

12 September 2014

Silver testing lower yet again

Like other precious metals, silver has moved much lower in recent days. Fundamentally, we have expressed a bearish view on the metal for some time now. From a technical perspective, the metal looks increasingly vulnerable to a further decline and we maintain that silver is heading for the \$15 – \$17 range.

We mentioned on Wednesday that a strong negative relationship exists between bond yields and the different precious metals. During the past 10 years, the US implied real interest rate explained 63% of the variation in the silver price. This to us is the single biggest threat to the silver price, especially if real rates start rising further in the US and ETF liquidation starts. So far in 2014, ETF silver holdings have been largely flat.

China demand is also critical. We will look closely at the August Chinese silver import data, which is due for release most likely towards the end of next week. Seasonally, since 2010, China's silver imports have declined in September, October. So, even from this import perspective, bias for the silver price must lie to the lower side. That said, the SGE premium for silver has perked marginally higher since mid-August. This is a sign that silver demand in China, at current price levels, is possibly rising. Of course, if the silver price rallied because of China's improving imports, then the demand in China, which rose because of a lower silver price, should decline as the price moved higher.

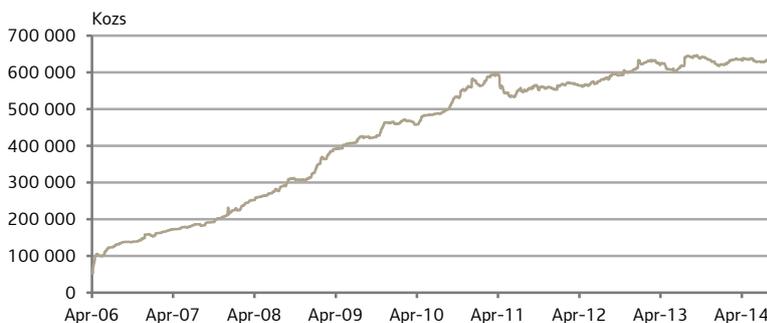
Our base case remains that China's precious metals imports in H2:14 will be lacklustre – apart from palladium; we estimate that the bias lies towards China's importing more palladium in H2:14. However, for silver, the bias lies to China's importing less metal in H2:14 than in H1:14 – unless the price moves lower.

More broadly, we look at manufacturing performance for an uptick in silver industrial demand. Here, for the time being, bias in manufacturing demand is lower, not higher, in China and Europe (the US may be an exception).

From a tactical perspective, COMEX open interest suggests that silver shorts have increased substantially in recent weeks – and a rally in gold could trigger silver short-covering. For now, silver is sticking to 2013's \$18.50 – \$22 range. A break below \$18.50 could see it enter a new and lower trading range of \$15 – \$17.

By Walter de Wet

Silver ETF holdings



Source: Various ETFs

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Bulks

Chinese financial steels continued to show signs of solidifying their trading base today, taking their cue from physical steel prices, which finally began to tick up, together with a recovery in August loans data. Total aggregate financing came in at RMB 957.4bn, compared to RMB 273bn in July (although below the expected RMB 1,135bn), while domestic loans rose from RMB 385.2bn to RMB 702.5bn. Growth in outstanding loans fell from 13.4% in July to 13.3% in August.

Tomorrow will see the release of key August data, including FAI (17% July; 16.9% exp); retail sales and IP (8.8% July; 8.8% exp).

If today's better steel conditions hold, we could see Jan rebar rally up towards RMB 2,830/t, in line with Hebei Steel's attempted steel price floor in the north. Regardless, we are expecting a slight mid-Sept rally to occur, in line with the typical restock into October. However, we remain nervous about conditions for Nov and Dec, given the increase in seaborne tonnage relative to domestic Chinese materials, which will see the typical winter suppression of tonnes muted.

Shanghai Equities rallied back up 0.88% to 2,332 points, on the back of the better loan figures, which are helping drive growth in non-property services in particular.

China Securities Journal said that China's economic conditions were not ripe for a nation-wide interest rate cut, although there remained room for targeted cuts. Meanwhile, the PBOC's Ma Jun said that real estate investment was likely to slow further; however, overall economic growth remains well established, reiterating that "reform" rather than "stimulus" was Beijing's core focus.

Shanghai 7-day interbank rates fell to 3.25%, with the PBOC maturing RMB 33bn (RMB 18 bn/RMB 15 bn) in repos next week. The PBOC said that there is already enough funding in the currency pool and that China was not going to rely on printing more money to boost its economy. However, lending to ags, SMEs and hi-tech would still be encouraged.

