

FICC Research

Commodities: Daily

Focus: Chinese copper imports still looking bullish



12 July 2010

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Focus: The latest Chinese import figures for unwrought copper and copper products show a 17% m-o-m fall in June to 328,231 mt. While the drop in imports was greater than many expected, and down some 31% in y-o-y terms, it does reflect recent seasonal patterns. It is also worth noting is that, for the first half of the year, Chinese imports of unwrought copper and copper fabricated products are down only 0.2% y-o-y at 2.23 million mt.

- Although the base metals finished last week strongly, a firmer dollar, thin volumes and a general lack of conviction has seen the base metals complex come back under pressure during Monday morning.
- Under the influence of a firmer dollar, gold failed to push through its 10-day MA this morning, with profit taking starting to emerge as a result. Overall, gold remains range-bound, though its upwards trend still remains intact with a break below \$1,180 needed to unnerve the market.
- The energy market is very quiet, with crude oil continuing to trade sideways in a fairly narrow range. Front month WTI is more or less around Friday's closing level of \$76.09, with the market seemingly in the summer doldrums.

Commodity price data (9 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	2,005	2,004	1,990	19	0.50%	1,970.50	-7	-20.50
Copper	6,715	6,760	6,764	6,679	159	0.67%	6,680.50	40	-18.75
Lead	1,831	1,845	1,838	1,827	17	0.78%	1,808.00	4	-20.50
Nickel	19,200	19,500	19,430	19,250	100	1.56%	19,130.00	-195	-57.00
Tin	17,695	17,700	17,800	17,800	100	0.03%	17,700.00	30	-32.00
Zinc	1,865	1,904	1,886	1,850	49	2.09%	1,840.00	10	-28.75

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	75.19	74.91	75.71	74.91	-0.51	-0.68%
NYMEX WTI	76.30	75.61	76.43	75.59	-0.48	-0.63%
ICE Gasoil	647.00	642.25	648.00	642.00	-2.00	-0.31%
API2 Q3'10	93.50	94.75	-	-	1.25	1.32%
EUA Dec10	14.48	14.67	-	-	0.19	1.31%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,196.25	1,208.75	1,213.50	1,194.90	1,209.20	13.70	0.0/0.4
Silver	-	18.06	18.21	17.89	18.06	0.21	0.0/2.0
Platinum	1,525.00	1,527.00	1,530.00	1,523.00	1,528.00	18.00	-1.0/1.0
Palladium	448.00	454.00	456.00	448.00	455.00	12.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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Focus: Chinese copper imports still looking bullish

The latest Chinese import figures for unwrought copper and copper products show a 17% m-o-m fall in June to 328,231 mt. While the drop in imports was greater than many expected, and down some 31% in y-o-y terms, it does reflect recent seasonal patterns.

Typically, the last 5 years have seen m-o-m imports of copper decline during the summer months of May through August. The only significant exceptions have been 2006, which saw imports gain from June through August, and 2009 which saw the normal increase in imports during Q1 extend into June. Put in that context, the lower June import figure should not necessarily be viewed as a bearish signal.

It is also worth noting that, for the first half of the year, Chinese imports of unwrought copper and copper fabricated products are down only 0.2% y-o-y at 2.23 million mt. Given that 2009 saw very strong buying activity for refined metal, boosted by lower prices, stimulus spending and exacerbated by a shortage of scrap, the 2010 numbers remain very impressive.

The lower import figures in June, to a certain extent, reflect the SHFE-LME arbitrage conditions during May, when the arbitrage window was generally closed. They are also somewhat at odds with recent developments in SHFE-LME arbitrage activity and regional premia. The emergence of arbitrage-buying over the past couple of weeks, falling LME and SHFE inventory, plus firmer Asian premiums for physical metal all point to a recent uptick in Chinese demand.

Interestingly, Chinese copper scrap imports were up in June, in

Base metals

Although the base metals finished last week strongly, a firmer dollar, thin volumes and a general lack of conviction has seen the base metals complex come back under pressure during Monday morning. The falls have come in spite of stronger Asian equity markets, with profit taking emerging during early trade.

