

FICC Research

Commodities: Daily

Focus: Aluminium premiums - time to take profit?



9 July 2010

Walter de Wet, CFA*
Walter.DeWet@standardbank.com

Leon Westgate*
Leon.Westgate@standardbank.com

Focus: The aluminium market continues to be dominated by tightness in the nearby spreads, in particular around the August date. Although the aluminium forward curve is still in a healthy contango, making the financing of material through warehouse rent deals still viable, the returns have started to diminish, while the nearby tightness is also a source of consternation.

- The base metals all started Friday on a much firmer footing, helped by stronger Chinese equities. The rally has come on the back of exceptionally low turnover, even by the standard of recent weeks. A bout of dollar strength heading into the afternoon has however seen the base metals come under pressure ahead of NY trade.
- After declining to the high \$1,180's yesterday, gold is holding steady at \$1,190 – \$1,200. We are encouraged by the positive response from the gold physical market to what was only a marginal decline in the gold price. The physical market by no means represents the entire gold market, but still, we view its reaction as bullish for gold.
- Crude oil is back where it was just over a week ago — at just below \$76/bbl. We remain cautious on crude, and expect the market to sell on approach of \$78/bbl.

Commodity price data (8 July 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,995	1,995	2,017	1,982	0	0.00%	1,977.00	23	-20.00
Copper	6,715	6,710	6,745	6,610	-5	-0.07%	6,641.00	96	-22.25
Lead	1,825	1,840	1,840	1,810	15	0.81%	1,804.00	48	-20.17
Nickel	19,350	19,400	19,500	18,401	50	0.26%	19,325.00	335	-54.00
Tin	17,650	17,600	1,847	17,525	-50	-0.28%	17,670.00	20	-31.00
Zinc	1,858	1,866	1,878	1,848	8	0.43%	1,830.00	20	-28.92

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	75.08	75.04	75.15	74.85	0.33	0.44%
NYMEX WTI	75.85	75.82	75.95	75.61	0.38	0.50%
ICE Gasoil	642.25	642.25	643.00	639.50	2.00	0.31%
API2 Q3'10	93.00	93.50	-	-	0.50	0.53%
EUA Dec10	14.89	14.48	-	-	-0.41	-2.75%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,201.25	1,193.50	1,207.50	1,188.20	1,195.50	-2.50	0.0/0.4
Silver	-	17.92	18.17	17.78	17.85	-0.17	0.0/2.0
Platinum	1,526.00	1,528.00	1,535.00	1,509.00	1,510.00	-12.00	-1.0/1.0
Palladium	447.00	447.00	449.00	439.00	443.00	3.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

Please refer to the disclaimer at the end of this document.

Focus: Aluminium premiums - time to take profit?

The aluminium market continues to be dominated by tightness in the nearby spreads, in particular around the August date. Although the aluminium forward curve is still in a healthy contango, making the financing of material through warehouse rent deals still viable, the returns have started to diminish, while the nearby tightness is also a source of consternation.

As noted previously (*Commodities Daily 25th June -Base Metals section*) the nearby tightness is due to a number of factors, in particular a combination of smaller Fund rolls - Fund activity having been pared back significantly over the past few months - and participants, financing of large tonnages of physical metal, essentially absorbing a lot of that lending activity.

Consequently, participants who may have lent the nearby aluminium spreads in expectation of being able to borrow back their positions as the funds roll, are struggling to get business done and are starting to show signs of panic.

In the physical market, aluminium premiums in Europe remain very strong, but have stabilized. Asian premiums are also stale after drifting lower towards the end of Q1, while US premiums for material in warehouse remain depressed. Participants are very unlikely to actively break warehouse rent deals. However, given the diminishing returns, some participants may start looking to take advantage of the very high physical aluminium premiums as rent deals come to an end.

Looking forward however, the release of material from rent deals would hurt premiums and likely depress prices too. Ultimately this would lead to a wider contango and a greater incentive to enter a financing deal. With 4.4 Mt of metal sat in LME warehouses, the ebb and flow of material into and out of financing deals will remain a key feature of the aluminium market, and the nearby portion of the forward curve, for some time to come.

