

FICC Research

Commodities: Daily

Focus: Lower platinum price induces strong China demand



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Focus: Switzerland is the global distribution hub for platinum and palladium. Import/export data from China is therefore informative. Overall, the May Swiss customs data is bullish for platinum. While we favour palladium relative to platinum in the longer term, the data implies that platinum demand may presently be slightly healthier than demand for palladium.

- The base metals have had a quiet start to the day, with key world cup games this afternoon and the FOMC announcement tonight likely to keep the metals fairly subdued. With no real direction to speak of, the base metals are continuing to drift sideways and are looking to technical signals and the dollar for direction.
- We still see support for gold despite the metal touching all-time highs almost every month.
- Crude oil remains rangebound this morning, with front month WTI trading sideways ahead of this afternoon's DOE inventory data and FOMC announcement. Overall, crude oil is establishing itself just above its 200-day MA above \$77/bbl, but remains rather short of direction.

Commodity price data (22 June 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,934	1,959	1,966	1,928	25	1.29%	1,901.00	-68	-31.25
Copper	6,500	6,610	6,650	6,470	110	1.69%	6,460.00	-147	-27.75
Lead	1,800	1,828	1,850	1,783	28	1.56%	1,766.00	-20	-24.25
Nickel	19,450	19,650	19,990	19,350	200	1.03%	19,400.00	-535	-72.00
Tin	18,025	18,150	1,838	17,450	125	0.69%	17,875.00	-105	-61.00
Zinc	1,765	1,795	1,816	1,763	30	1.70%	1,727.00	-51	-34.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.99	77.88	77.99	77.31	-0.16	-0.21%
NYMEX WTI	77.52	77.56	77.64	77.04	-0.29	-0.37%
ICE Gasoil	673.00	674.50	675.25	671.25	-8.00	-1.19%
API2 Q3'10	93.70	91.50	-	-	-2.20	-2.40%
EUA Dec10	15.84	15.34	-	-	-0.50	-3.16%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,235.25	1,236.00	1,242.70	1,233.00	1,239.70	0.70	0.8/1.1
Silver	-	18.83	18.97	18.68	18.89	0.10	-2.0/0.0
Platinum	1,592.00	1,605.00	1,594.00	1,580.00	1,592.00	2.00	-1.0/1.0
Palladium	492.00	502.00	494.50	482.00	487.00	-4.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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

Focus: Lower Pt price induces strong China demand

Switzerland is the global distribution hub for platinum and palladium. Import/export data from China is therefore informative. Overall, the May Swiss customs data is bullish for platinum. While we favour palladium relative to platinum in the longer term, the data implies that platinum demand may presently be slightly healthier than demand for palladium.

Switzerland was a net exporter of 336,291 oz of platinum in May. This is the largest net export number for Switzerland in more than two years, indicating a strong demand response due to the lower platinum price. The main destination of exports was the UK (140,059 oz), China and HK (140,556 oz) and Germany (52,844 oz).

The majority of exports to the UK appear to be sponge, which signals industrial demand and not ETF related flows. This is confirmed by ETF holdings that were largely unchanged during the month. We believe platinum has shifted to the UK for Loco London settlement.

In May, China has imported the largest volume of platinum from Switzerland since Feb 2009. China's imports of platinum have steadily declined since Feb 2009 as the platinum price recovered, reaching only 16,800oz in Apr 2010.

The good demand response from China highlights three issues: *Firstly*, China is price-sensitive and willing to buy platinum whenever the price drops significantly. *Secondly*, the data implies that China may see value in platinum at a higher price levels than before (in Feb 2009, Pt was around \$1,050). *Thirdly*, the China demand response is consistent with our view backed by our cost-curve model that platinum below \$1,500 offers good value.

Base metals

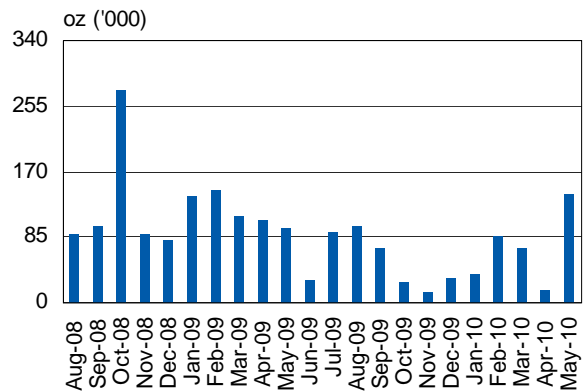
The base metals have had a quiet start to the day, with key world cup games this afternoon and the FOMC announcement tonight likely to keep the metals fairly subdued. With no real direction to speak of, the base metals are continuing to drift sideways and are looking to technical signals and the dollar for direction.

