

# FICC Research

## Commodities: Daily

### Focus: Yuan appreciation and the base metals



22 June 2010

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

Leon Westgate\*  
Leon.Westgate@standardbank.com

**Focus: Yuan appreciation and the base metals** The previous episode of managed Yuan appreciation against the dollar and other currencies, carried out from mid-2005 to mid-2008 formed the backdrop to a sustained period of strong and strengthening commodity prices.

- The Base metals rallied initially during overnight trade, before a combination of a weaker Yuan and a weaker Euro dragged prices lower across the base metals complex. Overall the metals still seem jittery, nervous and lacking direction.
- Gold had a sharp decline yesterday, falling from \$1,260 to \$1,230 in just a few hours. We have seen this type of sell-off before when gold reached new highs. We continue to favour buying dips, and we expect this pullback in gold to be less severe than the pullback in May when gold dropped from \$1,250 to \$1,170.
- While crude oil is struggling this morning because of the slightly stronger dollar, our view on crude oil remains unchanged, and we believe that it will trade above \$80 within the next few weeks. Time spreads continue to tighten marginally, implying improved oil market fundamentals.

#### Commodity price data (21 June 2010)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,991	1,962	2,019	1,940	-30	-1.48%	1,968.50	38	-31.00
Copper	6,625	6,604	6,730	6,470	-21	-0.32%	6,607.00	292	-28.00
Lead	1,803	1,835	1,838	1,760	32	1.77%	1,786.00	80	-23.50
Nickel	20,000	19,850	20,418	19,591	-150	-0.75%	19,935.00	630	-73.00
Tin	18,076	17,900	6,619	17,600	-176	-0.97%	17,980.00	530	-62.00
Zinc	1,808	1,775	1,822	1,752	-33	-1.83%	1,778.00	75	-33.89

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	78.76	78.08	78.82	77.98	-0.74	-0.95%
NYMEX WTI	77.35	77.07	77.85	76.97	-0.75	-0.97%
ICE Gasoil	685.00	680.00	685.25	678.00	-10.00	-1.47%
API2 Q3'10	94.50	93.70	-	-	-0.80	-0.85%
EUA Dec10	15.70	15.70	-	-	0.00	0.00%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,259.50	1,254.50	1,261.50	1,238.40	1,239.00	-17.50	0.9/1.2
Silver	-	18.83	19.39	18.69	18.79	-0.38	-2.0/0.0
Platinum	1,605.00	1,605.00	1,607.00	1,595.00	1,590.00	5.00	-1.0/1.0
Palladium	498.00	502.00	502.00	493.00	491.00	0.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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

### Focus: Yuan appreciation and the base metals

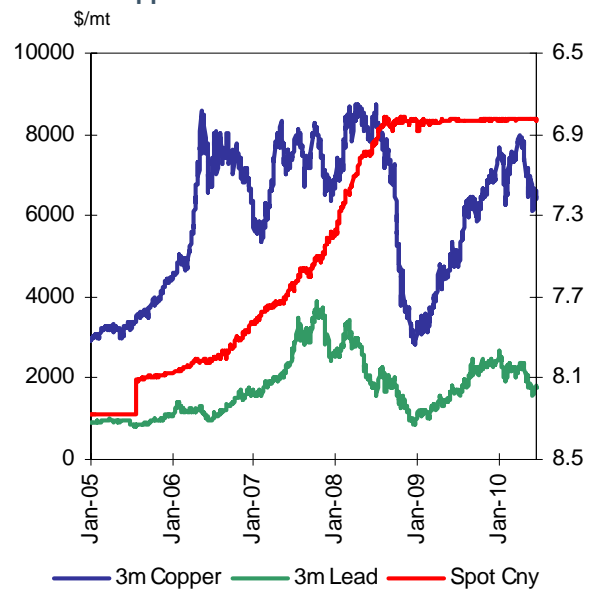
The previous episode of managed Yuan appreciation against the dollar and other currencies, carried out from mid-2005 to mid-2008 formed the backdrop to a sustained period of strong and strengthening commodity prices.

