Commodities Daily

Standard Bank

Commodities Research

17 June 2009

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Focus: **SHFE arbitrage opportunities fading -** China has been one of the driving forces behind the recovery in commodity prices so far this year, as physical buying of metals helped support prices. As we approach the summer however, that activity is starting to wane, with arbitrage opportunities between the SHFE and LME also disappearing for the moment.

- A strong start on Tuesday gave way to a poor close for the base metals, as the US market entered the fray as sellers. A stronger dollar during the after-noon and mixed macroeconomic data also weighed on sentiment.
- With ETF investment flows steady, precious metals continued tracking the US dollar yesterday. Silver tracked gold throughout Tuesday, climbing from $14.05 in Asia to $14.40 in early NY trade before slipping to $14.08.
- Platinum climbed from $1,206 in Asia to $1,233 in early NY trade before sliding to $1,214 as US May industrial production data surprised on the downside. Palladium range-traded between $246 and $240 throughout Asian and early London trade.
- Front-month WTI crude oil found support at $69.90/bbl in electronic trade in Asia yesterday and rallied to $72.79/bbl in early NY, propelled by US dollar weakness.

Commodity price data (16 June 2009)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,632	1,610	1,638	1,592	1	0.06	1,601.00	15	-29.75
Copper	5,070	4,981	5,090	4,922	-26	-0.52	5,049.00	-26	-24.50
Lead	1,705	1,655	1,717	1,631	-27	-1.61	1,690.00	-30	-27.75
Nickel	14,999	15,100	15,100	14,450	325	2.20	14,950.00	-100	-95.00
Tin	15,100	15,285	15,512	15,010	325	2.16	15,150.00	-190	-40.00
Zinc	1,597	1,570	1,599	1,530	-6	-0.38	1,561.00	-41	-30.50

Energy	Open	Close	High	Low	day/day	Change (%)	ATM 1-m vol	ATM 6-m vol	ATM 1-y vol
ICE Brent	70.00	70.64	70.74	69.90	0.40	0.57%	45.00	45.00	46.00
NYMEX WTI	70.26	70.85	70.89	69.91	0.38	0.54%	42.00	41.00	40.00
ICE Gasoil	584.75	580.50	584.75	578.00	-8.50	-1.46%	39.00	39.00	38.00
API2 Q3'09	69.05	69.20	-	-	0.15	0.22%	-	-	-
ICE EUA Dec09	12.50	12.97	-	-	0.47	3.76%	-	-	-

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	936.75	934.00	939.70	931.00	931.50	-8.00	0.30/0.70
Silver	-	14.22	14.39	14.11	14.12	-0.76	-2.00/0.00
Platinum	1,224.00	1,227.00	1,228.00	1,218.00	1,218.00	-32.00	2/4
Palladium	247.00	245.00	245.00	241.00	240.00	-12.00	0/3

Sources: Standard Bank; LME; Bloomberg

Focus: SHFE arbitrage opportunities fading

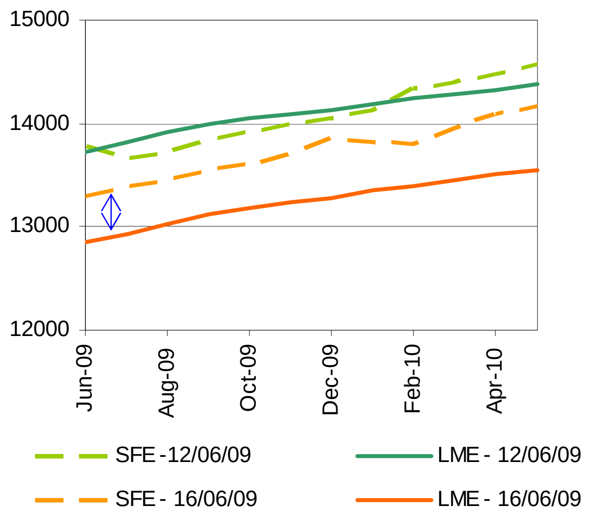
China has been one of the driving forces behind the recovery in commodity prices so far this year, as physical buying of metals helped support prices. As we approach the summer however, that activity is starting to wane with arbitrage opportunities between the SHFE and LME also disappearing for the moment.

