

FICC Research

Commodities: Daily

Focus: SHFE and LME copper markets diverging



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Focus: The past month or so has seen the SHFE and LME copper markets diverge and more or less ignore one another. SHFE prices have remained fairly steady, with the Chinese market seeming to be increasingly content following its own fundamentals. The LME contract has meanwhile broken higher, trading sideways around \$7,900.

- Zinc was the main focus of the market on Thursday with the metal gaining over 3%. The move came in the back of very good turnover with volumes on LME Select rivaling that of copper and exceeding aluminium. Zinc volumes have continued to be very good this morning, while prices have remained firm.
- Gold rallied during NY trade on Thursday, closing at \$1,159.25/oz. This morning has seen the metal track the dollar however, under heavy pressure during the early afternoon and trading back below \$1,150.
- Crude oil drifted lower during NY trade yesterday, with front month WTI coming under further pressure today due to a stronger dollar.

Commodity price data (15 April 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,453	2,472	2,480	2,454	22	0.77%	2,424.00	5	-32.15
Copper	7,880	7,946	7,950	7,906	-5	0.84%	7,875.00	-50	-31.50
Lead	2,307	2,341	2,365	2,318	-20	1.50%	2,290.00	-44	-24.25
Nickel	26,665	27,250	27,400	27,050	825	2.19%	26,690.00	815	-60.00
Tin	18,850	18,975	19,165	18,990	289	0.66%	18,755.00	125	-75.00
Zinc	2,425	2,509	2,550	2,480	49	3.46%	2,394.00	9	-32.25

Energy

	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	87.48	87.13	87.57	86.96	-0.46	-0.53%	-	-	-
NYMEX WTI	85.35	84.81	85.44	84.66	-0.70	-0.83%	-	-	-
ICE Gasoil	718.00	715.50	719.00	714.25	-0.25	-0.03%	-	-	-
API2 Q2'10	76.50	76.20	-	-	-0.30	-0.39%	-	-	-
EUA Dec10	14.18	14.13	-	-	-0.05	-0.35%	-	-	-

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,151.25	1,154.50	1,161.30	1,151.10	1,159.30	0.50	0.3/0.7
Silver	-	18.31	18.51	18.23	18.42	0.01	-1.0/1.00
Platinum	1,716.00	1,718.00	1,732.00	1,719.00	1,720.00	-5.00	3.0/6.0
Palladium	540.00	542.00	547.00	543.00	544.00	-2.00	0.0/2.0

Sources: Standard Bank; LME; BBG

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Focus: SHFE and LME Copper markets diverging

The past month or so has seen the SHFE and LME copper markets diverge and more or less ignore one another.

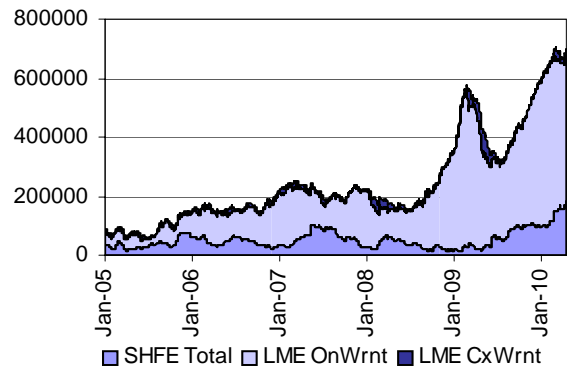
SHFE prices have remained fairly steady, with the Chinese market seeming to be increasingly content following its own fundamentals. The LME contract has meanwhile broken higher from the ~\$7,500 trading level it occupied throughout most of March, and now seems comfortable trading sideways around \$7,900. In doing so, the difference between the two markets has widened significantly.

The two markets have also seen differences in terms of inventory flows. Other than a blip around end-March, SHFE copper stocks have been picking up for much of this year and reaching recent highs. This in turn has helped maintain the sizeable contango in the SHFE forward curve. LME inventories also picked up during the first two months of the year, however on-warrant stocks have been declining steadily since late February.

