**Focus: SFE- LME arbitrage back on**

The past week has seen LME prices trade more or less sideways, while SFE copper prices have generally strengthened, with the nearby forwards tightening at the same time. Against this backdrop, the decline in LME prices yesterday was enough to open the SFE-LME arbitrage window once again during overnight trade.

- Volumes have dropped of markedly today, with the base metals market looking like its winding down ahead of the Christmas and New Year holidays. Price-wise, the metals are generally firmer, however with no significant economic data this afternoon, technical signals and exogenous factors will likely dominate price direction. The lack of volume may also result in a rather volatile afternoon session.
- Gold found support at \$1,097 before it returned to \$1,109 in Asia this morning, while geopolitical tensions in the middle east have also helped lend support heading into the afternoon.
- Renewed optimism over recovering US crude oil demand has supported the front-end of the WTI crude oil forward curve this morning, however at time of writing, unconfirmed reports that Iranian troops had stormed the Al-Fakah Iraqi oil field had given crude prices another boost. Whether the immediate knee-jerk reaction to the news will be sustainable remains to be seen, and depends on how the US markets interpret the news.

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Commodity price data (17 December 2009)**Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,245	2,218	2,275	2,215	-56	-2.46	2,215.00	-27	-35.50
Copper	6,950	6,870	7,033	6,850	-169	-2.40	6,900.50	-46	-44.00
Lead	2,365	2,359	2,415	2,338	-51	-2.12	2,332.00	-36	-31.75
Nickel	17,150	17,075	17,451	17,012	-400	-2.29	17,005.00	-205	-73.00
Tin	15,400	15,700	15,820	15,400	325	2.10	15,645.00	320	-72.00
Zinc	2,405	2,391	2,435	2,385	-43	-1.77	2,360.00	-11	-37.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	73.20	73.37	73.59	73.07	0.00	0.00%
NYMEX WTI	72.60	72.83	73.17	72.57	0.18	0.25%
ICE Gasoil	595.50	595.75	597.50	594.75	4.00	0.67%
API2 Q1'10	79.30	78.65	-	-	-0.65	-0.83%
ICE EUA Dec09	14.40	13.66	-	-	-0.74	-5.14%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,121.50	1,117.00	1,141.50	1,096.00	1,106.75	-28.25	0.6/1.0
Silver	-	17.29	17.74	17.12	17.20	-0.46	1/3
Platinum	1,441.00	1,432.00	1,458.00	1,423.00	1,420.00	-32.00	3/5
Palladium	370.00	370.00	371.00	366.00	367.00	-4.00	1/2

Sources: Standard Bank; LME; BBG



Focus: SFE- LME arbitrage back on

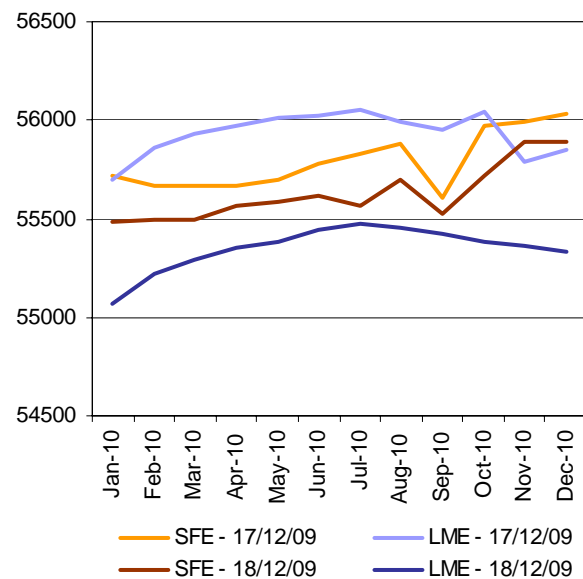
The past week has seen LME prices trade more or less sideways, while SFE copper prices have generally strengthened, with the nearby forwards tightening at the same time. Against this backdrop, the decline in LME prices yesterday was enough to open the SFE-LME arbitrage window once again during overnight trade.

The opening in the arbitrage, albeit only a small gap at the moment, ties in with recent activity on the SFE, such as the tightening observed in the nearby spreads, and the increased premiums for material in bonded warehouse. Taken all together, this activity reaffirms our view that the Chinese market is rousing from its slumber, though we still expect activity to only really hit its stride properly after the Chinese New Year in mid-February.

It appears likely that the increased activity will see material in bonded warehouse start being drawn-down over the coming months, with SFE stockpiles also likely to come under pressure. In that respect, this morning's 8,701 mt increase in SFE copper inventory has dampened sentiment a bit, essentially reversing last week's 9,034 mt decline.