Spot Currency traded at 6.1358, while the PBOC reference rate set at 6.1468.

Shanghai Rebar Futures active Jan-15 contract closed up RMB 25/t at RMB 2,789/t, while the May-15 contract closed RMB 22/t higher at RMB 2,820/t. HRC prices continued yesterday's rally, with Dazong HRC Nov-14 futures up RMB 27/t to RMB 2,960/t and SHFE HRC Jan-15 futures also rising, up RMB 30/t to RMB 2,968/t. The stronger rally in HRC compared to rebar over the past few days suggests that flat steel mills may have the upper hand on raw materials restocking momentum.

Among physical steels, Tangshan billet prices rose a further RMB 20/t to RMB 2,390/t. In Shanghai, rebar prices traded flat d/d, while falling RMB 40-50/t across the week. In Beijing, rebar prices were also unchanged today, although they dropped RMB 110/t w/w. For HRC, Shanghai prices traded in line with yesterday, after falling RMB 80/t w/w, while Beijing prices were unchanged today as well, having fallen RMB 60/t w/w. Chinese warehouse steel stocks saw rebar off 0.075mt w/w nationally to 5.29mt and HRC stocks off 0.0198mt w/w at 2.84mt.

China's early-September output rates fell 0.3% p/p compared to the end of August, as mills struggle to clear excess inventories in the face of contracting demand conditions.

The Dalian Commodity Exchange IO active Jan-15 contract rose RMB 6/t to RMB 591/t, while the May-15 contract closed up RMB 3/t at RMB 584/t. Chinese IO port stocks rose 0.73mt to 113.41mt w/w. Among physical iron ore, in another busy

Friday, RioT tendered a PB fines Fe 61% late-Sept cargo at \$82.21/t, up from \$81.33/t yesterday. Vale tendered an IOUR Fe 63.11% Oct-cargo at index less \$2.95/t. globalORE traded a PB fines (62% basis) Oct-cargo at \$83.50/t, together with an MNP Fe 62% Oct-cargo at \$81/t and an MNP Fe 62% early Nov-cargo plus a series of MNP Q4 cargoes at index minus 20 cents. CBMX-COREX traded a RioT PB fines Fe 61% Oct-cargo at \$83/t. A host of private deals were heard at \$80/t or below.

The TSI Fe 62% China CFR price index is up \$0.10 to \$82.00 (MTD: \$84/t), while the 58% Fe Index is up \$0.30 to \$71.50 (MTD \$73.80/t). The Metal Bulletin 62% Fe Index is down \$0.26 at \$82.38 and the 58% Index is down \$0.32 to \$67.28/t. The Platts Fe 62% index is \$83.50/t. The Argus Fe 62% printed at \$80.65/t, up 15 cents. Mysteel's Fe 62% index rose 50 cents to \$82.50/t, while its Fe 58% index was up \$1/t to \$72/t.

In IO supply news, Vale has signed a freight cooperation agreement with Cosco, agreeing to transfer x4 Valemaxes across to COSCO as part of strategic plans to encourage Chinese ports to dock the larger vessels. Vale's VLOC freight strategy continues to cost up to \$7/t more due to the necessity of transshipping tonnage in Malaysia or the Philippines into smaller vessels, ahead of discharging in China. BC Iron now has 59.5% of IOH stock.

The Baltic Exchange Cape index fell 0.1% to \$17,470/day, with C3 at \$22.865/t and C5 at \$8.723/t, while C4 is \$10.88/t and C7 is \$10.31/t. FFA Cal15 capes are trading in the \$18,300/day range, while Q4:14 is trading in the \$23,000/day range.

For Q4:14 thermal coal prices, API 2 is trading at \$75.25/t; API 4 has not traded in Q4, while Newcastle is trading at \$66.35/t. Among physical deals, Newcastle Dec is trading at \$65.25/t, ARA Oct at \$76.5/t and RB1 Oct at \$67.25/t, mostly below yesterday's levels.