By Leon Westgate

Base metals

The base metals all started Friday on a much firmer footing, helped by stronger Chinese equities. The rally has come on the back of exceptionally low turnover however, even by the standard of recent weeks. Most of the prices action came during overnight trade, with a stable dollar seeing the metals drift sideways during the mid-morning. A bout of dollar strength heading into the afternoon has however seen the base metals come under pressure ahead of NY trade.

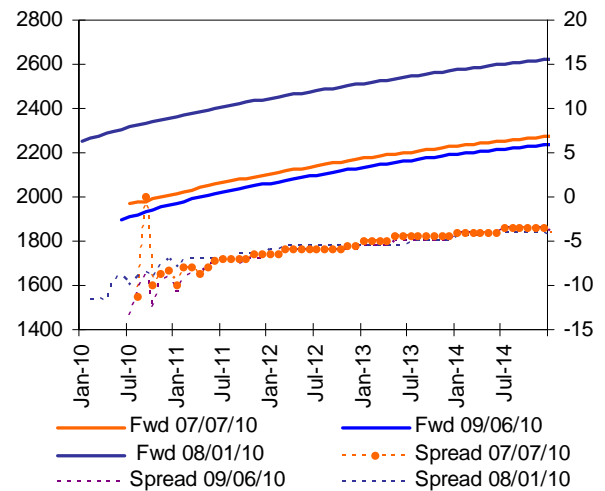
While sentiment has generally improved, helped by stronger growth forecasts from the likes of the IMF, the base metals are basically back at the same price levels they were 6 weeks ago. Next week is very important both in terms of the latest Chinese economic data, but also the start of the Q2 company results reporting season. A solid run of data may well provide the metals with enough impetus to break free of their recent ranges, however, for the meantime the market remains very uncertain with that lack of conviction reflected by the low turnover.

Copper received a boost from stronger Chinese equity markets, while local reports suggesting Shanghai-based commercial banks have resumed providing loans for third-home purchases and have eased lending policies for second-home purchases, also gave the market a boost. A further drop in SHFE copper inventories - down 7,099 mt to 117,459 mt - lent further support to prices.

As a consequence of the low turnover, the rest of the base metals complex is looking towards copper for direction.

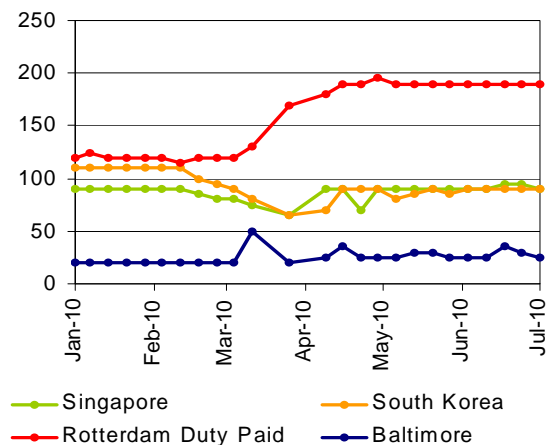
By Leon Westgate

Aluminium Forward Curve (LH) vs Spreads (RH)



Source: Standard Bank, LME

Aluminium Physical Premia (\$/mt)



Source: Standard Bank, Fastmarkets

Precious metals

After declining to the high \$1,180's yesterday, gold is holding steady at \$1,190 – \$1,200. Per our Standard Bank Physical Gold Flow Index (see *Commodities Daily* dated 8 July 2010), we are encouraged by the positive response from the gold physical market to what was only a marginal decline in the gold price. The physical market by no means represents the entire gold market, but still, we view its reaction as bullish for gold.

Firstly, physical players clearly view \$1,200 as a good level to buy gold. *Secondly*, the physical market, such as jewellers, probably expect better seasonal demand in Q4:10. We believe that the reason for higher gold demand from the physical market with gold at \$1,200 is more a function of the former than the latter. However, we believe that conditions for jewellery have improved this year, compared to 2008 and 2009, due to an improved income effect in mainly EM countries which dominates the higher price effect.

