

17 February 2015

Copper spreads – still tight in spite of LME inflows

LME copper inventories have been rising of late with stocks pushing back to almost exactly the same level they were this time last year. In conjunction with rising LME stocks, the spreads have eased, though pointedly the Cash-3m copper spread remains backwardated while the farther-dated spreads also remain tight.

LME inventories have climbed 118,450 mt since the beginning of the year, with 71,100 mt of that increase occurring in January and the remainder in February. What is interesting is the geographic split of those deliveries. In January, the main locations were Antwerp (+21,850 mt), Johor (+22,275 mt), Busan (+11,500 mt) Port Klang (+4,425 mt) New Orleans (+2,750 mt), Vlissingen (+1,975 mt) and Rotterdam (+275 mt).

So far in February, the main location for copper deliveries has remained Antwerp (+25,975 mt), however elsewhere the inflows have been centred on Port Klang (+6,275 mt) New Orleans (+5,550 mt) Vlissingen (+3,475 mt) and Rotterdam (+2,500 mt). Both Johor and Busan have meanwhile seen inflows fall dramatically in February (+2,950 mt and +1,600 mt respectively).

Aside from perhaps Busan, none of the main locations for copper deliveries are particularly well known for dynamic two-way flows of metal, or indeed locations of last resort should participants need to dump material in a hurry. As such, the deliveries, while reflecting an excess of copper inventory at one point in the supply chain, also look strategic in nature and may suggest other factors such as incentives. In spite of those deliveries however there continues to be a dominant holder of warrants with the latest LME data (13th February 2015) showing one holder of cash warrants in the +90% band and one holder of Tom warrants in the 50-79% band.

Looking specifically at the spreads and how they relate to LME stock levels, both the Cash-3m spread and 3-15m spread are softer, but still towards the tighter end of historical norms. Bearing in mind that the copper market is, from a speculative positioning perspective (LME COT data) neutral if not slightly long, and that stocks as a percentage of market open interest remain low at just under 2.5%, the question is where is all the rest of the borrowing interest coming from?

Anybody financing large tonnages of refined copper long term would likely have thrown in the towel given the duration of the backwardation and the lack of movement in premia to justify the cost of financing inventory. With prices at relatively low levels, and aside from occasional flare-outs in the tom/next spread there may well be an argument for stockpiling regardless and holding nearby inventory. Nevertheless, this should only really affect the very nearby portion of the curve and doesn't explain some of the tightness further forward, particularly given momentum from the recent influx of refined units. Either the LME data isn't picking up other sources of speculative shorts and therefore borrowing interest (Chinese for example) or there are feasibly participants financing less liquid forms of copper, perhaps in the form of concentrates, who still have no choice but to borrow the spreads until they have liquid material to deliver in. Either way, the spreads look very stubborn in the face of rising inventory and look like remaining tighter than would be expected given absolute LME inventory levels and current trends in stock flows.

By Leon Westgate

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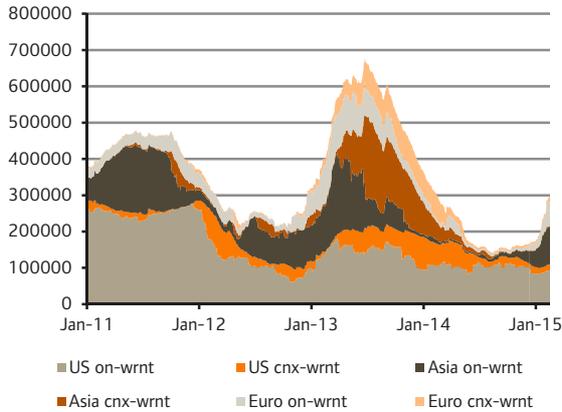
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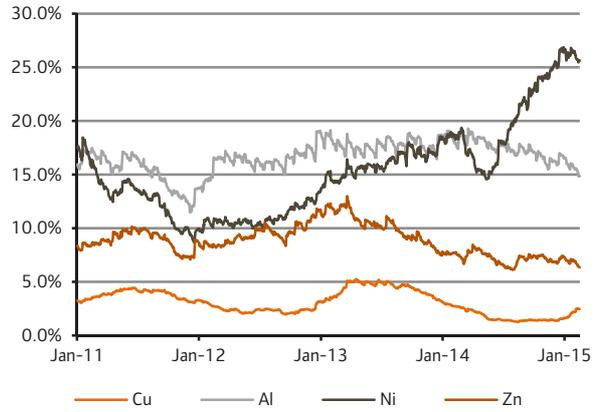
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LME regional copper inventory



