

FICC Research

Commodities: Daily

Focus: What's driving the minor metals?



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Focus: The LME's minor metals contract has been up and running for two months now. In terms of price behaviour, there is a marked difference between cobalt and molybdenum, with cobalt prices picking up steadily while molybdenum prices have stagnated.

- The market quickly slipped back into risk-seeking mode on Monday afternoon, with better than expected US Leading Indicators and strong Q1 earnings from the likes of Citibank helping the base metals to recover strongly.
- Tuesday has seen gold stabilise around \$1,137/oz during Asian trade before rallying back up towards above \$1,143/oz. The metal is finding decent support, though the market remains rather cautious.
- Crude oil has also rallied today, building on Monday's strong NY session. US equity markets and the dollar should continue to provide direction this afternoon, however the market is looking a little leaden footed. Front month WTI climbed back above \$82/bbl overnight but appears to be struggling to establish itself above \$82.50.

Commodity price data (19 April 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,367	2,370	2,397	2,380	-66	0.13%	2,339.00	-109	-32.50
Copper	7,642	7,695	7,769	7,715	-67	0.69%	7,656.00	-250	-32.00
Lead	2,206	2,236	2,273	2,254	-21	1.36%	2,187.50	-181	-27.00
Nickel	26,250	26,750	27,130	26,800	-55	1.90%	26,405.00	-1,195	-63.00
Tin	18,799	18,805	18,880	18,880	-375	0.03%	18,700.00	-435	-73.00
Zinc	2,357	2,390	2,415	2,394	-33	1.40%	2,332.00	-157	-35.25

Energy

	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	84.51	84.75	84.80	84.51	0.52	0.61%	-	-	-
NYMEX WTI	81.69	82.05	82.38	81.51	0.60	0.73%	-	-	-
ICE Gasoil	693.75	695.50	695.75	693.75	7.75	1.11%	-	-	-
API2 Q2'10	75.80	76.20	-	-	0.40	0.52%	-	-	-
EUA Dec10	14.44	14.53	-	-	0.09	0.62%	-	-	-

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,127.50	1,136.25	1,137.50	1,130.80	1,135.00	-1.00	0.2/0.6
Silver	-	17.84	17.75	17.57	17.71	0.05	-1.0/1.0
Platinum	1,679.00	1,683.00	1,695.00	1,677.00	1,692.00	4.00	3.0/6.0
Palladium	522.00	523.00	533.00	521.00	532.00	4.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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Focus: What's driving the minor metals?

The LME's minor metals contract has been up and running for two months now. In terms of price behaviour, there is a marked difference between cobalt and molybdenum, with cobalt prices picking up steadily while molybdenum prices have stagnated.

Cobalt is clearly the more popular of the two metals in terms of open interest - currently 223 open contracts vs. 31 for molybdenum - with that difference in activity the key reason why prices have diverged from one another. Given the additional liquidity, cobalt appears to be resorting to old habits and is tracking Nickel.

From January 2000 to the present day, the R^2 (a measure of correlation where 0 = no correlation and 1 = perfect correlation) between cobalt - priced using the MB Weekly figures - and the LME 3-month nickel price is a pretty solid 0.47. This rises to 0.66 if taken from January 2008.

The R^2 between the LME 3 month cobalt contract and the Nickel 3 month contract since the inception of the minor metals contract is currently 0.65, suggesting a pretty close relationship between the two metals. For comparison, the relationship between LME cobalt and the dollar-euro is only 0.1 suggesting little currency effect.

Molybdenum also has a similarly strong long-term relationship with both copper and nickel with the R^2 since Jan-2000 (again using MB figures) coming in at 0.52 and 0.51 respectively. The LME molybdenum contract however has a very poor relationship. The current R^2 between LME molybdenum and nickel is 0.04 - indicating virtually no correlation at all. The relationship between molybdenum and copper is a similarly poor 0.06, while the R^2 between molybdenum and the dollar-euro is only 0.02.

Base metals

The market quickly slipped back into risk-seeking mode on Monday afternoon, with better than expected US Leading Indicators and strong Q1 earnings from the likes of Citibank helping the base metals to recover strongly. The base metals had a fairly quiet, albeit solid overnight session on Tuesday, before fresh buying activity emerged as London opened. A much better than expected German ZEW index has also helped support the base metals heading into the afternoon.

