

# FICC Research

## Commodities: Daily

### Focus: Nickel spreads tightening



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**Focus:** The recent surge in LME nickel prices has been accompanied by a marked tightening in the forward curve. LME inventories are certainly declining rapidly, however, the current 3-15 month spread is behaving as if on-warrant stocks are closer to 50,000 mt, rather than the ~140,000 mt currently sat in LME warehouses.

- The base metals are a bit nervy today and are struggling for direction. Solid quarterly earnings figures and decent macro data have kept the metals supported, however, a poor technical close for much of the complex yesterday, a stronger dollar, and renewed concerns over Greece have also weighed on sentiment.
- Bullish API inventory figures helped see crude open higher this morning. Crude oil has shrugged off the weakness seen in the industrial metals, but has drifted back slightly ahead of NY trade. Front month WTI is currently trading around yesterday's closing level of \$83.85 ahead of the DOE inventory numbers.
- The PGM's rallied very strongly during the morning, following much stronger than expected Chinese import figures. Prices continue to remain firm, in spite of a stronger dollar.

#### Commodity price data (20 April 2010)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,412	2,385	2,408	2,387	16	-1.12%	2,384.00	45	-32.75
Copper	7,845	7,790	7,800	7,735	94	-0.70%	7,787.00	131	-34.00
Lead	2,295	2,360	2,359	2,323	105	2.83%	2,264.00	77	-26.75
Nickel	27,350	27,295	27,100	26,650	635	-0.20%	27,310.00	905	-63.00
Tin	19,150	19,200	19,050	19,050	425	0.26%	19,120.00	420	-73.00
Zinc	2,425	2,450	2,450	2,412	50	1.03%	2,389.50	58	-35.50

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	85.17	85.42	85.44	85.05	0.62	0.73%
NYMEX WTI	84.03	84.46	84.47	83.86	0.61	0.72%
ICE Gasoil	701.00	702.00	702.00	699.50	1.50	0.21%
API2 Q2'10	76.20	77.90	-	-	1.70	2.18%
EUA Dec10	14.53	14.73	-	-	0.20	1.38%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,142.50	1,144.75	1,146.10	1,134.25	1,138.50	3.50	0.2/0.6
Silver	-	17.97	18.02	17.77	17.81	0.10	-1.0/1.0
Platinum	1,708.00	1,714.00	1,721.00	1,695.00	1,715.00	23.00	4.0/5.0
Palladium	542.00	543.00	552.50	536.00	549.00	17.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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## Focus: Nickel spreads tightening up

The recent surge in LME nickel prices has been accompanied by a marked tightening in the forward curve. LME inventories are certainly declining rapidly, however, the current 3-15 month spread is in backwardation and is behaving as if on-warrant stocks are closer to 50,000 mt, rather than the ~140,000 mt currently sat in LME warehouses.

In contrast, the Cash-3 month spread is showing little in the way of tightness. The spread has remained well within recent ranges and reflects what is, by historical standards at least, a plentiful supply of material in warehouse.

As to why the farther dated spreads have tightened now while the nearby spreads have not, the main reason appears to be a lack of liquidity further along the curve.

We are bullish towards nickel over the medium to longer term. We expect the stainless steel market to continue to recover over the course of the next 12-18 months and we expect the nickel market to shift into deficit in 2011, for the first time since 2006. In the process we expect LME inventories to come under further pressure, and the spreads to tighten up significantly.

Overlaid on top of that general trend however, is quite a pronounced seasonal stock cycle. Generally, the first half of the year sees LME inventory decline, while the period from August through December is associated with stock inflows. Over the past 10 years, the only years where stocks declined for 2 or more months during the Aug-Dec period were 2001, 2002 and 2003.

Assuming the normal seasonal inventory pattern is repeated, we would expect to see LME stocks continue to fall heading into the summer, before stabilising, or perhaps increase slightly in H2. This should see the farther-dated spreads remain tight over the short term before easing slightly towards the end of Q3 and into Q4. How far the spreads ease is another matter however, particularly as the back end of 2010 perhaps represents the clearest opportunity to build a bullish nickel position both in terms of outright prices and spreads.

