

# FICC Research

## Commodities: Daily

### Focus: Tin - prices, stocks and spreads



27 April 2010

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**Focus: Tin - prices, stocks and spreads:** Tin prices have rallied strongly and steadily over the past month, driven by supply concerns in China and Indonesia and by falling LME inventories. As far as the stock to price relationship goes however, Tin prices are behaving as if on-warrant LME stocks were ~10,000 mt, less than half the level of inventory.

- While gold is likely to struggle should the dollar strengthen on the back of euro woes, we do not anticipate a major sell-off. Gold in euros should outperform gold in dollars.
- Like the rest of the commodity complex, crude oil is keeping an eye on developments in the Eurozone and, more specifically, euro movements. We expect more downward pressure on the euro.
- Much weaker Asian equity markets and a stronger dollar have put the base metals under pressure this morning. Volume remain fairly lacklustre however with the market still rather short of direction.

#### Commodity price data (26 April 2010)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,326	2,317	2,314	2,295	-3	-0.39%	2,293.50	28	-32.75
Copper	7,795	7,812	7,802	7,699	65	0.22%	7,760.00	100	-37.50
Lead	2,337	2,360	2,345	2,310	50	0.97%	2,310.50	57	-28.25
Nickel	27,400	27,155	27,200	26,625	155	-0.89%	27,325.00	525	-63.00
Tin	18,910	19,150	19,150	18,950	145	1.27%	19,050.00	95	-71.00
Zinc	2,440	2,442	2,426	2,400	36	0.08%	2,402.00	47	-34.00

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	86.83	86.61	87.05	86.44	-0.22	-0.25%
NYMEX WTI	83.89	83.64	84.21	83.53	-0.56	-0.67%
ICE Gasoil	719.00	717.50	719.75	715.25	-2.00	-0.28%
API2 Q2'10	82.70	85.00	-	-	2.30	2.71%
EUA Dec10	14.66	14.70	-	-	0.04	0.27%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,154.00	1,154.50	11,154.00	1,151.50	1,153.00	0.20	0.2/0.6
Silver	-	18.29	18.40	18.25	18.31	0.14	-1/1
Platinum	1,751.00	1,752.00	1,750.00	1,742.00	1,743.00	5.00	2/5
Palladium	570.00	571.00	571.00	563.00	563.00	2.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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**Focus: Tin - prices, stocks and spreads**

Tin prices have rallied strongly and steadily over the past month, driven by supply concerns in China and Indonesia and by falling LME inventories. As far as the stock to price relationship goes however, Tin prices are behaving as if on-warrant LME stocks were ~10,000 mt, less than half the level of inventory.

Interestingly the farther-dated tin spreads, in this case the 3 to 15 month spread (see Fig.2) are behaving normally. The current spreads are bang in-line with historical patterns and are perhaps even a little softer than would be expected given the stock levels. This is in stark contrast to 2009, where violent movements in the spreads were met with relatively little activity in the 3-month price.

All in all, this suggests that the market is fairly comfortable with current prices.

Arguably, the past 3-4 years has seen an upwards shift in tin prices, driven by the emergence of China as the main producer and consumer of the metal and by the steady stream of supply disruptions in Indonesia. Even with South Crofty (a Cornish Tin mine shuttered in 1998) looking to re-start operations, there is little to suggest that the production focus will shift away from Asia, or to suggest that average production costs will come under pressure.

We expect the Tin market to record a small 2 kt deficit this year before moving into a much larger 13 kt deficit in 2011 - the largest deficit since 2004. As such, part of the recent price strength appears to be in anticipation of tighter market conditions over the next 18 months. With LME inventories almost entirely centered in Asian warehouses, European premiums are also incredibly strong, helping boost sentiment and support prices. As a result we expect prices to remain elevated and see little sign that the price to stock relationship will revert back to historical levels any time soon.

By Leon Westgate

**Base metals**

Much weaker Asian equity markets and a stronger dollar have put the base metals under pressure this morning. Volume remain fairly lacklustre however with the market still rather short of direction. After failing to gain much traction last week, Tuesday morning's sell off has attracted the more bearish elements of the market back to the table.