The latest changes in the Yuan rate, and the significant two-way movement, suggest that the government is still in overall control. Consequently we expect the Chinese government to again opt for a managed appreciation of the Yuan (see *Commodities Daily 21st June-focus section*).

The stronger Yuan during 2005-2008 undoubtedly increased Chinese participants' purchasing power, at a time of rising commodity prices. The stronger currency likely also attributed to some of the dollar price strength seen during this period too. With our current estimates suggesting that every base metal market, bar aluminium, is expected to be in deficit in 2011, the appreciation of the Yuan should again support dollar-denominated commodity prices and reinforce our increasingly bullish fundamental outlook.

Looking further ahead however, although we believe a stronger Yuan is positive for commodities generally, any potential support from a stronger currency is unlikely to be felt evenly. Metals where China is either self sufficient or a net exporter, such as Aluminium

### LME 3m Copper and Lead vs CNY



Sources: Standard Bank, LME, Bloomberg

and Lead, are likely to see less of an effect from increased Chinese purchasing power than the likes of Copper, Nickel, Zinc or Tin.

By Leon Westgate

## Base metals

The Base metals rallied initially during overnight trade, before a combination of a weaker Yuan and a weaker Euro dragged prices lower across the base metals complex. Overall the metals still seem jittery, nervous and lacking direction. With the wider markets also starting to focus on tomorrow's FOMC announcement, the base metals will likely continue to look towards the currency markets for direction on an intraday basis.

This morning saw an unexpected increase in German business confidence in June, with the IFO Business Climate Index coming in at 101.8. Expectations had been for a decline, however, the weaker euro and expectations of improved exports are seemingly offsetting concerns over sovereign debt issues in southern Europe. The IFO number should be broadly positive for the industrial metals, particularly if that confidence can be sustained through the summer, however the data had little immediate impact on prices.

Zinc has been one of the better performing metals this morning, rallying overnight on the back of stronger copper prices and decent buying interest. After a solid start however, prices have since drifted back towards yesterday's closing levels. Volumes also remain fairly subdued, with the metal likely to follow copper during the afternoon.

In other news, spot Chinese zinc TC's have dropped significantly over the past couple of months, reflecting much tighter concentrate supplies. Current spot zinc TC's have been heard around \$90/mt compared to \$160-180/mt at the beginning of the quarter. The main reason for the decline in TC's appears to be due to a combination of miners paring back production, or reducing sales in the face of weaker prices, and smelters upping capacity utilization rates in expectations of increased demand. Reduced Chinese concentrate imports in May, down 5.6% m-o-m and 25% y-o-y to 223,985 mt have also exacerbated the recent tightness. On a y-t-d basis, concentrate imports are 3.6% lower y-o-y at around 1.29 million tonnes. Whether the concentrate tightness results in the significant smelting capacity closures remains to be seen, however some smelters have already brought forward scheduled maintenance closures, with that trend likely to spread unless outright prices, or TCs start to recover.

Copper saw decent arbitrage interest overnight, rallying back above \$6,600 during Asian hours, before coming off the boil amid very choppy trading conditions. The metal has continued to come under pressure heading into the afternoon, with a weaker Euro weighing on prices. Volumes have also dried up heading into the afternoon, leaving the red metal looking to the currency and equity markets for direction.

By Leon Westgate

## Precious metals

Gold had a sharp decline yesterday, falling from \$1,260 to \$1,230 in just a few hours. We have seen this type of sell-off before when gold reached new highs. We continue to favour buying dips, and we expect this pullback in gold to be less severe than the pullback in May when gold dropped from \$1,250 to \$1,170.

The US Fed FOMC starts its two-day meeting today; it will announce a decision on monetary policy tomorrow. Unless the Fed indicates that interest rates will rise soon, the announcement should be a non-event for gold. We believe that the Fed will keep its policy and language largely unchanged from previous FOMC meetings.

Gold support is at \$1,221 and \$1,233, resistance at \$1,265 and \$1,274.

The PGM market is very quiet, with little momentum to push prices much higher. Our targets are \$1,800 and \$650 for platinum and palladium respectively. We believe that platinum must break above \$1,620 before we would look for more upside.