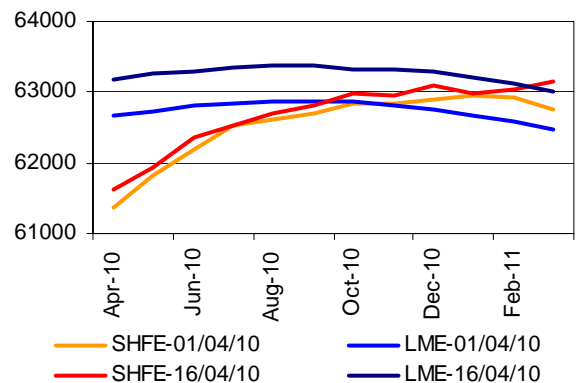
Ordinarily, you would expect the differential in LME and SHFE prices to tempt material back out of China. However, tax implications, and the fact that China remains a significant net importer of copper means that the arbitrage is actually very asymmetric in nature. Instead participants seem more likely to sit tight and wait for domestic conditions to improve again.

With China remaining the main source of global copper demand, and entering a seasonally strong demand period, we would expect the markets to show some sort of convergence over the coming months. However there seems little sign of that happening just yet.

LME and SHFE Copper inventory (mt)



SHFE Copper forward curve vs. LME equivalent (Rmb/mt)



Sources: Standard Bank, LME, SHFE

By Leon Westgate

Base metals

Zinc was the main focus of the market on Thursday with the metal gaining over 3%. The move came in the back of very good turnover with volumes on LME Select rivaling that of copper and exceeding aluminium. Zinc volumes have continued to be very good this morning, while prices have remained firm. Lead has been the strongest performer this morning, while tin and nickel have also put in a strong performance, in spite of a stronger dollar. Copper is the only metal not to move higher, with the metal continuing to trade sideways heading into the afternoon.

There was no zinc specific news to speak of other than the strong Chinese economic growth and general improving macroeconomic picture. However, given that copper has retreated to its armchair over the past week or so, with the late-March rally having petered out, participants may have instead looked at the relative performance of the metals generally and perhaps looked into a copper-zinc switch.

Nickel has continued to push higher with the metal climbing above \$27,500. Prices are moving in fits and starts however as some participants look to take profits or try to call the top, whereas others look to buy on positive technical signals. In the background, bullish signals from the physical market are also lending support to prices with an element of panic perhaps starting to creep in from consumers.

Nickel premiums have certainly firmed up in Asia and Europe, with the premium for full plate in Singapore for example climbing to \$120-140/mt from ~\$100 two weeks ago. Although backwards looking, the latest estimate from the INSG that the global nickel market was in deficit in February, has also helped to boost sentiment towards the metal.

Tin has climbed above \$19,000 this morning on the back of solid turnover, reaching the highest level since September 2008. Lead has also rallied strongly, reaching \$2,400 this morning, but remains well within the range it has occupied since September last year. Copper meanwhile continues to plod along sideways around \$7,950.

By Leon Westgate

Precious metals

Gold rallied during NY trade on Thursday, closing at \$1,159.25/oz. This morning has seen the metal track the dollar however, coming under pressure during Asian trade. Long liquidation and physical selling saw prices drop briefly below \$1,153 overnight before prices firmed up again during London trade. The recovery has been short lived however with further dollar strength seeing gold drop below \$1,150/oz.

The dollar and technical signals remain key in terms of short term price direction. Nearby support for gold is seen at \$1,144 with resistance emerging around \$1,162.

After their recent rally, the PGM's had been consolidating. While the fundamentals are having more of an effect on the PGM's than say for the likes of gold, the stronger dollar has nevertheless seen profit taking and liquidation kick in, with palladium coming under heavy pressure and trading below \$540.

Platinum is holding on better than palladium, but is also under pressure from the dollar. Support is seen around \$1,705/1,706 with resistance emerging around \$1,725/1,730.

By Leon Westgate

Energy

Crude oil drifted lower during NY trade yesterday, with front month WTI coming under further pressure today due to a stronger dollar. Solid Chinese economic data and decent-ish US figures are helping to keep prices supported to some extent, though oil still remains very much welded to the currencies.

