

# FICC Research

## Commodities: Daily

### Focus: SHFE Copper arbitrage window closed for now



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**Focus: SHFE Copper arbitrage window closed for now** In the few days following the Chinese New Year Holiday, the SHFE-LME copper arbitrage window stabilised and looked like opening up again. The Chilean earthquake and subsequent rally in LME prices slammed the arbitrage window shut however, with SHFE prices failing to keep pace.

- It has been another very slow start for the base metals on Tuesday, with the Chinese again stepping back from the market and biding their time. With the metals drifting overnight on thin volumes, the dollar and equity markets are again calling the shots in terms of price direction, with a stronger dollar putting the base metals complex under pressure heading into the afternoon.
- We expect more dollar strength against the euro despite some recent weakness. We maintain, in the short term, that gold probably cannot sustain rallies. Gold in euro and GBP could still outperform gold in dollar terms.
- The rally above \$80 in NYMEX crude is losing momentum mainly on the back of dollar strength. We expect more dollar strength in the next three months, with a target of \$1.25 against the euro. As a result, we still believe that rallies above \$80/bbl will fade.

#### Commodity price data (8 March 2010)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,262	2,231	2,242	2,218	1	-1.37%	2,224.00	23	-30.75
Copper	7,570	7,480	7,537	7,388	-75	-1.19%	7,541.50	75	-33.25
Lead	2,257	2,258	2,274	2,219	28	0.04%	2,240.50	63	-25.75
Nickel	22,700	22,300	22,330	21,800	-95	-1.76%	22,550.00	50	-76.00
Tin	17,650	17,305	17,500	17,298	-200	-1.95%	17,550.00	125	-78.00
Zinc	2,383	2,375	2,380	2,325	21	-0.34%	2,350.00	93	-27.75

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	80.26	78.92	80.26	78.86	-1.55	-1.96%
NYMEX WTI	81.75	80.40	81.77	80.36	-1.47	-1.83%
ICE Gasoil	651.50	642.25	651.75	642.25	-7.00	-1.09%
API2 Q1'10	73.75	72.00	-	-	-1.75	-2.43%
EUA Dec10	13.25	13.34	-	-	0.09	0.68%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,134.00	1,125.75	1,137.60	1,119.00	1,123.00	-11.80	0/0.4
Silver	-	17.02	17.51	17.13	17.26	-0.10	0/2
Platinum	1,598.00	1,603.00	1,610.00	1,575.00	1,588.00	13.00	-5/1.5
Palladium	477.00	475.00	477.00	475.00	472.00	-2.00	0/2

Sources: Standard Bank; LME; BBG

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### Focus: SHFE Copper arbitrage window closed for now

In the few days following the Chinese New Year Holiday, the SHFE-LME copper arbitrage window stabilised and looked like opening up nicely again. The Chilean earthquake and subsequent rally in LME copper prices slammed the arbitrage window shut however, with SHFE copper prices failing to keep pace with the rally in LME prices.

The situation with the arbitrage so far this week has deteriorated further, with Monday seeing nearby SHFE prices trade at a discount to the LME. Prices did converge overnight, though we note that SHFE prices are lacking momentum and are drifting, rather than driving the copper market as was the case in late January and early February.

The lack of arbitrage is certainly one reason for the reduction in Chinese activity, however, overall it also seems like the Chinese copper market is taking a breather and is testing the water.

The lack of Chinese activity is interesting rather than perturbing. With Chinese GDP growth targeted at 8% this year, the country undoubtedly needs metal and will have to return to the market at some point. It will be interesting therefore to see at what point they do become active again, and also how strong their nerve is, particularly if metals prices don't have a significant pullback in the next couple of weeks.

While the Chilean earthquake saw prices jump from the \$7,100's to the \$7,500's, copper has been remarkably resilient since then, despite the limited impact on Chilean production. Chinese consumers may therefore be eying a pullback towards \$7,000 before stepping up purchases again.