Gold support is at \$1,186 and \$1,177, resistance at \$1,208 and \$1,218.

China's car sales for June was released this morning. M/m, the June number (1.04m) is unchanged from May — but it is still 19.4% y/y higher than June 2009. We would not be surprised to see auto sales in China decline m/m in July, and again in August. Besides July 2009, when economic stimulus measures were implemented, July has always been a weak month for car sales in China. However, in absolute numbers, we believe that auto sales in China will stay at record levels throughout 2010. We therefore expect China's platinum and palladium demand to remain healthy. In a strong demand response, in May, China's demand for platinum jumped when platinum was as low as \$1,500.

Platinum support is at \$1,505, resistance at \$1,535. Palladium support is at \$438, resistance at \$460.

By Walter de Wet

Energy

Crude oil is back where it was just over a week ago — at just below \$76/bbl. We remain cautious on crude, and expect the market to sell on approach of \$78/bbl.

Although DOE inventory data yesterday showed a large decline in crude oil inventory (4,961K barrels), there was a large build (1,320K barrels) in gasoline inventory in the US. This has put gasoline crack spreads under pressure. The RBOB/WTI front-month crack spread is below \$11 again, and we expect further downside in gasoline spreads in July. US refinery utilisation continues at a relatively high level of 86.7% — which will require more crude and produce more product. Distillate inventories increased by a much smaller 321K barrels last week.

On a day-forward-cover basis, gasoline inventories remained unchanged, at 23.4 days, but we continue to see steady improvement in the numbers, and believe this will continue. Gasoline days forward cover had dropped to 26.9 days in February, to the current level of 23.4 days. Crude oil days forward cover has dropped to 23.6 days, from 24 days last week. We believe on a days-forward-cover basis, inventory levels will continue to recover and crude oil will trend higher in H2:10.

Front-month WTI crude oil support is at \$74.55 and \$73.65. Resistance is at \$76.20 and \$76.90.

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	4,398,000	4,403,875	-	5,875	-5,875	-230,900	277,050	6.30	147,744
Copper	436,900	439,000	1,500	3,600	-2,100	-65,425	29,550	6.76	112,806
Lead	189,025	189,350	-	325	-325	42,525	13,350	7.06	28,788
Nickel	120,660	121,326	-	666	-666	-37,350	5,100	4.23	23,681
Tin	16,475	16,605	55	185	-130	-10,290	1,300	7.89	4,221
Zinc	616,525	616,825	-	300	-300	128,475	23,750	3.85	61,483

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	14,900	14,900	-10	Ali Jul'10	-	-	-	-
Copper	53,220	53,760	440	Cu Jul'10	302	304.40	2.85	0.95%
Zinc	15,270	15,300	-55					

ZAR metal prices (7 July 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,990	50,352	13,678	146,522	133,974	13,875	7.5820
3-month	15,314	50,944	14,075	149,293	135,441	14,275	7.6955

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)	84.01	1.44	85.48	1.84	85.90	1.87	87.42	1.94	-	-
Gasoil 0.1% Rdam (\$/mt)	642.25	2.00	645.00	2.50	649.00	2.50	660.75	2.75		
NWE CIF jet (\$/mt)	686.40	10.96	695.43	14.04	701.98	14.67	717.30	14.75		
Singapore Kero (\$/bbl)	84.23	1.41	86.33	1.84	87.00	1.87	88.87	1.94		
3.5% Rdam barges (\$/mt)	414.00	10.25	416.25	10.00	418.75	10.25	427.00	10.75		
1% Fuel Oil FOB (\$/mt)	450.00	1.50	454.25	3.25	457.50	5.00	467.25	7.00		
Sing FO 380 Cargo (\$/mt)	437.00	10.50	437.00	10.50	437.00	10.50	437.00	10.50		
Sing FO180 Cargo (\$/mt)	444.25	9.50	444.25	9.50	446.50	10.50	455.25	10.25		

Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	93.50	0.50	94.50	0.50	96.50	0.40	98.25	0.25	105.25	0.25
API4 (FOB RBCT)	91.25	0.65	90.80	0.30	93.00	0.40	94.00	0.25	99.50	0.25

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.46667	0.51167	0.54000	0.64333	0.74167		
Silver	0.69600	0.70000	0.72000	0.75800	0.76200		
USD Libor	0.34250	0.42563	0.52750	0.73719	1.15438		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	49.01	1,213.33	1,226.49	1,173.61	1,139.52	1,184.00	1,206.00
Silver	47.98	18.11	18.40	17.92	17.64	17.60	18.40
Platinum	43.81	1,524.09	1,549.32	1,611.64	1,532.15	1,485.00	1,550.00
Palladium	46.11	444.57	461.21	480.67	430.49	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	1,198.50	17.9250	447.20	1,516.40	1,197.50	3,426.00	1,197.30
Open Interest	571,466	119,163	19,763	28,009	990	125,167	3,432
Change in Open Interest	6,266	-201	-257	88	555	-2,944	-281

Date: 8 July 2010

Sources: Standard Bank; LME; Bloomberg

Disclaimer

Certification

The analyst(s) who prepared this research report (denoted by an asterisk*) hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and issuer(s) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

Conflict of Interest

It is the policy of The Standard Bank Group Limited and its worldwide affiliates and subsidiaries (together the "Standard Bank Group") that research analysts may not be involved in activities in a way that suggests that he or she is representing the interests of any member of the Standard Bank Group or its clients if this is reasonably likely to appear to be inconsistent with providing independent investment research. In addition research analysts' reporting lines are structured so as to avoid any conflict of interests. For example, research analysts cannot be subject to the supervision or control of anyone in the Standard Bank Group's investment banking or sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of those sales and trading departments may conflict with your interests. **Please note that one or more of the analysts that prepared this report sit on a sales and trading desk of the Standard Bank Group.**

Legal Entities:

To U. S. Residents

Standard New York Securities, Inc. is registered with the Securities and Exchange Commission as a broker-dealer and is also a member of the FINRA and SIPC. Standard Americas, Inc is registered as a commodity trading advisor and a commodity pool operator with the CFTC and is also a member of the NFA. Both are affiliates of Standard Bank Plc and Standard Bank of South Africa. Standard New York Securities, Inc is responsible for the dissemination of this research report in the United States. Any recipient of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting Standard New York Securities, Inc.

To South African Residents

The Standard Bank of South Africa Limited (Reg.No.1962/000738/06) is regulated by the South African Reserve Bank and is an Authorised Financial Services Provider.

To U.K. Residents

Standard Bank Plc is authorised and regulated by the Financial Services Authority (register number 124823) and is an affiliate of Standard Bank of South Africa. The information contained herein does not apply to, and should not be relied upon by, retail customers.

General

This research report is based on information from sources that Standard Bank Group believes to be reliable. Whilst every care has been taken in preparing this document, no research analyst or member of the Standard Bank Group gives any representation, warranty or undertaking and accepts no responsibility or liability as to the accuracy or completeness of the information set out in this document (except with respect to any disclosures relative to members of the Standard Bank Group and the research analyst's involvement with any issuer referred to above).

All views, opinions and estimates contained in this document may be changed after publication at any time without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors or any particular class of investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value.

Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Members of Standard Bank Group may act as placement agent, advisor or lender, make a market in, or may have been a manager or a co-manager of, the most recent public offering in respect of any investments or issuers referenced in this report. Members of the Standard Bank Group and/or their respective directors and employees may own the investments of any of the issuers discussed herein and may sell them to or buy them from customers on a principal basis. This report is intended solely for clients and prospective clients of members of the Standard Bank Group and is not intended for, and may not be relied on by, retail customers or persons to whom this report may not be provided by law. This report is for information purposes only and may not be reproduced or distributed to any other person without the prior consent of a member of the Standard Bank Group. Unauthorised use or disclosure of this document is strictly prohibited. By accepting this document, you agree to be bound by the foregoing limitations. Copyright 2010 Standard Bank Group. All rights reserved.