Commodities Daily

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Focus: **Mixed Messages from China -** Much of the recent uncertainty in the metals markets has revolved around reconciling concerns over short term Chinese demand - expected by many to decline during the traditionally slower summer period - and longer term demand strength. On top of this, mixed signals from the Chinese market have further added to the confusion.

- Developments in the past 48 hours on the PGM production front in South Africa should prove bullish for PGM prices.
- Gold has broken well above $940.
- In Nigeria, pipeline attacks on the Bonny crude oil export terminal diverted investors' attention, away from weak global demand prognosis, to global crude oil supply-side risks. Front-month WTI crude oil climbed from $68.09/bbl to $69.50/bbl ahead of the New York session as the market ignored a surprise 1.0% m/m drop in April Eurozone industrial new orders.
- Dollar weakness in NY trade, with the greenback slipping from $1.3891 to $1.4014 against the euro, drove front-month WTI crude oil to $70.94/bbl. F
- Friday morning has seen the base metals generally edge higher on the back of a weaker dollar. With the exception of copper however, volumes remain subdued.

Commodity price data (25 June 2009)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,648	1,685	1,685	1,637	24	1.45	1,622.00	28	-31.75
Copper	5,035	5,140	5,146	4,935	75	1.48	5,023.50	133	-20.50
Lead	1,719	1,739	1,740	1,677	14	0.84	1,710.00	65	-20.25
Nickel	15,460	15,700	15,675	15,150	125	0.81	15,355.00	160	-90.00
Tin	14,800	14,850	14,850	14,600	50	0.34	14,800.00	100	33.00
Zinc	1,608	1,645	1,645	1,576	-3	-0.19	1,583.00	48	-28.50

Energy	Open	Close	High	Low	day/day	Change (%)	ATM 1-m vol	ATM 6-m vol	ATM 1-y vol
ICE Brent	70.00	70.20	70.20	69.92	0.42	0.60%	46.74	42.07	35.46
NYMEX WTI	70.34	70.64	70.77	70.20	0.41	0.58%	47.59	42.38	35.46
ICE Gasoil	573.00	571.75	573.00	571.25	3.75	0.66%	-	-	-
API2 Q3'09	58.49	61.05	-	-	2.56	4.19%	-	-	-
ICE EUA Dec09	12.95	13.15	-	-	0.20	1.54%	-	-	-

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	934.25	937.25	939.80	930.75	939.00	5.20	0.10/0.50
Silver	-	14.14	14.04	13.87	14.02	0.12	-3.50/-1.50
Platinum	1,176.00	1,176.00	1,193.00	1,166.00	1,190.00	30.00	-1/3
Palladium	236.00	236.00	244.00	237.00	242.00	7.00	0/3

Sources: Standard Bank; LME; Bloomberg

Focus: Mixed messages from China

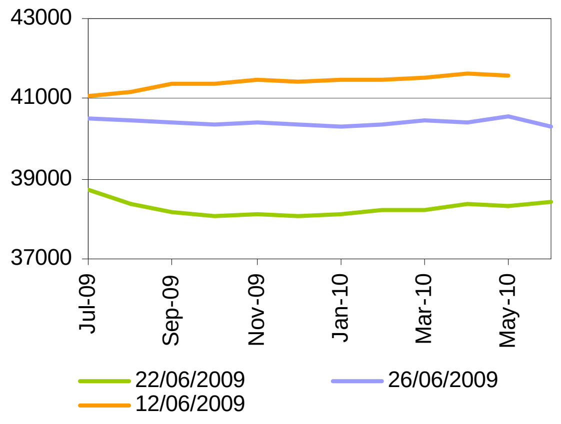
Much of the recent uncertainty in the metals markets has revolved around reconciling concerns over short term Chinese demand - expected by many to decline during the traditionally slower summer period - and longer term demand strength on the back of a global economic recovery, inflationary concerns and Chinese reserve diversification. On top of this, mixed signals from the Chinese market have further added to the confusion.

Looking at the evolution of the SHFE copper forward curve (see chart), since the middle of June, the market has flipped from contango into backwardation - indicating a tighter domestic market.

Throughout this period however, the SHFE-LME arbitrage was not viable, while SHFE stockpiles were also rising strongly. In addition, May's imports of refined copper surged higher once again, to over 337 kt. We do note however that, after recent m-o-m gains, scrap imports declined 17.8% m-o-m in May to 328 kt, perhaps forcing some consumers to switch their emphasis back towards cathode from scrap.

This morning's 12.5 kt fall in SHFE copper inventory also points to increased Chinese demand for refined metal, as does a pick up in spot copper premiums - up to $80-110, from $70-80 last week.

SHFE Copper forward curves (Rmb)



Sources: Standard Bank, SHFE

Therefore, although a summer slowdown may still emerge heading into July and August, looking at the SHFE data and the physical market, there is little to suggest that the slowdown has started yet.