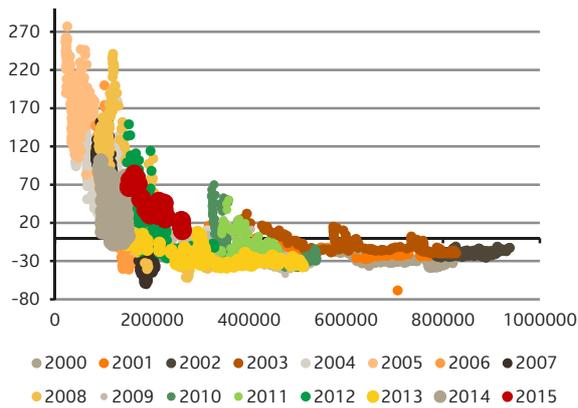
Source: LME

LME stocks as percentage of market open interest



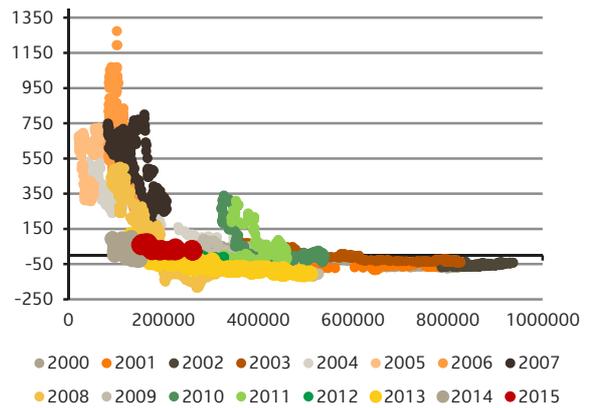
Source: LME; Standard Bank Plc

LME Cash-3m copper spread vs. on-warrant LME stocks



Source: LME; Standard Bank Plc

LME 3-15m copper spread vs. on-warrant LME stocks



Source: LME; Standard Bank Plc

Base metals

Thin volumes and weaker prices ahead of the Chinese New Year Holidays have been the main overriding theme heading into Tuesday afternoon. The price weakness has come in spite of a weaker dollar and seems related to yet another lacklustre set of Chinese housing data. The key will be how they Chinese government reacts post the new year holidays and whether there is more of a focus on the economy as we head into the year of the Goat.

Copper has again struggled to hold above \$5,750 with prices coming under pressure heading into Tuesday afternoon. As noted in the focus section, there is a dominant holder of cash warrants in the +90% band. The tom/next spread flared out this morning, trading out to \$3 backwardation before closing at \$1 back. Tightness in the spreads and a lack of Chinese interest over the next week may well make for a volatile period for copper, though that is perhaps wishful thinking given the lack of activity that accompanies the Chinese holidays.

Tin prices have failed to hold above \$18,000 in spite of further noise from the Indonesians regarding a halt in exports of refined metal. LME Sleect volumes are only 37 lots however heading into Tuesday afternoon, which is extremely low, even for a

market as small as tin. Elsewhere, lead, zinc and lead prices have all weakened on thin volumes though aluminium is digging in and holding up well heading into US trade.

Leon Westgate

Precious metals

A breakdown in the talks between Greece and the EU have had a surprisingly limited impact on gold prices, with the metal firming up initially before coming under pressure. The US holiday yesterday and a lack of Chinese interest probably helped keep the metal in check, even with a ratcheting up in tensions in Ukraine. With gold failing to push on, it seems weak longs were quick to stop out.

Given the stakes involved for Greece and the EU, and the Greek finance minister's background in game theory, it seems likely that negotiations will go to the wire, with gold likely to be rangebound until the situation becomes clearer.

On the physical side of things, the Indian budget on February 28th, and some risk over the potential for changes in gold import duties have seen reluctance amongst participants to buy significant amounts of gold. With people wary of being caught out if the rate is reduced, buying has been postponed until early March.

