

FICC Research

Commodities: Daily

Focus: Fundamental support for platinum at \$1,500



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Focus: Platinum and palladium are finding better support after their recent sell-off. We see \$1,500 for platinum and \$420 for palladium as their fundamental price floor.

- Base metals remain nervous; uncertainty (about the impact of monetary tightening measures in China on especially metal demand) is growing. Also, US non-farm payrolls figures for May are due for release today — the market expects 536K. We expect largely range-bound markets today, and more of the same next week when key data releases for industrial metals are due in China.
- Gold is edging down, and upside momentum is fading. However, we believe that this will be temporary. Gold is finding support around \$1,200; a break below this level may see the metal retest \$1,190. Resistance is at \$1,218.
- Energy markets look more bullish today following good headline numbers in the DOE report yesterday.

Commodity price data (3 June 2010)

Base metals LME 3-month

| | Open | Close | High | Low | Daily change | Change (%) | Cash Settle | Change in cash settle | Cash – 3m |
|-----------|--------|--------|--------|--------|--------------|------------|-------------|-----------------------|-----------|
| Aluminium | 1,998 | 1,956 | 2,022 | 1,930 | -42 | -2.10% | 1,951.00 | -3 | -31.50 |
| Copper | 6,670 | 6,526 | 6,774 | 6,478 | -144 | -2.16% | 6,620.50 | 16 | -30.00 |
| Lead | 1,675 | 1,645 | 1,745 | 1,630 | -30 | -1.79% | 1,640.50 | -69 | -26.50 |
| Nickel | 19,300 | 18,675 | 20,299 | 18,546 | -625 | -3.24% | 19,205.00 | -675 | -75.00 |
| Tin | 17,700 | 17,675 | 1,677 | 17,200 | -25 | -0.14% | 17,585.00 | -65 | -66.00 |
| Zinc | 1,775 | 1,748 | 1,855 | 1,725 | -27 | -1.52% | 1,741.00 | -50 | -31.75 |

Energy

| | Open | Close | High | Low | day/day | Change (%) |
|------------|--------|--------|--------|--------|---------|------------|
| ICE Brent | 75.25 | 75.07 | 75.43 | 75.07 | -0.34 | -0.45% |
| NYMEX WTI | 74.61 | 74.23 | 74.61 | 74.18 | -0.38 | -0.51% |
| ICE Gasoil | 645.00 | 644.00 | 645.00 | 642.50 | 5.50 | 0.85% |
| API2 Q3'10 | 90.50 | 91.80 | - | - | 1.30 | 1.42% |
| EUA Dec10 | 15.24 | 15.26 | - | - | 0.02 | 0.13% |

Precious metals

| | AM Fix | PM Fix | High bid | Low offer | Closing bid | Change (d/d) | EFPs |
|-----------|----------|----------|----------|-----------|-------------|--------------|----------|
| Gold | 1,219.75 | 1,215.00 | 1,224.65 | 1,202.00 | 1,208.00 | -12.00 | 1.4/1.7 |
| Silver | - | 17.90 | 18.43 | 17.85 | 17.93 | -0.37 | -1.0/1.0 |
| Platinum | 1,563.00 | 1,565.00 | 1,564.00 | 1,542.00 | 1,543.00 | -2.00 | 0.0/3.0 |
| Palladium | 462.00 | 462.00 | 462.00 | 447.00 | 450.00 | 0.00 | 0.0/2.0 |

Sources: Standard Bank; LME; BBG

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Focus: Fundamental support for platinum at \$1,500

Platinum and palladium are finding better support after their recent sell-off. We see \$1,500 for platinum and \$420 for palladium as their fundamental price floor.

We estimate that platinum at \$1,500, palladium at \$420 and rhodium at \$2,700 could provide an average PGM basket price of \$1,244 for South African platinum mines. Using these parameters, almost 100% of PGM production in South Africa is profitable on a “cash-operating cost” basis, with a ZAR/USD exchange rate of \$7.50. Cash-operating cost is the minimum condition to be satisfied for mines to remain in business.

We believe that the marginal producer remains important (due to demand-side developments) and, as a result, the PGM basket price cannot cut too deeply into the cost curve for long. Very importantly, ETFs are increasingly removing some of their large amounts of above-ground stock from the market. In this regard, we have seen platinum and palladium ETF holdings at an aggregate level very sticky despite the recent sharp downturn in metal prices (similar to what we’ve witnessed in gold ETF holdings). The latest figures put platinum ETF holdings at 1.03m oz and palladium ETF holdings at 1.77m oz.

It is worth noting that there may be some cross-subsidization between profitable mines and loss-making mines within a mining company. This may see production carry on for longer than would otherwise be the case. But ultimately, loss-making mines would have to close, thereby crimping total PGM supply.