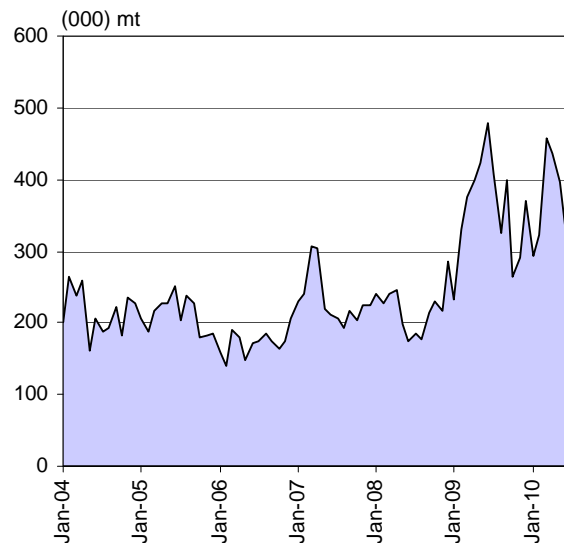
Although this week is busy in terms of macroeconomic figures, the data is heavily weighted towards the end of the week. The same goes for the Q2 quarterly earnings figures, with the likes of JP Morgan releasing their figures on the 15th and Citi and Bank of America on the 16th. With the market appearing to be geared up for disappointing numbers, a positive run of macro and earnings data may well tempt money back in from the sidelines. In the interim however, the base metals will likely track the dollar and US equities.

Meanwhile, the Chilean government has reported no damage from a moderate, albeit very deep earthquake that occurred in the Antofagasta region early this morning. Copper prices certainly didn't react, with the metal coming under pressure during overnight trade. After finishing last week at \$6,760, prices have fallen some ~\$100/mt during Monday morning, though prices have stabilised heading into the early afternoon.

The interest in the Aluminium market continues to be focused on the tightness around the August date (see *Commodities Daily - 9th July and 25th June*) with August - 1 week in backwardation. Outright prices have drifted lower, in line with the rest of the complex, though volumes remain very subdued.

Zinc has seen profit taking emerge following Friday afternoon's short covering-driven rally, with prices dropping back towards Friday morning's levels ~\$1,860. After the flurry of activity this morning, volumes have dried up, with the metal now looking towards copper for direction.

Chinese imports of unwrought copper and products



Sources: Standard Bank, Chinese Customs, Bloomberg

spite of tighter inspections by customs officials. Preliminary customs data showed scrap imports climbed 7.1% m-o-m and 25% y-o-y to 350,000 mt, with the figures partially offsetting the drop in unwrought imports.

We will look at the full breakdown of refined, scrap and concentrate import numbers when they are released later this month, though our initial take on the figures is a bullish one.

By Leon Westgate

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Precious metals

Under the influence of a stronger dollar, gold failed to push through its 10-day MA this morning, with profit taking starting to emerge as a result. Overall, gold remains rangebound, although its upwards trend still remains intact with a break below \$1,180 needed to unnerve the market.

Gold's rangebound nature continues to be reinforced by the physical market. Good physical demand emerges below \$1,200/oz, while scrap starts coming back to the market above \$1,215/oz.

With the market focussed on the economic data later this week and from the Q2 earning's releases over the next two weeks, gold's rangebound nature will likely continue over the short term, at least until a clearer picture of the medium-term macro environment presents itself.

In other news, Zijin Mining has suspended trading of its shares in Hong Kong and Shanghai following a leak from the tailings facility from its Zijinshan mine into the Tingjiang river. Around 1.89 million kilos of fish in a reservoir on the river were reported to have been poisoned, with Zijin having been ordered to halt operations at the mine as a result. The mine produced 18 mt of gold in 2009, with the facility also producing 12,800 mt of copper.

The PGM's are also rangebound, with Platinum stuck in the middle of a \$1,505 - \$1,540 range. Palladium is steady, but is struggling to push through nearby resistance at \$460.

