

# FICC Research

## Commodities: Daily

### Focus: Aluminium financing deals evident in price moves



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**Focus:** Like the other base metals, aluminium remains under pressure. However, despite its high inventory levels, aluminium is finding unusual support from any decline in LME inventories.

- Equity markets remain under pressure in Europe. While the US futures market indicates that US equities may open higher today, the S&P and Dow remain stubbornly below their 200-d MA.
- Gold was buoyant yesterday, as, once again, concerns over Europe's spreading debt crisis and the attendant risk aversion saw investors opt for gold. However, there's been some profit-taking above \$1,225 today.
- Crude oil remains under pressure, and this could continue as long as US equities struggle. The co-movement between US equities (represented by the S&P 500 Index) and crude oil, has strengthened in recent weeks, with the current beta (measured over the past 30 days) at 1.47. A beta of 1.47 with US equities implies that for every 1% decrease in the S&P 500 Index, WTI will decrease on average by 1.47%.

#### Commodity price data (2 June 2010)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,985	1,985	2,036	1,977	0	0.00%	1,953.00	-84	-31.35
Copper	6,635	6,637	6,892	6,678	2	0.03%	6,605.00	-110	-31.50
Lead	1,735	1,733	1,830	1,750	-3	-0.14%	1,751.00	-70	-27.35
Nickel	19,950	19,950	21,051	20,250	0	0.00%	20,505.00	-1,050	-76.00
Tin	17,545	17,675	6,775	17,426	130	0.74%	17,430.00	-675	-70.00
Zinc	1,828	-	1,930	1,848	-	-	1,821.00	-75	-32.85

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	72.32	72.39	73.07	72.10	-0.32	-0.44%
NYMEX WTI	71.92	72.24	72.94	71.76	-0.34	-0.47%
ICE Gasoil	623.25	623.50	628.00	623.00	-16.25	-2.61%
API2 Q3'10	90.50	89.70	-	-	-0.80	-0.89%
EUA Dec10	15.10	15.10	-	-	0.00	0.00%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,219.75	1,227.75	1,228.80	1,215.10	1,224.80	12.80	1.4/1.7
Silver	-	18.42	18.73	18.44	18.55	0.16	0.0/2.0
Platinum	1,544.00	1,550.00	1,572.00	1,538.00	1,550.00	7.00	0.0/3.0
Palladium	454.00	457.00	467.00	458.00	460.00	-2.00	0.0/2.0

Sources: Standard Bank; LME; BBG

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**Focus: Aluminium financing deals evident in price moves**

Like the other base metals, aluminium remains under pressure. However, despite its high inventory levels, aluminium is finding unusual support from any decline in LME inventories.

Given the persistent contango structure of the LME forward curve, the financing deals that may have been locking up 70-80% of the LME stock mountain have been rolled over. Per *Base Metals Monthly* dated 7 May 2010, this reflects that (a) only some 500,000 tonnes of the on-warrant LME stocks are actually available for consumption and (b) non-Chinese aluminium production has been stable since the worst of the recession (early 2009).

While higher premiums may lead to a freeing-up of some metal from financing deals, we expect the tonnage to be very small in comparison to the total stocks held in LME warehouses. Evidence of the tightness in the market created by aluminium being tied up in financing deals is in the *beta of LME inventory with the 3m LME aluminium price*. The beta measures the sensitivity of LME 3-month copper prices to changes in LME inventories. Over the past 30 days — after accounting for movements in other variables such as the dollar, copper prices and equity prices — the aluminium price moves by 1.6% for every 1% change in LME inventories (in the opposite direction). This is much higher than the 3-year average beta of 0.46 (see adjacent graph). However, this does not imply prices will continue to have a high sensitivity to inventory — should the contango structure change substantially less financing deals may be rolled over and more metal may become available to the market.

Of course LME inventories are not the only factor driving aluminium prices. Aluminium takes its cue increasingly from copper too. We find that aluminium's reaction to changes in the copper price is currently almost twice as large than its average influence over the past three years.

**By Walter de Wet**

**Base metals**

Equity markets remain under pressure in Europe. While the US futures market indicates that US equities may open higher today, the S&P and Dow remain stubbornly below their 200-d MA. Base metals still have an unusually high sensitivity to movements in equity markets.

