

FICC Research

Commodities: Daily

Focus: China auto sales bullish for metals



13 April 2010

Walter de Wet, CFA*
Walter.De.Wet@standardbank.com

Leon Westgate*
Leon.Westgate@standardbank.com

Focus: Given that auto sales are a leading economic indicator, we view China's vehicle sales as a positive signal, and bullish for platinum and palladium demand.

- The base metals are a little softer this morning with everything bar Tin opening lower. Volumes remain subdued with the metals trading water and settling down into consolidation mode. In the absence of any clear direction the dollar is having some impact on intraday price direction.
- This is a data-heavy week, and markets seem cautious. Following the increase in non-commercial speculative activity in the futures market, profit-taking for gold set in late yesterday afternoon. With the scrap metal coming to market above \$1,150, our view remains unchanged: gold is running into strong resistance above \$1,150.
- Crude oil is weaker this morning, with front month WTI seeing a bout of liquidation before recovering again helped by a bout of dollar weakness. Looking at the forward curves, the nearby contango for WTI has increased significantly over the past couple of weeks. If this trend continues, floating crude oil storage may become increasingly attractive.

Commodity price data (12 April 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,416	2,418	2,415	2,385	16	0.08%	2,381.00	24	-33.00
Copper	7,950	7,906	7,896	7,823	-29	-0.55%	7,915.00	19	-32.50
Lead	2,343	2,359	2,344	2,305	29	0.66%	2,315.00	35	-25.50
Nickel	25,600	25,785	25,700	25,302	580	0.72%	25,580.00	380	-60.00
Tin	18,750	18,700	18,750	18,625	45	-0.27%	18,695.00	90	-75.00
Zinc	2,416	2,422	2,422	2,358	10	0.27%	2,380.50	25	-33.00

Energy

	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	84.66	84.46	84.90	84.10	-0.31	-0.37%	-	-	-
NYMEX WTI	84.36	83.76	84.36	83.43	-0.58	-0.69%	-	-	-
ICE Gasoil	706.00	705.00	709.50	702.00	-7.50	-1.06%	-	-	-
API2 Q2'10	78.75	77.25	-	-	-1.50	-1.94%	-	-	-
EUA Dec10	13.68	13.69	-	-	0.01	0.07%	-	-	-

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,163.50	1,158.75	1,168.00	1,159.00	1,161.60	0.80	0.4/0.8
Silver	-	18.13	18.47	18.35	18.38	0.06	0.0/2.0
Platinum	1,725.00	1,728.00	1,735.00	1,728.00	1,730.00	8.00	3.0/6.0
Palladium	515.00	515.00	523.00	515.00	521.00	10.00	0.0/2.0

Sources: Standard Bank; LME; BBG

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

Focus: China auto sales bullish for metals

Global auto sales are still on the rise, and China remains in the lead. Japan's auto sales for March have risen on a m/m and y/y basis. US auto sales in March were up too. China's auto sales for March have posted a 56% y/y increase (yesterday). Base effects make sales growth look spectacular. But even in absolute terms, auto sales in the four large markets (Japan, Europe, US and China) are rising fast; the recovery that started in June 2009 continues apace.

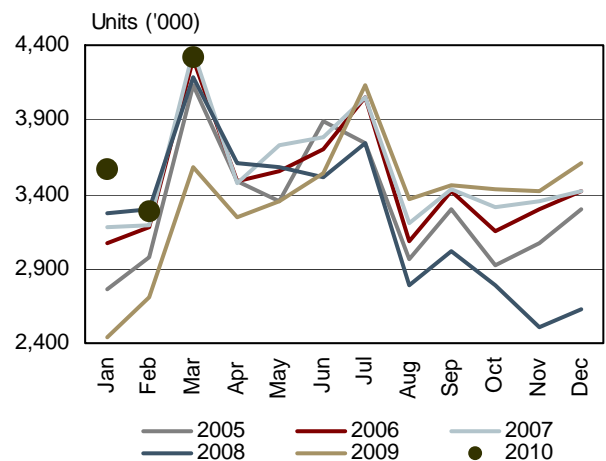
Japan's sold 674K vehicles in March. This is 24% more than February 2009, and a 47% rise m/m. The US recorded total auto sales at 1.06m units in March. This is 24% more than March 2009, and a 36% m/m rise. China sold 1.7m units in February, up 56% y/y and 43% m/m.