## Base metals

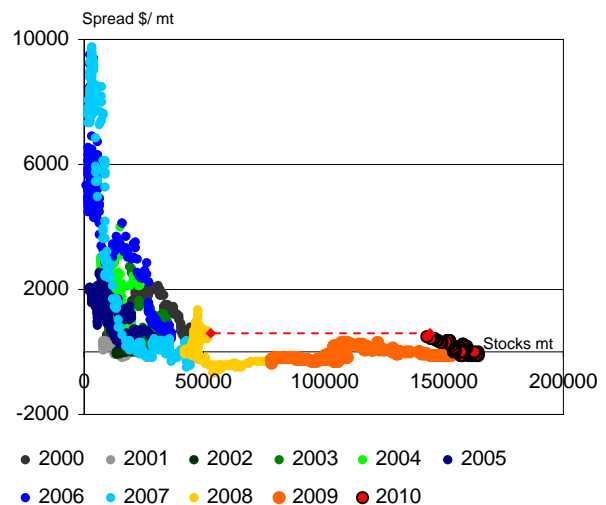
The base metals are a bit nervy today and are struggling for direction. Solid quarterly earnings figures and decent macro data have kept the metals supported, however, a poor technical close for much of the complex yesterday, a stronger dollar, and renewed concerns over Greece have also weighed on sentiment.

Overall there seems little appetite to see prices significantly higher, but, considering the improving macro environment, there is not much inclination to go aggressively short either. How the US markets perform will continue to be key.

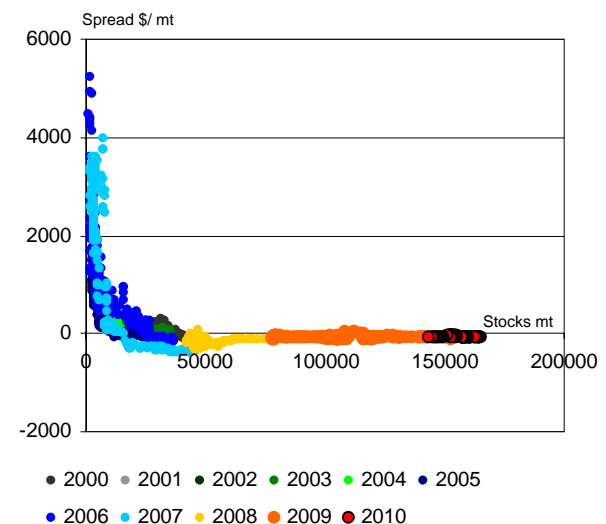
Of note, new rules regarding the import of scrap metal into China are being implemented from June 1st. The rules state that scrap must now be boxed separately by type, with the content accurately reported. Shipments must also be opened in specifically designated zones to undergo inspection. The move is being made to help reduce the alleged under-reporting of scrap grades that takes place in order to avoid tax payments.

The new rules may well see scrap imports jump over the very short term as participants try to rush material in. However, once the rules are in place, refined imports may well increase again, particularly given the likely increase in transit time of scrap shipments through port facilities.

LME Nickel 3-15 mth spread vs. On-warrant LME stocks



LME Nickel Cash-3 mth spread vs. On-warrant LME stocks



Sources: Standard Bank, LME

By Leon Westgate

## Precious metals

Gold rallied initially during Asian trade today but has since come under pressure from the weaker dollar, or rather stronger Euro. Greece is back in the headlines, with reports that the country is in talks with the EU, IMF and ECB officials about the €45 billion aid package, putting the Euro under pressure.

Gold is nevertheless holding on pretty well, with its safe-haven status helping it ride out some of the gyrations in the FX markets. Gold remains well within yesterday afternoon's ranges, with nearby support seen at \$1,136 and resistance at \$1,150.

The PGM's rallied very strongly during the morning, following much stronger than expected Chinese import figures. Of particular interest was a large increase in platinum imports from Russia (over 2,000 kgs) and Switzerland (over 3,100 kgs), plus a surge in imports of palladium from Japan (over 1,700 kgs). Given that spot physical demand for PGM's in China has been rather lacklustre at times, the figures are a little surprising.

The relocation of auto manufacturing to China is certainly one factor behind the increased demand, however there is speculation that some material may also have been imported for stockpiling purposes.

The PGM's remain pretty firm in spite of a stronger dollar. Palladium support emerges around \$545/oz with resistance coming in at \$575. Platinum support is at \$1,720 then at \$1,700 while resistance is seen at \$1,740.