What will be decisive is how the US equity markets perform and whether those shorts look to pare back their positions during the afternoon, as was the general pattern last week. Consequently, how the base metals close will be absolutely key in terms of how prolonged the current weakness will be.

Copper has fallen below \$7,700 this morning but has again seen very good support emerge around its 30-day moving average. Prices have stabilised heading into the afternoon, though the market is a little nervy and is taking a breather ahead of US trade. The rest of the base metals have followed a similar pattern to copper, coming under rpressure throughout the morning before finding their feet.

Tin has been the only metal not to come under significant pressure, with the metal hanging on around \$19,000 heading into the afternoon. The weakness elsewhere in the complex is weighing on prices a little however further draws in LME inventory have helped to shore up sentiment.

Fig. 1 LME Tin Price vs. On Warrant Stocks

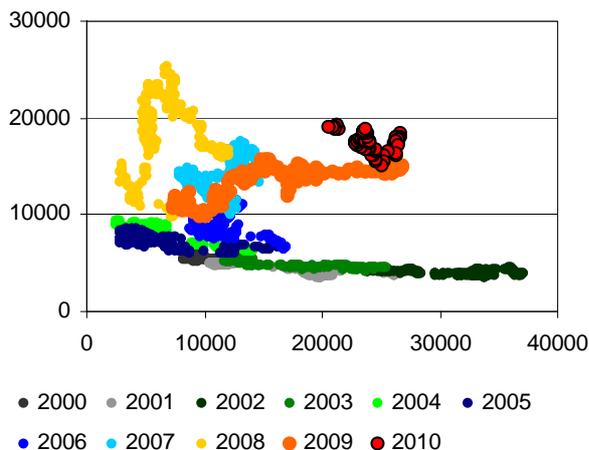
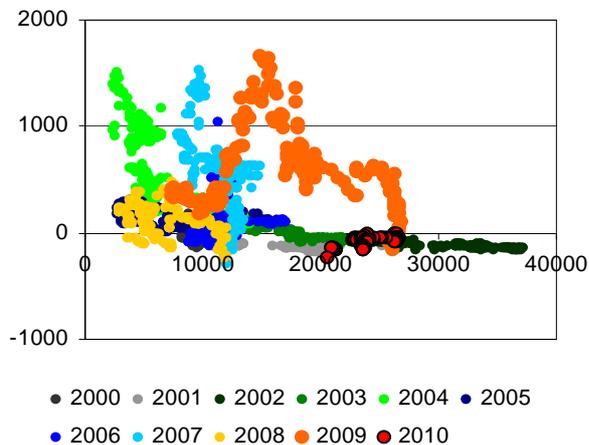


Fig.2 LME Tin Price vs. On Warrant Stocks



Sources: Standard Bank, LME

By Leon Westgate

## Precious metals

With Greece government bond yields rising, credit risk and the possibility of contagion to other European countries are adding support to gold on the downside. However, we also expect more downside for the euro. Therefore, while gold is likely to struggle on the back of a stronger dollar, we do not anticipate a major sell-off. Gold in euros should outperform gold in dollars.

Investment demand for gold is healthy (as is evident from the steady rise in ETF holdings). But in the physical market, with gold approaching \$1,160, scrap sales have intensified in recent days. This scrap sales are providing resistance to the metal moving above \$1,160. Support is at \$1,150 and \$1,136, while resistance is at \$1,158 and \$1,164.

Palladium and platinum are both under selling pressure. We favour buying dips for both metals. Platinum support is at \$1,725 and \$1,710, while resistance is at \$1,755 and \$1,760. Palladium support is at \$550 and \$541, while resistance is at \$578 and \$590.

We are looking towards the Fed's FOMC meeting tomorrow. We expect no change in their monetary policy stance. We believe this very accommodative monetary policy should provide support for precious metals throughout 2010.

By Walter de Wet

## Energy

Crude oil is range-bound at \$84.50 to \$83.00 although it is testing the lower level of this range.

