

# FICC Research

## Commodities: Daily

### Focus: Tin prices, stocks and spreads



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**Focus:** Tin has been one of the strongest performing base metals over recent weeks, recovering very strongly from the sell-off at the beginning of June to trade back around the levels seen towards the end of May.

- The Chinese returned to the market after their 3-day holiday as sellers. The dollar has also continued to have an impact, with dollar strength during the morning helping to keep the wider base metals complex under pressure. The euro has strengthened again heading into the afternoon which is helping to shore up prices, though the metals still remain rather sluggish.
- Gold is trading sideways. However, there are growing signs that support on the downside is again growing firmer, setting the scene for another break higher in the gold price.
- Crude oil is finding good support above \$76/bbl. With the back-end of the forward curve steady as longer-term supply issues amid the BP oil spill in the Gulf of Mexico persist, nearby crude oil prices are higher. Time spreads continue to tighten, implying improved oil market fundamentals.

#### Commodity price data (16 June 2010)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,012	2,005	2,043	1,980	-7	-0.35%	1,967.50	3	-31.25
Copper	6,650	6,650	6,775	6,550	0	0.00%	6,592.50	-33	-27.00
Lead	1,725	1,760	1,786	1,720	35	2.01%	1,701.00	16	-22.25
Nickel	19,750	20,040	20,550	19,610	290	1.47%	19,555.00	-550	-70.00
Tin	17,725	17,750	1,750	17,500	25	0.14%	17,700.00	620	-63.00
Zinc	1,810	1,830	1,876	1,797	20	1.10%	1,778.00	6	-34.00

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	78.10	78.54	78.54	77.64	0.40	0.51%
NYMEX WTI	77.44	77.50	77.50	76.78	-0.17	-0.22%
ICE Gasoil	672.25	676.50	676.50	668.75	13.75	2.03%
API2 Q3'10	94.25	91.00	-	-	-3.25	-3.57%
EUA Dec10	15.97	15.86	-	-	-0.11	-0.69%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,235.50	1,234.50	1,237.80	1,227.80	1,229.00	-3.00	1.1/1.5
Silver	-	18.40	18.64	18.39	18.42	-0.15	-1/1
Platinum	1,577.00	1,568.00	1,581.00	1,570.00	1,565.00	-10.00	-1/1
Palladium	472.00	471.00	474.00	472.00	472.00	0.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

Please refer to the disclaimer at the end of this document.

**Focus: Tin prices, stocks and spreads**

Tin has been one of the strongest performing base metals over recent weeks, recovering very strongly from the sell-off at the beginning of June to trade back around the levels seen towards the end of May.

As far as the stock to price relationship is concerned however (see Fig 1.), tin prices are still relatively high, given the current level of LME on-warrant inventories. In spite of that, we nevertheless remain fairly bullish for Tin prices over the medium term and see prices holding steady at current levels rather than collapsing, before picking up strongly again as LME inventories continue to decline.

Of perhaps greater interest however are the tin spreads. The current 3-month to 15-month spread is bang in-line with historical levels and is still near the bottom end of its historical range, with the 3 to 15 month spread as of this morning, valued at a contango of \$119.65/mt. Against a background of a slowly improving global economy and supply concerns, LME tin inventories are expected to continue trending lower.

As on-warrant LME inventories start to approach the 16,500 mt mark (currently at 18,285 mt) historical data suggests that, on balance, in an improving economic environment the 3 to 15 month spread should shift into backwardation

On that basis, there is perhaps better value in borrowing the farther dated tin forwards eg. the 3 to 15 month spread - at a positive cost of carry given the current shape of the forward curve - rather than taking a directional view on what still remains a volatile 3-month price.

**By Leon Westgate**

**Base metals**

The Chinese returned to the market after their 3-day holiday as sellers, with arbitrage selling seeing copper come under pressure during overnight trade. The dollar has also continued to have an impact, with dollar strength during the morning helping to keep the wider base metals complex under pressure. The euro has strengthened again heading into the afternoon which is helping to shore up prices, though the metals still remain rather sluggish.

Copper volumes have received a boost from the return of Chinese participants, however, as far as prices are concerned after coming under pressure initially the metal has resorted to watching the dollar and equity markets. With the market having been getting used to steady cancellations and stock draws in the US and Asian locations, a net 1,450 mt increase in on-warrant LME stocks this morning, due mainly to a 3,125 mt inflow of copper into Rotterdam, has also dented sentiment a little.

