

# FICC Research

## Commodities: Daily

### Focus: Nickel - time to get bullish again?



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**Focus:** Nickel prices have stabilised after the decline in prices seen during May, with the metal finding its feet and looking to move back above \$20,000/mt again. As far as the physical market is concerned, the current picture looks very supportive for prices.

- A late short covering rally on Friday afternoon saw the base metals complex finish strongly. The base metals have since managed to push on this morning in spite of a stronger dollar, though, aside from copper, volumes elsewhere have been very disappointing.
- While we continue to favour a move higher in gold, the metal may test lower yet again before a gold price above \$1,250 becomes sustainable. We continue to see selling in the physical market, and resistance remains in place when gold moves above \$1,250. Gold support is at \$1,244 and \$1,229, resistance at \$1,265 and \$1,274. We view a dip towards \$1,229 as a buying opportunity.
- Front-month WTI is still finding strong resistance at \$80/bbl. However, with Tropical Storm Alex regaining strength and threatening more closure of US production facilities, crude oil may remain well supported above \$78/bbl.

#### Commodity price data (25 June 2010)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,976	1,998	2,009	1,948	23	1.14%	1,946.00	38	-27.61
Copper	6,635	6,770	6,875	6,595	135	2.03%	6,604.50	79	-27.76
Lead	1,815	1,816	1,847	1,803	1	0.06%	1,802.00	22	-23.25
Nickel	19,499	19,800	20,025	19,300	301	1.54%	19,500.00	250	-71.00
Tin	18,125	18,130	18,200	18,000	5	0.03%	18,050.00	150	-63.00
Zinc	1,846	1,873	1,888	1,835	27	1.46%	1,810.50	7	-31.50

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	78.14	78.14	78.66	78.00	0.02	0.03%
NYMEX WTI	79.00	78.76	79.38	78.58	-0.10	-0.13%
ICE Gasoil	676.00	674.00	678.25	674.00	8.75	1.30%
API2 Q3'10	92.50	92.50	-	-	0.00	0.00%
EUA Dec10	15.22	15.35	-	-	0.13	0.85%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,242.50	1,254.00	1,258.30	1,241.45	1,254.75	9.75	0.6/1.0
Silver	-	19.14	19.13	18.12	18.10	-0.63	-2.5/-0.5
Platinum	1,578.00	1,549.00	1,577.00	1,559.00	1,570.00	10.00	-1.0/1.0
Palladium	486.00	485.00	477.00	472.00	477.00	7.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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### Focus: Nickel - time to get bullish again?

Nickel prices have stabilised after the decline in prices seen during May, with the metal finding its feet and looking to move back above \$20,000/mt once again.

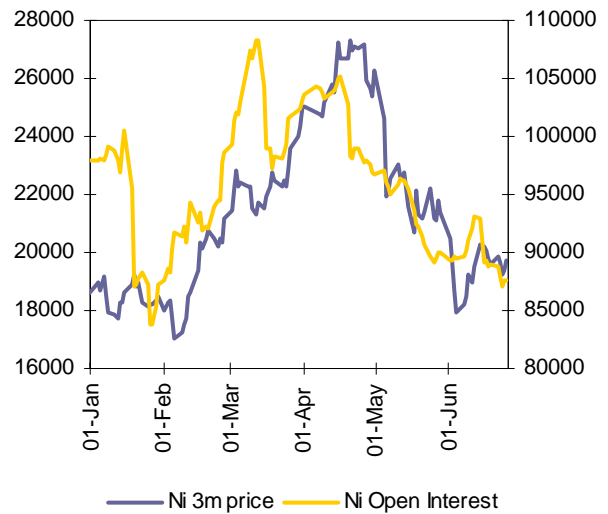
The sell-off in May eliminated much of the length in the market, with the decline in prices being accompanied by falling open interest, suggesting that long liquidation was the main theme. In early June, a brief foray above \$20,000 was met with rising open interest - interpreted to be new long positions being added. Since then however, prices have stalled, resulting in bouts of further long liquidation interspersed with short covering activity.

As far as the physical market is concerned, the current picture looks very supportive for prices. LME inventories are continuing to decline, with on-warrant stocks down 33,930 mt or just over 22% since the start of Q2. Very high premiums for material, in particular for cut cathodes and briquettes due to bottlenecks at warehouse cutting facilities, have added to the bullish picture, while solid Chinese buying, aided by a positive, albeit not exchange-tradable arbitrage, have also helped support prices and premiums.