**By Leon Westgate**

## Energy

Bullish API inventory figures helped see crude open higher this morning. Crude oil has shrugged off the weakness seen in the industrial metals, but has drifted back slightly ahead of NY trade. Front month WTI is currently trading around yesterday's closing level of \$83.85 ahead of the DOE inventory numbers.

The API numbers showed a 741 K bbl fall in Crude Oil stocks following the previous week's 1,405 K increase. Gasoline and Distillate stocks fell even more sharply, down 1,743 K and 3,101 K respectively. The sharp drop, particularly in distillates, where the previous week showed a 1,741 K increase, has raised expectations that the DOE data this afternoon may also be towards the more bullish end of the spectrum.

Consensus expectations are for the DOE Crude Oil inventory figures to show a 750 K draw, while Gasoline and Distillate stocks are expected to be up by 500 K and 1,000 K respectively.

Coal prices rallied strongly yesterday. More unusually, after the recent pressure in the nearby portion of the curve, the price gains were more or less uniform right along the forward curve. API2 for Q2-10 climbed \$1.70 to close at \$77.90/mt on Tuesday while Cal-11 posted a \$1.80/mt gain. It was a similar picture for API4, with Q2-10 climbing \$2.15/mt and Cal-11 finishing \$2.30/mt higher.

**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	4,570,375	4,560,275	16,525	6,425	10,100	-58,525	263,725	5.77	257,917
Copper	507,525	507,875	500	850	-350	5,200	14,375	2.83	142,257
Lead	179,600	179,950	375	725	-350	33,100	1,975	1.10	29,119
Nickel	149,946	150,474	0	528	-528	-8,064	6,852	4.57	33,217
Tin	23,675	23,920	0	245	-245	-3,090	2,425	10.24	5,389
Zinc	546,025	547,000	0	975	-975	57,975	14,050	2.57	64,534

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,690	16,680	15	Ali Mar'10	-	-	-	-
Copper	60,640	60,750	110	Cu Mar'10	354	354.80	1.25	0.35%
Zinc	19,000	18,965	45					

### ZAR metal prices (20 April 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,701	57,818	16,810	202,777	141,966	17,742	7.4250
3-month	17,982	58,735	17,794	205,799	144,764	18,473	7.5398

## 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)	94.09	0.74	94.26	1.64	94.57	1.62	96.28	1.57	-	-
Gasoil 0.1% Rdam (\$/mt)	702.00	1.50	705.75	0.75	710.25	12.50	727.00	11.75	753.00	11.25
NWE CIF jet (\$/mt)	752.79	6.14	751.00	12.50	759.08	13.08	779.75	10.91	816.59	10.75
Singapore Kero (\$/bbl)	94.08	0.65	94.19	1.67	94.87	1.82	96.98	1.72	101.33	1.60
3.5% Rdam barges (\$/mt)	459.35	3.49	466.75	11.00	470.50	10.75	479.50	10.00	493.80	9.47
1% Fuel Oil FOB (\$/mt)	493.29	3.94	500.50	12.00	504.75	11.25	516.25	10.25		
Sing FO 380 Cargo (\$/mt)	487.25	11.25	491.25	11.25	494.50	11.50	497.75	11.50		
Sing FO180 Cargo (\$/mt)	487.71	3.33	494.50	11.25	498.75	11.25	508.00	11.00		
Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	77.90	1.70	81.60	1.80	85.80	2.00	93.55	1.80	105.15	1.55
API4 (FOB RBCT)	87.60	2.15	90.30	2.30	91.40	2.30	96.25	2.30	101.90	1.90

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.21833	0.23833	0.26000	0.30333	0.46667		
Silver	0.49167	0.49167	0.51333	0.54167	0.55833		
USD Libor	0.25875	0.28313	0.30719	0.46500	0.94094		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	54.36	1,149.22	1,133.95	1,117.07	1,070.54	1,085.00	1,105.00
Silver	54.89	18.12	17.84	17.21	16.72	16.30	16.90
Platinum	62.69	1,715.87	1,684.87	1,560.37	1,434.05	1,500.00	1,550.00
Palladium	68.23	533.02	508.40	439.64	373.22	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	1,144.60	17,9850	555.00	1,721.80	1,144.50	3,437.00	1,144.50
Open Interest	527,955	125,534	23,180	36,663	1,692	97,219	2,899
Change in Open Interest	-1,035	-62	733	331	68	1,820	63

Date: 20 April 2010

Sources: Standard Bank; LME; Bloomberg

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