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**Focus: Chinese reserve requirements for major banks** China ordered its major banks to set aside more deposits as reserves again this morning, announcing a 50 basis point increase to come into effect from February 25th. The announcement is the second this month and comes as the government looks to manage excess liquidity and will see reserve requirements increase to 16.5%, still some 100 basis points below the peak level seen in mid 2008 of 17.5%

- Copper was the stand out performer on Thursday with the metal rallying ~\$220 in 45 minutes during the late afternoon as a technical short covering rally took hold. The reason for the rally appeared to be due to copper breaking free from the dollar which then appeared to catch the market off-guard.
- With the New Year getaway gathering pace in China, overnight trading was quiet with very little going on. Given Thursday afternoon's surge in prices across the base metals complex, the reaction in Asia was rather muted, with the metals trading more or less sideways until the announcement of the increased reserve requirements saw prices come under pressure.
- Gold followed a similar pattern to copper on Thursday, trading more or less sideways before rallying very strongly during the late-afternoon in spite of a stronger dollar.
- While copper and gold appeared to have decoupled from the dollar yesterday, crude oil did not.

**Commodity price data (11 February 2010)****Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,041	2,056	2,080	2,027	35	0.73%	2,012.50	-10	-30.50
Copper	6,725	6,940	6,970	6,661	400	3.20%	6,672.50	62	-17.50
Lead	2,067	2,130	2,132	2,040	80	3.03%	2,065.00	-15	-15.25
Nickel	18,025	18,500	18,600	17,851	740	2.64%	17,945.00	95	-73.00
Tin	16,025	16,200	16,250	15,810	475	1.09%	16,000.00	45	-63.00
Zinc	2,140	2,185	2,210	2,110	66	2.10%	2,155.00	8	4.50

**Energy**

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	73.91	73.44	74.00	73.38	-0.68	-0.93%
NYMEX WTI	75.30	74.65	75.35	74.60	-0.63	-0.84%
ICE Gasoil	599.00	596.00	600.00	595.50	0.00	0.00%
API2 Q1'10	73.50	73.40	-	-	-0.10	-0.14%
EUA Dec10	13.27	13.23	-	-	-0.04	-0.30%

**Precious metals**

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,079.50	1,076.25	1,095.20	1,073.25	1,093.80	18.50	0.1/0.5
Silver	-	15.52	15.64	15.19	15.56	0.27	-0.5/1.5
Platinum	1,516.00	1,511.00	1,520.00	1,500.00	1,515.00	5.00	-1.0/1.0
Palladium	416.00	418.00	421.00	413.00	411.00	0.00	-1.0/1.0

Sources: Standard Bank, LME, DBC



### Focus: Chinese reserve requirements for major banks

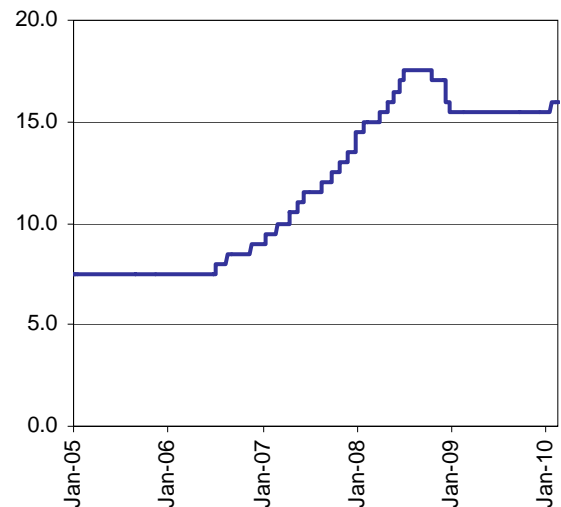
China ordered its major banks to set aside more deposits as reserves again this morning, announcing a 50 basis point increase to come into effect from February 25th.

The announcement is the second this month and comes as the government looks to manage excess liquidity and will see reserve requirements increase to 16.5%, still some 100 basis points below the peak level seen in mid 2008 of 17.5%.

The chart plots the evolution of the Chinese reserve requirements over the past 5 years, and highlights quite how commonly used the tool has been. Given the growth rates seen over the past few years, arguably the increased reserve barrier is also not a significant barrier to metals demand per-se, or indeed prices.