Reports suggest that BHP Billiton is looking for mid-year copper TC/RCs of \$35/tonne and 35¢/lb - a 25% cut from the annual 2010 levels of \$46.50/4.65¢ agreed in January. While this is an opening shot in the negotiations, with Japanese smelters reportedly looking for something to the north of \$40/4.0¢, the incredibly tight spot market means that the miners remain in the driving seat. The current spot TC/RC market is in negative territory, with aggressive buying from Chinese smelters and fresh Chinese smelting capacity hoovering up any available material. With price participation clauses seemingly consigned to history, custom smelters in Japan and elsewhere will find it increasingly hard to justify operating if TC/RC's remain at such low levels for an extended period.

In general, Chinese smelters see themselves a little differently and regard themselves more as metal producers rather than smelters in the traditional sense. They will continue to operate in a low TC/RC environment and will actively trade the metals they produce. Smelting capacity in China looks set to increase further over the coming years, with the end result perhaps being that the copper market ends up looking increasingly like Aluminium, with production and consumption of refined copper focused almost entirely in China, albeit with an underlying shortage of domestic concentrates.

Nickel warehouse stocks have continued to come under pressure, with this morning's 1,104mt fall in on-warrant stocks bringing the total fall in on-warrant material so far this month to 13,440 mt, a decline of 10% since the end of May. The background of steadily declining LME stocks have helped support prices, with nickel appearing to have now built a solid base around \$19,500 following the sell-off seen in early June.

China's platinum imports from Switzerland



Sources: Standard Bank; Swiss Customs data

Switzerland was a net palladium exporter (170K) in May. As with platinum, the UK was a large importer of palladium (188K oz). The majority of palladium exports to the UK also appear to be sponge which signals industrial demand and not ETF related flows. Palladium ETF holdings were largely unchanged during the month so, as for platinum, we believe the flow of palladium is on the back of inventory shifting for Loco London settlement.

China is still largely absent in the palladium market via Switzerland. China has now been a net exporter of palladium to Switzerland since Dec 2009.

Based on our cost-curve analysis, we see good value for palladium below \$420. However, Swiss customs data implies that China's palladium demand is relatively weak at the moment.

By Walter de Wet

By Leon Westgate

Precious metals

Today is FOMC day. There should be few surprises. US rates should stay low for the rest of 2010 and the most of 2011. The futures market assigns a probability of 65% to the Fed's fund rate staying flat at 0.25% until at least May 2010. We believe it will be flat for longer. We are still guided by the Taylor Rule in this regard. This rule balances the two targets for the US Fed, i.e. employment and inflation, to determine where the Fed funds rate may go. At the moment, the Taylor rule still indicates the Fed funds rate should be negative (because inflation is low and unemployment so high). But rates can't be negative so the Fed continues to keep money supply high. For this reason, we still see support for gold despite the metal touching all-time highs almost every month.

The forward-looking Taylor Rule signals positive rates only towards the end of 2011. We find low rates benefits precious metals the most.

Our view on the precious metals market remains unchanged. For gold, we still favour buying dips. We believe a break above \$1,250 will become more sustainable soon. Strong resistance from the physical market remains in place when gold pushes above \$1,250. At this price level, we see increased volumes of scrap coming to the market. We still target \$1,300 for gold in H2:10 (possibly closer to Q4:10). Gold support is at \$1,221 and \$1,233, resistance at \$1,265 and \$1,274.

We believe silver is also well placed for a move higher on the back of gold. The metal has steadily been moving higher since mid-June. We believe that this trend will continue. Support for silver is at \$18.60 and \$18.35, resistance at \$19.00 and \$19.20.

By Walter de Wet

Energy

Crude oil remains rangebound this morning, with front month WTI trading sideways ahead of this afternoon's DOE inventory data and FOMC announcement. Overall, crude oil is establishing itself just above its 200-day MA above \$77/bbl, but remains rather short of direction. As such, the dollar and US equity markets continue to dictate short term price direction.

