

Focus: Recent activity in the Nickel forward curve The nickel forward curve has seen quite a bit of movement over the past couple of weeks, particularly towards the back end of the curve where the backwardation has steepened.

- Gold remains under pressure due to the impact of the dollar, however it has continued to perform relatively well against the likes of silver and the industrial metals and hasn't collapsed. Continuing fears over Greece and other southern European states, while impacting on the strength of the Euro, are also lending support with nervy investors still looking to gold as a safe haven.
- The base metals came under heavy pressure on Wednesday after a stronger dollar triggered a sell-off across much of the complex. Very good volumes were seen however, particularly in copper aluminium and zinc, reflecting good two-way interest rather than a complete capitulation. Further dollar weakness this morning has kept a lid on prices, however, the base metals appear to have stabilised and found their feet heading into the afternoon.
- In line with the rest of the commodities complex, crude oil has also reverted to dollar watching over the past couple of days, moving more or less in line with fluctuations in the greenback. Ultimately however, WTI remains firmly rangebound.

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Commodity price data (3 February 2010)**Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,115	2,083	2,155	2,076	-37	-1.51%	2,086.50	12	-33.75
Copper	6,870	6,591	6,948	6,525	-230	-4.06%	6,853.00	-12	-23.00
Lead	2,122	2,021	2,162	2,010	-98	-4.77%	2,110.00	15	-19.00
Nickel	18,250	18,350	18,510	18,060	-50	0.55%	18,060.00	-65	-76.00
Tin	16,600	16,605	16,825	16,350	150	0.03%	16,600.00	270	-60.00
Zinc	2,175	2,092	2,215	2,079	-68	-3.82%	2,165.00	8	-11.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	75.90	75.34	75.95	75.31	-0.58	-0.77%
NYMEX WTI	77.09	76.45	77.17	76.43	-0.53	-0.69%
ICE Gasoil	613.25	609.00	613.25	608.75	-8.25	-1.35%
API2 Q1'10	81.30	79.25	-	-	-2.05	-2.59%
EUA Dec10	12.64	12.75	-	-	0.11	0.87%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,118.50	1,115.25	1,125.50	1,108.00	1,111.20	-5.80	0.3/0.7
Silver	-	16.31	16.84	16.29	16.30	-0.42	0.0/2.0
Platinum	1,586.00	1,578.00	1,589.00	1,573.00	1,570.00	-5.00	-1.0/1.0
Palladium	446.00	442.00	445.00	436.00	436.00	-5.00	-1.0/1.0

Sources: Standard Bank; LME; BBG



Focus: Movements in the Nickel forward curve

The nickel forward curve has seen quite a bit of movement over the past couple of weeks, particularly towards the back end of the curve, in contrast to some of the other metals (see chart).

Steadily rising LME inventories from much of the past 6 months or so have served to keep the forward curve contango out to around Dec-10. It is after this point however where much of the activity has taken place.

In terms of open interest, activity drops off a cliff after Dec-10, with only small pockets of activity occurring around the Dec-11 and Dec-12 dates.

Given how the forward curve has evolved over the past month or so, with the backwardation steepening, it seems that some market participants may have been borrowing the Dec-11 to Dec-12 spread, in anticipation of the physical market tightening up as the global economy recovers.

From a fundamental perspective, we would concur with this view and see the nickel market tightening up over the next 24 months, with the market moving from an estimated surplus of 51 kt in 2009 to around an 11 kt surplus in 2010 before shifting into a 9kt deficit in 2011.

Base metals

The base metals came under heavy pressure on Wednesday after a stronger dollar triggered a sell-off across much of the complex. Very good volumes were seen however, particularly in copper aluminium and zinc, reflecting good two-way interest rather than a complete capitulation. Further dollar weakness this morning has kept a lid on prices, however, the base metals appear to have stabilised and found their feet heading into the afternoon.

Looking ahead, this afternoon is a busy one in terms of economic data with the BOE and ECB rate decisions (both unchanged). In the US there is the latest round of Initial and Continuing Jobless claims data (expected at 455K and 4,581K respectively) plus the December Factory Orders (expected +0.5%) In the interim, the dollar looks set to remain in charge of intraday price direction with the US equity markets potentially also having an impact this afternoon.