The EU and US plan to roll out additional sanctions against Russia for its role in promoting separatist warfare in east Ukraine, despite last Friday's apparent cease-fire. Russia is threatening to retaliate, including banning access to airspace for commercial flights. However, at this stage, everyone is avoiding energy threats – further reducing the Ukrainian premia in Atlantic prices. Meanwhile, Ukraine's Poroshenko vows to get Crimea back – suggesting ongoing issues. Freight is trending lower again, given nervousness about China's Q4 coal tonnage import bans and proposed quality bans potentially from 2015 onwards. Until we can gain a better fix on what is happening with Chinese policy conditions, market value remains very hard to determine, beyond trading the Jan-15 Zhengzhou contract.

Zhengzhou Futures Jan-15 thermal contract prices closed up RMB 1/t to RMB 510/t. Total port stocks were down 0.6% week on week, to 16.49mt, with GZ stocks dropping 7.7% w/w to 2.72mt and QHD stocks off 2.5% week on week to 6.04mt. Wednesday's Bohai Rim index published at RMB 482/t again. The China Coal Transport & Distribution Association believes that up to 80mt of imports may be cut by the banning of highash/sulphur coals, which continues to push China CFR prices lower. NAR 5500 prices concluded this week at \$67.25/t for Oct-cargoes.

Premium Hard Coking Coal spot prices are trading in the \$108-113/t Qld FOB range, with China CFR prices ranging \$118-123/t – with one deal being heard today at the top end of this range. The TSI FOB Qld printed at \$111.50/t, while China CFR printed at \$122.80/t. MB FOB Qld printed at \$111.57/t, while China CFR printed at \$121.82/t. The Argus Qld fob index printed at \$110.20/t. Anglo is to close its 1.7mtpa Canadian Peace River coking mine at year-end due to weak market conditions, following in Walter's footsteps earlier this year. Abbot Point will see one ship loader out

from 22-28 September; Hay Point will close a berth from 24 September until 10 October, while Gladstone will also face various maintenance disruptions.

On the Dalian Exchange, Jan-15 coke price traded up RMB 4/t to RMB 1073/t, while the May-15 contract traded up RMB 6/t to RMB 1121/t. Among Dalian HCC prices, Jan-15 contract prices closed up RMB 5/t to RMB 777/t, while the May-15 contract rose RMB 9/t to RMB 813/t.

By Melinda Moore

Commodity data**Base Metals**

LME 3 month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2 065	2 040	2 070	2 033	-25	-1.21	2 002.00	-10	-37.25
Copper	6 870	6 835	6 879	6 734	-35	-0.51	6 829.00	-69	27.00
Lead	2 121	2 118	2 126	2 105	-3	-0.14	2 112.00	12	-11.50
Nickel	18 740	18 425	18 843	18 327	-315	-1.68	18 460.00	-90	-91.00
Tin	21 100	21 075	21 182	20 960	-25	-0.12	21 175.00	175	-32.00
Zinc	2 313	2 265	2 315	2 254	-48	-2.08	2 267.50	-8	-12.00

LME inventory	Today	Yesterday	In	Out	One day change	YTD change (mt)	Cancelled warrants (mt)	Cancelled warrants (%)	Contract turnover
Aluminium	4 720 675	4 729 925	0	9 250	-9 250	-737 400	2 448 975	52	437 212
Copper	156 475	155 775	725	25	700	-209 950	37 000	24	194 178
Lead	225 900	225 425	475	0	475	11 450	4 975	2	63 555
Nickel	333 834	332 460	1 494	120	1 374	72 198	81 090	24	89 783
Tin	9 830	10 210	10	390	-380	145	325	3	6 627
Zinc	755 025	755 975	0	950	-950	-178 450	52 175	7	157 064

Shanghai 3-month	Open	Last	1d Change	COMEX	Open	Close	Change	Change (%)
Aluminium	14480	14500	-100	Ali Feb'14	-	-	-	-
Copper	48360	48400	-260	Cu Feb'14	309.25	309.6	0.35	0.11
Zinc	21 100	21 075	1					

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Daily change
Gold	1 237.25	1 241.25	1 250.23	1 235.11	1 240.88	-8.86
Silver	-	18.64	18.99	18.58	18.69	-0.27
Platinum	1 364.00	1 378.00	1 384.50	1 367.65	1 369.50	-11.00
Palladium	829.00	846.00	853.78	830.90	831.80	-19.60

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.134	0.14	0.144	0.158	0.246
Silver	0.62	0.616	0.618	0.612	0.568
USD Libor	0.1535	0.19525	0.2346	0.3314	0.5807

