	Ali Feb'14	-	-	-	-	
Copper	40800	40870	-270	Cu Feb'14	255.15	256.85	1.7	0.67	
Zinc	18,335	18,200	-2						
Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Daily change			
Gold	1,211.00	1,200.00	1,246.39	1,231.06	1,233.55	1.78			
Silver	-	16.29	17.12	16.74	16.93	-0.26			
Platinum	1,214.00	1,206.00	1,225.10	1,204.00	1,207.00	-48.10			
Palladium	797.00	794.00	784.80	765.55	769.70	-9.60			
Forwards (%)	1 month	2 months	3 months	6 months	12 months				
Gold	0.065	0.0825	0.095	0.1175	0.1525				
Silver	0.62	0.616	0.618	0.612	0.568				
USD Libor	0.1722	0.2112	0.25835	0.3734	0.656				
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	1,233.75	1,239.60		
Silver	48.14	15.92	16.07	17.14	18.56	16.87	17.09		
Platinum	47.11	1,206.52	1,207.76	1,272.72	1,366.39	1,201.82	1,212.77		
Palladium	49.53	803.73	803.18	807.86	821.46	767.37	772.92		
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 futures pricing	1 month	Change	2 month	Change	3 month	Change	6 month	Change	
Sing Gasoil (\$/bbl)	70.139	-0.79	71.891	-1.35	72.385	-1.31	73.893	-1.16	
Gasoil 0.1% Rdam (\$/mt)	548.5	-8.50	544	-9.00	542.5	-9.25	552	-9.00	
NWE CIF jet (\$/mt)	594.03	-8.86	595.95	-11.96	597.95	-10.85	611.03	-7.90	
Singapore Kero (\$/bbl)	72.501	-1.14	73.101	-1.56	73.435	-1.41	75.003	-1.33	
3.5% Rdam barges (\$/mt)	289.975	-7.02	294.083	-9.95	297.455	-10.04	307.583	-10.76	
1% Fuel Oil FOB (\$/mt)	292.41	-7.24	299.52	-10.09	304.51	-9.96	316.71	-10.72	
Sing FO180 Cargo (\$/mt)	333.99	-5.79	332.333	-9.15	330.955	-9.49	337.583	-10.86	
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

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Commodity Data cont.**Bulks**

	Latest Price	1-day	1-week	1-month	3-month	6-month
Turkish Scrap 80:20 (Iskenderun CFR) \$/t	239.94	-19.64%	-22.96%	-19.79%	-36.10%	-32.58%
China Tangshan Steel Billet \$/t	328.00	-0.61%	-5.48%	-18.61%	-25.28%	-30.51%
China HRC export (Shanghai FOB) \$/t	405.00	0.00%	-8.37%	-14.38%	-21.51%	-24.30%
North Europe HRC domestic (ex-works) \$/t	390.00	0.00%	0.00%	-6.59%	-6.02%	-12.36%
North America HRC domestic (Midwest FOB) \$/t	533.00	-3.09%	-11.02%	-16.98%	-21.04%	-19.97%

Steel—Futures

LME Billet Cash \$/t	485.00	-1.02%	-0.82%	5.43%	16.52%	34.72%
LME Billet Futures (1-mth) \$/t	485.00	-1.02%	-0.82%	5.43%	16.17%	34.35%
LME Steel Billet Stocks—change	0.00	-	-	-	-	-
Shanghai Rebar Futures (Active contract) \$/t	359.13	1.54%	-11.54%	-16.37%	-27.77%	-31.90%
Shanghai Rebar Futures On-Warrant Stocks—change	-607.00	-	-	-	-	-
China Steel Inventory (million tonnes)	11.04	4.42%	10.17%	5.85%	-11.34%	-31.31%

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)	62.30	-1.24%	-9.83%	-17.94%	-34.25%	-48.19%
China Iron Ore Inventory (million tonnes)	92.09	-1.81%	-0.50%	-7.48%	-10.64%	-2.31%

Coking coal

Premium Hard Coking Coal (Qld FOB) \$/t	112.80	0.00%	-1.18%	-0.57%	-1.18%	-12.22%
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Capesize freight

Saldanha South Africa-Beilun China	7.50	0.00%	-3.85%	-48.28%	-56.40%	-46.43%
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Financials pricing

RMB Currency	6.24	-0.09%	0.62%	1.92%	1.43%	3.01%
China 7-day repo	4.61	0.22%	21.00%	47.76%	29.86%	-11.35%
Shanghai Equities Composite	3157.70	-0.52%	-2.22%	27.86%	41.94%	50.10%

Source: LME, Bloomberg, Standard Bank Plc

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