

FICC Research

Commodities: Daily

Focus: SHFE Copper still in the back seat



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Focus: The sharp fall in LME copper prices following the sovereign credit downgrades to Greece, Portugal and Spain has not elicited much in the way of significant Asian buying interest. SHFE prices have instead followed the LME price lower, with the arbitrage window remaining closed.

- The longer it takes to finalize a rescue package for Greece, the more gold benefits. The key date for Greece is the 19th of May when it needs to roll over its debt.
- Supplies of crude oil at Cushing, Oklahoma, have risen another 454K barrels. This follows last week's surge of 5.8%, to 34.1m bbls. Cushing still has a huge impact on the price curve and the contango in the forward curve. With the build in crude oil continuing in the US, the contango is set to remain firmly in place.
- The base metals had a very busy, albeit erratic, time on Wednesday, being sold off initially before stabilising and recovering during the afternoon as shorts started to cover back. This morning has also been rather volatile and erratic with a strong start, following yesterday's solid performance, giving way to a sideways drift heading into the afternoon.

Commodity price data (28 April 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,122	2,190	2,221	2,199	40	3.20%	2,115.00	-148	-33.25
Copper	7,390	7,401	7,520	7,458	-90	0.15%	7,410.50	-235	-38.00
Lead	2,255	2,238	2,275	2,258	-65	-0.75%	2,225.00	-66	-27.50
Nickel	25,150	25,650	25,870	25,500	-275	1.99%	25,450.00	-1,400	-60.00
Tin	18,195	18,025	18,250	17,600	-550	-0.93%	18,100.00	-705	-70.00
Zinc	2,315	2,332	2,370	2,355	-41	0.73%	2,295.00	-80	-34.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	86.24	86.09	86.26	85.95	-0.07	-0.08%
NYMEX WTI	83.33	83.14	83.42	83.02	-0.08	-0.10%
ICE Gasoil	717.00	716.75	718.00	715.25	6.50	0.91%
API2 Q2'10	85.55	84.50	-	-	-1.05	-1.24%
EUA Dec10	15.44	15.03	-	-	-0.41	-2.66%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,164.25	1,161.00	1,174.50	1,161.60	1,171.00	9.50	0.2/0.6
Silver	-	18.13	18.25	17.84	18.10	0.00	1.0/3.0
Platinum	1,715.00	1,714.00	1,727.00	1,705.00	1,707.00	-11.00	2.0/5.0
Palladium	535.00	543.00	552.00	537.00	539.00	-9.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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Focus: SHFE Copper still in the back seat

The sharp fall in LME copper prices following the sovereign credit downgrades to Greece, Portugal and Spain has not elicited much in the way of significant Asian buying interest. SHFE prices have instead followed the LME price lower, with the arbitrage window remaining closed.

The arbitrage window has narrowed slightly over the past week, however the nearby and more liquid SHFE contract months continue to trade at a significant discount to the respective LME dates. Only at the back end of the curve do LME prices trade at a premium to the SHFE.

The lack of Chinese activity is certainly capping the upside to copper prices for the time being, with the contango in the SHFE forward curve and flat/declining regional premiums suggesting the Chinese market is still in slumber mode.

We remain bullish towards copper's medium and long term prospects, however, with the primary consumer of physical metal sitting on the sidelines, and baring any further bouts of panic centered on southern Europe, prices appear set for a period of consolidation.

Base metals

The base metals had a very busy, albeit erratic, time on Wednesday, being sold off initially before stabilising and recovering during the afternoon as shorts started to cover back. An S&P downgrade to Spain's Sovereign Credit Rating sparked another bout of market jitters, however, the base metals stabilised and continued to rally with all of the metals closing well above their intraday lows. Aluminium was the stand out performer on the day, closing around 3% higher with over 29,000 lots trading on LME Select.

This morning has also been rather volatile and erratic with a strong start, following yesterday's solid performance, giving way to a sideways drift heading into the afternoon. Better than expected Eurozone economic confidence has seen the Euro strengthen against the dollar which is helping lend background support, though the metals remain nervous. After the very strong volumes seen yesterday, the market has quietened down significantly.

