

FICC Research

Commodities: Daily

Focus: Implications of China's trade balance



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Focus: China has posted a trade balance of \$19.5bn in May. We see positives and negatives — see overleaf.

- The first batch of Chinese economic data came in pretty much in-line with the leaked reports yesterday, with exports exceeding expectations by a significant margin.
- Following yesterday's positive comments by Mr Bernanke on the US economy, profit-taking in gold continues apace. Scrap selling has re-emerged with gold above \$1,230 — which has capped rallies. However, we maintain that dips should be bought.
- We note that the general upwards trend in the Baltic Dry Freight Index remains intact, however, at 3,514 it is close to its 50-day MA at 3,452. A break below this level could be interpreted negatively in terms of global commodities demand and should be watched closely over the coming days.

Commodity price data (9 June 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,947	1,930	1,921	1,860	-17	-0.87%	1,911.00	61	-33.00
Copper	6,325	6,325	6,187	6,059	0	0.00%	6,295.50	205	-27.50
Lead	1,685	1,690	1,636	1,550	5	0.30%	1,655.00	93	-18.25
Nickel	18,850	19,250	18,560	17,836	400	2.12%	18,780.00	825	-53.00
Tin	16,420	16,550	6,366	15,725	130	0.79%	16,395.00	565	-40.00
Zinc	1,767	1,755	1,736	1,610	-12	-0.68%	1,738.50	116	-31.75

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	73.92	74.35	74.48	73.71	0.08	0.11%
NYMEX WTI	73.87	74.61	74.73	73.72	0.23	0.31%
ICE Gasoil	636.50	638.00	638.00	636.50	-1.75	-0.27%
API2 Q3'10	98.50	99.60	-	-	1.10	1.10%
EUA Dec10	15.71	15.76	-	-	0.05	0.32%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,235.00	1,233.50	1,242.50	124.50	1,228.20	-15.10	1.5/1.8
Silver	-	18.15	18.36	18.10	18.18	-0.26	-1.0/1.0
Platinum	1,530.00	1,537.00	1,538.00	1,514.00	1,528.00	5.00	0.0/3.0
Palladium	445.00	453.00	457.00	430.00	453.00	23.00	0.0/2.0

Sources: Standard Bank; LME; BBG

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Focus: Implications of China's trade balance

China has posted a trade balance of \$19.5bn in May. We see positives and negatives:

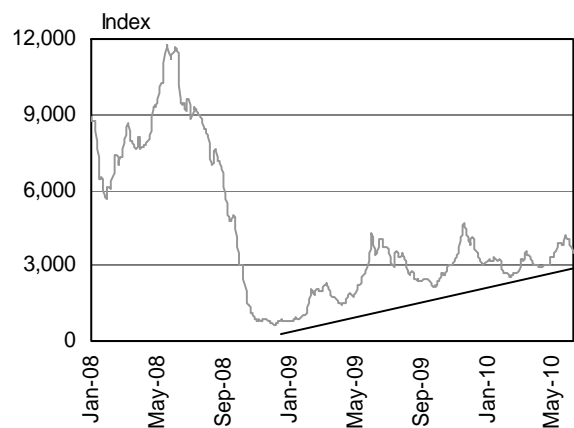
On the bullish side, Chinese exports jumped almost 10% m/m, and are now only \$5bn shy of the record exports set in July 2008. This implies strong global demand. We view this as a positive for commodities. Furthermore, the rise in exports comes despite a stronger CNY against certain currencies. Since the CNY is pegged to the dollar, the recent dollar strength has seen the CNY appreciate substantially against the euro and many other EM currencies.

On the bearish side, Chinese imports slowed 5% m/m in May. This is not very sharp decline but still the second m/m decline despite the stronger CNY (which should actually stimulate higher imports into China). This may be indicative of tighter lending standards impacting domestic demand in China. Base metals in particular remain very sensitive to any news regarding domestic demand in China.

For gold: China's trade surplus signals increased Chinese foreign reserves holdings. In our view, this is bullish for gold, not because China will necessarily diversify its foreign reserve holdings into gold, but rather because a rise in global reserves is equal to an increase in the global liquidity stock. The gold price has matched the rise in global liquidity since 2004 (*Commodities Daily* 8 June 2010).

