

FICC Research

Commodities: Daily

Focus: Copper open interest



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Focus: Copper open interest on the LME currently stands around the highest levels on record, and above the levels seen in Q1-2008 when the market was max-long, and in Q4-2008 when the market was max-short.

- The base metals had another very quiet overnight session on Wednesday. Activity picked up initially this morning as London got going, however that enthusiasm has faded again with volumes remaining subdued across the metals.
- Gold had an erratic day on Tuesday, trading sideways then lower to finish just above \$1,150/oz. The metal has temporarily broken the steady uptrend its been in since the beginning of the month, though it remains well supported this morning.
- Palladium has been very strong this morning, rallying up to \$551/oz. The trigger for the rally appears to be comments from Anglo Platinum Ltd that the global market for the metal may be in deficit for much of the next decade.
- Crude oil has continued to pick up heading into the afternoon with front month WTI again trading above \$85/bbl.

Commodity price data (13 April 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,401	2,436	2,462	2,440	14	1.48%	2,369.00	-12	-32.75
Copper	7,875	7,905	7,968	7,921	-5	0.38%	7,845.00	-70	-32.75
Lead	2,370	2,358	2,368	2,350	12	-0.51%	2,305.50	-10	-22.25
Nickel	25,550	25,505	25,990	25,725	-255	-0.18%	25,570.00	-10	-61.50
Tin	18,750	18,650	18,849	18,701	-90	-0.53%	18,725.00	30	-75.00
Zinc	2,398	2,389	2,426	2,400	-35	-0.38%	2,367.50	-13	-32.75

Energy

	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	84.68	84.95	85.07	84.49	0.23	0.27%	-	-	-
NYMEX WTI	83.82	84.51	84.55	83.71	0.46	0.54%	-	-	-
ICE Gasoil	704.50	707.50	708.25	704.50	7.50	1.06%	-	-	-
API2 Q2'10	77.25	75.80	-	-	-1.45	-1.91%	-	-	-
EUA Dec10	13.69	13.72	-	-	0.03	0.22%	-	-	-

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,149.25	1,148.25	1,157.20	1,146.80	1,152.60	-9.00	0.3/0.7
Silver	-	18.37	18.30	17.25	17.23	-1.15	-0.5/1.5
Platinum	1,708.00	1,714.00	1,724.00	1,707.00	1,711.00	-19.00	3.0/6.0
Palladium	510.00	518.00	524.00	514.50	521.00	0.00	0.0/2.0

Sources: Standard Bank; LME; BBG

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Focus: Copper open interest still rising

Copper open interest on the LME currently stands around the highest levels on record, and above the levels seen in Q1-2008 when the market was max-long, and in Q4-2008 when the market subsequently went max-short.

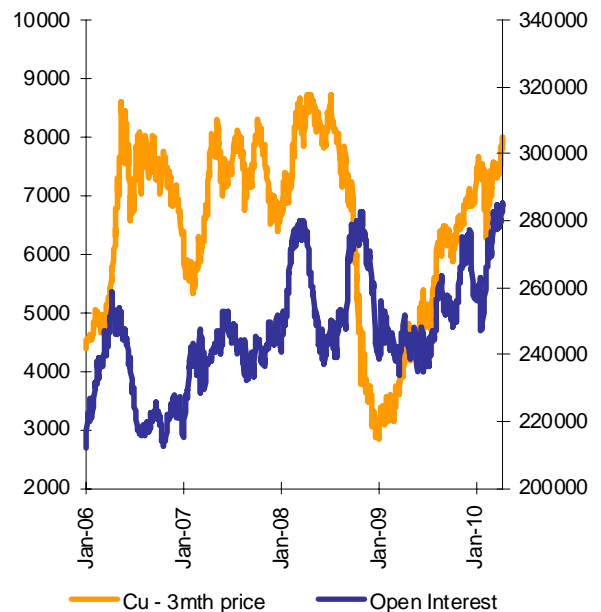
Other than a brief wobble at the beginning of the year, the general trend has been rising open interest and rising copper prices, suggesting the addition of significant fresh long positions. In terms of where the open interest is focused, the main pools of liquidity are in first three contract months (Apr-10 through Jun-10), Dec-10 and Dec-11.