Seasonally, March is the best month for auto sales in markets like Japan and the US and, to a lesser extent, China. Therefore, while March figures are bullish for metals, we would look for a slight decline in April figures, driven largely by seasonal patterns from Japan and the US.

Europe will report auto sales for February next week. Although we do not expect European auto sales to show the same growth as in the US, Japan or China, the numbers are likely to beat February numbers, due to seasonal patterns.

Looking at auto sales from an aggregate level for these four large markets, auto sales in March could reach new highs. Eurozone

Auto sales in US, China, Japan and Euro-zone



Sources: Standard bank, BBG

auto sales for March are still outstanding, but should they come in flat on the February numbers, total auto sales in these economies could approach the highs witnessed in March 2006 and March 2007.

Given that auto sales are a leading economic indicator, we view China's vehicle sales as a positive signal, and bullish for platinum and palladium demand, as well as for demand for base metals like aluminium, copper and zinc.

By Walter de Wet

Base metals

The base metals are a little softer this morning with everything bar Tin opening lower. Volumes remain subdued with the metals trading water and settling down into consolidation mode. In the absence of any clear direction the dollar is having some impact on intraday price direction, while this afternoon will likely see the US equity markets take charge.

Monday saw the Dow close above 11,000 for the first time since September 2008. With exogenous factors in the driving seat, whether the Dow manages to dig its heels in above this key psychological level, or whether it has a pullback may ultimately decide how the metals perform over the coming days.

Nickel rallied strongly throughout much of Monday, with volumes also building up during the afternoon after a quiet start. Prices have drifted back a little during Tuesday morning though the metal is still comfortably above \$25,000/mt. LME inventories continue to decline with on-warrant stocks falling 846 mt.

After a bright start Copper was sold off during Monday closing the day just above \$7,900. Prices opened lower this morning, though overall copper is trading sideways heading into the afternoon, with the metal consolidating its position. Copper has now tried and failed to break convincingly above the \$8,000 mark three times since the beginning of the month. Given the improving economic outlook, seasonal demand strength and solid longer-term fundamentals, the market seems reluctant to go short. However, without solid activity from China, copper is lacking the little something extra it needs to clear \$8,000 without it getting a nosebleed. We nevertheless remain bullish for copper this quarter and see prices pushing higher over the coming weeks.

In other news, the Government of the Democratic Republic of Congo has decided to enact a law, originally passed in 2007, banning the export of copper and cobalt concentrate/ore from Katanga province. The law, enforced from April 8th, requires companies to produce higher value-added forms of the metals within the DRC before export. The impact or duration of the ban is uncertain at this time, with operations such as the large Tenke mine, which produces copper cathodes and cobalt hydroxide, being unaffected by the ban. Prices for the LME Cobalt contract have rallied nevertheless, with the 3 month contract reaching a high of \$47,300/mt, though some of the strength may also be attributable to nickel's recent strong performance.

By Leon Westgate

Precious metals

This is a data-heavy week, and markets seem cautious.

Following the increase in non-commercial speculative activity in the futures market, profit-taking for gold set in late yesterday afternoon. With the scrap metal coming to market above \$1,150, our view remains unchanged: gold is running into strong resistance above \$1,150.

Although sovereign credit risk has subsided on the back of Greece's loan support from the Eurozone, we do not expect this support for Greece to push gold much lower. Sovereign debt problems cannot be resolved overnight, and this should add underlying support to gold. We therefore expect strong support to come through for gold on approach of \$1,130.

Gold support is at \$1,142 and \$1,136, resistance at \$1,162 and \$1,178.

Platinum and palladium have given up some of their recent gains on the lower gold price. Overall the PGM market is quiet. EU new vehicle registration for March (due Friday) should offer the next confirmation that demand platinum is growing. Platinum support is at \$1,695 and \$1,680, resistance is at \$1,730. Palladium support is at \$502 and \$495, resistance at \$520.

Silver has had profit-taking out of Asia earlier today. Support is seen at \$17.90 and \$17.70, resistance is at \$18.45.

By Walter de Wet

Energy

Crude oil is weaker this morning, with front month WTI seeing a bout of liquidation before recovering again helped by a reversal in the dollar. WTI still remains well within recent ranges however, and looks likely to trade sideways until the fundamental picture starts to show a solid improvement in demand. In the meantime, technical signals and exogenous factors remain in charge.

Looking at the forward curves, the nearby contango for WTI has increased significantly over the past couple of weeks, with the Jun-10 to Dec-10 contango going from \$1.43 as of end-March, to \$3.61 as of April 12th. If this trend continues, floating crude oil storage may become increasingly attractive once again.