Real demand intact: Should the increase in China's exports in

Baltic Freight Index



Source: Baltic Index

May be indicative of growth in global trade, a look at freight rates is informative. The Baltic Dry Freight Index (BDFI) has come under pressure in May, together with all other financial indices. However, the trend for this index is still up. The Baltic Freight Index indicate a steady recovery in global trade. We view this as a sign that real demand remains intact despite the recent financial market turmoil.

By Walter de Wet

Base metals

The first batch of Chinese economic data came in pretty much in-line with the leaked reports yesterday, with exports exceeding expectations by a significant margin. With the positive result priced in already however, the metals came under pressure initially during overnight trade with arbitrage-related selling and larger than expected drop in the preliminary copper import figures seeing the red metal attract most of the attention early on.

The metals have recovered heading into the afternoon, boosted by a stronger Euro, and the generally positive economic data out of China and Japan. Prices have drifted back a little however, ahead of the BOE and ECB rate announcements and the start of US trade.

Looking ahead, the key economic data as far as the base metals are concerned is the remaining Chinese data for May, including New Yuan Loans, Money Supply, Industrial Production, Fixed Asset Investment, Retail Sales and Inflation. The data will likely dictate the tone for Friday morning's activity, with the key US Advance Retail Sales and Michigan Confidence numbers then setting the mood for the market ahead of the weekend.

The Chinese trade data showed a 9.1% m-o-m fall in imports of unwrought copper in May to 396.7kt, 6.1% lower in y-o-y terms. Scrap imports were also lower, coming in at 330kt, down 11% m-o-m but virtually unchanged y-o-y. Given the lack of arbitrage opportunities and the approach of the weaker summer demand period, lower imports were to be expected. Concerns over the European sovereign debt crisis and government clampdown on property prices may also have had some bearing on the figures, though the full impact may only be seen in the June numbers.

However, with anecdotal reports suggesting that scrap supply in China has tightened up recently - with the price fall seeing scrap merchants hanging onto their inventory - it will be interesting to see if refined demand picks up over the coming weeks to compensate.

By Leon Westgate

Precious metals

Following yesterday's positive comments by Mr Bernanke on the US economy, profit-taking in gold continues apace. Scrap selling has re-emerged with gold above \$1,230 — which has capped rallies. However, we maintain that dips should be bought. China's foreign reserve holdings and, by implication, global liquidity are set to increase further, confirming that the longer-term upward trend in gold remains in place (see *Focus*).

Gold support is at \$1,222 and \$1,210, resistance at \$1,242 and \$1,252.

We believe that platinum and palladium will continue their consolidation above \$1,500 and \$420 respectively. Both remain closely tied to the fate of other industrial metals and also to developments in China. We are monitoring data concerning New Yuan Loans in China during May. A sharp decline here may indicate a slowdown in especially the housing market in China. Base metals and, as a result, platinum and palladium, could also come under pressure. We expect the 200-day MA for platinum and palladium to provide support.

Re: *Eskom, the World Cup Soccer, and electricity supply*: Eskom expects power supply in H2:10 to be under pressure and remain so until 2013. However, Eskom has several strategies in place to manage power supply during the World Cup. These include the use of the open cycle gas turbines; reduced consumption by several large industrial customers; and, if needed, the reduction of electricity exports. As a result, we expect no impact on PGM production due to electricity supply in South Africa during the World Cup. However, we believe that Eskom will need further strategies to manage power supply after the World Cup as the underlying structural problems regarding power generation and supply are unresolved.

By Walter de Wet

Energy

Crude oil rallied strongly on Wednesday, boosted by the weaker dollar. Front month WTI closed the day at \$74.38/bbl, helped by a bullish DOE Crude Oil inventory figure. Crude has continued to track the dollar this morning, with prices continuing to rally heading into the afternoon.

The DOE inventory numbers were generally bullish, with a much larger than expected 8,829K bbl decline in Crude Oil inventories and a 473K fall in Cushing stocks helping support prices. The Gasoline and Distillate stocks weren't quite so positive however, with gasoline stocks falling only 8K bbl (expectations were for a 500K bbl decline) while Distillate stocks showed a much larger than expected 1,836K bbl increase.