Leon Westgate

Bulk commodities

Chinese financial steels weakened slightly again today, on lower January property data, as the market closes for a week. China's new home sales for January saw annual prices falling in 69/70 cities by an average -5.1% (accelerating from Dec's -4.3% fall) and monthly prices falling in 64/70 cities by a further -0.4% (-0.3% in Dec), despite removal of purchase controls and the 40bp rate cut in late-Nov. At a micro level, CISA mills experienced a 3.6% p/p drop in crude output in early Feb, however stocks rose 1% p/p to 14.92mt, suggesting weak demand. Shagang meanwhile left its base-grade rebar and wire rod product prices flat for end-Feb sales.

ZCE thermal continued to drop, falling below the RMB 460/t level today to RMB 459/t, as port stocks continued to rise – with key mines to go offline from tomorrow to reduce supplies. For Atlantic coals, a break-down in Greek talks over bailout conditions will weigh on the EUR today, while UK CPI is expected to have fallen in Jan and German's ZEW expectations came in a little lower than expected at 53. EU 27 new car registrations grew 6.7% y/y, compared to 4.7% in December however. Ukraine tensions also continue, while oil is still nervous regarding developments in Libya.

Shanghai Equities rallied 0.76% today to 3,247 points, as more IPO funds returned to the market, shaking off China's poor Jan property data. New home sales fell 31% in Jan vs Dec according to a 40-city Centaline survey. China's \$40bn Silk Road fund has begun operations. Beijing's new home prices fell 0.1% m/m and 3.2% y/y, while Shanghai's remained unchanged m/m, while fell 4.2% y/y.

Shanghai 7-day interbank rates remained up at 4.82%, while the PBOC remained out of today's money markets, ahead of CNY. China's top 4 banks lent RMB 1.22 trillion in new loans during January. Spot Currency traded at 6.2548 (rising 0.8% since the beginning of Jan, driven by the PBOC's cut to rates & RRR), while the PBOC reference rate set at a weaker 6.1330.

Shanghai Rebar Futures May-14 contract closed off RMB 3/t at RMB 2,521/t, while SHFE HRC May-15 futures fell RMB 12/t to RMB 2,612/t. Among physical steels, Tangshan billet prices remained at RMB 1,990/t. Rebar prices continued unchanged in

Shanghai and Beijing. Shagang will keep its prices unchanged for late-Feb sales. HRC prices also remained stable in Shanghai and Beijing today.

Dalian Commodity Exchange IO May-15 contract fell RMB 4/t to RMB 493/t, while the Sept-15 contract closed RMB 2/t lower to RMB 483/t. Among physical iron ore, globalORE saw an MNP March-cargo sell for \$62.75/t, followed by a second MNP at the same price. Local Chinese platform COREX traded a late-April combined BHPB Mac/Newman fines cargo at index plus 10 cents. PB fines traded at Shandong ports at RMB 460-465/t. Mysteel's Fe 62% index dropped \$1.25/t to \$63.50, while its Fe 58% index remained stable at \$54.50/t.

Tata Steel is not planning to import IO in 15/16, following approvals to restart 4 mines in Orissa and one in Jharkhand. One further mine, Khondbond, in Orissa remains suspended. Tata may need additional ore if its planned 3mtpa Kalinganagar Steel project receives environmental clearance.

In IO supply news, RioT has experienced a rail bridge collapse heading into its 30-50mtpa Brockman II and IV mines on 14-Feb. We await an update on the maintenance process. RioT has net debt of \$12.5bln while FMG has net debt of \$7.5 bln. FMG expects to ship c. 80mt in 1H15, compared to 82.7mt in 2H14. Its total delivered costs were \$43/wmt (c. \$48/dmt) in 2H, compared to \$66/dmt realised and below \$60/dmt today. The miner is aiming to drop its delivered costs towards \$40/dmt, depending on oil prices, during 1H15. Mt Gibson shipped 3.1mt in 2H14, with plans to ship c. 2mt in 1H15. Costs at its Extension Hill mine were \$49/wmt fob (pre royalties) in 2H14, with the company hoping to drop to \$45-47/wmt in 1H15. The miner has \$354m cash on hand. A decision on the future of Koolan Island is hoped by end-June.

The Baltic Exchange Cape index shifted 4% lower to \$4,739/day, with C3 at \$10.278/t and C5 at \$4.332/t, while C4 is \$4.215/t and C7 is \$5.645/t. FFA Cal15 capes are trading in the \$11,200/day range, while 2Q15 trading in the \$8,100/day range.

