

# FICC Research

## Commodities: Daily

### Focus: China's auto sales bullish for metals



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Global auto sales are recovering, with China in the lead. Given that auto sales are a leading economic indicator, we view the vehicle sales as a positive signal, and bullish for especially platinum and palladium demand, and also for demand for base metals like aluminium, copper and zinc.

- Thin volumes have again been a feature of the market this morning. The Chinese are continuing to sit on the sidelines, however volumes have also struggled to get going during the morning session. Price-wise the base metals are firmer across the board, helped by solid Chinese import/export numbers, while a weaker dollar is also supporting prices heading into the afternoon.
- The precious metals market remains range-bound. Platinum and palladium continue to find good support, and we would buy on dips.
- Crude oil prices are dollar watching ahead of the DOE inventory figures. Overall however the market remains rangebound.

#### Commodity price data (9 March 2010)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,220	2,259	2,257	2,215	27	1.76%	2,200.50	-24	-30.25
Copper	7,435	7,515	7,525	7,387	40	1.08%	7,395.00	-147	-34.75
Lead	2,227	2,245	2,278	2,213	-28	0.79%	2,206.00	-35	-26.75
Nickel	21,885	22,250	22,330	21,800	-50	1.67%	21,945.00	-605	-75.00
Tin	17,350	17,600	17,625	17,300	250	1.44%	17,250.00	-300	-75.00
Zinc	2,346	2,376	2,380	2,325	5	1.30%	2,318.50	-32	-28.75

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	79.70	79.96	80.10	79.47	0.05	0.06%
NYMEX WTI	81.38	81.47	81.63	81.05	-0.02	-0.02%
ICE Gasoil	649.00	652.50	653.50	648.25	2.25	0.34%
API2 Q1'10	72.00	71.80	-	-	-0.20	-0.28%
EUA Dec10	13.34	13.11	-	-	-0.23	-1.72%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,120.00	1,115.75	1,124.30	1,109.00	1,121.70	-1.30	0/0.4
Silver	-	17.37	17.40	16.89	17.33	0.07	0/2
Platinum	1,584.00	1,574.00	1,595.00	1,574.00	1,595.00	7.00	0.5/1.5
Palladium	462.00	459.00	470.00	459.00	466.00	-6.00	0.25/1.25

Sources: Standard Bank; LME; BBG

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### Focus: China's auto sales bullish for metals

Global auto sales are recovering, with China in the lead. Japan's auto sales for February have risen on a m/m and y/y basis. US auto sales in February were also up. China's auto sales in February posted a 46% y/y increase yesterday (thanks in part to the base effect). However, even in absolute terms, auto sales in the four large markets (Japan, Europe, US and China) are rising fast. The recovery that started in June 2009 continues apace.

Japan's sold 458,228 vehicles in February. This is 20% more than Feb'09 and a 25% rise m/m. The US saw total auto sales at 777,947 units in February. This is 13% more than Feb 2009 and an 11.6% m/m rise. China sold 1.2m units in February, up 46% y/y but down 27% m/m.

We are not too concerned about the m/m drop in Chinese auto sales for two reasons: *Firstly*, February featured the Chinese New Year. *Secondly*, the m/m drop in China's auto sales in February has been in place since at least 2005. March traditionally tends to be a good month for auto sales in China.

At an aggregate level for these four large markets, auto sales in January reached new highs. Total autos sales in these economies in January were an estimated 3.6m units — up 20% y/y.

Europe will report auto sales for February next week. Although we do not expect European auto sales show the same growth as in the US, Japan or China, the numbers are likely to beat February last year (simply because Feb 2009 was a very poor month).

### Base metals

Thin volumes have again been a feature of the market this morning. The Chinese are continuing to sit on the sidelines, however volumes have also struggled to get going during the morning session. Price-wise the metals are firmer across the board, helped by solid Chinese import/export numbers and yesterday afternoon's rally in US equities, while a weaker dollar is also supporting prices heading into the afternoon.

