

FICC Research

Commodities: Daily

Focus: Copper forward curve - back-end still bid



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Focus: While June has been rather volatile as far as prices are concerned, overall the nearby portion of the copper forward curve has largely trodden water. The main area of movement has been in the back end of the curve, particularly around the Dec-11 date. Dec-11 remains by far the busiest month as far as open interest is concerned, with open interest continuing to build over the past month.

- The base metals had a relatively stable start to the week, trading sideways to higher in spite of a marked deterioration in the euro against the dollar. This morning has been more volatile however a broad-based sell off during Asian trade triggering a bit of panicked liquidation this morning.
- Our view on the precious metals market remains unchanged. We believe that gold will approach \$1,300 in H2:10, but right now \$1,220/\$1,250 is our preferred trading range. The bias is for a break to the upside.
- Unlike the base metals, crude oil came under pressure on Monday, with a stronger dollar dragging prices lower to see front month WTI close the day at \$78.25/bbl.

Commodity price data (28 June 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,022	2,029	2,015	1,987	33	0.36%	1,996.00	50	-25.75
Copper	6,830	6,869	6,810	6,659	109	0.57%	6,800.00	196	-29.00
Lead	1,846	1,860	1,850	1,792	45	0.76%	1,828.00	26	-23.25
Nickel	20,375	20,700	20,350	20,000	1,106	1.60%	20,210.00	710	-69.00
Tin	18,200	18,250	18,240	18,025	125	0.27%	18,110.00	60	-63.00
Zinc	1,885	1,880	1,865	1,805	5	-0.27%	1,852.00	42	-32.25

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.75	76.49	77.75	76.27	-1.10	-1.44%
NYMEX WTI	78.15	77.10	78.32	76.90	-1.15	-1.49%
ICE Gasoil	671.25	663.50	671.25	662.75	-7.00	-1.06%
API2 Q3'10	92.50	94.00	-	-	1.50	1.60%
EUA Dec10	15.35	15.43	-	-	0.08	0.52%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,256.00	1,261.00	1,262.70	1,236.50	1,237.50	-17.25	0.5/0.9
Silver	-	18.59	19.24	18.67	18.70	0.60	1.5/3.5
Platinum	1,584.00	1,581.00	1,591.00	1,570.00	1,565.00	-5.00	-1.0/1.0
Palladium	480.00	481.00	481.00	471.00	470.00	-7.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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Focus: Copper forward curve - back-end still bid

While June has been rather volatile as far as prices are concerned, overall the nearby portion of the copper forward curve has largely trodden water (see chart).

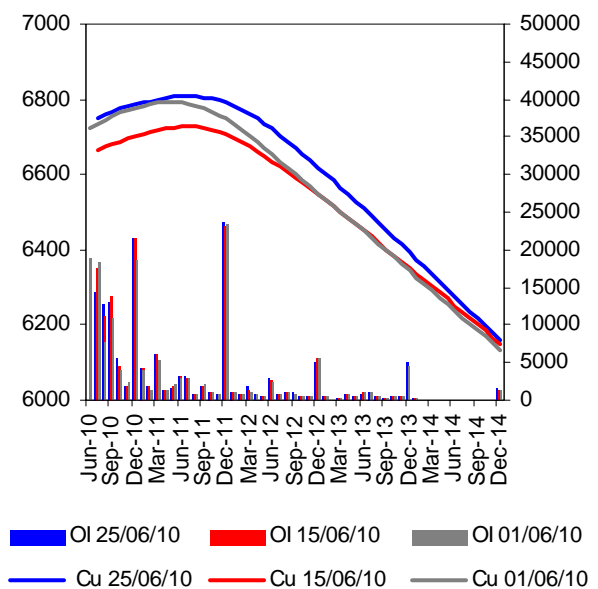
The main area of movement has been in the back end of the curve, particularly around the Dec-11 date. Dec-11 remains by far the busiest month as far as open interest is concerned, with open interest continuing to build over the past month. Open interest for Dec-10 also picked up strongly, though some of this appears to be due to the rolling of positions.

