

FICC Research

Commodities: Daily

Focus: Zinc open interest



15 July 2010

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

Leon Westgate*
Leon.Westgate@standardbank.com

Focus: Zinc prices have been remarkably stable over recent weeks, with the metal trading towards the middle of what has been a relatively narrow range, in spite of stronger prices elsewhere in the base metals complex. Looking at open interest, much of Q2 was characterized by falling prices and rising open interest. Early June saw open interest climb back to near record levels suggesting a significant short position had been built up.

- The base metals have rallied this morning, after coming under pressure during late trading on Wednesday. Solid Chinese data overnight, a weaker dollar and better than expected earnings from JP Morgan have combined to provide a boost to the metals ahead of US trade.
- Gold continues to range trade this morning. The metal is generally ignoring the dollar however, and is trading on its own towards the upend of recent ranges.
- This morning has seen WTI rally on the back of the weaker dollar, though the market feels heavy.

Commodity price data (14 July 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,020	2,010	2,006	1,992	10	-0.50%	2,003.50	56	-18.25
Copper	6,713	6,725	6,700	6,603	40	0.19%	6,694.50	99	-20.00
Lead	1,833	1,829	1,825	1,825	0	-0.22%	1,814.00	48	-19.25
Nickel	19,725	19,400	19,430	19,300	-150	-1.65%	19,515.00	215	-61.00
Tin	-	18,000	17,900	17,900	475	-	18,060.00	460	-13.00
Zinc	1,852	1,850	1,855	1,820	-15	-0.11%	1,826.00	9	-25.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	76.24	76.38	76.66	76.24	-0.39	-0.51%
NYMEX WTI	76.76	76.82	76.97	76.50	-0.22	-0.29%
ICE Gasoil	647.00	648.25	649.25	646.50	-3.50	-0.54%
API2 Q3'10	93.50	93.25	-	-	-0.25	-0.27%
EUA Dec10	13.84	13.89	-	-	0.05	0.36%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,212.25	1,207.00	1,217.50	1,203.30	1,206.80	-6.40	-0.2/0.2
Silver	1,829.00	18.33	18.34	18.14	18.24	0.00	0.0/2.0
Platinum	1,528.00	1,523.00	1,528.00	1,523.00	1,518.00	-10.00	2.0/4.0
Palladium	467.00	465.00	468.00	465.00	466.00	0.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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Focus: Zinc open interest

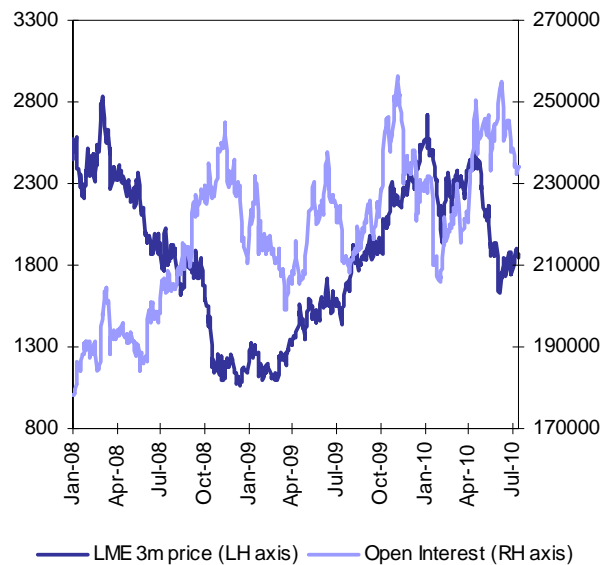
Zinc prices have been remarkably stable over recent weeks, with the metal trading towards the middle of what has been a relatively narrow range, in spite of stronger prices elsewhere in the base metals complex.

Looking at open interest, much of Q2 was characterized by falling prices and rising open interest. Early June saw open interest climb back to near record levels suggesting a significant short position had been built up.