For Q2:15 thermal coal prices, API 2 is trading at \$63.20/t; API 4 is trading at \$63.00/t; while Newcastle is trading at \$64.15/t. Zhengzhou Futures May-15 thermal contract prices fell RMB 1/t to RMB 459.2/t, while the Sept-15 contract dropped RMB 1/t to RMB 463/t.

Premium Hard Coking Coal spot prices are trading in the \$100-105/t Qld FOB range, with China CFR prices ranging \$110-115/t. BHPB's Haypoint #3 berth began shipping in January, taking port capacity from 44mtpa to 55mtpa. DBCT will be the main loser. Anglo has suspended its 4mtpa Dawson SSCC-thermal mine after a fatal accident. Tata Steel may sell its 35% stake in Benga coal, once 65%-owner ICVL completes its development plan. 3 Aurizon union workers are threatening to strike across 20-22-Feb on a rolling 24-hour basis.

On the Dalian Exchange, May-15 coke price traded fell RMB 10/t to RMB 1,029/t, while the Sept-15 contract dropped RMB 8/t to RMB 1,050/t. Among Dalian HCC prices, May-15 contract prices closed off RMB 9/t to RMB 733/t, while the Sept-15 contract remained unchanged at RMB 746/t.

By Melinda Moore

17 February 2015

Commodities Data

| LME 3 month | Open | Close | High | Low | Daily change | Change (%) | Cash Settle | Change in cash settle | Cash - 3m |
|-------------|--------|--------|--------|--------|--------------|------------|-------------|-----------------------|-----------|
| Aluminium | 1,835 | 1,825 | 1,847 | 1,822 | -10 | -0.52 | 1,793.00 | -29 | -31.25 |
| Copper | 5,728 | 5,749 | 5,765 | 5,688 | 21 | 0.37 | 6,216.00 | -93 | 68.50 |
| Lead | 1,842 | 1,836 | 1,849 | 1,834 | -6 | -0.33 | 1,833.00 | -12 | -14.75 |
| Nickel | 14,690 | 14,600 | 14,710 | 14,500 | -90 | -0.61 | 14,585.00 | -295 | -74.00 |
| Tin | 18,250 | 18,125 | 18,315 | 18,025 | -125 | -0.68 | 19,650.00 | 250 | 15.50 |
| Zinc | 2,153 | 2,151 | 2,168 | 2,152 | -3 | -0.12 | 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 | 3,972,475 | 3,976,725 | 0 | 4,250 | -4,250 | -237,800 | 2,251,550 | 57 | 218,409 |
| Copper | 295,475 | 295,100 | 500 | 125 | 375 | 118,450 | 34,175 | 12 | 250,093 |
| Lead | 213,475 | 213,425 | 300 | 250 | 50 | -8,500 | 11,775 | 6 | 34,080 |
| Nickel | 426,114 | 425,838 | 690 | 414 | 276 | 12,966 | 101,238 | 24 | 75,397 |
| Tin | 11,405 | 11,460 | 5 | 60 | -55 | -640 | 2,045 | 18 | 4,245 |
| Zinc | 590,675 | 591,500 | 0 | 825 | -825 | -100,925 | 193,375 | 33 | 85,881 |

| Shanghai 3-month | Open | Last | 1d Change | COMEX | Open | Close | Change | Change (%) |
|------------------|--------|--------|-----------|------------|--------|-------|--------|------------|
| Aluminium | 13085 | 13075 | -25 | Ali Feb'14 | - | - | - | - |
| Copper | 41950 | 41930 | 180 | Cu Feb'14 | 260.65 | 259 | -1.65 | -0.63 |
| Zinc | 18,250 | 18,125 | 0 | | | | | |

Precious metals

| | AM Fix | PM Fix | High bid | Low offer | Closing bid | Daily change |
|-----------|----------|----------|----------|-----------|-------------|--------------|
| Gold | 1,211.00 | 1,200.00 | 1,236.97 | 1,228.00 | 1,230.00 | -1.77 |
| Silver | - | 16.29 | 17.43 | 17.27 | 17.20 | 0.01 |
| Platinum | 1,214.00 | 1,206.00 | 1,217.25 | 1,203.85 | 1,205.80 | -49.30 |
| Palladium | 797.00 | 794.00 | 795.00 | 784.40 | 788.70 | 9.40 |

| 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 | 0.173 | 0.212 | 0.2571 | 0.3824 | 0.6736 |