Coal prices remain welded very much to the ups and downs in the European power market, however, on a 10-day time horizon, coal has also developed a very close correlation with the \$/Euro rate. This is perhaps indicative of the general uncertainty lack of direction and uncertainty in the market, with participants looking to exogenous factors such as the currencies instead. This trend will likely continue until fundamental factors start to impose themselves again.

We note that the general upwards trend in the Baltic Dry Freight Index remains intact, however, at 3,514 it is close to its 50-day MA at 3,452. A break below this level could be interpreted negatively in terms of global commodities demand and should be watched closely over the coming days.

API2 for Q3-10 closed \$1.10/mt higher yesterday, however the farther dated contracts came under pressure, with Q4-11 falling \$1.15/mt and Cal-11 falling \$0.25/mt. API4 showed a very similar pattern, with Q3-10 gaining \$0.90/mt and Cal-11 posting a small \$0.25/mt increase.

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	4,503,325	4,510,900	275	7,850	-7,575	-125,575	290,875	6.46	198,646
Copper	466,400	468,175	-	1,775	-1,775	-35,925	23,950	5.14	136,461
Lead	192,375	192,950	-	575	-575	45,875	15,575	8.10	41,387
Nickel	134,646	135,168	264	786	-522	-23,364	7,230	5.37	40,303
Tin	21,155	21,225	65	135	-70	-5,610	1,580	7.47	5,735
Zinc	617,425	616,325	1,200	100	1,100	129,375	17,800	2.88	110,092

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change	Open	Close	Change	Change (%)
Aluminium	14,460	14,490	245	Ali May'10	-	-	-
Copper	50,350	50,730	850	Cu May'10	285	285.20	0.20
Zinc	14,100	14,180	275				

ZAR metal prices (9 June 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,776	48,677	12,796	145,207	126,766	13,442	7.7320
3-month	15,153	49,777	13,190	151,332	128,367	13,779	7.8512

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	1.41	85.24	2.10	85.91	2.17	87.57	2.15	-	-
Gasoil 0.1% Rdam (\$/mt)	638.00	-1.75	640.50	-1.50	645.00	-0.75	659.50	16.25		
NWE CIF jet (\$/mt)	692.78	13.21	696.06	14.92	701.77	15.66	718.86	16.25		
Singapore Kero (\$/bbl)	85.22	1.26	86.39	1.85	87.16	2.02	89.12	2.03		
3.5% Rdam barges (\$/mt)	414.93	5.67	414.50	7.75	417.00	7.75	425.25	7.75		
1% Fuel Oil FOB (\$/mt)	435.35	4.19	441.00	7.75	447.00	9.00	459.50	9.25		
Sing FO 380 Cargo (\$/mt)	437.00	8.00	438.75	7.25	438.75	7.25	438.75	7.25		
Sing FO180 Cargo (\$/mt)	437.98	5.08	443.25	7.75	446.00	7.50	453.75	7.00		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	99.60	1.10	100.00	1.00	100.75	0.65	102.25	-0.25	107.65	-0.10
API4 (FOB RBCT)	94.10	0.90	94.25	0.75	96.75	0.55	97.00	0.25	100.55	-0.10

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.61167	0.65200	0.69333	0.79167	0.92600		
Silver	0.69667	0.71000	0.73833	0.78333	0.78333		
USD Libor	0.35031	0.43500	0.53656	0.75081	1.19063		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	58.96	1,224.61	1,215.02	1,145.79	1,115.96	1,210.00	1,250.00
Silver	50.75	18.19	18.26	17.42	17.46	18.00	18.50
Platinum	43.22	1,537.53	1,559.34	1,606.55	1,505.98	1,500.00	1,550.00
Palladium	45.82	449.85	456.81	473.11	413.08	420.00	455.00
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	1,231.50	18.1250	456.50	1,534.00	1,230.70	3,613.00	1,231.70
Open Interest	564,792	122,536	21,145	29,728	1,348	108,355	2,680
Change in Open Interest	1,149	-399	-358	114	-60	2,453	-93

Date: 9 June 2010

Sources: Standard Bank; LME; Bloomberg

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