It is also worth noting that cash operating cost excludes other costs of sales such as smelting and refining costs. We estimate

Base metals

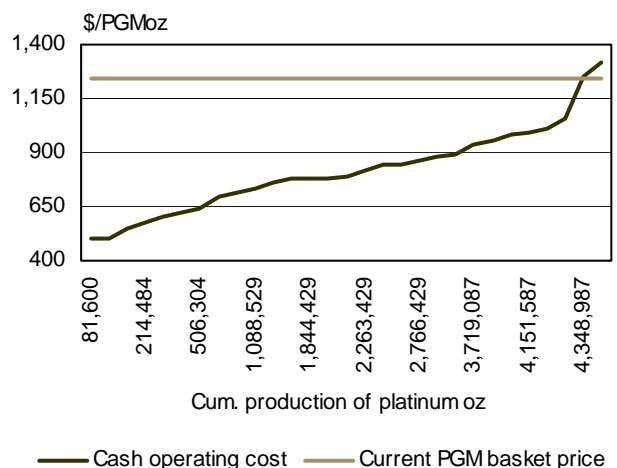
Base metals remain nervous; uncertainty (about the impact of monetary tightening measures in China on especially metal demand) is growing. Also, US non-farm payrolls figures for May are due for release today — the market expects 536K. We expect largely range-bound markets today, and more of the same next week when key data releases for industrial metals are due in China. Specifically, China’s New Yuan Loans for May could indicate the extent to which the housing market, and consumer goods, could slow. There are great concerns about the clampdown in speculative activity in the Chinese housing market. A sharp decline in new loans could worsen sentiment towards Chinese demand.

Copper has recovered from yesterday’s sharp sell-off, and is trading around \$6,500 again — buying appetite is fair whenever copper falls below this level. Shanghai copper stocks were down 4,974mt this week. It is the fifth consecutive week of decline, and copper stocks in Shanghai are now 36,717mt below the levels reached on 29 April. LME warehouse stock declined another 1,300 mt this morning.

Zinc and lead are under pressure on the back of lower copper prices. Zinc stocks in Shanghai are up 220mt for the week, which is putting a drag on any rally. Although lead has rebounded from \$1,600, it isn’t gaining traction in line with zinc. With risk appetite still low, these metals could continue to struggle for substantial upside.

Aluminium is back around \$1,970. It gained at one stage almost 2% this morning, with a strong rally coming through at the start of London trading. LME warehouse stocks are down 9,075mt — aluminium prices are very sensitive to movements in LME warehouses stocks right now.

South African PGM cash-operating cost curve



Source: Standard Bank

that with PGM prices at the levels mentioned above, only around 80% of mines are cash positive when smelting and refining costs are included. These costs still excludes any exploration and capital expansion costs.

Because the ZAR exchange rate plays such an important role in the cost curve of platinum producers, we set target prices for PGM in ZAR terms. They are for platinum at ZAR 13,500 (currently at ZAR11,800), for palladium at ZAR4,875 (currently at ZAR3,400) and rhodium at ZAR30,000 (currently at ZAR20,000).

By Walter de Wet

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Precious metals

Gold is edging down, and upside momentum is fading. However, we believe that this will be temporary. Gold is finding support at \$1,200/\$1,197; a break below this level may see the metal retest \$1,190. Resistance is at \$1,218.

We expect movements lower in gold to be bought. Investment demand remains healthy. Gold ETF holdings are still edging higher. The latest ETF gold holdings at 1957 tonnes. The SPDR ETF holdings increased by 684,833oz yesterday.

Ahead of the non-farm payrolls data, the precious metals market is in limbo. The 200-day MA in the S&P and Dow remains key for precious metals over the next few days. After yesterday's positive performance, the S&P is now only 4 points below the 200d MA. Failure to break here today could set PGMs up for more downside. Gold could find renewed support.

We see the fundamental floor for platinum around the \$1,500 level and palladium at \$420 (given a ZAR around the \$7.50 level against the dollar). These levels has provided strong support in recent days, and we expect it to remain the case.

Silver may struggle, not only because gold is losing upward momentum, but also because the base metals market seems to wait for Chinese data (due next week). Silver support is at \$17.70 and \$17.40. Resistance is at \$18.35.

By Walter de Wet

Energy

Energy markets look more bullish today following good headline numbers in the DOE report yesterday.

The DOE report showed that crude inventories in the US had declined 1.9m barrels last week. Gasoline inventories declined a massive 2.6m barrels last week. However, we believe that the sharp decline in crude inventory is due to a fall in imports rather than consumption. Furthermore, Cushing inventories are up by another 268K last week, putting the total stock back at 37.778m barrels — very close to an all-time high of 37.028m barrels.

We expect WTI front-month prices to range between \$73/bbl and \$76/bbl. We expect consolidation rather than a strong move either up or down ahead of the weekend.

The scene for next week for crude oil could be set by the level at which US equities close today. The 200d MA for US equities remain a key level which has been providing strong resistance to any move higher. After yesterday's positive performance, the S&P is now only 4 points below the 200d MA. Failure to break here today could set commodities up for another stumble.

Yesterday, API4 for delivery in Q3 closed at \$91.20 — \$1.30 up on the day. API4 for delivery in Q1:12 rose \$1.60 for a close at \$105.70.