## Base metals

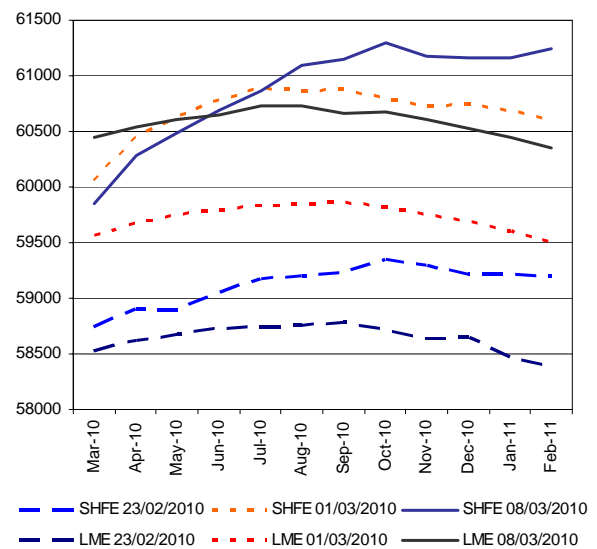
It's been another very slow start for the base metals on Tuesday, with the Chinese again stepping back from the market and biding their time. With the metals drifting overnight on thin volumes, the dollar and equity markets are again calling the shots in terms of price direction, with a stronger dollar putting the base metals complex under pressure heading into the afternoon.

Inventory-wise, headline copper stocks dropped by 2,700 mt this morning as previously cancelled material has started to head out of the door. The main locations for the activity have been Singapore and Rotterdam. Elsewhere, on-warrant aluminium stocks fell by 8,200 mt, however, the main location for the activity was Detroit, where cancelled warrants jumped 9225 mt. Unlike Europe, where aluminium stocks have been declining steadily, US stocks have been volatile, but largely stable. The recent pattern of stock movement in the US suggests therefore that this tonnage may re-appear at some point, likely in a nearby warehouse offering a better rental terms.

Prices for sulphuric acid have rebounded over the past couple of months. While this may be a temporary issue, owing to better than expected fertilizer demand and reduced output from oil refineries etc, it has nevertheless provided an extra source of revenue to hard pressed smelters that are struggling with low TC/RCS.

Meanwhile, higher metals prices are resulting in further capacity restarts. The latest companies to restart idled capacity are RUSAL, which is restarting 100 ktpy of aluminium capacity this quarter, and Mitsui Mining and Smelting Co. which is boosting output at its Hachinohe zinc smelter by 11% to 100 ktpy. The production increase at Hachinohe will be implemented during the coming fiscal year, starting April 1st, though the operation will still be producing below its full 112 ktpy nameplate capacity.

SHFE & LME equiv Copper forward curves (Rmb/mt)



Source: Standard Bank, SHFE, LME

If prices continue to shake off the lack of Chinese activity and stabilise at current levels however, then Chinese buyers may bite the bullet and re-enter the market. If that is the case, then copper prices may be set for another run higher.

Given recent trends in regional premiums, and that fact the arbitrage was opening up prior to the Chilean earthquake, we believe the bias may favour the latter scenario.

By Leon Westgate

## Precious metals

China's auto sales data was released this morning – up 46% y/y in February 2010 (1.21m units sold). February 2009 was a weak month for global auto sales, so the y/y change is inflated by the base effect. We have seen (February) auto sales recovering in the US and Japan. Europe's auto sales are due for release next week; while February auto sales are unlikely to have risen much, we still expect an increase. Globally, auto sales are clearly on the rise.

While auto demand for platinum is recovering, platinum ETF holdings continue to rise. The US platinum ETF adding 10,005oz. The total holdings by platinum ETFs now stand at 927,828oz. Palladium ETF holdings stand at 1,628,000oz. We infer that the market is tightening up.

Gold is down, alongside a slightly stronger dollar. Some selling in gold may have been on the back of a statement that China will be prudent in buying gold to diversify its foreign reserves. However, China recently indicated little interest in buying more gold from the IMF when gold is near record highs. This we believe has already flagged their prudent buying approach.

We expect more dollar strength against the euro despite some recent weakness. We maintain, in the short term, that gold probably cannot sustain rallies. Gold in euro and GBP could still outperform gold in dollar terms.

Gold support is at \$1,112 and \$1,109, resistance at \$1,128.

**By Walter de Wet**

## Energy

The rally above \$80 in NYMEX crude is losing momentum mainly on the back of dollar strength. We expect more dollar strength in the next three months, with a target of \$1.25 against the euro. As a result, we still believe that rallies above \$80/bbl will fade. However, because there is a recovery in growth, like other commodities with exposure to industrial growth, crude should find support in euro. Our medium-term view maintains NYMEX crude averaging \$84 in Q2:10 (*Energy Weekly 3 March 2010*).