| 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 | 1,217.46 | 1,230.88 |
| Silver | 48.14 | 15.92 | 16.07 | 17.14 | 18.56 | 16.67 | 17.21 |
| Platinum | 47.11 | 1,206.52 | 1,207.76 | 1,272.72 | 1,366.39 | 1,190.53 | 1,206.78 |
| Palladium | 49.53 | 803.73 | 803.18 | 807.86 | 821.46 | 779.12 | 789.47 |

| 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 (\$/bbl) | 71.733 | 1.16 | 75.057 | 2.33 | 75.377 | 2.44 | 76.176 | 2.32 |
| Gasoil 0.1% Rdam (\$/mt) | 584 | -1.75 | 578.25 | -1.50 | 576.75 | -0.75 | 585.75 | 0.00 |
| NWE CIF jet (\$/mt) | 608.51 | 12.57 | 621.22 | 21.24 | 619.25 | 18.96 | 629.08 | 18.28 |
| Singapore Kero (\$/bbl) | 73.918 | 1.23 | 76.087 | 2.40 | 76.157 | 2.23 | 77.296 | 2.06 |
| 3.5% Rdam barges (\$/mt) | 305.035 | 5.26 | 320.444 | 9.26 | 323.308 | 9.14 | 331.349 | 9.06 |
| 1% Fuel Oil FOB (\$/mt) | 306.47 | 4.50 | 324.32 | 8.95 | 329.1 | 8.78 | 339.45 | 8.87 |
| Sing FO180 Cargo (\$/mt) | 350.638 | 5.48 | 363.777 | 11.09 | 360.258 | 10.34 | 362.432 | 9.02 |
| 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 | 234.03 | -2.46% | -23.23% | -20.14% | -38.03% | -30.76% |
| China Tangshan Steel Billet \$/t | 328.00 | -0.61% | -1.80% | -18.61% | -25.28% | -30.95% |
| China HRC export (Shanghai FOB) \$/t | 405.00 | 0.00% | -8.16% | -14.38% | -20.90% | -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 | 522.00 | -2.06% | -11.68% | -19.69% | -23.01% | -19.94% |

Steel—Futures

| | | | | | | |
|---|--------|--------|--------|---------|---------|---------|
| LME Billet Cash \$/t | 475.00 | -2.06% | -3.06% | 3.26% | 14.11% | 31.94% |
| LME Billet Futures (1-mth) \$/t | 475.00 | -2.06% | -3.06% | 3.26% | 14.11% | 31.94% |
| LME Steel Billet Stocks—change | 0.00 | - | - | - | - | - |
| Shanghai Rebar Futures (Active contract) \$/t | 358.58 | 1.74% | -4.72% | -17.11% | -27.84% | -31.83% |
| Shanghai Rebar Futures On-Warrant Stocks—change | 0.00 | - | - | - | - | - |
| China Steel Inventory (million tonnes) | 11.86 | 7.41% | 17.29% | 14.74% | -4.43% | -34.54% |

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) | 63.19 | 1.43% | -8.19% | -16.06% | -32.18% | -48.94% |
| China Iron Ore Inventory (million tonnes) | 91.28 | -0.88% | -1.44% | -8.67% | -10.32% | -5.79% |

Coking coal

| | | | | | | |
|---|--------|-------|--------|--------|--------|---------|
| Premium Hard Coking Coal (Qld FOB) \$/t | 112.50 | 0.00% | -0.88% | -0.92% | -0.35% | -10.57% |
|---|--------|-------|--------|--------|--------|---------|

Capesize freight

| | | | | | | |
|------------------------------------|------|-------|---------|---------|---------|---------|
| Saldanha South Africa-Beilun China | 7.10 | 0.00% | -13.94% | -50.35% | -57.61% | -48.36% |
|------------------------------------|------|-------|---------|---------|---------|---------|

Financials pricing

| | | | | | | |
|-----------------------------|---------|-------|--------|--------|--------|--------|
| RMB Currency | 6.25 | 0.21% | 0.55% | 2.09% | 1.81% | 3.15% |
| China 7-day repo | 4.83 | 9.77% | 20.75% | 55.81% | 48.62% | 29.14% |
| Shanghai Equities Composite | 3246.91 | 3.35% | 4.19% | 31.24% | 44.99% | 52.05% |

Source: LME, Bloomberg, Standard Bank Plc

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