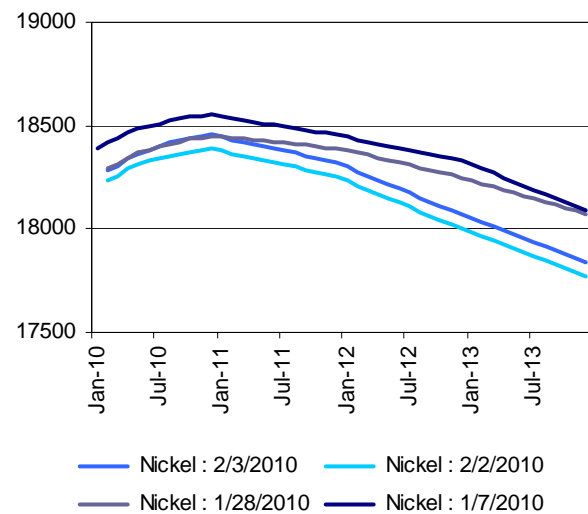
Copper saw exceptional volumes yesterday with over 23,000 lots trading on LME Select. The level of turnover is reflective of the battle between short term technical players, selling metal, and those participants looking at the longer term picture and viewing the retracement as an opportunity to load-up. Wednesday's sharp fall in copper prices re-opened the SHFE-LME arbitrage window, with some arbitrage-related buying emerging overnight to help copper stabilise this morning. With the dollar also picking up slightly, copper prices have edged back above \$6,600. Turnover in copper has continued to be very good, though the other metals are noticeably quieter than previous days.

Inventory-wise, aluminium saw available inventory fall 24,825 mt following a big jump in cancelled warrants in Baltimore (+23,400). Our initial interpretation of the move is that the material is likely headed for another warehouse, either inside or outside the LME warehouse system rather than being destined for industrial use.

The SHFE has announced that it will temporarily increase margin requirements to 11% and the daily trading limit to 7% on the days around the Chinese New Year holiday. The daily limit for copper will be raised from the start of February 12th and will return to 5% at the end of trading on February 22nd.

In other news, police on Indonesia's Bankga island have closed a tin smelter due to allegations of illegal mining. The news has had little impact on tin prices, with the metal following the rest of the complex.

LME Nickel Forward Curves



Sources: LME, Standard Bank

Given the volatility in outright prices at the moment, a spread trade arguably provides more stability compared to taking an outright directional view, albeit incurring a negative yield to put on.

By Leon Westgate

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Precious metals

Gold remains under pressure due to the impact of the dollar, however it has continued to perform relatively well against the likes of silver and the industrial metals and hasn't collapsed. Continuing fears over Greece and other southern European states, while impacting on the strength of the Euro, are also lending support with nervy investors still looking to gold as a safe haven.

Platinum has also tracked the dollar over the past couple of days, with that trend continuing this morning. With little else going on in the market, it seems that the dollar will continue to be the main factor governing price direction for the metal. Support appears to be at \$1,550 while resistance is seen at \$1,570.

Palladium is proving a bit more erratic but interestingly has continued to outperform its stablemate. Support and resistance are seen at \$427 and \$450 respectively.

In other news, and potentially lending background support to gold and the PGM's is a recent announcement by Gold Fields Ltd that its input costs in South Africa are likely to increase by 10% should Eskom Holdings be allowed to increase power prices by 35% per year for the next three years.

By Leon Westgate

Energy

In line with the rest of the commodities complex, crude oil has also reverted to dollar watching over the past couple of days, moving more or less in line with fluctuations in the greenback. Ultimately however, WTI remains firmly rangebound. This afternoon's economic data, particularly the Factory Orders, may have some impact on price behaviour, however it seems that the dollar and technical signals will continue to dominate over the short term.

The DOE inventory data painted a mixed picture. Crude oil stocks posted a greater than expected 2317 k bbl increase, however Gasoline stocks fell unexpectedly, dropping by 1,306 K bbl compared to expectations of a 1,400 k increase. Distillate inventories moved more or less in-line with expectations, falling 948 kt barrels compared to consensus expectations of a 1159k drop. The inventory figures caused a bout of volatility before prices settled down and reverted to tracking the dollar once again.