Longer term we expect the nickel market to shift into a (small) deficit in 2011, after four consecutive years of surpluses. This should underpin prices and we remain bullish for nickel's longer term prospects.

In the interim however, the prospect of a return to pre-strike production levels at Vale's operations in Canada, and a seasonal increase in LME nickel stocks during H2 (2002 and 2003 are the only years in the past decade where H2 inventories have trended

### Nickel 3m Price (LH axis) vs Open Interest (RH axis)



Source: Standard Bank, LME

lower), may cap prices over the course of this year. That said, increased energy tariffs in China may impact on the profitability of NPI producers, while the usual run of supply disruptions in Australia and elsewhere should nevertheless also help keep the market in check.

On that basis we would look to buy on dips in anticipation of stronger prices in H1-2011. If LME inventories continue to decline over the course of this year however, we would look to take a more aggressive stance.

By Leon Westgate

### Base metals

A late short covering rally on Friday afternoon saw the base metals complex finish strongly and close in positive territory after what had been a poor start to the day. The base metals have since managed to push on this morning in spite of a stronger dollar, though, aside from copper, which has seen good two-way interest, volumes elsewhere have been very disappointing.

Although today is rather quiet as far as macroeconomic data is concerned, it is a busy week for data, building up to the US Nonfarm payroll numbers on Friday. After a recent slew of mixed/disappointing figures, a run of positive macroeconomic data, building on Friday's positive Michigan Confidence number would likely be supportive for base metal prices and may help to encourage some of the money that has been sat on the sidelines, back into the market.

Copper has had a busy start to the week, opening higher before coming under pressure from arbitrage-related selling during Asian trade. Prices have since picked back up heading into the afternoon, with the metal trading comfortably above \$6,800 and looking towards \$6,900. Turnover has been head and shoulders above the rest of the base metals complex, with good two-way interest emerging.

Falling on-warrant copper inventories, down 2,000 mt following further warrant cancellations in South Korea have also helped to boost sentiment towards the metal, building on Friday's large drop in SHFE warehouse stocks. Meanwhile, physical SHFE copper continues to trade at a premium to the SHFE spot month, currently ~\$19, pointing to genuine, albeit small scale physical interest.

Nickel on-warrant stocks posted another significant decline this morning, dropping 1,314 mt, with the majority of the activity occurring in Rotterdam. Nickel has been one of the strongest performers this morning, with the metal climbing back above \$20,000. Turnover has been fairly unexceptional however, with bouts of short covering rather than sustained buying interest responsible for the rally.

By Leon Westgate

## Precious metals

The futures market's positioning in precious metals remains largely unchanged from last week. For gold, we believe that the market remains well placed to support a higher gold price. COMEX gold has seen the net long non-commercial position decline to 33.2% of OI, down from 34% the previous week. Current levels are below the average level of 36% over the past 12 months, and spec length does not look overextended.

While we continue to favour a move higher in gold, the metal may test lower yet again before a gold price above \$1,250 becomes sustainable. We continue to see selling in the physical market, and resistance remains in place when gold moves above \$1,250. Gold support is at \$1,244 and \$1,229, resistance at \$1,265 and \$1,274. We view a dip towards \$1,229 as a buying opportunity.

Platinum's non-commercial long position on NYMEX remains low compared to levels seen over the past 12 months. The non-commercial long position is now at 810K oz (52% of OI). This is well below the highs of 1.2m oz (63% of OI) seen in April 2010. We see room for more non-commercial longs to be added. In sharp contrast, palladium's net non-commercial long position remains steady around 60% of OI. Comparing the futures markets of platinum and palladium, platinum could see additional longs in coming weeks. Should platinum break above \$1,620, we would look for more upside.

The US bond market remains firm, with 10-y Treasury yields still around the 3.10% level. The 3% to 3.1% level has been key resistance for the bond market since May last year. At the same time, the correlation between the US equity markets and US bond market is very high. Should this resistance hold in the bond market, we would look for equities to move higher. Higher equities would be bullish PGM.

Silver is finding resistance above \$19.15. As for gold, we prefer buying on dips. Silver support is at \$18.75 and \$18.40. Resistance is at \$19.30 and \$19.50.