The most obvious casualty has been copper, with the arbitrage between the SHFE and LME having been completely destroyed over the past couple of weeks. SHFE copper is currently trading at a discount to the LME, with Chinese consumers apparently happy to stay away.

Opportunities in zinc have also disappeared. The chart shows the impact the recent fall in LME zinc prices has had on the SHFE-LME arbitrage. Although the rate of fall in LME prices has been much more significant than the fall in SHFE prices - leading to SHFE prices again trading at a premium to the LME - when taking into account duty etc, the ratio is still not wide enough to make the arbitrage trade viable.

The only metal which still offers a viable arbitrage is aluminium, though this has also narrowed over recent weeks. Should significant production from re-started Chinese smelters hit the market, then the arbitrage may disappear altogether.

SHFE Zinc vs. LME Zinc (CNY)



Source: Standard Bank, LME, SHFE

As noted in previous reports, with the main source of physical demand taking a step back, price behaviour over the next month or so will likely be determined by the investment community and the dollar.

By Leon Westgate

Base metals

A strong start on Tuesday gave way to a poor close as the US market entered the fray as sellers. A stronger dollar during the afternoon and mixed macroeconomic data also weighed on sentiment and saw prices come under pressure. Wednesday has seen the metals recover from a weak start, tracking the weaker dollar. Momentum has however faded ahead of the afternoon session. The afternoon will likely be volatile once again, though, following the heavy bout of risk reduction we've seen, the VIX index is starting to look a little over extended - after a 9.5% gain on Monday and a 6.1% gain yesterday. Should the VIX start to retrace, this may also perhaps ease some of the downwards pressure on commodities.

Nickel was the best performer on Tuesday, recovering from the afternoon sell-off to finish the day 2.2% higher. The gains appear short lived however, with Nickel dropping back below $15,000 during Wednesday morning. In other news, Chinese imports of nickel laterite ore from the Philippines climbed dramatically in May, to 587.1 kt from only 113.1 kt in April. The sharp rise in imports fits with previous reports that various Nickel Pig Iron (NPI) production facilities in China were re-starting.

In terms of the implication for nickel prices, the fact that these operations - previously considered to be high cost - are able to restart production at current price levels, is a bearish factor. The restarts also suggest that future prices may be capped at lower levels than were seen during 2006 and 2007 - when this NPI material first started to appear. However, on a more positive note, the fact that production has restarted is further evidence that stainless steel demand is also starting to pick up.

Aluminium has stayed pretty steady over the past couple of days, closing $1 higher on Tuesday and trading sideways during Wednesday morning. The stability comes in spite of a 96,900 mt increase in available LME inventory over the past two days. The main location for the inflows has again been in warehouses situated in the USA. There is little new to add regarding the other base metals, which continue to take direction from the US dollar.

Tuesday's main macroeconomic data was rather mixed. Much better than expected US Housing starts - 532 K compared to expectations of 485 K - were offset by lower than expected US Industrial Production - down 1.1% compared to expectations of a 1% decline - and, perhaps more significantly, a drop in capacity utilisation to 68.3%, a record low.

This afternoon sees the release of the US CPI data for May (expected at 0.3%) and the US Q1 Current Account Balance (expected at -$85.0 billion from -$132.8 Billion).

