

FICC Research

Commodities: Daily

Focus: Copper market tightening up



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Focus: SHFE and LME copper warehouse inventories have been under pressure throughout most of Q2, with that trend continuing into the summer. The last month or so has also seen premia in Shanghai and Singapore increase. In addition to strengthening premiums in Asia, Chinese arbitrage buying has also been a feature of the market in recent weeks, while physical metal in Shanghai is also trading at a premium to the spot SHFE futures price.

- The base metals initially came under pressure during Wednesday morning as the markets digested Tuesday afternoon's rally. A rebound in the Euro has re-invigorated the metals however with the complex rallying again heading into the afternoon. With little economic data to go on yet again, the base metals are still looking to the equity and FX markets for direction.
- Short-term price momentum for precious metals remains lower. Tactically we look for more downside, although strategically on a 3 — 6 month horizon we remain long precious metals.
- The biggest short-term risk to crude oil remains within the financial markets and Europe specifically. Our focus remains on Europe's debt burden.

Commodity price data (6 July 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,967	1,997	2,007	1,935	30	1.53%	1,946.00	34	-26.25
Copper	6,556	6,605	6,666	6,425	49	0.75%	6,523.00	83	-27.00
Lead	1,782	1,781	1,805	1,754	-1	-0.04%	1,755.00	24	-23.60
Nickel	18,950	18,900	19,175	18,545	-50	-0.26%	18,855.00	80	-63.00
Tin	17,451	-	1,780	17,398	-	-	17,440.00	190	-30.00
Zinc	1,840	1,850	1,860	1,800	10	0.54%	1,814.00	49	-32.12

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	71.61	71.50	71.89	71.48	0.05	0.07%
NYMEX WTI	72.07	72.01	72.38	71.91	0.03	0.04%
ICE Gasoil	616.75	614.00	616.75	613.25	-9.25	-1.51%
API2 Q3'10	93.75	93.50	-	-	-0.25	-0.27%
EUA Dec10	15.33	15.24	-	-	-0.09	-0.59%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,210.75	1,195.00	1,209.90	1,190.50	1,195.30	-11.20	0.1/0.5
Silver	-	17.70	18.00	17.64	17.80	0.10	0.5/2.5
Platinum	1,521.00	1,509.00	1,520.00	1,488.00	1,515.00	18.00	-1.0/1.0
Palladium	439.00	432.00	438.00	430.00	438.00	13.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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Focus: Copper market tightening up

SHFE and LME copper warehouse inventories have been under pressure throughout most of Q2, with that trend continuing into the summer. The last month or so has also seen premia in Shanghai and Singapore increase.

In addition to strengthening premiums in Asia, Chinese arbitrage buying has also been a feature of the market in recent weeks, while physical metal in Shanghai is also trading at a premium to the spot SHFE futures price. The combination of these factors implies that there is real physical demand behind the activity and suggests the physical copper market will continue to tighten up.

Looking at seasonal patterns in LME inventories over the past decade, the general trend has been to see rising LME stocks over the course of H2, with July, August, October and December seeing the biggest stock increases (in percentage terms m-o-m).

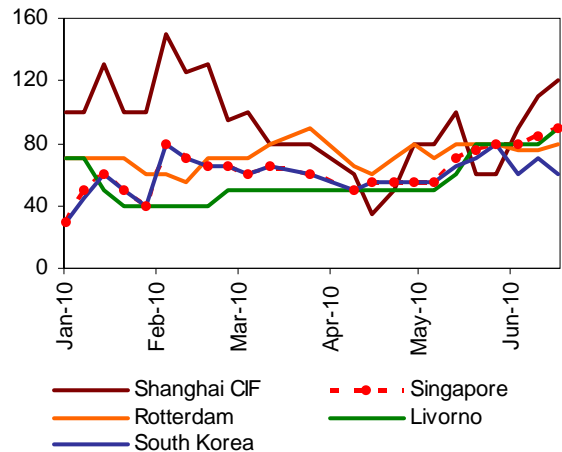
The seasonal pattern in SHFE inventories is less clear, other than for stock increases in February and October - likely linked to the Chinese New Year and National Day holidays.

Only 2002, 2003 and 2004 saw significant falls in LME stocks during H2, with steady Chinese demand and supply disruptions combining to see the market approach the record 990 kt deficit seen in 2004 - something that underpinned the rapid increase in prices over the following couple of years.