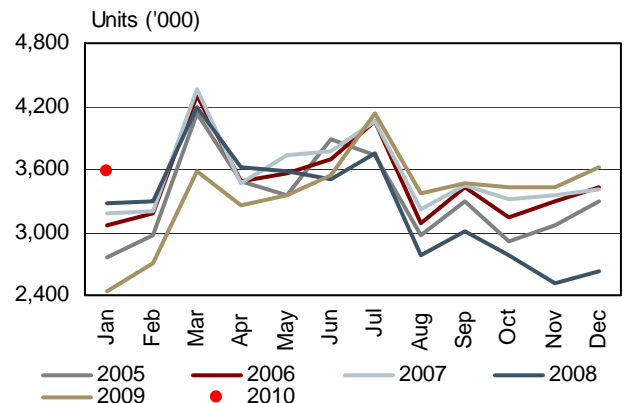
Although the Chinese trade data is important, the key Chinese figures are released tonight with the latest CPI, PPI, Retail Sales, Industrial Production and Fixed Asset Investment numbers all due out early on Thursday morning. While very strong numbers would ordinarily be seen as a bullish signal, we caution that the market may actually interpret overly strong numbers negatively, in the belief that the Chinese government will be prompted to rein back on liquidity even more aggressively.

After a shaky start copper had a solid performance on Tuesday, recovering strongly during the afternoon on the back of a weaker dollar and stronger US equity markets. There were no real surprises from the Chinese copper import figures, which came in at 322,282 mt (copper and copper products), up 10% m-o-m but down slightly in y-o-y terms. The figures were pretty much as expected, reflecting the SHFE-LME arbitrage window that opened up at the beginning of the year. Prices have continued to hold above \$7,500 heading into Wednesday afternoon, with copper gaining a boost initially from the import figures and latterly from dollar weakness. Overall however, the metal remains short of direction.

The other base metals are generally tracking copper, though aluminium is lagging behind following Chinese import figures which showed unwrought imports fell 34% m-o-m to a 12-month low in February. Lead is the stand out performer with short covering activity propelling the metal back above \$2,300.

There are reports of further capacity re-starts this morning, the latest being Mitsubishi Materials which is looking to run its copper smelters at full capacity this fiscal year (from April). The move is in contrast to Pan Pacific Copper and Sumitomo, which are both still considering keeping production cuts in place due to low TC/RC's.

Auto sales (China, US, Europe and Japan)



Source: Standard Bank, BBG

Should European auto sales grow by only 5% y/y in February, auto sales between the four economies would record another high for February (see graph).

Given that auto sales are a leading economic indicator, we view the vehicle sales as a positive signal, and bullish for especially platinum and palladium demand, and also for demand for base metals like aluminium, copper and zinc.

By Walter de Wet

By Leon Westgate

## Precious metals

The precious metals market remains range-bound. Platinum and palladium continue to find good support, and we would buy on dips. Gold refuses to fall substantially — but resistance to a move higher is equally great at this stage.

There is very little due on the macroeconomic front to drive prices today, and the dollar could dictate direction for gold within the current \$1,110 to \$1,140 range. Our dollar view against the euro remains unchanged — there may be bouts of strength in the euro, but dollar should still appreciate against the euro. Within the broad range of \$1,110 and \$1,140, gold resistance is at \$1,128 and support at \$1,112.

Platinum and palladium re quiet after their latest rally. With auto sales improving, demand for the metal should follow (*see Focus*). Platinum ETF holdings increased marginally yesterday, by 814oz, to 928,600oz. Palladium ETF holdings rose 4,758oz, to 1,632K oz. ETF holdings for platinum and palladium have risen by almost 550K in the past 12 months, while palladium holdings are up 845K oz. Platinum support is at \$1,570 and resistance at \$1,625. Palladium support is at \$460 and resistance at \$480.

By Walter de Wet

## Energy

Crude oil prices remain firmly stuck in the same range they have been in for the last 5 months or so. Within that broader range prices have been gradually trending higher over recent weeks, though the momentum seen during mid-February is fading fast. The market appears to be waiting for something to jolt it back into life, however, in the interim and amid a general lack of direction, crude oil prices have resorted to dollar watching.

