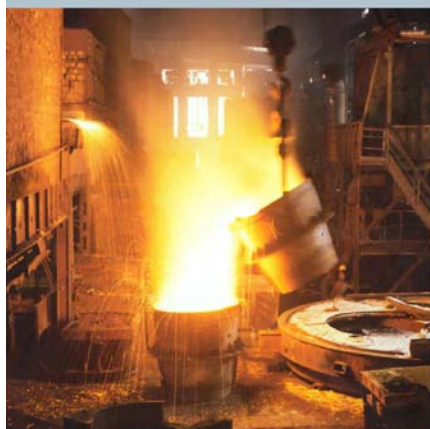


18 January 2010



**Focus: SHFE-LME Zinc - arbitrage opportunities?** On paper, zinc looks like offering potential arbitrage opportunities particularly towards the back end of the SHFE forward curve. The lack of liquidity that far out however means that, for the time being, SHFE-LME arbitrage opportunities remain confined to copper.

- Gold remains range-bound between \$1,120 and \$1,145. We expect the next move to be up.
- Silver support is at \$18.30 and \$18.20, resistance is at \$18.60 and \$18.80.
- We would buy both platinum and palladium on price dips.
- WTI front-month prices continue to push lower, and briefly touched \$77.20 this morning. We expect uncounted downward pressure. Speculative interest in the crude market remains high. More dollar strength could see speculative positions being liquidated.
- Monday morning has seen copper set the pace for the base metals, with arbitrage-related buying overnight seeing the metal climb back above \$7,500. Copper's strength has rubbed off on the other metals which, in the absence of any clear direction of their own, have followed suit and tracked the red metal higher.

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**Commodity price data (15 January 2010)****Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,321	2,306	2,328	2,309	-48	-0.65%	2,282.00	-11	-31.25
Copper	7,420	7,435	7,512	7,400	-60	0.20%	7,405.50	-49	-27.00
Lead	2,460	2,435	2,478	2,440	-67	-1.03%	2,440.00	-11	-23.08
Nickel	18,250	18,625	18,845	18,450	300	2.05%	18,325.00	-25	-73.00
Tin	18,050	18,105	18,200	18,075	-350	0.30%	18,100.00	-100	-68.00
Zinc	2,458	2,470	2,499	2,469	-32	0.49%	2,440.50	-52	-28.50

**Energy**

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	76.91	76.88	76.99	76.39	-0.23	-0.30%
NYMEX WTI	77.84	77.89	77.95	77.07	-0.11	-0.14%
ICE Gasoil	624.75	623.75	624.75	619.25	-6.25	-1.00%
API2 Q1'10	85.40	86.10	-	-	0.70	0.80%
EUA Dec10	12.10	13.32	-	-	-0.23	1.73%

**Precious metals**

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,132.00	1,128.00	1,145.50	1,127.30	1,130.00	-13.80	-0.3/0.1
Silver	-	18.58	18.62	18.41	18.42	-0.21	0.5/2.5
Platinum	1,610.00	1,600.00	1,618.00	1,597.00	1,595.00	-10.00	-2.5/-0.5
Palladium	452.00	449.00	452.00	443.00	448.00	4.00	-2.5/-0.5

Sources: Standard Bank; LME; BBG



### Focus: SHFE-LME Zinc: arbitrage opportunities?

Copper still offers the clearest arbitrage opportunities between the SHFE and LME markets. Arbitrage-related copper buying from China has been a feature of the market since late last year, supporting prices. It is also likely to translate into strong copper imports numbers over the next couple of months.

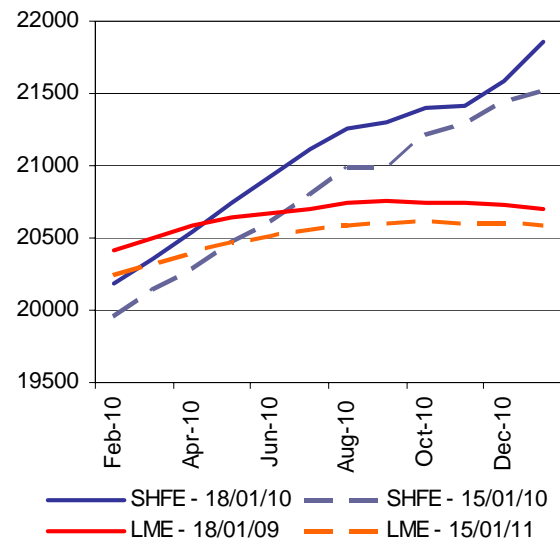
Aside from copper, on paper at least, zinc also looks like offering potential arbitrage opportunities particularly towards the back end of the SHFE forward curve.

