

Commodities

Commodities: Daily



Focus: Copper / Aluminium ratio - high for good reason

21 January 2011

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- Thursday afternoon saw further heavy selling sweep over the base metals complex, with copper, lead and zinc being the hardest hit. There was an element of panic during the afternoon, however very good volumes also built up as dip-buying activity emerged. Friday morning has seen the metals stabilize, with the complex trading sideways to higher heading into the afternoon.
- The oil price had a correction yesterday, which was perhaps overdue. The price broke out the narrow trading range seen during the last six sessions, and effectively gave back all the gains from the outage of the Trans-Alaska Pipeline System.
- The threat of further monetary tightening in China continues to overwhelm precious metals markets, with gold and silver the hardest hit. Given their high correlation with global liquidity this is to be expected.

Strategists

Walter de Wet, CFA*

Walter.DeWet@standardbank.com
+44-20-31456821

Leon Westgate*

Leon.Westgate@standardbank.com
+44-20-31456822

James Zhang*

Jinzhong.Zhang@standardbank.com
+44-20-31456824

Marc Ground, CFA*

Marc.Ground@standardbank.com
+27-11-3787215

Commodity price data (20 January 2011)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,405	2,409	2,415	2,403	-29	0.17%	2,373.50	-72	-25.00
Copper	9,465	9,356	9,430	9,350	-225	-1.15%	9,485.00	-303	13.00
Lead	2,479	2,438	2,475	2,440	-94	-1.65%	2,530.00	-120	43.00
Nickel	25,670	25,775	25,945	25,673	95	0.41%	25,650.00	-550	-26.00
Tin	26,974	27,000	27,149	26,900	74	0.10%	27,200.00	-25	34.00
Zinc	2,343	2,331	2,365	2,335	-60	-0.51%	2,334.00	-93	-16.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	96.34	96.50	96.84	96.26	-0.08	-0.08%
NYMEX WTI	89.45	89.45	89.88	89.38	-0.14	-0.16%
ICE Gasoil	807.25	807.50	809.75	805.50	1.25	0.15%
API2 Q1'11	121.45	119.65	-	-	-1.80	-1.50%
ICE EUA Dec'11	14.43	14.40	-	-	-0.03	-0.21%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,364.50	1,345.50	1,370.75	1,344.00	1,347.40	-23.30	-0.7/-0.4
Silver	-	27.33	28.77	27.42	27.50	-1.30	-0.4/-0.2
Platinum	1,823.00	1,809.00	1,838.00	1,803.00	1,815.00	-20.00	0.0/2.0
Palladium	815.00	805.00	817.00	797.00	808.00	-13.00	-1.0/1.0

Sources: Standard Bank; LME; BBG

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Focus: Copper / Aluminium ratio - high for good reason

At current levels, the ratio between copper and aluminium is 3.88, close to its record high of 3.96, reached on January 18th, and well above the 2006-2009 levels of ~2.7. While this is viewed by some as a reason to be more positive for aluminium prices, or bearish for copper, the current disparity in prices seems justified.

Looking at how the other base metals stack up against each other, copper's ratio to the other base metals is actually pretty much in line with recent history. Its ratio with zinc for example is also towards the upper end of its range, but still well below the levels seen in mid-2008, while its relationships to metals like lead and tin are in the middle of those ranges.

Aluminium's relationship with the other metals in the base metals complex, are also within recent ranges, with the metal only seeing its ratio flare out against copper and tin - the two metals that have the strongest underlying fundamentals. While aluminium may be heading for a fundamental deficit in Q1-11, the market has nevertheless recorded an average surplus of nearly 1Mtpy since 2007, with further surpluses expected both this year and next. With plentiful inventory lying about, albeit with a significant amount tied-up in financing deals, it's still very hard to get too bullish.

Longer term, sustained high copper prices will result in greater thrifting activity from consumers and potentially some substitution in certain applications. Aluminium may therefore, over time, take some market share from demand destruction in copper. This should take the edge off copper prices, however, given the size of the aluminium market - around double that of copper's - its impact on aluminium is also likely to be fairly muted.