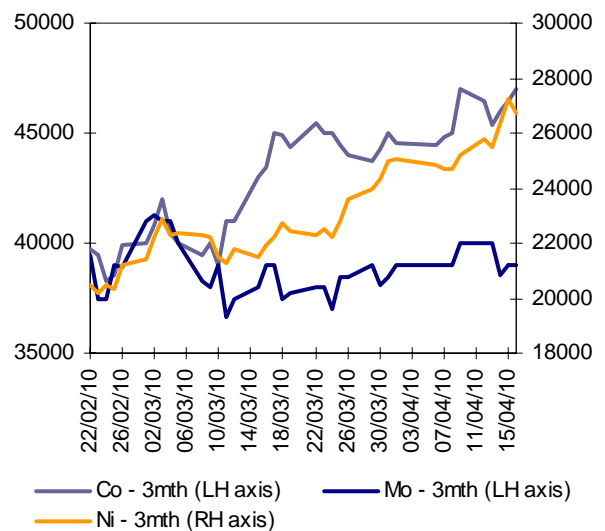
As was the case yesterday, the US quarterly earnings reporting season is in full swing. So far today, the early US results, including Goldman Sachs have also been better than expected, which should help keep the metals well supported.

Copper recovered very strongly during Monday afternoon, recovering from an intraday low of \$7,610 to finish the day at \$7,695. Monday also saw very good turnover, as weak longs were cleared out and as the more established bulls looked to buy on dips. Copper has continued to rally on Tuesday, opening higher at \$7,755 before climbing back above \$7,800, boosted by fresh buying interest.

Nickel has been one of the strongest performers this morning, building on Monday's very good close. After trading sideways overnight, prices have since surged up towards \$27,500. In addition, a 1,938 mt fall in on-warrant inventories this morning has given the metal a further boost. The main locations for activity were Singapore, where cancelled warrants jumped 930 mt, and Rotterdam where cancelled warrants increased by 510 mt. The earthquake near Kalgoorlie, Western Australia (see the Precious Metals section) has meanwhile had no significant impact on nickel output in the area.

In other news, Toyota has opted to specify Li-Ion batteries for its new Prius hybrid MPV, due out in 2011. The move follows on from the company's recent lithium supply deal, secured with the Argentinean producer Orocobre Ltd in January. A shift towards Li-Ion batteries from the nickel-metal-hydride batteries used in current versions of the car may boost demand for cobalt, which is used in the electrodes of Li-Ion batteries.

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



Sources: Standard bank, LME

As contract liquidity improves over time, we would expect to see molybdenum start to track the likes of copper and nickel more closely, with the metal returning to its historical behaviour. This however will take time.

Meanwhile, LME cobalt is likely to continue tracking nickel. Given that the LME cobalt contract is, in general, being traded by base metal traders rather than minor metal specialists, its relationship with nickel may perhaps strengthen even further over time as liquidity continues to build.

By Leon Westgate

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Precious metals

Gold found good technical support yesterday around its 100-day moving average at \$1,124, recovering during Monday afternoon to finish the day more or less back where it started.

Tuesday has seen gold stabilise around \$1,137/oz during Asian trade before rallying back up towards above \$1,143/oz. The metal is finding decent support, though the market also remains rather cautious.

UK inflation was higher than expected, with CPI coming in at +0.6% m-o-m and 3.4% y-o-y. Core CPI was up 3.0% y-o-y. RPI was also higher than anticipated with RPI ex-mortgage payments coming in at 4.8% y-o-y. While some of this is due to currency effects, inflation is showing signs of becoming a concern and may lend support to gold and commodities generally.

An earthquake near the town of Kalgoorlie, Western Australia has resulted in the temporary suspension of mining activity at several large gold mines. Those mines affected include the Super Pit (comprising the Fimiston open pit and the Mt Charlotte u/g mines), jointly owned by Newmont and Barrick, plus Barrick's three Kanowna underground mines. Work is resuming at the Fimiston open pit while the Mt Charlotte and Kanowna mines are expected to restart with the next evening shift. The overall production impact from the stoppage will likely be negligible.

Silver and the PGM's are tracking the industrial metals this morning and are generally recovering on the back of the improving economic outlook and increased risk appetite.

By Leon Westgate

Energy

Crude oil has also rallied on Tuesday, building on yesterday's strong NY session. US equity markets and the dollar should continue to provide direction this afternoon, however the market is looking a little leaden footed. Front month WTI climbed back above \$82/bbl overnight but appears to be struggling to establish itself above \$82.50.