**By Walter de Wet**

## Energy

Front-month WTI is still finding strong resistance at \$80/bbl. However, with Tropical Storm Alex regaining strength and threatening more closure of US production facilities, crude oil may remain well supported above \$78/bbl.

We are also watching RBOB which has been heading higher since Thursday last week. With driving season in the US approaching fast and gasoline inventories on a steady decline (on a day-forward cover basis), RBOB may be the driver to push crude back above \$80/bbl.

According to Friday's CFTC data, in the futures market, NYMEX WTI has seen the net long non-commercial position decrease marginally, by 7.8m barrels, to 106.8m barrels. The decline in the net long position comes on the back of a decrease in long positions rather than additional shorts being added. As a percentage of open interest, the net long non-commercial position now stands at 4.15% (4.17% last week). This is marginally higher than the 3.65% reached at the end of May and in line with the average levels observed the past 12 months. We believe it signals that more length may be added, especially with Tropical Storm Alex raging in the background.

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. The coal market has been quiet since last week Friday, with API2 trading broadly sideways. Q3-10 closed Friday flat, at \$92.50/mt, and Cal-11 fell marginally, to \$99/mt.

**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	4,440,625	4,446,400	1,225	7,000	-5,775	-188,275	292,800	6.59	135,019
Copper	453,175	454,250	1,000	2,075	-1,075	-49,150	31,900	7.04	95,358
Lead	189,425	188,800	1,325	700	625	42,925	15,625	8.25	23,965
Nickel	125,508	126,312	-	804	-804	-32,502	7,248	5.77	21,434
Tin	18,615	18,725	180	290	-110	-8,150	2,105	11.31	7,168
Zinc	615,850	616,550	100	800	-700	127,800	15,650	2.54	46,255

### Shanghai 3-month forward prices

### COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	14,900	14,950	80	Ali May'10	-	-	-	-
Copper	54,200	54,020	620	Cu May'10	311	308.60	-2.50	-0.80%
Zinc	15,120	15,315	180					

### ZAR metal prices (25 June 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,858	50,425	13,758	148,883	137,812	13,823	7.6350
3-month	15,485	52,468	14,074	153,452	140,509	14,516	7.7501

## 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)	85.74	0.19	87.92	0.94	88.40	1.11	89.62	1.12	-	-
Gasoil 0.1% Rdam (\$/mt)	674.00	8.75	675.50	8.75	679.00	9.00	679.25	8.50		
NWE CIF jet (\$/mt)	704.90	1.42	713.27	7.75	719.32	8.75	734.66	8.09		
Singapore Kero (\$/bbl)	86.69	0.23	88.77	1.14	89.45	1.26	91.17	1.19		
3.5% Rdam barges (\$/mt)	419.10	1.41	426.00	7.75	428.50	7.75	437.00	7.75		
1% Fuel Oil FOB (\$/mt)	443.58	1.61	458.50	8.00	463.50	8.50	473.75	8.25		
Sing FO 380 Cargo (\$/mt)	449.75	7.50	449.75	7.50	449.75	7.50	449.75	7.50		
Sing FO180 Cargo (\$/mt)	442.29	1.34	454.00	7.50	457.25	7.50	465.75	7.75		

### Thermal coal

	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	92.50	0.00	94.75	0.00	96.50	-0.45	99.00	-0.60	106.50	-0.10
API4 (FOB RBCT)	92.50	0.50	92.25	0.00	93.20	-0.45	95.50	-0.70	100.15	-0.10

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.48000	0.52000	0.57000	0.68667	0.80000		
Silver	0.68333	0.68833	0.71333	0.76333	0.78333		
USD Libor	0.34719	0.43063	0.53469	0.75319	1.18313		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	60.02	1,243.14	1,234.09	1,163.78	1,130.14	1,226.00	1,256.00
Silver	56.07	18.79	18.47	17.72	17.57	18.60	19.40
Platinum	49.30	1,577.46	1,557.17	1,612.07	1,522.08	1,550.00	1,620.00
Palladium	50.85	480.21	463.95	479.35	423.88	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	1,256.70	19.1600	481.50	1,574.50	1,256.90	3,620.00	1,256.70
Open Interest	599,460	135,634	21,278	31,901	1,522	112,539	2,905
Change in Open Interest	-6,228	1,511	281	-790	-173	-26	-19

Date: 25 June 2010

Sources: Standard Bank; LME; Bloomberg

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