WTI front-month support is seen at \$80.94 and \$80.00, resistance at \$82.60 and \$83.30.

The big news in the Atlantic Basin product market is the sharp rise in the US gasoline market following stronger-than-expected US employment data on Friday. Gasoline for April delivery closed at \$2.2710 a gallon in New York, a 17-month high; the gasoline crack spread has widened to over \$13.00/bbl, a six-month high. Strength in the US market has also pulled other regional gas markets higher, with Northwest Europe benchmark gasoline crack spreads at \$10.62/bbl last and Singapore gasoline crack spreads touching \$10.68/bbl.

In the coal market, the temporary weakness remains in place, with API2 for delivery in Q2:10 closing \$1.75 lower, at \$72.00. API4 for delivery in Q2:10 closed at \$81.20 (down \$0.15).

**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	4,532,975	4,538,900	1,950	7,875	-5,925	-95,925	294,075	6.49	145,911
Copper	538,875	541,575	1,200	3,900	-2,700	36,550	26,725	4.96	94,309
Lead	170,350	170,525	#N/A	175	-175	23,850	13,025	7.65	44,453
Nickel	159,912	160,224	#N/A	312	-312	1,902	2,778	1.74	37,606
Tin	23,670	24,445	110	885	-775	-3,095	735	3.11	4,944
Zinc	539,925	540,500	#N/A	575	-575	51,875	4,100	0.76	88,908

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,870	16,800	-65
Copper	60,200	60,100	-270
Zinc	18,950	18,895	45

### COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'10	-	-	-
Copper	Cu Mar'10	341	336.50	-4.55
Zinc				

### ZAR metal prices (8 March 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,391	55,581	16,512	166,194	129,344	17,320	7.3700
3-month	16,728	56,084	16,930	167,201	129,749	17,807	7.4978

## 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)	87.81	0.97	88.14	-0.13	88.60	-0.30	90.18	-0.23		
Gasoil 0.1% Rdam (\$/mt)	642.25	-7.00	645.50	-7.50	650.00	-7.75	667.25	-6.25		
NWE CIF jet (\$/mt)	707.45	-2.01	716.14	-2.00	721.58	-3.00	739.34	-2.25		
Singapore Kero (\$/bbl)	87.12	0.90	88.24	-0.28	89.00	-0.40	91.33	-0.18		
3.5% Rdam barges (\$/mt)	451.00	-1.50	453.50	-1.50	456.00	-1.25	460.75	-1.25		
1% Fuel Oil FOB (\$/mt)	461.75	0.25	467.25	0.00	473.25	0.00	489.75	-1.25		
Sing FO 380 Cargo (\$/mt)	471.00	-1.25	473.75	-1.75	476.00	-1.50	479.75	5.00		
Sing FO180 Cargo (\$/mt)	477.75	-1.75	480.00	-1.75	482.25	-1.75	487.75	-1.25		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	72.00	-1.75	76.10	-1.25	80.60	-1.05	90.65	-1.00	101.90	-1.00
API4 (FOB RBCT)	81.20	-0.15	81.20	-0.50	83.70	0.45	88.50	-0.25	96.30	-0.60

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.20750	0.21500	0.23500	0.32750	0.49250
Silver	0.56250	0.56750	0.56750	0.57000	0.58250
USD Libor	0.23000	0.24000	0.25425	0.39531	0.86750

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.52	1,122.29	1,112.83	1,113.69	1,041.19	1,112.00	1,124.00
Silver	51.64	16.78	16.30	17.26	16.16	17.00	17.55
Platinum	56.41	1,561.56	1,542.39	1,478.39	1,361.72	1,580.00	1,610.00
Palladium	58.05	447.03	437.96	395.02	334.83	455.00	475.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGEX GLD	TOCOM GLD	CBOT GLD
	Feb'10	Mar'10	Mar'10	Apr'10	Feb'10	Dec'10	Feb'10
Settlement	1,117.30	17,0350	459.50	1,600.10	1,117.20	3,235.00	1,117.40
Open Interest	502,886	111,347	21,550	35,391	1,424	107,491	3,101
Change in Open Interest	-36,314	6,029	1,909	-400	-99	-8,740	-158

Date: 8 March 2010

Sources: Standard Bank; LME; Bloomberg

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