Tomorrow's DOE Crude Oil inventory numbers are expected to show a 750K bbl decline after last week's 2.2 million bbl drop. Both Gasoline and Distillate stocks are expected to increase however, by 500K bbl and 1,000K bbl respectively.

Meanwhile, the ongoing flight chaos in Europe is continuing to impact on demand for jet fuel from airlines. With jet fuel storage also becoming an issue, this is in turn seeing demand for crude oil from refiners also starting to drop. Airspace is starting to re-open again, however it will take some time to get back to normal.

Coal has seen nearby API2 pick up a little, with material for Q2-10 climbing \$0.40/mt to \$76.20, however it seems that the nearby selling pressure that has been a feature of the market, has instead focused on Q3-10 and Q4-10 which fell by \$0.30/mt and \$0.70/mt respectively. The back end of the curve has meanwhile continued to hold up pretty well, with Q4-11 falling only \$0.10/tmt to \$96.40.

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	4,560,275	4,565,000	1,025	5,750	-4,725	-68,625	268,900	5.90	151,954
Copper	507,875	509,400	0	1,525	-1,525	5,550	14,575	2.87	112,956
Lead	179,950	180,125	350	525	-175	33,450	2,700	1.50	23,887
Nickel	150,474	151,242	0	768	-768	-7,536	5,442	3.62	25,387
Tin	23,920	24,120	100	300	-200	-2,845	2,610	10.91	4,702
Zinc	547,000	547,000	0	0	0	58,950	15,025	2.75	75,379

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,650	16,700	40	Ali Mar'10	-	-	-	-
Copper	60,640	60,740	180	Cu Mar'10	352	352.90	1.10	0.31%
Zinc	18,900	18,945	20					

ZAR metal prices (19 April 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,482	57,221	16,349	197,351	139,764	17,429	7.4740
3-month	17,988	58,404	16,971	203,030	142,728	18,140	7.5899

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)	93.35	-1.17	92.62	-2.17	92.95	-2.16	94.71	-2.03	-	-
Gasoil 0.1% Rdam (\$/mt)	695.50	7.75	700.25	8.00	705.75	8.00	715.25	-15.75	741.75	-12.50
NWE CIF jet (\$/mt)	746.65	-8.56	738.50	-20.42	746.00	-20.83	768.84	-18.16	805.84	-13.65
Singapore Kero (\$/bbl)	93.43	-1.11	92.52	-2.42	93.05	-2.56	95.26	-2.33	99.73	-1.80
3.5% Rdam barges (\$/mt)	455.86	-1.90	455.75	-8.00	459.75	-7.50	469.50	-7.00	484.33	-5.87
1% Fuel Oil FOB (\$/mt)	489.35	0.34	488.50	-7.75	493.50	-6.75	506.00	-5.75		
Sing FO 380 Cargo (\$/mt)	476.00	-7.50	480.00	-6.75	483.00	-6.75	486.25	-16.75		
Sing FO180 Cargo (\$/mt)	484.38	-1.59	483.25	-7.75	487.50	-7.00	497.00	-7.00		
Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	76.20	0.40	79.80	-0.30	83.80	-0.70	91.75	-0.25	103.60	-0.15
API4 (FOB RBCT)	85.45	0.75	88.00	1.20	89.10	0.10	93.95	0.20	100.00	-0.15

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.21250	0.22750	0.24500	0.29500	0.47500		
Silver	0.50250	0.50250	0.53500	0.56500	0.57750		
USD Libor	0.25750	0.28156	0.30531	0.46063	0.93313		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	53.20	1,149.43	1,130.92	1,117.75	1,069.50	1,085.00	1,105.00
Silver	53.88	18.14	17.77	17.22	16.69	16.30	16.90
Platinum	60.25	1,712.22	1,676.69	1,557.96	1,431.14	1,500.00	1,550.00
Palladium	65.22	526.98	502.15	437.83	371.60	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	1,137.70	17.8250	536.00	1,696.60	1,136.60	3,390.00	1,136.90
Open Interest	526,920	125,472	23,913	36,994	1,760	99,039	2,962
Change in Open Interest	-2,204	2,716	-167	346	0	-673	280

Date: 19 April 2010

Sources: Standard Bank; LME; Bloomberg

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