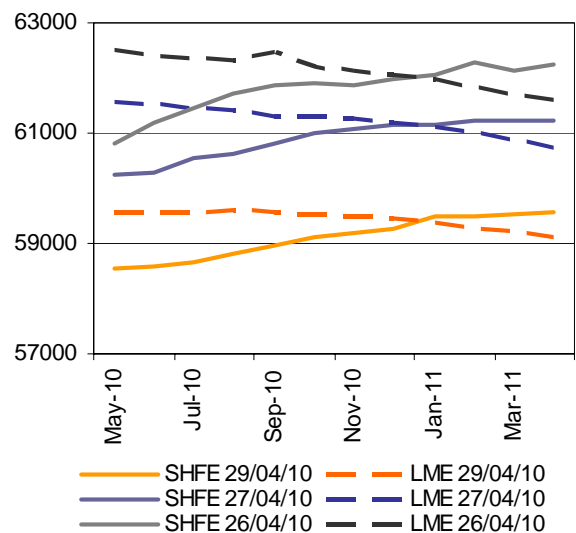
Aluminium saw record volumes trade on the LME's Select system on Wednesday and was by far the strongest performer. The size of the volume points to the sheer level of 2-way interest out there. As decent buying interest emerged, and as expectations of fresh CTA selling were dashed, shorts pared back positions. Overall open interest fell on Wednesday, which, coupled with the rally in prices, suggests that short covering was the overall trend. Aluminium is currently trading sideways heading into Thursday afternoon, with the metal taking a breather after yesterday's activity.

Copper traded sideways during Wednesday, with the Spanish downgrade knocking the wind out of its sails during the afternoon, preventing what had looked like a solid recovery. Prices didn't collapse however with the metal finishing comfortably above its intraday lows and going part way to building a decent base. Volumes were also very good, with over 17,000 lots trading on Select. Copper volumes have fallen markedly this morning, though prices are fairly steady with the metal trying to establish a base around \$7,400-\$7,450. That said, the metal still has a bit of work to do with prices likely limping along sideways heading into the long weekend.

Tin has been the strongest performer so far on Thursday, bouncing back from yesterday's weakness to trade back above \$18,500 heading into the afternoon. The rest of the complex is trading sideways heading into the afternoon, waiting for the US markets to open up.

In other news, Nickel Pig Iron (NPI) production in China has increased very strongly, with industry estimates putting output for Q1-2010 at 44 kt of contained nickel. With several Chinese stainless steel mills bringing NPI capacity on-line over the past few months, NPI production is expected to increase further over the course of the year.

SHFE Copper forward curves vs LME equivalent (Cny/mt)



Source: Standard Bank, LME, SHFE

By Leon Westgate

By Leon Westgate

Precious metals

The longer it takes to finalize a rescue package for Greece, the more gold benefits. The key date for Greece is 19 May when this country needs to roll over its debt. The key participants in the aid package are the IMF and Germany. The IMF is likely to agree on a package within the next few days; indications are that assistance for Greece should come to pass before 19 May. Risk is likely to remain high until then, and gold denominated in most currencies is set to remain well supported ahead of this date.

There is always the chance that no deal is reached before 19 May. That could put even more downward pressure on the euro. As a result, gold in euro should rise further. In the case of no aid for Greece, risk aversion is also likely to rise further. Given the high net long speculative positions in both platinum and palladium, we expect platinum and palladium to come under pressure.

The Fed confirmed our expectations that they will keep its target rate low for an extended period of time. This should be bullish for US equities and bullish commodities. The upward trend in liquidity remains in place. Longer term we expect commodities in general and gold specifically to trade around this upward trend in liquidity.

In the physical market, selling continues to outpace buying. However, the large amounts of scrap that came to market during the past few weeks have subsided. With sovereign risk still elevated, investment demand for gold should outpace selling in the physical market.

Gold support is at 1,160 and \$1,152, while resistance is at \$1,173 and \$1,180.

By Walter de Wet

Energy

Supplies of crude oil at Cushing, Oklahoma, have risen another 454K barrels. This follows last week's surge of 5.8%, to 34.1m bbls. Cushing still has a huge impact on the price curve and the contango in the forward curve. With the build in crude oil continuing in the US, the contango is set to remain firmly in place.