Further forward, the most interesting aspect is an increase in Dec-13 open interest, at the expense of Dec-12.

Large swings in outright prices, relative to movement in the shape of the forward curve, have increased the appeal of spread trades, particularly for the likes of copper and other metals whose physical markets are expected to tighten up dramatically over the next 12-18 months or so.

With so much open interest centered on the Dec-11 date however, it will be very interesting to see at what point those positions start to be rolled. Its unlikely to happen rapidly, but will nevertheless be an important factor as far as the shape of the copper forward curve is concerned over the coming months.

Copper forward curves and open interest



Sources: LME, Bloomberg, Standard Bank

By Leon Westgate

Base metals

The base metals had a fairly stable start to the week, trading sideways to higher in spite of a marked deterioration in the euro against the dollar. This morning has been more volatile however a broad-based sell off during Asian trade triggering a bit of panicked liquidation this morning. All of the base metals have come under heavy pressure, though the complex has stabilised. Looking ahead to this afternoon, their fortunes depend very much on the US market and whether they also panic or see the pullback in prices as a buying opportunity. Data-wise, the main figures to watch will be the US Consumer Confidence numbers for June, expected at 62.5 from 63.3 in May.

The sell-off was due to a combination of factors, including a sharp fall in the Shanghai composite index as Chinese participants took money off the table - ahead of Agricultural Bank of China's IPO - and a downward revision to the Conference Board's April leading indicator to 0.3% from the original 1.7% figure. The sell off was further exacerbated by confusion stemming from problems with newswire price feeds overnight.

With the end of the first half of the year fast approaching, it is likely some participants had positioned them selves in anticipation of position housekeeping activity and a quarter-end rally. It was perhaps the liquidation of those weak long positions that exacerbated the sell-off this morning.

Copper briefly traded below \$6,600 this morning, before picking back up during the late-morning. Copper's turnover has again been head and shoulders above the rest of the base metals, with copper leading the rest of the complex as a result. Aside from the price movements, tightness around the August date remains a feature of the aluminium market.

In other news, UC Rusal has said that an aluminium ETF is due to start trading as early as next month. According to the Rusal CEO Oleg Deripaska, Rusal and other producers are in talks to supply metal for the fund.

Meanwhile, Beijing Antaika estimate that lead recyclers in China have idled around 8% of capacity due to high input costs - in this case used Lead Acid batteries. In contrast, low primary metal prices are reportedly squeezing margins for Chinese lead smelters, with the Antaika estimating that average lead production costs in China are 14,000 Rmb, just below current cash prices of 14,950 Rmb. In most cases the idling of capacity has taken the form of maintenance shutdowns, with producers in need of imported concentrate the ones suffering the most.

By Leon Westgate

Precious metals

Gold came under heavy pressure during Monday afternoon with a stronger dollar prompting a burst of selling activity during early NY trade. With outright prices being so volatile, and the Indian market quietening down with the Monsoon season, there was little physical buying interest around to help cushion the fall. After trading above \$1,262/oz, gold finished the day back around \$1,238/oz.

After a slow start, gold has come under further pressure this morning after a bout of further dollar strength. Gold has avoided the sell-off seen in the base metals and energy markets however, and is performing relatively well.

The PGMs have fared less well, with the weakness in the base metals complex dragging platinum and palladium lower too. Both metals nevertheless remain within recent ranges. Support is seen around \$1,525/oz and \$455/oz respectively.

In other news, a move from the governor of South Cotabato province in the Philippines, approving a ban on open pit gold mining has raised fresh concern over the ~\$5.2 billion Tampakan copper-gold project. Tampakan is owned by a joint venture between Sagittarius mines - a unit of Xstrata Plc - and Indophil Resources Plc. China's largest gold mining company, Zijin Mining Group, pulled out of a bid to purchase Indophil last week. Commercial operations were expected to begin in 2016, with production rates expected to average 340 ktpy of copper and 350 koz/y of gold.