Tomorrow sees the release of the DOE inventory figures. Expectations are for a further increase in Crude Oil and Distillate inventories, up 1.150 million bbl and 1.0 million bbl respectively, and for a 1.0 million bbl decline in Gasoline stocks.

Elsewhere, the International Energy Agency (IEA) expects 2010 output from non-OPEC producers to increase this year. The IEA estimates non-OPEC crude oil supply will increase by 600,000 bbl/day to reach an average of 52 million bbl/day over 2010. Non-Opec counties account for around 60% of global production. Meanwhile, the latest IEA estimate of Crude Oil demand increased slightly to 86.6 million bbl/day for 2010, equivalent to a 2% y-o-y increase in consumption.

The main feature in the coal market has been a further widening in the contango, with the far-dated contracts continuing to see good support while the nearby contracts come under pressure. For example, API2 for Q2-10 fell \$1.50/mt yesterday, whereas Q4-10 and Q4-11 picked up \$0.85/mt and \$1.15/mt respectively. Q3-10 was largely unchanged and appears to be the point at which the coal forward curve is pivoting.

Overall the coal market continues to remain pretty bullish longer term, driven by expectations of solid Chinese demand. However, steady selling pressure is keeping nearby prices subdued.

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	4,570,650	4,575,650	450	5,450	-5,000	-58,250	272,825	5.97	239,833
Copper	510,625	511,075	525	975	-450	8,300	15,800	3.09	111,736
Lead	173,575	173,750	300	475	-175	27,075	4,175	2.41	40,824
Nickel	153,924	154,584	-	660	-660	-4,086	7,146	4.64	33,622
Tin	24,065	24,380	45	360	-315	-2,700	535	2.22	3,861
Zinc	546,175	545,775	500	100	400	58,125	13,325	2.44	84,839

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change	Open	Close	Change	Change (%)
Aluminium	16,820	16,880	15	Ali Mar'10	-	-	-
Copper	62,050	62,170	-830	Cu Mar'10	356	356.05	-0.40
Zinc	19,130	19,155	-245				

ZAR metal prices (12 April 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,250	57,344	16,772	185,327	135,445	17,247	7.2450
3-month	17,797	58,190	17,359	189,783	137,636	17,826	7.3602

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)	94.84	0.56	95.59	0.76	95.95	0.81	97.68	0.94		
Gasoil 0.1% Rdam (\$/mt)	705.00	-7.50	709.00	-7.50	713.50	-8.25	730.00	-7.50		
NWE CIF jet (\$/mt)	762.93	6.78	768.17	7.92	774.58	6.75	793.99	8.25		
Singapore Kero (\$/bbl)	95.01	0.71	95.79	0.76	96.45	0.81	98.53	0.89		
3.5% Rdam barges (\$/mt)	460.09	4.10	466.50	5.75	469.75	5.75	478.00	6.00		
1% Fuel Oil FOB (\$/mt)	490.94	3.95	496.75	5.75	500.00	5.75	513.00	6.00		
Sing FO 380 Cargo (\$/mt)	485.50	5.50	488.50	5.50	491.50	5.75	494.00	5.75		
Sing FO180 Cargo (\$/mt)	488.42	5.87	494.75	5.75	497.50	5.75	505.50	6.00		
Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	77.25	-1.50	81.55	0.05	85.65	0.85	92.80	1.00	105.70	1.50
API4 (FOB RBCT)	86.15	-1.20	89.05	0.15	90.95	1.15	95.95	0.90	103.00	1.05

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.21500	0.21750	0.22250	0.31500	0.51250		
Silver	0.54500	0.55000	0.55750	0.58250	0.58250		
USD Libor	0.25298	0.27260	0.30041	0.45563	0.94094		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	56.63	1,139.62	1,122.81	1,119.85	1,063.78	1,150	1,168
Silver	57.16	18.04	17.55	17.25	16.56	18.00	18.50
Platinum	63.12	1,696.42	1,653.49	1,545.59	1,416.29	1,660	1,750
Palladium	63.81	503.17	483.90	429.26	363.97	490	500
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	May'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,152.00	18.1000	512.60	1,739.40	1,151.90	3,439.00	1,152.80
Open Interest	524,480	124,013	24,066	#N/A Tim	1,892	98,983	3,780
Change in Open Interest	-3,096	-2,404	172	#VALUE!	0	398	-613

Date: 12 April 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.