Looking forward however, the inventory data will become increasingly important. Steady declines in SFE material, but particularly declining LME stocks held in Asian warehouses, will

SFE & LME Copper forward curves (Rmb/mt)



Sources: Standard Bank, SFE, LME

likely signal that the trigger has been pulled and China's back in the driving seat.

By Leon Westgate

Base metals

Volumes have dropped of markedly today, with the market looking like its winding down ahead of the Christmas and New Year holidays. Tin, usually the quiet man of the metals complex, has been the only metal to see anything approaching decent turnover so far. Price-wise, the metals are generally firmer, however with no significant economic data this afternoon, technical signals and exogenous factors will likely dominate price direction. The lack of volume may also result in a rather volatile afternoon session.

Tin had another strong showing yesterday, bucking the trend and climbing strongly to finish the day 2.1% higher. Volumes were also very good, with ~700 lots trading on LME Select. The metal has continued to rally this morning, trading back above \$16,000. Volumes have also continued to be impressive, with LME Select turnover for tin outpacing that of nickel and lead throughout the pre-market, though this also indicates just how poor turnover has been elsewhere in the complex.

After a sharp fall yesterday, copper saw some arbitrage-related activity overnight - see focus section. However after some initial strength, the metal traded sideways during the morning. With little else to go on, and afflicted by very poor turnover, a stronger dollar is starting to weigh on prices heading into the afternoon.

In other news, workers at Xstrata's Altonorte smelter have voted for strike action. The news has yet to have any bearing on the price, with the company invoking Chile's mandatory 5-day mediation period to try and resolve the situation.

Rio Tinto has meanwhile announced that its 80%-owned Northparkes copper and gold mine is no longer on the list of assets to be sold off however it restated expansion work on the Australian mine back in September. The company was originally looking for ~A\$700 million (\$621 million) for its stake in the operation.

Aluminium has rallied strongly this morning, boosted by fresh buying interest, with the metal recovering most of yesterday's losses. Meanwhile, there were further large movements in LME aluminium inventories with on-warrant stocks falling 14,300 mt after a 15,675 mt jump in cancelled warrants. The main locations for the activity were in Europe, with cancelled warrants jumping 10,100 mt in Liverpool and 3,425 mt in Rotterdam.

By Leon Westgate

Precious metals

Precious metals are under pressure from the stronger US dollar. The greenback strengthened from \$1.4539 to \$1.4305 against the euro yesterday, which saw gold slide from \$1,142 in Asia to \$1,084 in the aftermarket trade. Overnight, the greenback has retreated to \$1.4414 against the euro.

Gold found support at \$1,097 before it returned to \$1,109 in Asia this morning, while geopolitical tensions in the middle east have also helped lend support heading into the afternoon. Despite recent pressure, gold has managed to attract fresh ETF inflows: ETF Securities Ltd added 47,027oz to its gold investment holdings. **Gold support and resistance are at \$1,088 and \$1,134 respectively today.**

On the economic data front, the Bank of Japan left its target rate unchanged at 0.1% this morning, in line with consensus.

Silver tracked gold higher this morning in Asia, finding support at \$17.12 before rising to \$17.34. **Silver support and resistance are at \$16.97 and \$17.69 respectively today.**

Platinum ignored weaker Asian equity markets this morning, with the Shanghai Composite sliding 0.97%, and tracked gold higher. Gold found support at \$1,419 before escalating to \$1,436. **Platinum support and resistance are at \$1,416 and \$1,457 respectively.**

Palladium has struggled for support this morning, range-trading between \$365 and \$360. But ETF Securities Ltd has added 10,444oz to its palladium investment holdings, which bodes well for palladium. **Palladium support and resistance are at \$356 and \$372 respectively.**

By Manqoba Madinane

Energy

Renewed optimism over recovering US crude oil demand has supported the front-end of the WTI crude oil forward curve this morning, however at time of writing, unconfirmed reports from the Al-Arabiya TV station that Iranian troops had stormed the Al-Fakah Iraqi oil field had given crude prices another boost heading into the afternoon. Whether the immediate knee-jerk reaction to the news will be sustainable remains to be seen, and depends on how the US markets interpret the news.

Meanwhile, the US DOE has reported increasing demand for fuel and distillates (which include diesel and heating oil). The DOE reported a 6.7% m/m increase in US fuel demand last week, to 19.6mbpd. Furthermore, the DOE also reported that demand for distillate fuels have rebounded 14% w/w, to 3.79mbpd. The data helped front-month WTI crude oil find support at \$71.20/bbl in New York before escalating to \$72.90/bbl in the aftermarket. Overnight trade saw front-month WTI crude oil rise to \$73.19/bbl.