By Leon Westgate

Energy

The energy market is very quiet, with crude oil continuing to trade sideways in a fairly narrow range. Front month WTI is more or less around Friday's closing level of \$76.09, with the market seemingly in the summer doldrums. We expect to see a bit of excitement around the mid-week DOE inventory figures, however the market seems to be on hold for the moment, with participants happy to trade on an intraday basis, playing the ranges and looking at technical signals.

In the background, as with much of the broader commodities complex, the more speculative element of the market seems to be paring back positions and keeping their powder dry. Once a trend does form, prices will likely move quickly as the market piggybacks onto the move and as the herd mentality takes over. In the meantime however, oil, like many of the other commodities, looks set to continue drifting sideways until the earnings season is out of the way.

Coal has also made a very quiet start to the week, with little follow through activity following Friday's rally. API2 for Q3-10 closed \$1.25 higher at \$94.75 on Friday, with the curve moving up in unison to see Cal-11 also close \$1.25 up on the day. The pattern was repeated for API4, with Q3-10 also climbing \$1.25 to finish the week at \$92.50.

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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	0	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	0	325	-325	42,525	13,350	7.06	28,788
Nickel	120,660	121,326	0	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	0	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	14,880	14,860	-25	Ali May'10	-	-	-	-
Copper	53,700	53,310	-220	Cu May'10	305	303.10	-2.25	-0.74%
Zinc	15,300	15,200	-55					

ZAR metal prices (9 July 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,903	50,525	13,674	144,680	133,865	13,916	7.5630
3-month	15,388	51,882	14,160	149,659	135,844	14,613	7.6748

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)	84.48	0.47	86.01	0.53	86.51	0.61	88.00	0.58	-	-
Gasoil 0.1% Rdam (\$/mt)	642.25	-2.00	644.75	-2.50	648.75	-2.50	660.75	-2.00	685.25	3.75
NWE CIF jet (\$/mt)	689.32	2.92	700.30	4.87	706.23	4.25	721.13	3.83	754.16	4.25
Singapore Kero (\$/bbl)	85.03	0.80	87.01	0.68	87.71	0.71	89.50	0.63	92.63	0.47
3.5% Rdam barges (\$/mt)	416.75	2.75	418.75	2.50	420.75	2.00	429.00	2.00	448.01	1.33
1% Fuel Oil FOB (\$/mt)	453.75	3.75	457.25	3.00	460.25	2.75	470.25	3.00		
Sing FO 380 Cargo (\$/mt)	439.75	2.75	437.00	10.50	437.00	10.50	437.00	10.50		
Sing FO180 Cargo (\$/mt)	446.75	2.50	446.75	2.50	449.00	2.50	457.50	2.25		

Thermal coal

	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	94.75	1.25	95.75	1.25	97.75	1.25	99.50	1.25	106.25	1.00
API4 (FOB RBCT)	92.50	1.25	91.85	1.05	94.25	1.25	95.25	1.25	100.50	1.00

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.45333	0.49400	0.53500	0.63333	0.72833		
Silver	0.68600	0.69000	0.72000	0.75000	0.77000		
USD Libor	0.34094	0.42531	0.52681	0.73319	1.14625		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	50.78	1,211.68	1,226.55	1,174.69	1,140.55	1,085.00	1,105.00
Silver	48.98	18.06	18.41	17.94	17.65	16.30	16.90
Platinum	43.92	1,520.58	1,547.91	1,611.67	1,533.33	1,500.00	1,550.00
Palladium	47.81	444.13	461.68	480.92	431.32	420.00	433.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Aug'10	Sep'10	Sep'10	Oct'10	Aug'10	Jun'11	Aug'10
Settlement	1,209.10	18,0750	455.45	1,533.20	1,208.80	3,462.00	1,209.20
Open Interest	564,951	118,547	20,027	27,872	990	119,487	3,334
Change in Open Interest	6,515	616	-264	137	0	5,680	98

Date: 9 July 2010

Sources: Standard Bank; LME; Bloomberg

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