We view Germany's higher-than-expected IFO business confidence and economic expectations numbers as positive for PGM. Furthermore, the IFO current economic assessment index rose to its highest level since September 2008, indicating a generally positive outlook for the Eurozone's largest economy (a major platinum consumer).

Platinum support is at \$1,580 and \$1,572. Resistance is at \$1,602 and \$1,620. Palladium support is at \$486 and resistance at \$502.

**By Walter de Wet**

## Energy

While crude oil is struggling this morning because of the slightly stronger dollar, our view on crude oil remains unchanged, and we believe that it will trade above \$80 within the next few weeks. Time spreads continue to tighten marginally, implying improved oil market fundamentals.

But despite a tightening of spreads, a look at correlations implies that crude oil prices remain a function of equity markets. We have seen the 10-day price correlation between the DJIA and WTI front-month prices rise substantially in recent days (correlation coefficient currently at 0.91).

US equities (the S&P and the DJIA) continue to stumble around the 200d MA. Until both indices manage to consolidate above their 200day MA, we could see crude oil being sold into rallies on approach of \$80. Support is at \$76.80 and \$75.40.

We read Germany's higher-than-expected IFO business confidence and economic expectations numbers as a positive for energy prices. Furthermore, the IFO current economic assessment index rose to its highest level since September 2008, and indicates a generally positive outlook for the Eurozone's largest economy.

API US inventory data should be watched closely. We expect another drawdown of crude oil inventory. However, with refinery utilization rates at 85.1% in the US (on the back of still high crack spreads), we expect product inventory to continue to build. As a result, we expect no major reaction from crude oil prices on release of the API numbers. The main interest may lie in tomorrow's DOE numbers and whether there was a sizable crude oil inventory draw at Cushing.

**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	4,457,350	4,467,350	25	10,025	-10,000	-171,550	321,900	7.22	108,017
Copper	456,850	456,950	1,450	1,550	-100	-45,475	28,950	6.34	115,018
Lead	188,900	189,425	-	525	-525	42,400	16,675	8.83	21,046
Nickel	128,178	128,784	-	606	-606	-29,832	7,164	5.59	21,701
Tin	19,795	20,000	-	205	-205	-6,970	2,470	12.48	8,151
Zinc	617,900	617,925	575	600	-25	129,850	16,650	2.69	50,294

### Shanghai 3-month forward prices

### COMEX active month future prices

Metal	Open	Last	1d Change	Open	Close	Change	Change (%)
Aluminium	14,800	14,850	-120	Ali May'10	-	-	-
Copper	52,720	53,000	290	Cu May'10	296	298.05	2.10
Zinc	14,650	14,845	395				

### ZAR metal prices (21 June 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,685	49,288	13,324	148,715	134,131	13,264	7.4600
3-month	14,860	50,031	13,902	150,382	135,609	13,447	7.5759

## 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)	86.61	0.42	90.92	1.28	91.38	1.27	92.69	1.33	-	-
Gasoil 0.1% Rdam (\$/mt)	680.00	-10.00	681.50	-9.75	683.50	-10.50	696.00	-6.75		
NWE CIF jet (\$/mt)	713.39	2.96	741.35	8.00	745.75	8.41	760.07	9.41		
Singapore Kero (\$/bbl)	87.62	0.42	91.97	1.38	92.58	1.32	94.29	1.33		
3.5% Rdam barges (\$/mt)	419.98	2.65	430.75	3.50	434.00	3.25	443.75	3.00		
1% Fuel Oil FOB (\$/mt)	443.41	4.93	462.50	6.00	467.00	5.00	479.75	4.00		
Sing FO 380 Cargo (\$/mt)	452.50	2.75	455.25	2.75	455.25	2.75	455.25	2.75		
Sing FO180 Cargo (\$/mt)	443.77	3.16	458.25	3.50	462.25	3.50	472.00	3.25		

### Thermal coal

	Q3-10	Q4-10	Q1-11	Cal 11	Cal 12
API2 (CIF ARA)	93.70	-0.80	96.30	-0.60	98.90
API4 (FOB RBCT)	92.40	-0.35	93.60	-0.30	95.70