Time spreads continue to be weaker than what we observed a month ago. The nearby contango in the WTI forward curve has steepened in recent days and with crude under pressure today, this is set to continue. We look towards the DOE inventory report tomorrow. Last week crude oil has largely shrugged off the large rise in inventory in products as well as crude oil. Another bearish data print may result in greater downward pressure on flat price and spreads. Expectations are for a build of 1m barrels in crude oil inventories and 500K barrels in gasoline inventories. Given that the market is more sensitive to the gasoline market at this stage, a large build in gasoline inventories could add downward pressure.

Like the rest of the commodity complex, crude oil is keeping an eye on developments in the Eurozone and, more specifically, euro movements. We expect more downward pressure on the euro.

WTI front-month support is at \$82.75 and \$82.30; resistance is at \$84.60 and \$85.50. We still expect crude oil prices to average \$84/bbl in Q2:10.

API2 and API4 front month prices gave up some of the gains yesterday. However, further down the curve prices are still well supported. API2 front-month prices closed \$0.20 lower at \$78.20, API2 for Q2-10 rose \$2.30 to close at \$85.00.

By Walter de Wet

## 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	4,551,825	4,558,000	200	6,375	-6,175	-77,075	266,325	5.85	156,255
Copper	505,350	506,125	-	775	-775	3,025	30,400	6.02	106,370
Lead	179,775	179,575	200	-	200	33,275	775	0.43	30,276
Nickel	145,458	145,722	204	468	-264	-12,552	4,158	2.86	21,184
Tin	21,100	21,615	20	535	-515	-5,665	600	2.84	4,409
Zinc	541,300	541,950	-	650	-650	53,250	10,200	1.88	73,378

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,590	16,470	-185	Ali Mar'10	-	-	-	-
Copper	61,100	60,690	-760	Cu Mar'10	355	352.05	-2.75	-0.78%
Zinc	19,115	18,930	-270					

### ZAR metal prices (26 April 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,869	57,075	16,994	200,975	140,113	17,667	7.3550
3-month	17,308	58,357	17,630	202,853	143,054	18,242	7.4702

## 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)	94.85	0.04	96.19	-0.13	96.59	-0.06	98.47	0.05	-	-
Gasoil 0.1% Rdam (\$/mt)	717.50	-2.00	721.25	-1.75	726.25	-1.25	743.50	-0.25		
NWE CIF jet (\$/mt)	758.99	0.81	772.46	2.75	779.07	2.75	797.33	0.83		
Singapore Kero (\$/bbl)	94.87	0.06	96.19	-0.13	96.84	-0.11	99.12	0.00		
3.5% Rdam barges (\$/mt)	462.49	0.04	476.00	1.00	480.00	1.00	489.25	0.75		
1% Fuel Oil FOB (\$/mt)	491.90	-0.15	503.25	1.50	508.50	1.25	521.75	0.50		
Sing FO 380 Cargo (\$/mt)	500.25	0.75	503.50	1.00	506.75	1.00	506.75	7.00		
Sing FO180 Cargo (\$/mt)	491.59	0.42	505.00	1.25	508.50	1.00	518.00	1.00		
Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	80.20	0.10	83.90	-0.30	87.90	-0.40	95.50	-0.75	106.50	-0.15
API4 (FOB RBCT)	91.00	1.00	93.90	1.10	94.40	0.90	98.30	0.05	102.50	-0.25

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.29333	0.29667	0.31000	0.38333	0.53833		
Silver	0.51833	0.51833	0.54333	0.57167	0.62167		
USD Libor	0.26469	0.29313	0.32375	0.50031	0.99313		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	55.86	1,148.29	1,143.88	1,116.61	1,074.73	1,142.00	1,160.00
Silver	56.87	18.12	18.09	17.21	16.81	18.00	18.50
Platinum	64.56	1,726.19	1,711.62	1,572.38	1,445.47	1,720	1,800.00
Palladium	69.10	553.45	529.10	447.34	379.52	560.00	580.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	May'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,155.60	18.3200	565.00	1,745.00	1,155.00	3,494.00	1,154.80
Open Interest	525,998	126,152	23,868	37,044	1,886	98,536	2,959
Change in Open Interest	-9,673	1,246	-191	36	0	-314	495

Date: 26 April 2010

Sources: Standard Bank; LME; Bloomberg

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