By Leon Westgate

Energy

Unlike the base metals, crude oil came under pressure on Monday, with a stronger dollar dragging prices lower to see front month WTI close the day at \$78.25/bbl. Crude has come under further pressure this morning, with the sell-off in Asian equities and the industrial metals overnight, combining with further dollar strength to see WTI trade back below \$77/bbl during the early afternoon.

Aside from the key US Consumer Confidence numbers this afternoon, with the oil market remaining directionless and very nervous, the market will likely look towards the dollar and US equity markets.

Meanwhile, Alex, the first named tropical storm system of this year's hurricane season, strengthened today and is expected to reach hurricane status. Some rigs in the Gulf of Mexico have been evacuated as a result, though the storm is expected to miss the site of the BP oil leak. Current oil capture operations are unlikely to be affected, however, big swells are nevertheless expected to impact on the containment of the oil slick, and may delay efforts to connect a new containment cap to the leaking Macondo well.

Coal continues to blaze its own trail, with prices strengthening yesterday. API2 for Q3-10 climbed \$1.50/mt while API4 for the same date rallied \$0.75/mt. Cal-11 for both contracts climbed \$2.00/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	4,440,625	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	0	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	14,920	14,790	-165	Ali May'10	-	-	-	-
Copper	53,680	52,880	-1,250	Cu May'10	309	302.15	-6.80	-2.20%
Zinc	15,250	14,750	-555					

ZAR metal prices (28 June 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,096	51,428	13,825	152,848	136,966	14,007	7.5630
3-month	15,584	52,758	14,286	158,988	140,171	14,440	7.6806

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)	85.83	0.09	88.50	0.58	89.08	0.68	90.49	0.87	-	-
Gasoil 0.1% Rdam (\$/mt)	663.50	-7.00	665.25	-7.25	668.25	-8.00	681.00	-5.00	705.25	7.25
NWE CIF jet (\$/mt)	705.64	0.74	718.86	5.59	724.39	5.07	741.41	6.75	770.40	6.75
Singapore Kero (\$/bbl)	86.79	0.10	89.35	0.58	90.13	0.68	91.99	0.82	94.87	0.98
3.5% Rdam barges (\$/mt)	418.73	-0.37	423.25	-2.75	425.75	-2.75	434.50	-2.50	451.05	-2.77
1% Fuel Oil FOB (\$/mt)	443.42	-0.16	456.00	-2.50	460.75	-2.75	470.75	-3.00		
Sing FO 380 Cargo (\$/mt)	447.00	-2.75	447.00	-2.75	447.00	-2.75	447.00	-2.75		
Sing FO180 Cargo (\$/mt)	442.01	-0.28	451.00	-3.00	454.25	-3.00	463.00	-2.75		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	94.00	1.50	96.75	2.00	98.75	2.25	101.00	2.00	108.75	2.00
API4 (FOB RBCT)	93.25	0.75	93.75	1.50	95.45	2.25	97.50	2.00	102.00	1.85

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.46000	0.49667	0.57000	0.68167	0.78667		
Silver	0.68333	0.69167	0.72167	0.77167	0.78833		
USD Libor	0.34719	0.43063	0.53344	0.74719	1.17563		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	56.11	1,241.68	1,233.79	1,165.19	1,131.17	1,085.00	1,105.00
Silver	52.20	18.76	18.46	17.74	17.58	16.30	16.90
Platinum	45.63	1,573.35	1,556.46	1,612.37	1,523.07	1,500.00	1,550.00
Palladium	47.51	478.27	463.73	479.70	424.63	420.00	433.00
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	1,237.70	18,6200	464.35	1,570.40	1,237.20	3,544.00	1,237.40
Open Interest	603,688	132,798	21,396	30,221	1,522	114,239	2,998
Change in Open Interest	-4,228	2,836	-118	1,680	0	-1,700	-93

Date: 28 June 2010

Sources: Standard Bank; LME; Bloomberg

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