Since late-June and though out early July however, open interest has drifted lower. Prices have rallied, suggesting some short covering has taken place, though prices have also been capped around the \$1,900 level. Open interest is still relatively high however, with the potential for further short covering activity should prices gain some upwards momentum and break through nearby resistance.

By Leon Westgate

LME Zinc Open Interest vs. 3-month price



Sources: LME, Bloomberg, Standard Ban

Base metals

The Chinese economic data overnight was pretty positive overall, with solid Retail Sales, lower than expected inflation (both CPI and PPI) and stronger than expected Fixed Asset Investment. GDP and IP figures were lower than expected, however counter intuitively perhaps, this suggests the Chinese governments measures to rein in spending have been successful, with the country perhaps now in a position to ease off and even loosen its purse strings over the balance of the year.

The base metals have rallied this morning, after coming under pressure during late trading on Wednesday. Solid Chinese data, a weaker dollar and better than expected earnings from JP Morgan have combined to provide a boost to the metals ahead of US trade. With much of the base metals complex towards the top of their recent ranges, prices are stalling, with a solid performance from the US equity markets needed if the metals are to find the impetus to break higher.

This afternoon is busy in terms of US data, with the release of the June PPI figures and the latest jobless data, followed by Industrial Production and Philadelphia Fed index. Significant departures from consensus expectations may well impact on the FX and equity markets, however, assuming the data comes out more or less in-line with consensus, market sentiment will likely be dictated by company earnings statements instead.

Copper traded sideways during Wednesday, albeit in quite a wide intraday range. A late sell-off emerged after the 5pm kerb close, with the red metal proceeding to open lower overnight, perhaps in expectation of weaker Chinese data. In the end those fears were largely unfounded, while a weaker dollar has also helped copper rally from its opening levels heading into the afternoon. Elsewhere, LME inventories have continued to come under pressure, with on-warrant stocks falling by 3,975 mt today. As was the case on Wednesday, the main location for the activity has again been US warehouses, with a 3,775 mt jump in cancelled warrants in New Orleans accounting for most of the activity.

In other news, Chinese copper output surged to 422,000 mt in June, up 26% y-o-y to a new record. Given the spate of smelter shutdowns taking place over the next few months, it will be interesting to see if these kind of production levels can be maintained.

After a succession of inventory declines over the past few weeks, on-warrant aluminium LME inventory posted a net 11,200 mt gain. The location for the inflow was Long Beach, which saw 12,575 mt enter the warehouse. The inventory data had little impact on price however, with aluminium climbing comfortably back above \$2,000.

Nickel has continued to see steady inventory declines, though the pace of those inventory draws does seem to have slowed a little. The background of falling LME inventories is lending support to prices, though nickel remains rangebound and in need of an additional boost if prices are to break higher.

By Leon Westgate

Precious metals

Gold continues to range trade this morning with the metal sticking more or less to between \$1,200 and \$1,215/oz (actual \$1,198 and \$1,218). The metal is ignoring the dollar to a large extent, and is trading on its own towards the upend of its recent range.

The yellow metal saw some very aggressive price swings during NY trade yesterday, with those price swings appearing to be related to systematic buying and selling activity. For a period of time there were steady bursts of volume in, excess of 1,000 lots, coming at five minute intervals which gave the market a very artificial feel at times. It will be interesting to see whether this activity continues to be a feature.

Silver is meanwhile outperforming gold so far this morning, with a solid technical picture lending support to the metal. Silver has virtually recovered from the dramatic sell-off seen on July 1st, with the metal looking to target \$18.50.

Palladium and Platinum are trading in fairly tight ranges so far, though both metals are stronger, in-line with the industrial metals and boosted by the weaker dollar.

By Leon Westgate

Energy

Crude oil rallied strongly during Wednesday afternoon, following a very bullish DOE crude oil inventory figure which showed a 5.06 million bbl draw, compared to expectations of a 1.5 million fall. The impact was rather short lived however, with prices falling equally quickly during late NY trade, with front month WTI crude falling from an intraday high of \$78.15 to close the day at \$77.04.