Looking ahead to this afternoon, the latest run of US DOE inventory data is expected to show a 2 million bbl increase in crude oil inventory and a 1 million bbl decline in distillate stocks. Gasoline stocks are expected to remain unchanged after last week's small build. After an initial knee jek reaction, unless the data is wildly out of line with consensus it seems likely that the dollar and perhaps the US equity markets will take over in terms of providing price direction.

In other news, OPEC has said it will need to increase crude oil output in order to make up for what it sees as a cut in production of natural gas liquids. The latest predictions suggest members will need to produce 28.94 million bbl/day in order to satisfy demand this year, around 190,000 bbl/day above last months estimate. The next OPEC meeting to decide production quotas is scheduled for March 17th.

Coal prices came under pressure on Tuesday, though the bulk of weakness was seen in the farther-dated portion of the curve. While API2 for Q2-10 fell only \$0.20/mt, material for Q1-11 dropped by \$1.80/mt.

Meanwhile, Coal India Ltd has said that its output of coal will be lower than expected in 2011-2012 due to delays in bringing coal mines on-stream. The production target has been cut by 34 million tonnes to 485 Mt, increasing the need for imported material. The expected shortfall comes at a key time, with India planning to nearly double its electricity generation by 2012.

By Leon Westgate

## 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	4,527,825	4,532,975	1,250	6,400	-5,150	-101,075	289,825	6.40	145,911
Copper	538,175	538,875	1,675	2,375	-700	35,850	27,325	5.08	94,309
Lead	170,475	170,350	300	175	125	23,975	12,850	7.54	44,453
Nickel	159,702	159,912	204	414	-210	1,692	2,610	1.63	37,606
Tin	23,855	23,670	205	20	185	-2,910	775	3.25	4,944
Zinc	539,300	539,925	#N/A	N/A	625	-625	3,475	0.64	88,908

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,830	16,900	95
Copper	60,070	60,350	250
Zinc	18,950	19,145	250

### COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'10	-	-	-
Copper	Cu Mar'10	341	342.85	1.70
Zinc				

### ZAR metal prices (9 March 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,383	55,056	16,424	163,381	128,426	17,261	7.4450
3-month	17,110	56,920	17,004	168,526	133,306	17,996	7.5742

## 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)	87.67	-0.14	88.08	-0.06	88.49	-0.11	89.86	-0.32		
Gasoil 0.1% Rdam (\$/mt)	652.50	2.25	655.50	2.50	658.75	2.00	672.75	1.25		
NWE CIF jet (\$/mt)	706.28	-1.17	714.93	-1.21	720.88	-0.70	737.31	-2.03		
Singapore Kero (\$/bbl)	87.05	-0.07	88.23	-0.01	88.89	-0.11	91.01	-0.32		
3.5% Rdam barges (\$/mt)	450.50	-0.50	453.50	0.00	456.25	0.25	461.00	0.25		
1% Fuel Oil FOB (\$/mt)	463.25	1.50	469.00	1.75	475.00	1.75	491.75	2.00		
Sing FO 380 Cargo (\$/mt)	470.75	-0.25	473.75	0.00	476.00	0.00	479.75	0.00		
Sing FO180 Cargo (\$/mt)	477.75	0.00	480.00	0.00	482.25	0.00	487.75	0.00		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	71.80	-0.20	75.40	-0.70	79.40	-1.20	89.20	-1.45	101.20	-0.70
API4 (FOB RBCT)	80.60	-0.60	80.60	-0.60	83.00	-0.70	87.40	-1.10	96.20	-1.00

## 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	0.25550	0.39438	0.85875

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	52.89	1,125.46	1,115.70	1,114.40	1,042.02	1,112.00	1,124.00
Silver	53.95	16.95	16.42	17.26	16.18	17.00	17.55
Platinum	59.22	1,572.66	1,547.79	1,480.94	1,363.62	1,580.00	1,610.00
Palladium	61.27	452.87	441.34	396.45	336.01	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	1,124.90	17,3800	472.35	1,596.90	1,124.70	3,271.00	1,125.00
Open Interest	496,292	111,678	21,892	36,370	1,274	104,738	2,925
Change in Open Interest	6,594	-331	-342	-979	150	2,753	176

Date: 9 March 2010

Sources: Standard Bank; LME; Bloomberg

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