By Leon Westgate

Base metals

Thursday afternoon started quietly, however the US market entered the fray as buyers, and, buoyed by stronger equity markets, the base metals surged higher with all of the metals finishing the day around their intraday highs. Meanwhile, the VIX also declined by 9.3% - indicating increased risk appetite. Friday morning has seen the base metals generally edge higher on the back of a weaker dollar. With the exception of copper however, volumes remain fairly subdued.

It is a quiet day on the macroeconomic front, the only major data of note being US Personal Income for May (expected +0.3%) and the University of Michigan Confidence index (expected to be unchanged at 69.0).

Copper finished very strongly on Thursday, closing back above $5,100. Volumes were again very good, with well over 11,000 lots trading on LME Select. A combination of steadily rising open interest over the past few days, plus the scale of turnover, suggests that the recent rally is not just purely a function of short covering. Also of note is that copper's 100-day moving average passed back above its 200-day moving average for the first time since September.

SHFE copper prices also rallied overnight, the main driver being a 12.5 kt fall in SHFE inventory - the first decline since the end of May. LME stocks also declined, with available copper inventory falling by 1,375 mt after a 1,500 mt jump in cancelled warrants in Antwerp. In other news, BHP Billiton is studying an expansion project at its Spence mine which will see output increase from 200 ktpy to 600 ktpy. A decision on the project won't be taken however until 2013.

Zinc was one of the strongest performers on Thursday, closing over 2% higher at $1,645. Friday has seen prices come back under pressure however, with a 4,875 mt increase in available LME inventory weighing on sentiment. Concern over increased production rates may also be weighing on prices. In that vein, Yunnan Luoping Zinc and Electricity Co. is in the process if bringing production back to its full 80 ktpy capacity. In addition, the firm is re-launching a planned expansion to 120 ktpy, on the back of stronger refined prices and due to a much better zinc concentrate availability.

Nickel has also recovered strongly over the past couple of days, and is once again testing its recent highs. The metal has been one of the better performers on Friday morning, in spite of a 1,026 mt increase in available LME inventory. BHP Billiton is meanwhile reportedly considering the sale of its Ravensthorpe mine and its Yabulu refinery.

By Leon Westgate

Precious metals

Developments in the past 48 hours on the PGM production front in South Africa should prove bullish for PGM prices.

First — Eskom, South African power utility, has been granted a 31.3% tariff increase. While this will affect production costs at PGM mines, we do not foresee a major price impact; we estimate a production cost increase of 3% – 4%.

Second — Lonmin, the world's third-largest platinum producer, has announced that, due to a furnace shutdown, it was likely to produce 20,000oz less than its original target of 700,000oz in this financial year. (The target in 2008 was 725,000oz.) While 20,000oz is not a large production loss, we foresee lower production at other platinum miners, too.

Third — The National Union of Mineworkers (NUM) has declared a dispute with Impala Platinum, the world's second-largest platinum producer. The dispute will now go to a government mediator. Impala is offering 6.5% wage increase, and the Union's demand 20%. We would keep a close eye on these developments, as strike action could arrest production. The rise in Eskom's tariffs, and the effect it might have on inflation, is likely to reinforce NUM's demands.

We see support for platinum at $1,180 and $1,150, with resistance at $1,215 and $1,225. Palladium support is at $236 and $229. Resistance is at $249 and $254.

Gold has broken well above $940, in line with our forecast. The dollar has been assisting gold, and positive sentiment towards equities and lower risk aversion (according to the VIX) should also support gold today. We expect gold to be range-bound. However, a positive University of Michigan US Consumer Confidence reading this afternoon could drive US equities higher. Because of the current positive correlation between US equities and the gold price, gold should benefit. Support is at $940 and $927, with resistance at $952 and $963.

Silver support is at $14.00 and $13.80. Resistance is at $14.25 and $14.50.

By Walter de Wet

Energy

In Nigeria, pipeline attacks on the Bonny crude oil export terminal diverted investors' attention, away from weak global demand prognosis, to global crude oil supply-side risks. Front-month WTI crude oil climbed from $68.09/bbl to $69.50/bbl ahead of the New York session as the market ignored a surprise 1.0% m/m drop in April Eurozone industrial new orders.

Dollar weakness in NY trade, with the greenback slipping from $1.3891 to $1.4014 against the euro, drove front-month WTI crude oil to $70.94/bbl. With Asian equity markets trading higher today, and a weaker greenback, front-month WTI crude oil remains well supported. Two-year contango on the WTI crude oil forward curve contracted 33.8% w/w, to $2.21/bbl — signaling that investors are pricing in reduced upside potential for crude oil prices. However, the WTI/Brent differential has climbed to $0.78/bbl after falling into negative territory in Asian trade yesterday. Support and resistance are at $69/bbl and $72.14/bbl.