This morning has seen WTI rally on the back of the weaker dollar, though the market feels heavy, with prices continuing to find it hard work to break through and hold above its 200-day MA (currently at \$77.44).

Meanwhile, OPEC is forecasting crude oil demand to increase 1.2% next year to 86.41 million bbl/day, slightly below the IEA's most recent forecast of 87.8 million bbl. Like the IEA however, OPEC sees demand being driven by Asia.

Coal continues to be rangebound, with Wednesday seeing very little movement either in nearby or the farther dated portion of the curve. API2 for Q4-10 declined by \$0.25/mt while Cal-11 and Cal-12 were both unchanged from Tuesday. API4 for Q4-10 fell by \$0.15, though Cal-11 did increase slightly, climbing \$0.25 to \$95.25.

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	4,375,900	4,383,550	175	7,825	-7,650	-253,000	269,850	6.17	128,671
Copper	428,500	432,550	0	4,050	-4,050	-73,825	28,375	6.62	98,927
Lead	188,150	188,700	0	550	-550	41,650	13,775	7.32	32,848
Nickel	119,796	119,964	270	438	-168	-38,214	4,998	4.17	21,263
Tin	16,160	16,205	55	100	-45	-10,605	975	6.03	4,935
Zinc	616,025	616,125	0	100	-100	127,975	23,300	3.78	69,708

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	14,800	14,810	-15	Ali May'10	-	-	-	-
Copper	52,800	53,290	90	Cu May'10	301	301.45	0.60	0.20%
Zinc	15,000	15,105	85					

ZAR metal prices (14 July 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,138	50,584	13,707	147,455	136,461	13,797	7.5560
3-month	15,419	51,588	14,030	148,819	138,080	14,192	7.6711

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)	84.72	-0.12	86.41	-0.53	87.02	-0.36	88.69	-0.19	91.68	-0.10
Gasoil 0.1% Rdam (\$/mt)	648.25	-3.50	652.75	-3.75	661.00	-0.50	673.00	-0.50	695.25	-0.25
NWE CIF jet (\$/mt)	689.17	-0.60	703.27	-1.18	710.57	-0.29	726.71	1.08	758.16	0.17
Singapore Kero (\$/bbl)	85.30	-0.07	87.41	-0.38	88.22	-0.26	90.19	-0.19	93.03	-0.20
3.5% Rdam barges (\$/mt)	421.50	4.55	433.50	7.75	433.50	7.25	439.50	7.00	457.59	6.53
1% Fuel Oil FOB (\$/mt)	459.50	5.81	473.75	9.25	475.75	8.75	481.75	7.00		
Sing FO 380 Cargo (\$/mt)	453.75	7.75	453.75	7.75	453.75	7.75	453.75	7.75		
Sing FO180 Cargo (\$/mt)	450.68	4.83	461.25	8.50	461.25	7.75	467.50	6.50		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	93.25	-0.25	94.25	-0.25	96.25	-0.25	98.50	0.00	105.40	0.00
API4 (FOB RBCT)	91.10	-0.10	91.25	-0.15	93.25	-0.05	95.25	0.25	100.60	0.20

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.44000	0.51250	0.55250	0.63000	0.69750		
Silver	0.73250	0.73750	0.76250	0.78000	0.80000		
USD Libor	0.34094	0.42531	0.52563	0.73131	1.14063		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.13	1,205.48	1,222.13	1,177.81	1,142.94	1,085.00	1,105.00
Silver	50.96	18.05	18.36	18.01	17.66	16.30	16.90
Platinum	44.48	1,519.28	1,540.21	1,611.82	1,536.23	1,500.00	1,550.00
Palladium	49.74	450.81	459.97	482.09	433.58	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	1,211.80	18.3550	468.85	1,520.60	1,211.30	3,442.00	1,211.50
Open Interest	568,078	117,959	19,679	27,985	1,089	116,704	2,976
Change in Open Interest	-4,767	476	102	127	-98	-533	218

Date: 14 July 2010

Sources: Standard Bank; LME; Bloomberg

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