By Leon Westgate

Precious metals

With ETF investment flows steady, precious metals continued tracking the US dollar yesterday. Gold found support at $926 in early Asia, and climbed to $939 in late London trade as the greenback slipped from $1.3748 to $1.3934 against the euro. However, the greenback recovered in New York trading, rising to $1.3825 against the euro, which dragged gold to $930. Asian trade this morning saw the metal garner support at $931, rising to $938 in early London trade as the greenback ratcheted from $1.3807 to $1.3927. Gold investors will probably remain glued to US dollar movements today. Noteworthy, weekly US ABC consumer confidence index remained in deep negative territory, at -49, from -47 the previous week, which could weigh on the greenback ahead of NY trade, and this could bode well for gold. Warning of possible downside risk in New York later today, US equity index futures are pricing in gains.

Today's US CPI data is also key to watch: higher-than-expected consumer inflation data may trigger institutional investment flows into gold. Support and resistance are at $927 and $941 respectively.

Silver tracked gold throughout the day yesterday, climbing from $14.05 in Asia to $14.40 in early NY trade before slipping to $14.08. Silver found support at $14.10 in Asia, and then rose to $14.30 in London. The gold:silver ratio fell from 66.13 to 65.60, which signals that silver might keep tracking gold today. Support and resistance are at $14.04 and $14.40. We will also be watching crude oil prices ahead of the release of DOE crude oil inventory data later today: a decline in inventories should support sentiment for industrial metals, which should boost silver.

Platinum climbed from $1,206 in Asia to $1,233 in early NY trade before sliding to $1,214 as US May industrial production data surprised on the downside — falling 1.1% m/m against market consensus for a 1.0% m/m decline. The metal tracked gold higher this morning — rising to $1,226. Support and resistance are at $1,207 and $1,234 respectively.

Palladium range-traded between $246 and $240 throughout Asian and early London trade. With no major economic data for clues on demand developments, the metal will likely remain tied to the dollar and to technical signals. Support and resistance are at $239 and $248 respectively today.

By Manqoba Madinane

Energy

Front-month WTI crude oil found support at $69.90/bbl in electronic trade in Asia yesterday and rallied to $72.79/bbl in early NY, propelled by US dollar weakness. However, with May US industrial production falling 1.1% m/m, signaling weaker US industrial crude oil demand, WTI crude oil plummeted back to $69.80/bbl. The front-month WTI crude oil contract climbed back to $71.30/bbl this morning amid market expectations for a 2,000K barrel decline from the US DOE crude oil inventory report (due later today). Investors are also closely monitoring political developments in Iran following the arrest of prominent supporters of the defeated presidential candidate. Support and resistance for front-month WTI crude are at $69.60/bbl and $72.60/bbl respectively.

Thermal coal contract prices clawed higher yesterday after having come under pressure on Monday — supported by tentative oil prices gains in London. API2(CIF ARA) for Q3:09 delivery gained $0.15/mt, to $69.20/mt, whilst API4 (FOB) for Q3:09 delivery rose $0.25/mt, to $69.30/mt at the close of London trade yesterday. Supply-side risks have emerged from Indonesia, a major thermal coal exporter to China, following a coal mine explosion that has seen at least 17 fatalities. Given improved industrial activity in the Asia-pacific region, Indonesian supply-side risks should support near-term thermal coal contract prices. However, weekly coal shipment data at Australia's Newcastle Coal Terminal showed a 17.27% w/w decline in coal export tonnage for the week ending 15 June. The shipping queue also decreased to 33 vessels, from 37 vessels the previous week, coupled with a 66% w/w increase in coal stock inventories at Carrington, signaling decreased Asia-pacific demand, which could weigh on thermal coal today.

Higher German base load power prices resuscitated carbon emissions contract prices yesterday. Active-year ICE-EUA gained EUR0.47/mtCO2, to EUR12.97/mtCO2 yesterday. UN-backed CER for December delivery climbed EUR0.35/mtCO2, to EUR11.05/mtCO2.