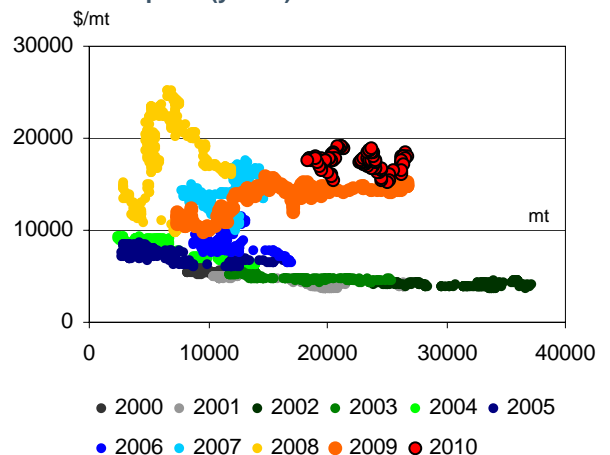
In other news, the large Batu Hijau copper-gold mine in Indonesia has noted that it expects heavy rain to reduce its planned production levels by 10-20%. The mine produces around 200-230 ktpy of copper in concentrates. With the concentrate market already very tight indeed, any smelters potentially caught short may look to pare back refined production rather than dip into the spot market.

Nickel dipped back below its 200-day MA this morning, however, a 720 mt fall in on-warrant stocks, mostly from European warehouses, has helped prices stabilise and pick up heading into the afternoon.

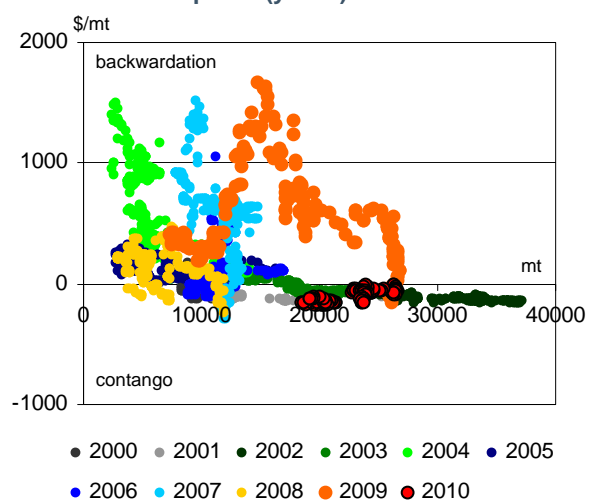
Data-wise, other than the latest run of US Initial Jobless data, the key releases this afternoon are the Philadelphia Fed index (expected at 20.0 from 21.4 last month) and the Leading Indicators for May. These are expected at +0.4% from the previous reading of -0.1%, with a positive figure likely to reinforce yesterday's strong IP data and boost sentiment about the underlying economic recovery.

**By Leon Westgate**

**1. Tin 3-mth price (y axis) vs LME on-warrant stocks**



**2. Tin 3-15 mth spread (y axis) vs on-warrant stocks**



Sources: Standard Bank, LME, Bloomberg

## Precious metals

Gold is trading sideways. However, there are growing signs that support on the downside is again growing firmer, setting the scene for another break higher in the gold price.

Over the past two days, there appears to be increased buying interest in the physical market with gold around \$1,230. A few weeks ago, gold above this level attracted scrap to the market. At the same time investment demand remains strong. The latest ETF data shows that holdings stand at 2,013 tonnes of gold—up almost 32 tonnes over the past week and up more than 210 tonnes since the start of May.

While our view is for gold to move higher, \$1,220/\$1,250 remains our preferred trading range in coming days. We believe the bias is for a break to the upside.

Platinum and palladium are holding steady. The recent headline data releases have been positive. US industrial production came in above expectations yesterday, and likewise Eurozone industrial production on Monday. We believe this indicates that the real economy is continuing to grow, despite current sovereign debt concerns in Europe. This data confirms our view of higher PGM prices in H2:10 from current levels .

Platinum support is at \$1,560 and \$1,550, while resistance is at \$1,580 and \$1,620. Palladium support is at \$470 and resistance is at \$478.

**By Walter de Wet**

## Energy

Crude oil is finding good support above \$76/bbl. With the back-end of the forward curve steady as longer-term supply issues amid the BP oil spill in the Gulf of Mexico persist, nearby crude oil prices are higher. Time spreads continue to tighten, implying improved oil market fundamentals.