It is too early to say if we are set for a repeat performance of that period quite yet, however, we note that falling LME stocks over the balance of 2010 would be an unusual event given recent history and something we would regard as very bullish for prices, particularly in early 2011.

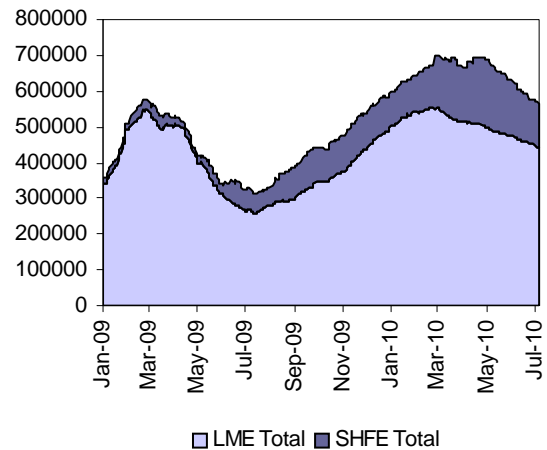
By Leon Westgate

Physical Copper Premia (US\$/mt)



Source: Standard Bank, Fast Markets

LME and SHFE Copper Warehouse Inventory



Source: Standard Bank, LME

Base metals

The base metals initially came under pressure during Wednesday morning as the markets digested Tuesday afternoon's rally. A rebound in the Euro has re-invigorated the metals however with the complex rallying again heading into the afternoon. With little economic data to go on yet again, the base metals are still looking to the equity and FX markets for direction.

Generally speaking the base metals have been pretty robust in terms of price performance over the past couple of weeks, with all of the metals remaining well above the recent lows seen in early June. The solid performance is a fairly bullish sign, however relatively low turnover suggests that the market is still wary and remains happy to sit on the sidelines until a firm trend re-establishes itself.

Copper had a very quiet start to the day, drifting lower at first before rallying on the back of a weaker dollar heading into the early afternoon. South Korea was the main location for LME warehouse activity, with a 2,800 mt increase in cancelled warrants in Busan accounting for most of the 3,200 mt fall in on-warrant stocks this morning.

Nickel has also continued to see LME stocks come under pressure, with on-warrant stocks falling 486 mt on Wednesday to 116,598 mt, the lowest level since September 2009. Nickel remains firm, with the market talking the resolution of the strike at Vale's Canadian operations in its stride.

Elsewhere, lead and zinc are both exceptionally quiet in terms of turnover, with the market instead focusing on copper and aluminium. As such, both metals are looking towards copper for direction.

By Leon Westgate

Precious metals

Short-term price momentum for precious metals remains lower. Tactically we look for more downside, although strategically on a 3 — 6 month horizon we remain long precious metals.

The data from the BIS which suggest some European central banks are raising cash via gold swaps, combined with a rising Euribor and Italy who have to roll substantial amount of debt between August and November is cause for concern. The amount of debt Italy needs to roll in H2:10 dwarfs anything seen from Spain and Greece, even after accounting for relative GDP sizes.

Partly due to the above Standard Bank still sees the dollar stronger against the euro despite the recent rally in the euro. Our FX forecast is \$1.15 against the dollar towards end of Q3 and close to parity towards the end of the year. However, it is the speed of any depreciation in the euro that concerns us rather than the actual level of the euro. If the depreciation of the euro is over a number of months, we believe any negative impact on precious metal prices would be small. However, should the euro depreciate in a fast and disorderly fashion we believe even gold will experience short-term liquidation.

For a market view on where the euro could move we look at the options market. The options market puts the probability of the euro at \$1.15 against the dollar within 3 months at 19%. The probability assigned to reaching parity within 3 months is seen at less than 1%.

Technically for gold yesterday's break below \$1,197 is expected to yield further weakness into the \$1,180 to \$1,175 area. Resistance is at \$1,196 to \$1,200 area.

Risk of liquidation in platinum and palladium remain too. For platinum we see value below \$1,500 but risk of liquidation remains. Therefore tactically we look for more downside with support at \$1,485 and \$1,452.50. Resistance is between \$1,516 and \$1,521. Palladium continues to find support at above \$430 but weakness may extend towards \$420—\$415.

By Walter de Wet

Energy

Crude oil continues to struggle around the \$72/bbl level. While we are still expecting more upside for crude oil in H2:10 (we expect front month prices to move above \$80/bbl), risk to this view is rising, especially short-term.