The front end of the SHFE Zinc forward curve is currently trading at a discount to the LME, reflecting the recent large inflows of metal into exchange warehouses, up 56,084 mt since the start of December, and the fact that SHFE stocks of the metal currently stand at 222,900 mt, the highest level since the contract was launched in mid 2007.

Further forward however, the LME curve flattens out while the SHFE curve remains in a pronounced contango, opening up a healthy arbitrage window. The difficulty in exploiting this gap however lies in the liquidity, or rather lack of it. While the LME contract is liquid 3 years forward, liquidity in the SHFE contract doesn't extend very far, with 98% of the total open interest occurring within the first 6 months.

The lack of liquidity where the arbitrage is widest, will hinder any attempts to play the zinc arbitrage. The lack of activity in the far-

### SHFE Zinc vs. LME Zinc forward curves (Rmb/mt)



Sources: Standard Bank; Bloomberg

dated portion of the curve may also go explain why such a significant contango is in place anyway. Therefore, with the domestic Chinese aluminium market still moribund, SHFE-LME arbitrage opportunities remain confined to copper.

By Leon Westgate

## Base metals

The week ended on a rather quiet note on Friday with lower volumes being seen across the board. The economic data didn't presenting the market with any nasty surprises, with a stronger dollar taking charge of price direction and seeing much of the complex come under pressure. The metals have again been rather quiet volume-wise on Monday, however, prices are generally higher across the board with copper leading the way. The Martin Luther King holiday in the US, and the lack of economic data, may see the quiet conditions continue this afternoon.

Monday morning has seen copper set the pace, with arbitrage-related buying overnight seeing the metal climb back above \$7,500. Copper's strength has rubbed off on the other metals which, in the absence of any clear direction of their own, have followed suit and tracked the red metal higher. Volume-wise, copper turnover is looking rather disappointing heading into the afternoon, while volumes elsewhere also remain subdued.

While most of the base metals came under pressure or traded sideways on Friday, nickel bucked the trend to post a 2% gain. There was no conclusive reason for the metal's strength, however good buying interest emerged around the LME second ring close, with the metal continuing to rally thereafter. Nickel has since managed to edge higher during Monday morning, albeit on the back of thin volumes.

In other news, Newmont Mining has meanwhile halted mining operations at its Batu Hijau Copper-Gold mine in Indonesia after a rockslide killed a bulldozer operator. Output has been unaffected so far, with the concentrator continuing to process stock-piled ore. Mining operations will resume once the site receives safety clearance.

By Leon Westgate

## Precious metals

**Gold remains range-bound** between \$1,120 and \$1,145. With a public holiday in the US today, this trend is set to continue.

**The euro remains under pressure.** With Greece's CDS rising (now at 33 bps), the market sees the likelihood of a Greek default higher than at any time in the past two years (even higher than the months following Lehman's collapse). The option market sees the probability of the euro falling to \$1.4200 within the next month at 68.1%. The natural beneficiary of the pressure on the euro remains the dollar, and as a result, gold could struggle to escape its range.

Despite the stronger dollar, physical gold demand remains strong — especially on price dips. **Although gold remains range-bound, we expect the next move to be up.**

Palladium is testing \$460 and platinum \$1,630. The US platinum ETF has now 156K of platinum stock. Despite the large increase in price, platinum volumes on the Shanghai Gold Exchanger remains steady, which is adding support on the downside.

**We would buy both metals on the dips.**

Silver jump to \$18.60 this morning. Over the past few days, we saw good physical demand for the metal which, as for gold, is supporting the price on the downside. **Silver support is at \$18.30 and \$18.20, resistance is at \$18.60 and \$18.80.**

By Walter de Wet

## Energy

WTI front-month prices continue to push lower, and briefly touched \$77.20 this morning. **We expect uncouneted downward pressure.**

The recent extreme cold in the US and Europe is giving way to more normal temperatures for this time of the year. Besides the warmer temperatures, the dollar is benefiting from problems in the Eurozone.