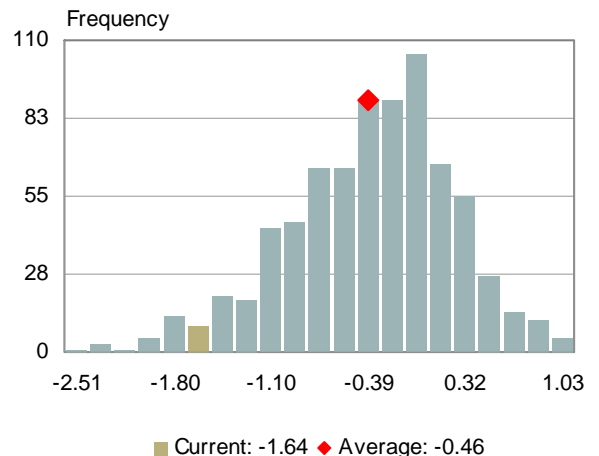
The positive PMI manufacturing index reading in the US has failed to support base metals, as the market continues to look to China (its PMI index has fallen to 53.9 in May, from 55.7 in April) and global equity markets.

Copper is under pressure. Since Monday, we have seen increased reluctance in Asia to buy copper. While the Shanghai Composite index managed to close marginally in the green today, sentiment towards Chinese equities remains negative. This is weighing on copper demand out of China. Therefore, the SHFE/LME arbitrage window for copper remains closed, which is worsening the pressure on copper. While there has been decent buying interest in copper below \$6,600, this could fade if equity markets in the US turn negative later today.

Zinc was its 5% limit down in Shanghai, and LME zinc touched \$1,810. Zinc is increasingly looking to copper for direction and unless the red metal sees renewed buying interest zinc should continue to struggle.

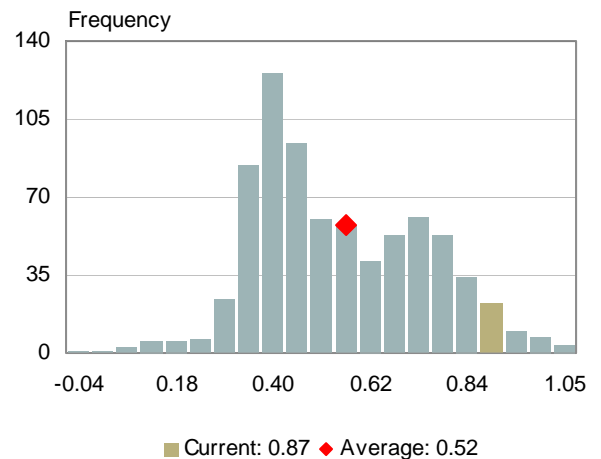
**By Walter de Wet**

AH's sensitivity (beta) to LME inventory



Source: Standard Bank

Ah's sensitivity (beta) to Cu



Source: Standard Bank

## Precious metals

Gold was buoyant yesterday, as, once again, concerns over Europe's spreading debt crisis and the attendant risk aversion saw investors opt for gold. However, there's been some profit-taking above \$1,225 today, and possibly some selling to cover margin calls elsewhere. As US markets open this afternoon, gold may struggle for further upside if equities slide (as they have in Asia and Europe). However, we would view such dips as buying opportunities (especially in euro terms), since over the medium term, risk aversion is expected to keep gold relatively well bid.

Gold support is at \$1,213 and \$1,205, resistance at \$1,226 and \$1,231.

The correction of platinum and palladium prices, after last week's rally, continues — although slower. The announcement of the Japanese Prime Minister's resignation has dampened hopes for a strong Japanese economy. This, together with concerns over the Eurozone's growth prospects and speculation that China could cool growth, could have added to the pressure on PGM prices. As we'd expected, palladium losses have been more severe than platinum losses. With a large amount of speculative long positions still present in the palladium market, this trend could continue.

Platinum support is at \$1,530 and \$1,500, resistance at \$1,579. Palladium support is at \$443 and \$425, resistance at \$475.

Silver movements, overnight and this morning, have mirrored those of gold. Should US equities perform poorly today, silver could experience more pressure.

Silver support is at \$18.21 and 18.03, resistance at \$18.58 and \$18.78.