In the US, the S&P and the Dow are trading back above their 200-day MA. We believe this bodes well for risk appetite and should continue to support commodity prices. It is worth noting that from a macro perspective data prints have generally been positive — even in Europe. Eurozone industrial production surprised on the upside yesterday. China's exports on Friday were positive. This morning, China's leading economic indicator jumped the most in 14 months in April (leading indicators lead an economy by around six months.) Yesterday saw US industrial production come in higher than expected at 1.2% m/m. Combined with increased risk appetite, we believe the good economic data bodes well for oil prices in coming days.

However, inventory data remains generally bearish with another big build-up of 1.69m barrels of crude seen in the US last week. Inventory at Cushing is also higher and now stands at 37,610K barrels. This is not far off the all-time high of 37,945K barrels reached in May. However, on a day-forward-cover basis we continue to see a steady improvement in the numbers and believe this will remain the case (refer to Commodities Daily dated 16 Jun'10). In our view, crude oil will trend higher in H2:10.

Front-month WTI crude oil support is at \$76.40 and \$75.20. Resistance is at \$78.50 and \$79.36.

**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	4,481,200	4,487,925	450	7,175	-6,725	-147,700	327,400	7.31	138,624
Copper	460,175	459,150	3,125	2,100	1,025	-42,150	28,400	6.17	126,404
Lead	190,850	191,700	100	950	-850	44,350	18,200	9.54	37,826
Nickel	131,052	131,712	-	660	-660	-26,958	8,142	6.21	45,166
Tin	20,340	20,430	15	105	-90	-6,425	2,055	10.10	8,798
Zinc	617,175	617,400	-	225	-225	129,125	16,400	2.66	105,693

### Shanghai 3-month forward prices

### COMEX active month future prices

Metal	Open	Last	1d Change	Open	Close	Change	Change (%)
Aluminium	14,630	14,580	55	Ali May'10	-	-	-
Copper	52,620	52,160	790	Cu May'10	301	296.00	-5.35
Zinc	14,600	14,375	145				

### ZAR metal prices (16 June 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,022	50,334	12,987	149,302	135,140	13,575	7.6350
3-month	15,545	51,559	13,646	155,376	138,203	14,189	7.7533

## 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)	85.24	0.46	87.78	0.97	88.21	0.86	89.56	0.85	-	-
Gasoil 0.1% Rdam (\$/mt)	676.50	13.75	678.25	13.75	681.00	13.50	691.00	13.00		
NWE CIF jet (\$/mt)	701.05	1.40	713.44	7.24	718.41	7.18	733.23	7.09		
Singapore Kero (\$/bbl)	86.24	0.47	88.63	1.02	89.26	0.91	91.01	0.85		
3.5% Rdam barges (\$/mt)	420.66	3.26	429.00	9.25	432.25	9.50	441.75	9.50		
1% Fuel Oil FOB (\$/mt)	442.25	3.37	457.25	9.25	462.75	9.50	476.00	9.25		
Sing FO 380 Cargo (\$/mt)	452.25	8.75	454.25	9.00	454.25	9.00	454.25	9.00		
Sing FO180 Cargo (\$/mt)	443.69	3.49	457.00	8.75	461.00	9.00	470.75	9.50		

### Thermal coal

	Q3-10	Q4-10	Q1-11	Cal 11	Cal 12
API2 (CIF ARA)	97.75	0.00	99.35	1.10	100.45
API4 (FOB RBCT)	94.00	-0.25	95.10	0.35	96.45

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.58667	0.63800	0.67000	0.77667	0.89600
Silver	0.70000	0.72167	0.74667	0.80833	0.82667
USD Libor	0.34844	0.43313	0.53894	0.75456	1.18875

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	58.13	1,229.04	1,218.71	1,152.46	1,121.74	1,210.00	1,243
Silver	52.21	18.22	18.20	17.50	17.51	18.00	18.70
Platinum	46.56	1,542.96	1,541.06	1,608.18	1,513.22	1,555.00	1,580.00
Palladium	49.20	452.76	452.64	475.00	417.36	455.00	480.00

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	1,237.80	18.6200	473.00	1,578.00	1,238.10	3,651.00	1,238.80
Open Interest	565,744	128,880	21,404	30,462	1,320	111,557	2,804
Change in Open Interest	-1,486	-968	54	13	122	-687	-4

Date: 16 June 2010

Sources: Standard Bank; LME; Bloomberg

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