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	36.93	1 259.19	1 272.65	1 291.34	1 286.26	1 233.28	1 242.81
Silver	34.76	19.05	19.25	19.88	20.04	18.49	18.75
Platinum	32.36	1 396.05	1 410.64	1 455.62	1 436.26	1 355.12	1 372.07
Palladium	41.59	870.14	879.09	851.68	799.80	826.33	832.28

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
Settlement	1239.4	18.64	829	1370.7	1238.8	4268	1239
Open Interest	384670	166080	42599	64751	1783	100237	3
Change in Open Interest	-9762	32793	6261	3717	517	-2505	-310

Energy	1 month	Change	2 month	Change	3 month	Change	6 month	Change
Energy futures pricing								
Sing Gasoil (\$/bbl)	112.777	-0.27	111.83	-0.32	111.959	-0.32	112.856	-0.31
Gasoil 0.1% Rdam (\$/mt)	838.75	5.75	842	5.25	844.5	4.75	863	3.75
NWE CIF jet (\$/mt)	906.98	-1.55	903.17	-2.76	906.39	-2.56	914.86	-2.78
Singapore Kero (\$/bbl)	113	-0.31	111.99	-0.25	112.189	-0.20	113.066	-0.23
3.5% Rdam barges (\$/mt)	548.519	0.86	541.197	0.90	538.834	0.84	542.586	-0.78
1% Fuel Oil FOB (\$/mt)	557.19	0.09	552.52	0.85	550.57	0.94	554.54	-0.61
Sing FO180 Cargo (\$/mt)	584.074	1.00	574.872	0.74	572.009	0.86	572.586	-0.60

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, Bloomberg, Standard Bank Research

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Commodity data (continued)

Bulks						
Steel—Physical	Latest Price	1-day	1-week	1-month	3-month	6-month
Turkish Scrap 80:20 (Iskinderun CFR) \$/t	373.76	0.00%	-0.47%	2.83%	7.41%	0.71%
China Tangshan Steel Billet \$/t	391.00	-3.93%	-10.73%	-13.50%	-15.00%	-23.03%
China HRC export (Shanghai FOB) \$/t	503.00	0.00%	-1.76%	-1.57%	-6.16%	-9.37%
North Europe HRC domestic (ex-works) \$/t	415.00	0.00%	0.00%	-1.19%	-6.21%	-9.78%
North America HRC domestic (Midwest FOB) \$/t	668.00	-0.45%	-1.47%	-1.18%	7.05%	2.77%
Steel—Futures						
LME Billet Cash \$/t	447.25	0.00%	7.38%	14.39%	13.23%	141.76%
LME Billet Futures (1-mth) \$/t	447.50	-0.11%	7.19%	14.30%	13.87%	140.59%
LME Steel Billet Stocks—change	0.00	-	-	-	-	-
Shanghai Rebar Futures (Active contract) \$/t	465.25	0.97%	-6.37%	1.51%	-6.12%	-16.36%
Shanghai Rebar Futures On-Warrant Stocks—change	0.00	-	-	-	-	-
China Steel Inventory (million tonnes)	12.34	0.00%	-0.98%	-11.89%	-35.90%	-15.25%
Iron ore						
China Iron Ore Fines (62% Fe; CFR Tianjin) \$/t	82.00	-1.91%	-12.77%	-10.38%	-23.65%	-39.35%
China Iron Ore Fines (58% Fe; CFR Tianjin) \$/t	71.50	-5.17%	-11.40%	-5.05%	-25.98%	-42.29%
SGX AsiaClear IO Swaps 62% Fe \$/t (1-mth)	83.21	-0.60%	-11.60%	-9.23%	-24.30%	-38.13%
China Iron Ore Inventory (million tonnes)	103.97	0.00%	0.88%	-2.38%	4.67%	45.15%
Coking coal						
Premium Hard Coking Coal (Qld FOB) \$/t	113.75	0.00%	-0.13%	-1.77%	-4.81%	-24.29%
Capesize freight						
Saldanha South Africa—Beilun China	17.00	0.00%	-1.16%	19.30%	-13.92%	-8.11%
Financials pricing						
RMB Currency	6.14	-0.10%	-0.37%	-1.35%	-0.17%	0.28%
China 7-day repo	3.26	15.60%	-3.83%	3.16%	34.71%	-8.68%
API2 (CIF ARA)	2331.95	0.24%	4.97%	13.66%	16.73%	3.38%

Source: LME, Bloomberg, Standard Bank Research

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