Open interest for Dec-11 has more than doubled over the past 6 months, to the point where current levels of Dec-11 open interest are vying with June in terms of being the most liquid month. By comparison, open interest for Dec-10 over the same period has been steady.

Normally, very high levels of open interest are a cause for concern, particularly for a market like copper where there are still uncertainties about the pace of the economic recovery and metal demand. The fact that open interest is spread along the curve is a positive sign however, with the farther dated positions likely to be fairly sticky.

Therefore, although there will probably be periods of price weakness over the coming months, much of the money in the copper

LME Copper 3mth price vs. Open Interest



Sources: LME, Bloomberg

market seems likely to stay put. Given the expectation of tightening fundamentals and increased demand any price dips will likely be seen as buying opportunities rather than a sign to head for the exit.

By Leon Westgate

Base metals

Aluminium put in a very strong performance on Tuesday, rallying strongly during the afternoon to finish the day on its highs. The light metal was the exception rather than the rule however, with the rest of the base metals complex drifting sideways and consolidating. The base metals had another very quiet overnight session on Wednesday. Activity picked up initially this morning as London got going, however that enthusiasm has faded again with volumes remaining subdued across the complex.

Looking ahead, Thursday sees the release of the latest Chinese GDP, Industrial Production, Retail Sales, and Inflation figures. This should result in a much busier overnight session tomorrow.

Nickel continues to remain firm heading into the afternoon. Prices are having a look at \$26,000, though thin volumes have seen momentum fade a little. Overall, nickel's rally is still very much technical in nature, however, the metal is receiving support from further declines in LME inventory, expectations of a tightening physical market this year and news that BHP Billiton's Leinster operations won't resume full output for several weeks following a fatal accident on April 11th.

The Leinster operations form part of BHP Billiton's Nickel West unit. Nickel West is an integrated operation consisting of three mines - the Mt Keith open pit mine and two underground mines at Leinster - a 110ktpy capacity smelter at Kalgoorlie and the 65 ktpy capacity Kwinana refinery. Nickel West produced 113.4 kt of contained nickel in calendar 2009, of which 66.3 kt was nickel metal from Kwinana. As a result of the capacity mismatches, the unit also produced 28.2 kt of nickel contained in matte and 18.9 kt of nickel in concentrate. In terms of potential lost production, Mt Keith has a capacity in the region of 45 ktpy of contained nickel with the rest of the metal coming from Leinster and third party concentrate. (Very) back of the envelope estimates therefore suggest that perhaps 500-600 mt per week of contained nickel could be lost during the current stoppage, though this could be easily offset by running down concentrate stocks or by increasing purchases of third party material.

Elsewhere, lead has come under pressure this morning following a large 7,375 mt increase in on-warrant stocks. The activity was centred in the US with Baltimore seeing stocks climb 3,375 mt and Detroit seeing a 3,700 mt inflow. Copper is a little firmer this morning, though the metal looks increasingly rangebound and comfortable. Meanwhile, after a strong start, aluminium has drifted back and is trading sideways heading into the afternoon.

By Leon Westgate

Precious metals

Gold had an erratic day on Tuesday, trading sideways then lower to finish just above \$1,150/oz. The metal has temporarily broken the steady uptrend it's been in since the beginning of the month, though it remains well supported this morning ahead of this afternoon's US economic data.

Silver had a solid day on Tuesday, digging its heels in after the weakness seen on Monday to finish more or less unchanged. Silver is broadly tracking gold this morning but is so far managing to outperform its more glamorous sibling.

Platinum also remains firm this morning, with the metal looking to the dollar for direction.

The real strength however has been in palladium which has rallied up to \$551/oz this morning. The trigger for the rally was due to comments from Anglo Platinum Ltd that the global market for the metal may be in deficit for much of the next decade due to the combination of increased industrial demand and the depletion of Russian stockpiles. Palladium prices have since drifted back a little, with the metal taking a breather ahead of NY trade.

This afternoon is fairly busy in terms of economic data with the release of the US PI figures for March (expected +0.1% m-o-m) and the March Advance Retail Sales (expected +1.2% m-o-m and +0.5% ex-autos). With the dollar remaining a key driver for gold and the other precious metals, any significant departure from consensus estimates may have an impact.

By Leon Westgate

Energy

Crude oil recovered from an early afternoon sell-off on Tuesday to finish the day more or less unchanged. Prices have continued to pick up heading into the afternoon with front month WTI again trading above \$85/bbl.