Rising crude oil bodes well for thermal coal sentiment. API2(CIF ARA) for Q3:09 delivery rallied $3.32/mt, to $66.22/mt; API4 (FOB) for Q3:09 delivery also climbed $2.60/mt, to $63/mt. **Supporting the long-end of the curve, South Africa's Transnet has announced that coal export tonnage is unlikely to exceed 65 million tonnes this year — citing disruptions from heavy rainfall in Q1:09 and general operational difficulties.** However, the increased risk of a decline in Chinese thermal coal imports is bearish for export coal prices, as increasing freight costs make domestic coal more competitive. Whilst Chinese arbitrage buying has supported thermal coal (with thermal coal prices at China's Qinghuangdao port at a significant premium to prices at Australia's Newcastle terminal), the significant 105% rally in the Baltic Dry index since 1 May should put pressure on this arbitrage trade.

Positive energy market sentiment and a rise in German base load power prices supported carbon emissions contract prices yesterday. ICE EUA for December 2009 delivery gained EUR0.15/mtCO2, to EUR13.48/mtCO2. Active-year UN-backed CER gained EUR0.13/mtCO2, to EUR11.78/mtCO2.

By Manqoba Madinane

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	4,365,925	4,345,425	25,300	4,800	20,500	2,037,025	147,375	3.38	199,548
Copper	270,250	271,600	250	1,600	-1,350	-69,525	14,225	5.26	76,420
Lead	88,575	88,300	275	0	275	43,425	75	0.08	13,007
Nickel	108,960	108,060	1,026	126	900	30,570	1,788	1.64	21,501
Tin	16,955	17,090	325	460	-135	9,165	860	5.07	5,110
Zinc	344,000	340,625	5,000	1,625	3,375	90,500	6,425	1.87	33,845

Shanghai 3-month forward prices			
Metal	Open	Last	1d Change
Aluminium	13,420	13,470	25
Copper	39,710	39,930	630
Zinc	13,500	13,520	80

COMEX active month future prices	Open	Close	Change	Change (%)
Ali June'09	75	76.50	1.25	1.66%
Cu June'09	232	232.05	0.45	0.19%

ZAR metal prices (25 June 2009)	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	13,094	40,552	13,804	123,953	119,473	12,779	8.0725
3-month	13,829	42,185	14,272	128,853	122,287	13,501	8.2072

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 ($/bbbl)	76.18	0.48	76.82	0.39	77.17	0.64	80.14	0.28	85.17	0.06
Gasoil 0.1% Rdam ($/mt)	571.75	3.75	581.25	3.50	587.75	2.25	616.75	2.25	652.50	0.50
NWE CIF jet ($/mt)	620.81	0.70	630.78	3.15	636.42	1.50	665.26	1.75	706.67	1.42
Singapore Kero ($/bbl)	76.35	0.46	77.82	0.24	78.97	0.49	82.74	0.23	87.67	0.06
3.5% Rdam barges ($/mt)	371.73	1.88	377.96	7.79	377.83	7.78	382.75	7.85	397.54	5.94
1% Fuel Oil FOB ($/mt)	379.69	2.16	384.96	7.29	393.83	7.78	413.75	7.60	441.79	5.94
Sing FO 380 Cargo ($/mt)	398.08	7.28	398.26	6.79	399.88	6.91	406.44	6.15	421.19	4.61
Sing FO180 Cargo ($/mt)	400.34	3.10	405.71	7.54	404.08	7.28	409.00	7.10	421.19	4.61
Thermal coal	Q3-09		Q4-09		Q1-10		Cal 11		Cal 12	
API2 (CIF ARA)	66.22	3.32	74.25	2.95	94.25	1.40	101.71	0.81	107.19	0.64
API4 (FOB RBCT)	63.00	2.60	70.00	2.85	84.75	0.80	92.45	0.60	97.69	0.24
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	13.30	0.11	13.48	0.15	14.01	0.12	14.71	0.14	15.67	0.10
ICE - ECX CER (€/mt)	11.73	0.13	11.78	0.13	11.63	0.16	11.84	0.15	12.20	0.10

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.23571	0.28143	0.33500	0.47667	0.67833
Silver	0.43333	0.45000	0.49167	0.52667	0.58667
USD Libor	0.30750	0.42750	0.60125	1.11375	1.64500

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	52.33	932.32	947.20	927.78	875.79	931.00	947.00
Silver	50.89	14.06	14.72	13.61	12.21	13.90	14.31
Platinum	53.53	1,195.38	1,224.96	1,138.82	1,025.27	1,184.00	1,214.00
Palladium	54.27	240.82	246.37	224.26	208.90	236.00	250.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Aug'09	Jul'09	Jul'09	Jul'09	Jun'09	Apr'10	Jun'09
Settlement	943.20	14.1500	246.00	1,197.00	942.20	2,910.00	942.50
Open Interest	378,698	104,727	16,023	22,951	729	95,616	3,367
Change in Open Interest	8,351	-972	-12	-325	30	-1,142	200

Date: 25 June 2009

Sources: Standard Bank; LME; Bloomberg

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