**Speculative interest in the crude market remains high.** The latest CFTC data shows the net non-commercial long position on the WTI contract has increased — by another 26K contracts last week. This puts the net speculative position as a percentage of open interest at a very high 10.4%. **More dollar strength could see speculative positions being liquidated.**

**We see support for WTI front month prices at \$77.35 and \$76.75. Resistance is at \$79 and \$79.90.**

**Thermal coal prices continue to fall** on the back of lower crude prices. However, we continue to see good buying out of Asia, most notably China. This should see coal prices remain relatively well supported. With port congestion in Australia on the rise as ships queues to ship coal to Australia, we expect API2 to find additional support. API for delivery in January closed Friday at \$87.10 — \$1.10 higher than Thursday.

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	4,584,950	4,593,400	375	8,825	-8,450	-43,950	251,825	5.49	143,186
Copper	525,475	523,975	1,650	150	1,500	23,150	8,525	1.62	101,354
Lead	150,750	150,300	450	-	450	4,250	75	0.05	30,146
Nickel	161,994	161,550	492	48	444	3,984	1,506	0.93	33,569
Tin	27,260	27,065	200	5	195	495	585	2.15	7,184
Zinc	488,150	488,175	250	275	-25	100	3,950	0.81	64,794

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	17,400	17,590	-65	Ali Jan'10	-	-	-	-
Copper	60,000	60,560	-10	Cu Jan'10	337	341.05	4.45	1.32%
Zinc	20,290	20,415	-130					

### ZAR metal prices (15 January 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,923	54,919	18,095	135,898	134,230	18,099	7.4160
3-month	17,391	56,072	18,364	140,462	136,541	18,628	7.5416

## 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)	85.76	-0.50	84.62	-0.88	85.46	-0.90	87.91	-0.84	92.07	-0.82
Gasoil 0.1% Rdam (\$/mt)	623.75	-6.25	631.00	-6.00	636.75	-6.25	655.00	-6.75	696.25	-5.25
NWE CIF jet (\$/mt)	698.44	-2.94	696.70	-4.25	704.16	-5.00	724.68	-5.25	761.85	-5.07
Singapore Kero (\$/bbl)	87.24	-0.60	86.02	-0.98	86.86	-0.95	89.36	-0.79	94.37	-0.77
3.5% Rdam barges (\$/mt)	457.68	0.18	452.50	-6.25	454.00	-6.00	457.75	-6.00	465.00	-5.00
1% Fuel Oil FOB (\$/mt)	473.41	0.66	470.00	-6.25	473.25	-6.50	484.75	-6.50	503.00	-5.50
Sing FO 380 Cargo (\$/mt)	479.00	-5.25	479.00	-5.00	479.00	-5.00	481.25	-5.25	487.75	1.00
Sing FO180 Cargo (\$/mt)	495.01	4.01	485.00	-5.00	485.00	-4.75	486.75	-4.75	487.75	1.00

Thermal coal	Q1-10		Q2-10		Q3-10		Cal 11		Cal 12	
API2 (CIF ARA)	86.10	0.70	87.20	0.60	90.45	0.65	102.05	0.40	108.80	-0.35
API4 (FOB RBCT)	86.40	2.00	85.70	1.90	87.95	1.35	95.95	0.90	101.00	-0.15

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.25000	0.26167	0.27833	0.29667	0.40667
Silver	0.57000	0.57000	0.57833	0.58667	0.59333
USD Libor	0.23313	0.24250	0.25125	0.39250	0.89625

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	53.98	1,135.29	1,117.39	1,081.96	1,007.88	1,116.00	1,142.00
Silver	56.78	18.38	17.78	17.41	15.67	17.85	18.40
Platinum	66.20	1,579.50	1,519.04	1,393.84	1,291.46	1,525.00	1,575.00
Palladium	72.13	433.99	411.92	347.80	298.04	420.00	433.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'10	Mar'10	Mar'10	Apr'10	Feb'10	Dec'10	Feb'10
Settlement	1,135.00	18.6000	454.50	1,596.10	1,134.50	3,330.00	1,130.40
Open Interest	521,969	130,337	23,324	34,146	1,660	124,552	2,502
Change in Open Interest	-219	-322	217	-145	-115	-2,716	32

Date: 18 January 2010

Sources: Standard Bank; LME; Bloomberg

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