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.52167	0.56500	0.59167	0.69000	0.83000
Silver	0.67000	0.68333	0.70833	0.77500	0.80000
USD Libor	0.34719	0.43281	0.53838	0.74956	1.18375

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	57.47	1,233.47	1,227.11	1,156.86	1,125.38	1,230.00	1,250.00
Silver	54.43	18.53	18.38	17.58	17.54	18.60	19.40
Platinum	49.36	1,565.35	1,552.45	1,609.62	1,517.30	1,550.00	1,620.00
Palladium	52.66	471.13	460.47	476.93	420.39	485.00	510.00

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	1,238.90	18.8550	494.00	1,599.30	1,238.40	3,627.00	1,238.40
Open Interest	603,094	139,210	21,726	30,221	1,516	109,941	2,868
Change in Open Interest	-5,712	-3,216	15	230	0	588	-59

Date: 21 June 2010

Sources: Standard Bank; LME; Bloomberg

## Disclaimer

### Certification

The analyst(s) who prepared this research report (denoted by an asterisk\*) hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and issuer(s) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

### Conflict of Interest

It is the policy of The Standard Bank Group Limited and its worldwide affiliates and subsidiaries (together the "Standard Bank Group") that research analysts may not be involved in activities in a way that suggests that he or she is representing the interests of any member of the Standard Bank Group or its clients if this is reasonably likely to appear to be inconsistent with providing independent investment research. In addition research analysts' reporting lines are structured so as to avoid any conflict of interests. For example, research analysts cannot be subject to the supervision or control of anyone in the Standard Bank Group's investment banking or sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of those sales and trading departments may conflict with your interests. **Please note that one or more of the analysts that prepared this report sit on a sales and trading desk of the Standard Bank Group.**

### Legal Entities:

#### To U. S. Residents

Standard New York Securities, Inc. is registered with the Securities and Exchange Commission as a broker-dealer and is also a member of the FINRA and SIPC. Standard Americas, Inc is registered as a commodity trading advisor and a commodity pool operator with the CFTC and is also a member of the NFA. Both are affiliates of Standard Bank Plc and Standard Bank of South Africa. Standard New York Securities, Inc is responsible for the dissemination of this research report in the United States. Any recipient of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting Standard New York Securities, Inc.

#### To South African Residents

The Standard Bank of South Africa Limited (Reg.No.1962/000738/06) is regulated by the South African Reserve Bank and is an Authorised Financial Services Provider.

#### To U.K. Residents

Standard Bank Plc is authorised and regulated by the Financial Services Authority (register number 124823) and is an affiliate of Standard Bank of South Africa. The information contained herein does not apply to, and should not be relied upon by, retail customers.

### General

This research report is based on information from sources that Standard Bank Group believes to be reliable. Whilst every care has been taken in preparing this document, no research analyst or member of the Standard Bank Group gives any representation, warranty or undertaking and accepts no responsibility or liability as to the accuracy or completeness of the information set out in this document (except with respect to any disclosures relative to members of the Standard Bank Group and the research analyst's involvement with any issuer referred to above).

All views, opinions and estimates contained in this document may be changed after publication at any time without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors or any particular class of investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value.

Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Members of Standard Bank Group may act as placement agent, advisor or lender, make a market in, or may have been a manager or a co-manager of, the most recent public offering in respect of any investments or issuers referenced in this report. Members of the Standard Bank Group and/or their respective directors and employees may own the investments of any of the issuers discussed herein and may sell them to or buy them from customers on a principal basis. This report is intended solely for clients and prospective clients of members of the Standard Bank Group and is not intended for, and may not be relied on by, retail customers or persons to whom this report may not be provided by law. This report is for information purposes only and may not be reproduced or distributed to any other person without the prior consent of a member of the Standard Bank Group. Unauthorised use or disclosure of this document is strictly prohibited. By accepting this document, you agree to be bound by the foregoing limitations. Copyright 2010 Standard Bank Group. All rights reserved.