A 3,685 K bbl increase in API Crude Oil stocks last night took has seen prices come off the boil a little bit, raising concerns over today's DOE inventory figures. Consensus expectations are for the DOE numbers to show a 800K bbl decline following last week's 1,690 K increase. Gasoline stocks are also expected to fall by 180 K bbl, though Distillate inventories are expected to pose a 1,500 K bbl increase.

While the DOE data may result in some choppy trading this afternoon, with a bullish figure perhaps seeing WTI break back above its 100-day MA - currently at ~\$78.56 - the real focus for the market will be the FOMC and the accompanying statement.

Coal continues to be dominated by the European gas and power markets, with prices having very little lasting correlation with any of the other markets. API2 came under fairly heavy pressure yesterday, with Q3-10 closing the day \$2.20/mt lower and Cal-11 falling \$1.85/mt. API4 also fell, though the front end of the curve held up a little better with Q3-10 falling \$1.15/mt while Cal-11 dropped by \$1.65/mt.

By Leon Westgate

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	4,463,675	4,457,350	12,400	6,075	6,325	-165,225	316,075	7.08	178,819
Copper	456,425	456,850	1,525	1,950	-425	-45,900	28,775	6.30	90,723
Lead	188,800	188,900	-	100	-100	42,300	16,950	8.98	26,588
Nickel	127,422	128,178	-	426	-756	-30,588	7,512	5.90	23,407
Tin	19,215	19,795	15	595	-580	-7,550	2,155	11.22	8,003
Zinc	617,850	617,900	-	50	-50	129,800	17,325	2.80	51,007

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	14,710	14,760	-55	Ali May'10	-	-	-	-
Copper	52,600	52,930	90	Cu May'10	301	298.40	-2.65	-0.88%
Zinc	14,555	14,895	150					

ZAR metal prices (22 June 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,362	48,805	13,342	146,567	135,046	13,047	7.5550
3-month	15,038	50,740	14,032	150,837	139,323	13,779	7.6762

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)	86.30	-0.31	90.34	-0.58	90.76	-0.62	92.06	-0.63	-	-
Gasoil 0.1% Rdam (\$/mt)	674.50	-8.00	676.75	-8.00	680.00	-7.75	697.25	-5.50		
NWE CIF jet (\$/mt)	710.89	-2.50	734.53	-6.82	739.41	-6.34	754.57	-5.50		
Singapore Kero (\$/bbl)	87.24	-0.38	91.19	-0.78	91.81	-0.77	93.71	-0.58		
3.5% Rdam barges (\$/mt)	421.02	1.04	429.25	-1.50	432.00	-2.00	441.00	-2.75		
1% Fuel Oil FOB (\$/mt)	444.84	1.43	462.00	-0.50	465.75	-1.25	477.25	-2.50		
Sing FO 380 Cargo (\$/mt)	451.25	-1.25	454.00	-1.25	454.00	-1.25	454.00	-1.25		
Sing FO180 Cargo (\$/mt)	443.67	-0.10	457.25	-1.00	461.25	-1.00	470.25	-1.75		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	91.50	-2.20	94.00	-2.30	96.55	-2.35	99.70	-1.85	106.55	-1.85
API4 (FOB RBCT)	91.25	-1.15	91.75	-1.85	93.25	-2.45	96.30	-1.65	99.95	-1.85

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.47667	0.51667	0.54167	0.65500	0.77833		
Silver	0.67000	0.68000	0.74000	0.79000	0.81000		
USD Libor	0.34719	0.43281	0.53825	0.74700	1.17500		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	57.64	1,234.27	1,228.59	1,158.17	1,126.50	1,230.00	1,250.00
Silver	54.47	18.60	18.41	17.60	17.55	18.60	19.40
Platinum	47.62	1,569.33	1,554.80	1,609.54	1,518.41	1,550.00	1,620.00
Palladium	51.28	473.78	462.35	477.32	421.28	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	1,240.40	18.8700	485.40	1,602.10	1,240.60	3,613.00	1,240.20
Open Interest	600,895	141,062	21,905	30,341	1,531	109,441	2,858
Change in Open Interest	2,199	-1,852	-179	-120	-15	500	10

Date: 22 June 2010

Sources: Standard Bank; LME; Bloomberg

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