More generally, the DOE inventory report showed that crude inventories have increased by 1.96m bbls, with gasoline stocks down 1,24m barrels, and inventories of distillate fuel were up 2.93m bbls. The seasonal stock building phase for distillates has started, but from a multiyear-high base, and this may start to put downward pressure on US refinery margins before the end of the year. But in the interim the focus for flat prices at least would remain on gasoline inventories. However, as pointed out yesterday in *Focus* (refer to Commodities Daily 28 April 2009), gasoline inventories are much closer to levels observed in previous years than are distillate inventories. With seasonal demand for gasoline set to rise, gasoline should be the main focus of the crude market. We expect a steady decline in gasoline inventory to provide support to crude oil prices.

Front-month WTI is back within a broader \$82 – \$85 trading range. We see support at \$81.85 and \$80.50, resistance at \$84.00 and \$84.80.

While coal prices remain under pressure on the back of lower crude oil prices since Tuesday, we do not anticipate a major decline. The recent market turmoil is confined to financial markets and shows limited signs of affecting the real economy yet.. API2 managed for Q2-10 finishing \$1.05/mt lower yesterday and Cal-11 closed down \$2.65/mt at \$99.85.

By Walter de Wet

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	4,546,450	4,551,825	50	5,425	-5,375	-82,450	266,025	5.85	207,376
Copper	504,025	505,350	0	1,325	-1,325	1,700	30,075	5.97	113,525
Lead	180,075	179,775	300	0	300	33,575	775	0.43	26,134
Nickel	145,350	145,458	336	444	-108	-12,660	4,194	2.89	22,054
Tin	21,130	21,100	50	20	30	-5,635	740	3.50	5,814
Zinc	540,600	541,300	0	700	-700	52,550	9,600	1.78	53,311

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change	Open	Close	Change	Change (%)
Aluminium	16,150	16,170	150	Ali Mar'10	-	-	-
Copper	58,780	58,780	400	Cu Mar'10	339	339.60	0.95
Zinc	18,435	18,475	120				

ZAR metal prices (27 April 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,735	56,546	16,945	198,596	139,091	17,567	7.3965
3-month	16,152	56,276	17,279	194,762	139,357	17,737	7.5125

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)	94.60	-0.17	94.72	-1.32	95.11	-1.32	97.18	-1.24	-	-
Gasoil 0.1% Rdam (\$/mt)	716.75	6.50	719.50	6.00	718.00	-9.75	735.00	-9.25		
NWE CIF jet (\$/mt)	758.59	-1.40	766.55	-9.70	772.57	-10.59	789.75	-10.00		
Singapore Kero (\$/bbl)	94.63	-0.19	94.92	-1.32	95.56	-1.27	97.93	-1.19		
3.5% Rdam barges (\$/mt)	460.90	-0.64	465.00	-4.25	469.50	-4.00	480.00	-3.50		
1% Fuel Oil FOB (\$/mt)	490.26	-0.64	494.50	-2.50	502.00	-2.25	514.75	-2.25		
Sing FO 380 Cargo (\$/mt)	491.25	-3.00	494.25	-3.00	496.75	-3.50	496.75	-3.50		
Sing FO180 Cargo (\$/mt)	491.04	-0.34	497.75	-2.00	500.50	-2.50	508.50	-3.50		

Thermal coal

	Q2-10	Q3-10	Q4-10	Cal 10	Cal 11
API2 (CIF ARA)	84.50	-1.05	89.00	-2.20	92.70
API4 (FOB RBCT)	90.90	-3.05	95.10	-2.90	96.20

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.33000	0.33800	0.34000	0.40800	0.57400
Silver	0.51000	0.51000	0.53000	0.55000	0.59000
USD Libor	0.27313	0.30469	0.33781	0.52250	1.01500

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	57.64	1,151.32	1,149.13	1,117.47	1,076.95	1,160.00	1,173.00
Silver	55.26	18.04	18.12	17.22	16.86	18.00	18.50
Platinum	59.68	1,720.85	1,715.72	1,577.90	1,450.67	1,700	1,750.00
Palladium	62.42	550.98	533.92	450.74	382.30	525.00	550.00

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	1,167.00	18,155.00	544.00	1,713.60	1,166.70	3,522.00	1,167.30
Open Interest	538,591	124,157	24,037	37,251	1,992	90,310	3,267
Change in Open Interest	-8,201	539	225	93	23	5,370	-308

Date: 28 April 2010

Sources: Standard Bank; LME; Bloomberg

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