By Manqoba Madinane

Base metals

Daily LME stock movement (mt) 16 June

Metal	Today	Yesterday	In	Out	One day change	YTD change (mt)	Cancelled warrants (mt)	Cancelled warrants (%)	Contract turnover
Aluminium	4,322,300	4,275,075	57,100	9,875	47,225	1,993,400	115,975	2.68	268,077
Copper	285,050	286,975	525	2,450	-1,925	-54,725	20,750	7.28	140,121
Lead	83,825	82,325	1,500	0	1,500	38,675	75	0.09	30,108
Nickel	108,192	108,804	24	636	-612	29,802	3,078	2.84	27,726
Tin	16,135	16,060	75	0	75	8,345	565	3.50	16,647
Zinc	335,150	331,700	3,975	525	3,450	81,650	7,325	2.19	89,600

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	13,280	13,340	60
Copper	38,990	38,870	-410
Zinc	13,330	13,420	70

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali June'09	74	73.25	-0.50	-0.68%
Cu June'09	227	227.15	0.65	0.29%

ZAR metal prices (16 June 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	12,795	40,352	13,506	119,480	121,079	12,476	7.9920
3-month	13,086	40,484	13,451	122,728	124,232	12,760	8.1277

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 ($/bbbl)	76.74	-0.64	78.98	2.44	79.43	2.37	82.77	2.29	87.93	2.16
Gasoil 0.1% Rdam ($/mt)	580.50	-8.50	591.50	-8.50	606.00	-4.50	632.75	-4.25	674.00	16.00
NWE CIF jet ($/mt)	626.32	13.13	646.65	20.15	654.50	17.17	681.45	18.09	722.41	13.41
Singapore Kero ($/bbl)	76.85	-0.33	79.93	2.44	81.23	2.47	85.25	2.20	90.38	2.16
3.5% Rdam barges ($/mt)	372.20	11.51	371.42	10.56	372.52	9.88	380.38	10.34	399.34	12.02
1% Fuel Oil FOB ($/mt)	377.22	5.78	386.17	10.56	393.77	9.88	415.13	10.09	443.84	12.27
Sing FO 380 Cargo ($/mt)	393.17	12.56	392.52	11.63	394.20	11.33	402.79	11.61	421.92	12.43
Sing FO180 Cargo ($/mt)	399.50	13.49	396.50	12.06	397.00	11.38	405.50	10.84	421.92	12.43
Thermal coal	Q3-09		Q4-09		Q1-10		Cal 11		Cal 12	
API2 (CIF ARA)	69.20	0.15	79.20	1.15	99.40	1.65	105.45	2.00	110.20	2.00
API4 (FOB RBCT)	63.30	0.25	73.30	1.50	90.40	1.75	96.05	2.00	100.70	2.00
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	12.70	0.45	12.97	0.47	13.57	0.49	14.21	0.52	15.17	0.53
ICE - ECX CER (€/mt)	11.00	0.40	11.05	0.35	10.99	0.44	11.25	0.35	11.50	0.25

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.38571	0.42167	0.49571	0.58571	0.80571
Silver	0.43571	0.45714	0.49286	0.52143	0.65000
USD Libor	0.31813	0.45375	0.61313	1.16375	1.69625

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	50.89	949.42	956.38	926.12	871.44	927.00	941.00
Silver	51.29	14.94	15.01	13.51	12.12	14.04	14.40
Platinum	55.77	1,250.32	1,213.54	1,124.11	1,023.50	1,207.00	1,234.00
Palladium	54.02	251.54	243.88	221.28	208.65	239.00	248.00

Active Month Future	COMEX GLD Aug'09	COMEX SLV Jul'09	NYMEX PAL Jul'09	NYMEX PLAT Jul'09	DGCX GLD Jun'09	TOCOM GLD Apr'10	CBOT GLD Jun'09
Settlement	935.30	14.1950	243.50	1,220.90	935.60	2,915.00	936.00
Open Interest	374,585	106,351	16,841	24,157	771	101,602	3,710
Change in Open Interest	-13,754	-2,685	-63	-637	-56	2,592	-120

Date: 16 June 2009

Sources: Standard Bank; LME; Bloomberg

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LC/COMR/0109