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 | 4,532,075 | 4,541,150 | 25 | 9,100 | -9,075 | -96,825 | 278,500 | 6.15 | 259,036 |
| Copper | 473,000 | 474,300 | - | 1,300 | -1,300 | -29,325 | 22,175 | 4.69 | 143,610 |
| Lead | 191,925 | 192,200 | - | 275 | -275 | 45,425 | 14,550 | 7.58 | 30,385 |
| Nickel | 135,942 | 136,848 | 48 | 954 | -906 | -22,068 | 4,842 | 3.56 | 38,914 |
| Tin | 21,590 | 20,975 | 650 | 35 | 615 | -5,175 | 1,195 | 5.53 | 3,918 |
| Zinc | 617,350 | 617,950 | - | 600 | -600 | 129,300 | 18,625 | 3.02 | 81,517 |

Shanghai 3-month forward prices

| Metal | Open | Last | 1d Change |
|-----------|--------|--------|-----------|
| Aluminium | 14,850 | 14,770 | -180 |
| Copper | 52,500 | 52,960 | -940 |
| Zinc | 14,695 | 14,480 | -630 |

COMEX active month future prices

| Metal | Open | Close | Change | Change (%) |
|-----------|------------|-------|--------|------------|
| Aluminium | Ali May'10 | - | - | - |
| Copper | Cu May'10 | 295 | 295.05 | 0.40 |
| Zinc | | | | |

ZAR metal prices (3 June 2010)

| | Aluminium | Copper | Lead | Nickel | Tin | Zinc | ZAR/USD fix |
|---------|-----------|--------|--------|---------|---------|--------|-------------|
| Cash | 14,891 | 50,531 | 12,521 | 146,582 | 134,218 | 13,288 | 7.6325 |
| 3-month | 15,155 | 50,563 | 12,745 | 144,694 | 136,946 | 13,544 | 7.7480 |

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) | 84.73 | 0.17 | 85.54 | 0.40 | 86.09 | 0.27 | 87.86 | 0.24 | - | - |
| Gasoil 0.1% Rdam (\$/mt) | 644.00 | 5.50 | 646.75 | 5.75 | 651.75 | 6.00 | 661.25 | 1.50 | | |
| NWE CIF jet (\$/mt) | 694.19 | -0.06 | 698.74 | 0.67 | 704.34 | 0.00 | 721.77 | 1.00 | | |
| Singapore Kero (\$/bbl) | 86.09 | 0.19 | 86.59 | 0.40 | 87.29 | 0.37 | 89.38 | 0.21 | | |
| 3.5% Rdam barges (\$/mt) | 417.50 | 2.00 | 417.00 | 2.25 | 420.00 | 2.25 | 429.50 | 2.00 | | |
| 1% Fuel Oil FOB (\$/mt) | 437.75 | 5.00 | 443.00 | 4.00 | 448.00 | 4.00 | 461.50 | 4.00 | | |
| Sing FO 380 Cargo (\$/mt) | 439.00 | 2.50 | 441.75 | 2.75 | 441.75 | 2.75 | 441.75 | 2.75 | | |
| Sing FO180 Cargo (\$/mt) | 441.50 | 3.00 | 445.00 | 3.00 | 448.50 | 3.00 | 457.50 | 2.75 | | |

Thermal coal

| | Q3-10 | Q4-10 | Q1-11 | Cal 11 | Cal 12 |
|-----------------|-------|-------|-------|--------|--------|
| API2 (CIF ARA) | 91.80 | 93.60 | 96.00 | 98.70 | 105.70 |
| API4 (FOB RBCT) | 93.15 | 93.15 | 93.75 | 95.70 | 100.20 |

Precious metals

| Forwards (%) | 1-month | 2-month | 3-month | 6-month | 12-month |
|--------------|---------|---------|---------|---------|----------|
| Gold | 0.60600 | 0.67600 | 0.71200 | 0.79600 | 0.94000 |
| Silver | 0.66000 | 0.66000 | 0.68000 | 0.77000 | 0.81000 |
| USD Libor | 0.35088 | 0.43688 | 0.53781 | 0.75300 | 1.20500 |

| Technical Indicators | 30-day RSI | 10-day MA | 20-day MA | 100-day MA | 200-day MA | Support | Resistance |
|----------------------|------------|-----------|-----------|------------|------------|----------|------------|
| Gold | 55.59 | 1,211.04 | 1,212.60 | 1,141.00 | 1,110.57 | 1,201.00 | 1,226.00 |
| Silver | 49.08 | 18.20 | 18.48 | 17.43 | 17.40 | 18.50 | 18.80 |
| Platinum | 42.94 | 1,542.63 | 1,599.09 | 1,610.66 | 1,500.34 | 1,520.00 | 1,570.00 |
| Palladium | 44.30 | 453.82 | 476.49 | 474.01 | 410.09 | 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 | 1,205.50 | 17.8950 | 451.40 | 1,542.90 | 1,207.80 | 3,598.00 | 1,206.80 |
| Open Interest | 552,857 | 122,309 | 21,123 | 30,012 | 1,031 | 109,749 | 2,852 |
| Change in Open Interest | -5,332 | -1,357 | 148 | 281 | 117 | -2,016 | -53 |

Date: 3 June 2010

Sources: Standard Bank; LME; Bloomberg

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