Coal also came under heavy pressure yesterday with API2 for Q2-10 dropping \$2.05 and API4 for the same date dropping \$1.25. Most of the movement occurred in the front portion of the curve, with the farther dated portion holding up much better. Physical activity has continued to drop away as the Chinese start to wind down ahead of the Feb 14th New Year holiday. Warmer weather in Europe has also removed some of the support for prices.

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	4,601,625	4,608,225	100	6,700	-6,600	-27,275	234,225	5.09	190,549
Copper	540,475	541,150	#N/A N/A	675	-675	38,150	5,050	0.93	151,774
Lead	157,975	157,725	325	75	250	11,475	15,575	9.86	31,522
Nickel	165,726	165,828	#N/A N/A	102	-102	7,716	1,338	0.81	25,919
Tin	27,465	27,435	30	#N/A N/A	30	700	1,970	7.17	6,000
Zinc	498,900	499,000	#N/A N/A	100	-100	10,850	3,700	0.74	64,051

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,300	16,320	-150	Ali May'09	-	-	-	-
Copper	54,000	53,950	-1,370	Cu May'09	297	296.15	-1.20	-0.40%
Zinc	17,360	17,460	-175					

ZAR metal prices (2 February 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,555	51,089	15,730	134,637	123,753	16,140	7.4550
3-month	15,798	49,987	15,327	139,168	125,934	15,866	7.5841

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)	83.50	3.69	84.40	2.01	84.99	1.93	86.81	1.91	-	-
Gasoil 0.1% Rdam (\$/mt)	609.00	-8.25	615.75	-8.25	622.25	-8.00	649.00	14.00	682.25	13.25
NWE CIF jet (\$/mt)	682.26	12.87	690.58	14.12	698.21	14.89	718.39	14.38	-	-
Singapore Kero (\$/bbl)	84.16	3.97	85.50	2.21	86.19	2.03	88.56	1.96	93.55	1.84
3.5% Rdam barges (\$/mt)	445.50	5.00	446.25	4.75	447.75	4.75	451.50	5.00	459.50	4.75
1% Fuel Oil FOB (\$/mt)	464.00	4.75	464.00	3.75	467.25	4.25	483.75	4.25		
Sing FO 380 Cargo (\$/mt)	467.75	4.25	468.75	4.50	469.75	4.50	473.00	4.50		
Sing FO180 Cargo (\$/mt)	472.50	3.00	473.50	4.00	474.75	4.25	478.25	4.50		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 11		Cal 12	
API2 (CIF ARA)	79.25	-2.05	83.05	-1.25	87.15	-0.65	93.15	-0.60	102.15	0.90
API4 (FOB RBCT)	82.05	-1.25	81.55	-0.75	83.55	-0.85	87.15	-0.85	95.15	0.90

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.15500	0.16000	0.18000	0.22833	0.35167
Silver	0.57667	0.57667	0.58500	0.59667	0.60167
USD Libor	0.22906	0.23906	0.24906	0.38375	0.84625

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	49.82	1,098.12	1,114.43	1,095.75	1,021.56	1,085.00	1,105.00
Silver	42.79	16.60	17.48	17.48	15.95	16.30	16.90
Platinum	55.64	1,541.45	1,571.83	1,429.48	1,317.12	1,500.00	1,550.00
Palladium	56.67	429.33	437.44	366.50	311.61	420.00	433.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGDX GLD	TOCOM GLD	CBOT GLD
	Feb'10	Mar'10	Mar'10	Apr'10	Feb'10	Dec'10	Feb'10
Settlement	1,105.80	16,2950	429.10	1,576.20	1,109.30	3,240.00	1,105.70
Open Interest	480,860	122,261	23,024	35,072	1,161	115,764	2,148
Change in Open Interest	-2,284	-642	-290	-486	-14	3,219	-59

Date: 3 February 2010

Sources: Standard Bank; LME; Bloomberg

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