Metal prices, particularly copper, made an immediate and negative knee-jerk reaction to the news, however, the fact that the government is moving early and monitoring the situation closely means they can avoid having to take a more aggressive line later on.

### Chinese reserve requirement (%) for major banks



Source: Bloomberg

By Leon Westgate

### Base metals

With 66 million passengers expected to take to the roads today in China as the New Year getaway gathers pace, (basically the entire population of the UK on the move at once), the overnight trading session was rather quiet with very little going on. Given Thursday afternoon's incredible surge in prices across the base metals complex, the reaction in Asia was rather muted, with the metals trading more or less sideways until the announcement of the increased reserve requirements (see focus), saw prices come under pressure.

Copper was the stand out performer on Thursday with the metal rallying ~\$220 in 45 minutes during the late afternoon, as a technical short covering rally took hold. The reason for the rally appeared to be due to copper breaking free from the dollar which then appeared to catch the market off-guard. Thursday afternoon saw the dollar strengthen, which likely prompted the market to get progressively shorter towards the metals. Nevertheless, copper found good support around \$6700, and, in spite of the dollar strength, failed to trade significantly below this level. With the euro stabilizing late-on after positive noises from the EU summit, shorts started to bail out and cover their positions. Strops were triggered exacerbating the upwards move, with panicked short covering then propelling copper all the way up to \$6,970.

This morning has seen copper trade sideways initially, before coming under pressure after the Chinese reserve requirement news and further dollar strength. The rest of the base metals are generally tracking copper, with only nickel managing to hold its ground. Copper volumes have picked up after a slow start, however it is pretty quiet elsewhere.

Zinc tracked copper on Thursday and has continued to follow the red metal this morning. Instead, the real interest in zinc has been in the nearby spreads. Yesterday saw the February 10 - March 10 zinc spread trade out to a backwardation of \$14, compared to an initial valuation of level. The activity in the nearby spreads is a little bit anomalous given the 500,000 mt or so of LME inventory, but nevertheless indicates there is some tightness in the nearby market, be that artificial or otherwise.

Total copper output at Minera Escondida, fell 12 percent in 2009 to 1,102,976 tonnes with the fall due primarily to the failure in the Laguna Seca SAG mill which was closed for 10 months and only restarted in August. Copper-in-concentrate production fell to 775,731 tonnes from 997,491 in 2008, although cathode output rose to 327,245 tonnes from 257,528 tonnes.

With the Chinese market on holiday next week, volumes, particularly overnight will likely be significantly reduced. Overall the base metals should likely take direction from the equity and currency markets, however it will be interesting to see if prices are pushed higher towards the end of next week in anticipation of the return of Chinese buying.

By Leon Westgate

## Precious metals

Gold followed a similar pattern to copper on Thursday, trading more or less sideways before rallying very strongly during the late-afternoon in spite of a stronger dollar. The fact that gold appeared to break its link with the dollar seemed to have caught out a great deal of the market, with short covering activity emerging during the late afternoon, triggering stops on the way.

As to why gold appears to be temporarily decoupling from the euro, one explanation may be that given the sorry state that the Eurozone economy finds itself in, and the lack of decent investment alternatives, some participants may have been putting on a short euro / long gold position.

This would certainly explain some of the recent price movement, though whether gold will ever decouple completely from the euro remains to be seen. This morning for instance has seen gold prices drift lower, in-line with further weakness in the euro and in the wake of China's latest efforts to take some of the heat out of its economy.

Looking ahead, this afternoon sees the belated release of the US Advance Retail sales (expected +0.3% in January) followed by the preliminary University of Michigan Confidence Index (expected at 75.0).

The PGM's and silver have tracked the base metals over the past couple of days, with that trend continuing during Friday morning.

By Leon Westgate

## Energy

Crude oil has also been hard hit this morning in the wake of the Chinese reserve requirement announcement, with front month WTI dropping back below \$74/bbl heading into the afternoon.

Interestingly, while copper and gold appeared to have decoupled from the dollar yesterday, crude oil did not. Prices actually came under sustained pressure during Thursday afternoon as the stronger dollar, or rather weaker euro, weighed on prices. Crude oil did mount a spectacular recovery as short covering emerged late on, however the trigger for the recovery appeared to be the stabilisation and recovery of the euro, with the gains in other commodity markets then spilling over into crude and exacerbating the rally.