The biggest short-term risk to crude oil remains within the financial markets and Europe specifically. Our focus remains on Europe's debt burden. During Q2:10, the roll-over of government debt by Greece and Spain were cause of great concern to financial markets and also affected oil prices negatively. We now look to Italy which is starting to roll sizable amounts of debt in August. Between August and November, Italy must roll around Eur134bn. This dwarfs anything Spain and Greece had to roll, even after accounting for size of GDP. Furthermore, Italy's debt stock is at 115% of GDP, much higher than that of either Spain or Greece.

At the same time crude product inventory remains high. The latest data in Japan shows stock of distillates' and gasoline nearing the highs of their recent historical ranges. At the same time the market expects another big build in gasoline and distillate inventories in the US when DOE data is released tomorrow. Furthermore, refinery utilisation in the US is also expected to remain high. Although seasonal demand and weather disruption may support gasoline prices, gasoline and gasoil crack spreads may come under pressure in coming weeks on the back of growing concern over the economic outlook in Europe, US and China. Should refinery utilisation come down on the back of weak oil product demand, it could put additional pressure on crude oil prices.

API2 prices are slightly weaker but overall support for coal delivered into ARA remains in place. API4 is still finding good support at the front end of the curve, with API4 for delivery in Q3 gaining \$0.35 to close at \$90.60. Unlike crude oil, thermal coal remains less sensitive to movements in other financial market and in general seems to rather track German power prices closely.

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	4,409,550	4,404,850	6,175	1,475	4,700	-219,350	281,275	6.38	142,321
Copper	439,350	441,700	525	2,875	-2,350	-62,975	35,075	7.98	102,107
Lead	189,850	189,350	600	100	500	43,350	13,700	7.22	23,386
Nickel	121,716	122,172	-	456	-456	-36,294	5,118	4.20	30,329
Tin	16,820	16,765	140	85	55	-9,945	1,405	8.35	6,710
Zinc	616,575	616,600	-	25	-25	128,525	23,850	3.87	47,524

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	14,900	14,840	40	Ali Jul'10	-	-	-	-
Copper	52,770	52,400	270	Cu Jul'10	297	295.60	-1.50	-0.50%
Zinc	15,325	15,125	-40					

ZAR metal prices (6 July 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,873	49,855	13,413	144,109	133,294	13,864	7.6430
3-month	15,501	51,269	13,824	146,706	137,779	14,360	7.7622

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)	82.25	1.12	83.23	1.44	83.66	1.41	85.13	1.37	-	-
Gasoil 0.1% Rdam (\$/mt)	614.00	-9.25	616.00	-9.00	619.75	-9.25	632.25	-8.25		
NWE CIF jet (\$/mt)	670.36	10.03	677.05	12.00	683.23	11.50	699.48	11.75		
Singapore Kero (\$/bbl)	82.46	0.85	84.03	1.24	84.71	1.26	86.53	1.22		
3.5% Rdam barges (\$/mt)	403.00	10.50	405.00	10.00	407.00	9.50	414.75	8.75		
1% Fuel Oil FOB (\$/mt)	443.50	16.25	447.00	15.50	448.50	14.00	455.25	11.25		
Sing FO 380 Cargo (\$/mt)	426.00	9.75	426.00	10.75	426.00	10.75	426.00	10.75		
Sing FO180 Cargo (\$/mt)	434.25	12.00	434.25	10.50	435.25	9.00	442.75	7.50		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	93.50	-0.25	95.20	-0.45	97.40	-0.50	99.50	-0.50	106.25	-0.50
API4 (FOB RBCT)	90.60	0.35	90.95	0.30	93.40	0.00	94.75	0.00	100.25	0.00

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.50333	0.54667	0.57667	0.68000	0.76833		
Silver	0.68000	0.69000	0.72000	0.77800	0.77000		
USD Libor	0.34625	0.42938	0.53113	0.74244	1.16313		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	47.46	1,222.21	1,228.14	1,171.78	1,137.48	1,184.00	1,200.00
Silver	46.49	18.26	18.42	17.88	17.63	17.60	18.40
Platinum	40.72	1,530.44	1,549.57	1,611.44	1,529.60	1,485.00	1,550.00
Palladium	42.66	448.06	460.39	480.21	428.84	420.00	450.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	Jul'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,188.20	17,7250	430.05	1,518.70	1,188.10	3,344.00	1,188.30
Open Interest	575,695	121,276	19,451	28,714	1,408	117,758	3,151
Change in Open Interest	12,956	1,627	109	209	50	-2,425	0

Date: 5 July 2010

Sources: Standard Bank; LME; Bloomberg

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