Consequently, the current noisy and rangebound nature looks set to continue, while the ongoing developments in the Greece bailout saga should also be closely watched.

The Coal contango narrowed yesterday, with the back end of the curve coming under pressure. API2 for Q2 fell \$0.30/mt on Thursday, while material for Q4-11 dropped back \$1.70/mt after Wednesday's \$2.70/mt increase. The same pattern was seen in the API4 contract, though nearby prices managed to rally with Q2-10 climbing \$0.55/mt. API4 for Q4-11 meanwhile fell \$1.55/mt, mirroring the weakness in API2.

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	4,561,850	4,568,075	0	6,225	-6,225	-67,050	273,250	5.99	248,887
Copper	510,425	509,650	2,075	1,300	775	8,100	13,675	2.68	85,197
Lead	180,075	180,425	125	475	-350	33,575	3,675	2.04	39,776
Nickel	151,878	153,306	0	1,428	-1,428	-6,132	5,856	3.86	28,607
Tin	24,135	24,230	55	150	-95	-2,630	2,835	11.75	3,395
Zinc	546,075	546,150	0	75	-75	58,025	14,325	2.62	64,374

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change	Open	Close	Change	Change (%)
Aluminium	17,140	17,060	-65	Ali Mar'10	-	-	-
Copper	62,700	62,420	-370	Cu Mar'10	362	361.20	-0.90
Zinc	19,590	19,595	75				

ZAR metal prices (15 April 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,916	58,204	16,925	197,266	138,618	17,694	7.3910
3-month	18,550	59,627	17,567	204,484	142,388	18,828	7.5040

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)	95.09	0.08	96.24	0.28	96.53	0.01	98.14	0.09	-	-
Gasoil 0.1% Rdam (\$/mt)	715.50	-0.25	719.00	-0.50	724.50	0.00	741.00	0.75	761.25	1.00
NWE CIF jet (\$/mt)	765.08	-0.79	772.00	0.62	777.66	-0.05	796.91	0.67	826.57	1.25
Singapore Kero (\$/bbl)	95.17	0.09	96.44	0.38	97.08	0.06	99.04	0.14	102.51	0.05
3.5% Rdam barges (\$/mt)	464.83	0.39	474.75	0.75	478.25	0.75	486.75	0.75	499.35	0.82
1% Fuel Oil FOB (\$/mt)	495.59	1.09	505.50	2.25	509.50	2.00	521.50	0.75		
Sing FO 380 Cargo (\$/mt)	494.00	0.75	497.25	0.75	500.25	0.75	503.00	0.75		
Sing FO180 Cargo (\$/mt)	492.28	0.15	502.00	0.50	505.50	0.50	514.00	0.50		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	76.20	-0.30	80.45	-1.45	84.70	-1.50	92.50	-1.70	104.50	-1.55
API4 (FOB RBCT)	84.85	0.55	86.45	-0.35	89.00	-0.20	93.50	-1.50	101.00	-1.05

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.21600	0.24000	0.27400	0.34800	0.51800
Silver	0.54600	0.55200	0.57600	0.60200	0.62200
USD Libor	0.25625	0.28019	0.30438	0.46500	0.94594

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	56.19	1,150.18	1,128.35	1,118.93	1,067.43	1,085.00	1,105.00
Silver	58.18	18.24	17.72	17.24	16.65	16.30	16.90
Platinum	62.77	1,715.73	1,668.57	1,553.59	1,425.52	1,500.00	1,550.00
Palladium	67.77	521.48	495.09	434.67	368.68	420.00	433.00

Active Month Future	COMEX GLD Jun'10	COMEX SLV May'10	NYMEX PAL Jun'10	NYMEX PLAT Jul'10	DGCX GLD Jun'10	TOCOM GLD Feb'11	CBOT GLD Jun'10
Settlement	1,153.60	18.3100	540.00	1,726.30	1,152.50	3,445.00	1,152.70
Open Interest	526,873	125,628	23,772	37,437	1,874	97,727	3,493
Change in Open Interest	1,983	-1,967	151	-15	148	-1,530	-76

Date: 15 April 2010

Sources: Standard Bank; LME; Bloomberg

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