**By Walter de Wet**

## Energy

Crude oil remains under pressure, and this could continue as long as US equities struggle. The co-movement between US equities (represented by the S&P 500 Index) and crude oil, has strengthened in recent weeks, with the current beta (measured over the past 30 days) at 1.47. A beta of 1.47 with US equities implies that for every 1% decrease in the S&P 500 Index, WTI will decrease on average by 1.47%.

Other risk factors to crude prices remain more downside are pressure on the euro and the continued rise in Cushing stocks in the US. Standard Banks forex view remains unchanged: we still expect the euro to hit \$1.15 against the dollar in the next three months.

We expect front month WTI prices to remain range-bound between \$72 - \$75 ahead of tomorrow's DOE inventory report. Expectations are for the DOE Inventories report to show a decline of 500K bbl of crude oil inventories. Gasoline inventories are forecast to be flat, while distillates could rise as marginally. Should the report turn out to be close to current expectations, it would be one of the more bullish reports (or less bearish reports) in recent weeks.

**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	4,548,450	4,556,175	800	8,525	-7,725	-80,450	291,750	6.41	154,501
Copper	475,225	475,575	1,425	1,775	-350	-27,100	22,400	4.71	106,260
Lead	192,225	192,675	425	875	-450	45,725	3,200	1.66	34,441
Nickel	137,436	138,396	180	1,140	-960	-20,574	5,442	3.96	32,208
Tin	19,955	20,350	5	400	-395	-6,810	1,240	6.21	4,767
Zinc	618,825	620,200	-	1,375	-1,375	130,775	18,625	3.01	81,538

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	15,120	14,780	-470	Ali May'10	-	-	-	-
Copper	54,190	52,810	-1,680	Cu May'10	306	299.15	-7.15	-2.33%
Zinc	15,455	15,025	-795					

### ZAR metal prices (1 June 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,091	51,887	13,530	158,442	134,682	14,071	7.7270
3-month	15,619	52,967	13,732	160,864	139,677	14,540	7.8470

## 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)	85.01	0.20	85.57	0.34	86.20	0.46	87.73	0.45	-	-
Gasoil 0.1% Rdam (\$/mt)	623.50	-16.25	626.75	-15.75	630.00	-16.50	661.00	2.00		
NWE CIF jet (\$/mt)	698.26	4.96	702.11	4.75	706.74	4.00	722.74	3.50		
Singapore Kero (\$/bbl)	86.35	0.55	86.62	0.26	87.35	0.40	89.38	0.39		
3.5% Rdam barges (\$/mt)	411.00	0.00	411.25	-1.75	414.25	-2.00	424.25	-2.25		
1% Fuel Oil FOB (\$/mt)	428.50	-4.25	435.25	-3.25	440.00	-3.25	453.75	-3.00		
Sing FO 380 Cargo (\$/mt)	432.75	-1.50	435.00	-2.25	435.00	-1.25	435.00	-1.25		
Sing FO180 Cargo (\$/mt)	435.00	-2.00	438.50	-2.25	441.75	-2.25	451.50	-2.25		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	89.70	-0.80	91.80	-0.95	94.00	1.00	96.30	-1.20	103.50	-0.75
API4 (FOB RBCT)	91.95	-0.80	92.60	-0.95	92.50	-1.00	94.05	-1.20	98.65	-0.75

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.59000	0.63167	0.66000	0.79000	0.95333		
Silver	0.67833	0.68333	0.67500	0.73500	0.76000		
USD Libor	0.35088	0.43438	0.53625	0.76113	1.20875		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	60.11	1,206.00	1,212.95	1,139.64	1,108.03	1,205.00	1,226.00
Silver	52.67	18.15	18.50	17.44	17.37	18.50	18.80
Platinum	43.13	1,535.00	1,609.97	1,611.84	1,497.29	1,520.00	1,570.00
Palladium	45.42	449.03	482.34	473.99	408.46	445.00	480.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	May'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,226.00	18.4750	459.75	1,549.40	1,225.00	3,609.00	1,224.70
Open Interest	547,525	120,952	21,566	30,165	1,144	105,174	2,799
Change in Open Interest	12,088	2,227	367	459	-272	-516	0

Date: 1 June 2010

Sources: Standard Bank; LME; Bloomberg

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