Front-month ICE Brent crude oil has tracked the front-month WTI contract this morning, climbing from \$73.07/bbl to \$73.59/bbl.

Thermal coal contract prices came under pressure yesterday, while the Baltic Dry index also declined, falling 2.82% yesterday — signalling a slowdown in global dry bulk trade activity. API2(CIF ARA) for January 2010 delivery fell \$0.65/mt, to \$78.65/mt. API4(FOB) for January 2010 delivery shed \$0.55/mt, to \$73.25/mt.

Carbon contracts came under pressure amid lower German base load power prices. ICE EUA for December 2010 delivery shed EUR0.74/mtCO₂, to EUR13.66/mtCO₂. UN-backed CER for December 2010 delivery slipped EUR0.67/mtCO₂, to EUR11.80/mtCO₂.

By Manqoba Madinane

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	4,638,850	4,637,475	6,475	5,100	1,375	2,309,950	215,975	4.66	147,416
Copper	476,350	474,575	2,000	225	1,775	136,575	1,600	0.34	93,762
Lead	142,175	141,925	250	250	250	97,025	75	0.05	17,547
Nickel	148,458	147,690	816	48	768	70,068	996	0.67	28,034
Tin	26,405	26,400	40	35	5	18,615	515	1.95	16,563
Zinc	456,500	456,525	-	25	-25	203,000	4,175	0.91	59,047

Shanghai 3-month forward prices

Metal	Open	Last	1d Chnge
Aluminium	16,300	16,310	-160
Copper	54,850	55,280	-520
Zinc	18,755	19,020	90

ZAR metal prices (17 December 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,703	52,037	17,586	128,235	117,979	17,797	7.5410
3-month	17,019	52,714	18,101	131,016	120,466	18,346	7.6730

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)	80.52	0.46	79.46	-1.39	80.31	-1.39	83.01	-1.51	88.52	-1.64
Gasoil 0.1% Rdam (\$/mt)	595.75	4.00	603.00	3.75	610.50	4.50	631.00	4.25	663.75	-12.75
NWE CIF jet (\$/mt)	658.48	-4.54	659.00	-7.58	665.93	-8.90	687.67	-11.50	727.52	-11.66
Singapore Kero (\$/bbl)	82.31	0.36	81.86	-1.54	82.61	-1.39	84.86	-1.61	90.26	-1.74
3.5% Rdam barges (\$/mt)	425.82	-5.35	423.50	-11.73	426.00	-12.22	430.25	-12.63	438.00	-13.11
1% Fuel Oil FOB (\$/mt)	440.91	-2.39	440.25	-12.73	445.50	-13.22	461.50	-13.63	482.25	-12.86
Sing FO 380 Cargo (\$/mt)	450.00	-11.23	448.75	-12.22	448.00	-13.25	450.00	-14.54	452.00	-15.03
Sing FO180 Cargo (\$/mt)	467.02	0.40	454.00	-11.23	453.00	-12.22	454.25	-13.88	452.00	-15.03

Thermal coal	Q1-10		Q2-10		Q3-1		Cal 11		Cal 12	
API2 (CIF ARA)	78.65	-0.65	87.65	-1.40	83.00	-0.95	96.90	-1.40	107.65	-1.45
API4 (FOB RBCT)	73.25	-0.55	79.85	-0.90	76.70	-0.55	87.75	-1.10	98.05	-1.35
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	13.42	-0.76	13.66	-0.74	14.26	-0.77	15.02	-0.75	16.02	-0.80
ICE - ECX CER (€/mt)	11.98	-0.52	11.80	-0.67	11.87	-0.65	12.38	-0.60	12.02	-0.64

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.40167	0.41500	0.42000	0.45667	0.62500
Silver	0.60333	0.59500	0.59500	0.59500	0.59000
USD Libor	0.23313	0.24069	0.25338	0.44388	0.99163

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.17	1,127.60	1,156.52	1,046.97	986.70	1,088.00	1,134.00
Silver	49.12	17.48	18.09	16.71	15.16	16.97	17.69
Platinum	55.08	1,434.38	1,450.01	1,338.24	1,251.95	1,416.00	1,457.00
Palladium	56.46	366.85	370.55	320.48	278.07	356.00	372.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'09	Sep'09	Oct'09	Oct'09	Oct'09	Jun'10	Oct'09
Settlement	1,108.60	17.3100	364.60	1,425.90	1,104.50	3,195.00	1,109.00
Open Interest	502,455	121,373	22,882	32,889	1,620	125,120	3,054
Change in Open Interest	-1,913	-414	502	-20	-339	-436	120

Date: 17 December 2009

Sources: Standard Bank; LME; Bloomberg

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