With China out of the picture for the time being, focus will likely switch to the Western World economies next week. In that regard, equity markets and the currencies will likely dominate price direction over the coming days.

Given the wild price swings seen in the likes of crude, gold and the base metals on Thursday, coal was comparatively peaceful. Nearby prices came under a bit of pressure, related to the lack of Chinese activity, however the farther date portion of the curve generally picked up. API2 for Q2-10 fell only \$0.10 to \$73.40/mt, while API2 for Q4-11 gained \$0.90 to \$96.30. Interestingly, the main area of weakness was seen in Q4-10 and Q1-11 which fell \$0.50 and \$0.30 respectively. API4 came under heavier pressure with prices for Q2-10 dropping \$0.85 to \$77.90/mt.

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	4,561,275	4,566,225	1,350	6,300	-4,950	-67,625	252,800	5.54	386,837
Copper	545,300	541,825	3,725	250	3,475	42,975	6,350	1.16	109,939
Lead	158,075	157,525	675	125	550	11,575	14,300	9.05	21,967
Nickel	166,356	166,026	504	174	330	8,346	3,648	2.19	36,067
Tin	26,630	26,670	25	65	-40	-135	2,280	8.56	5,665
Zinc	499,850	500,125	#N/A	N/A	275	-275	11,800	0.71	74,110

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,560	16,680	150	Ali May'09	-	-	-	-
Copper	56,300	56,320	940	Cu May'09	315	311.55	-3.60	-1.14%
Zinc	18,350	18,320	330					

### ZAR metal prices (11 February 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,456	51,245	15,859	137,818	122,880	16,550	7.6800
3-month	16,053	54,185	16,630	144,442	126,485	17,060	7.8077

## 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)	80.90	0.84	81.40	1.51	81.76	1.55	83.07	1.46	-	-
Gasoil 0.1% Rdam (\$/mt)	596.00	0.00	601.50	-0.50	608.50	0.75	625.50	11.00	657.75	11.25
NWE CIF jet (\$/mt)	649.66	5.56	660.04	10.38	666.36	10.32	686.59	11.08	-	-
Singapore Kero (\$/bbl)	80.61	0.84	81.90	1.56	82.56	1.60	84.77	5.95	89.73	3.58
3.5% Rdam barges (\$/mt)	435.00	10.25	436.00	10.25	437.00	10.25	439.25	9.75	445.75	8.50
1% Fuel Oil FOB (\$/mt)	449.00	8.00	451.00	9.50	454.25	9.25	470.50	9.25		
Sing FO 380 Cargo (\$/mt)	455.50	9.50	457.25	9.25	458.50	9.50	461.75	10.00		
Sing FO180 Cargo (\$/mt)	462.00	9.25	462.25	9.25	463.75	9.50	467.00	10.00		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 11		Cal 12	
API2 (CIF ARA)	73.40	-0.10	77.50	-0.10	82.50	-0.50	91.80	0.35	101.80	0.60
API4 (FOB RBCT)	77.90	-0.85	78.40	-0.40	80.20	-1.50	87.05	0.00	95.00	0.40

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.15600	0.17400	0.18200	0.23400	0.43200
Silver	0.55400	0.55400	0.56400	0.57400	0.58400
USD Libor	0.23063	0.24000	0.25000	0.39000	0.86188

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	48.05	1,085.68	1,093.93	1,099.77	1,026.54	1,085.00	1,105.00
Silver	41.18	15.70	16.48	17.39	16.01	16.30	16.90
Platinum	51.43	1,522.74	1,543.40	1,440.34	1,328.01	1,500.00	1,550.00
Palladium	52.86	420.09	429.90	373.27	317.08	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	1,087.50	15,4950	415.75	1,519.30	1,087.50	3,167.00	1,087.90
Open Interest	466,217	118,571	22,337	34,097	1,353	107,065	2,687
Change in Open Interest	688	22	-242	228	-146	-423	51

Date: 11 February 2010

Sources: Standard Bank; LME; Bloomberg

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