Last night's API inventory figures were on the bearish side, with increases seen across the board. The data had little impact on prices however with all eyes on this afternoon's US DOE figures.

Given that we are entering a strong seasonal demand period for gasoline, the focus of the market has been switching away from the crude and distillate inventory figures. Stocks of gasoline are back within normal ranges and are expected to continue declining as the US driving season approaches.

That said however, the latest API figures, showed a 1.61 million bbl increase in gasoline stocks compared to the previous week's 2.96 million bbl decline. Current forecasts are for the DOE Gasoline stock numbers to show a 1 million bbl decline, following on from last week's 2.5 million bbl fall. The market may therefore be primed for a bearish gasoline number and may consequently switch their focus back towards the headline crude oil inventory numbers.

Coal prices came under pressure on Tuesday right along the forward curve. Nevertheless the contango continued to widen with nearby contracts coming under heavier pressure than those further along the curve. API2 for Q2-10 fell \$1.45/mt to \$75.80 while Cal-11 dropped \$1.00/mt to \$91.80.

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	4,568,075	4,570,650	2,475	5,050	-2,575	-60,825	268,675	5.88	239,833
Copper	509,650	510,625	100	1,075	-975	7,325	14,875	2.92	111,736
Lead	180,425	173,575	7,375	525	6,850	33,925	3,650	2.02	40,824
Nickel	153,306	153,924	-	618	-618	-4,704	7,062	4.61	33,622
Tin	24,230	24,065	165	-	165	-2,535	580	2.39	3,861
Zinc	546,150	546,175	-	25	-25	58,100	13,400	2.45	84,839

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,960	16,940	55	Ali Mar'10	-	-	-	-
Copper	62,640	62,510	340	Cu Mar'10	360	360.45	0.40	0.11%
Zinc	19,315	19,255	100					

ZAR metal prices (13 April 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,263	57,167	16,800	186,329	136,449	17,252	7.2870
3-month	18,033	58,520	17,456	188,811	138,064	17,686	7.4029

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)	93.82	-1.02	94.25	-1.34	94.60	-1.35	96.33	-1.35	-	-
Gasoil 0.1% Rdam (\$/mt)	707.50	7.50	711.00	7.00	716.25	6.75	731.75	5.50	748.50	-9.75
NWE CIF jet (\$/mt)	755.89	-7.04	756.30	-11.87	763.25	-11.33	782.79	-11.20	814.82	-9.32
Singapore Kero (\$/bbl)	93.81	-1.20	94.45	-1.34	95.10	-1.35	97.18	-1.35	100.92	-1.22
3.5% Rdam barges (\$/mt)	459.35	-0.74	466.00	-0.50	469.75	0.00	479.00	1.00	492.68	2.41
1% Fuel Oil FOB (\$/mt)	489.35	-1.59	494.50	-2.25	499.00	-1.00	513.00	0.00		
Sing FO 380 Cargo (\$/mt)	485.25	-0.25	488.50	0.00	491.50	0.00	494.50	0.50		
Sing FO180 Cargo (\$/mt)	487.81	-0.61	494.00	-0.75	497.25	-0.25	506.25	0.75		
Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	75.80	-1.45	80.20	-1.35	84.40	-1.25	91.80	-1.00	104.70	-1.00
API4 (FOB RBCT)	84.90	-1.25	87.20	-1.85	89.50	-1.45	94.05	-1.90	101.70	-1.30

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	0.25438	0.27506	0.30281	0.45563	0.93594		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	57.50	1,143.94	1,124.62	1,119.50	1,065.02	1,085.00	1,105.00
Silver	59.05	18.14	17.60	17.25	16.59	16.30	16.90
Platinum	64.94	1,705.45	1,658.63	1,548.21	1,419.45	1,500.00	1,550.00
Palladium	69.27	511.04	487.90	431.12	365.58	420.00	433.00
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	1,156.90	18,3250	537.40	1,717.30	1,156.60	3,493.00	1,156.30
Open Interest	528,500	124,280	23,973	37,542	2,210	97,227	3,839
Change in Open Interest	-4,020	-267	93	251	-318	1,756	-59

Date: 13 April 2010

Sources: Standard Bank; LME; Bloomberg

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