Base metals

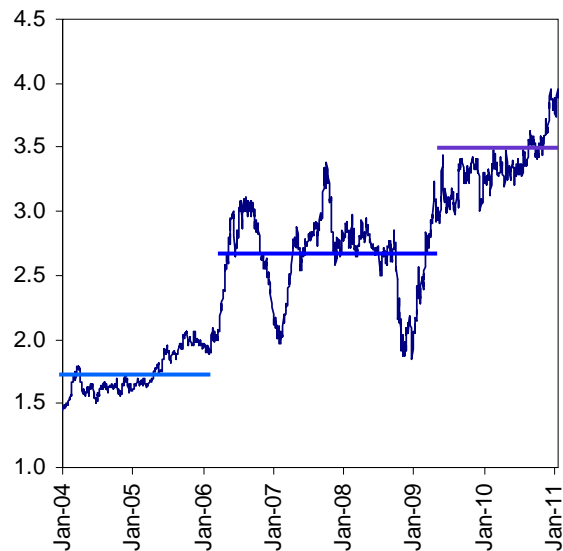
Thursday afternoon saw further heavy selling sweep over the base metals complex, with copper, lead and zinc being the hardest hit. There was an element of panic during the afternoon, however very good volumes also built up as dip-buying activity emerged. Friday morning has seen the metals stabilize, with the complex trading sideways to higher heading into the afternoon.

Copper fell sharply on Thursday, closing below \$9,400 for the first time since January 10th. Essentially, 10-day's worth of upwards progress were undone in the space of 48 hours. The market saw very good turnover, with nearly 26,000 lots trading on LME Select. The bulk of the turnover occurred during the mid-late afternoon, with the dip below \$9,400 and then below \$9,350 sparking significant two way interest.

Inventory-wise, Asian warehouses have continued to see inflows of copper. As far as the headline figures are concerned however, warrant cancellations in the US and Europe actually resulted in a small 275 mt fall in on-warrant stocks. The SHFE stock numbers for the week meanwhile showed a 2,283 mt fall. Elsewhere, the latest Chinese customs figures showed an increase in refined exports in December, to 10.5 kt, from 3.2 kt in November. China was still a massive net importer of refined copper, with imports of unwrought copper and alloys coming in at 232,788 mt in December and some 2.98 Mt for 2010 as a whole, however the imports do appear to reflect the negative arbitrage and poor physical premiums in China at the moment.

Nickel and Tin have both bucked the trend over recent days, with prices for both metals remaining remarkably firm given the weakness elsewhere. Nickel has continued to see warrant cancellations and inventory draws, with on-warrant stocks declining a further 732mt this morning, while tin, has also seen on-warrant stocks start to fall, even at these elevated price levels.

LME Copper / Aluminium ratio



Sources: LME, Standard Bank

Aluminium production is essentially an energy intensive chemical process, with plentiful excess capacity. The impact of low interest rates and large contango's in the nearby structure over the past year or so, have allowed production to continue, with excess metal being absorbed by financing deals. It will take a long time for the market to normalise, with the winding down of those deals, as interest rates slowly rise, keeping a lid on aluminium prices.

Therefore, the current ratio levels appear to be justified. As was the case in 2006, when there was a step change in the ratio from ~1.8 to ~2.7, the upwards shift in the ratio towards 3.5 may be here to stay.

By Leon Westgate

By Leon Westgate

Energy

The oil price had a correction yesterday, which was perhaps overdue. The price broke out the narrow trading range seen during the last six sessions, and effectively gave back all the gains from the outage of the Trans-Alaska Pipeline System.

February WTI contracts expired yesterday at \$88.86/bbl, a \$2/bbl drop from the day before. Front month Brent lost \$1.58/bbl, to settle at \$96.58/bbl. A 0.6mmbbl drop of crude inventory at Cushing failed to narrow the WTI/Brent spread, with the front month spread widening by 26c/bbl instead. Nymex RBOB cracks weakened on the back of a large DOE gasoline build. In contrast, Nymex Heating Oil and ICE Gasoil cracks both strengthened slightly as the DOE reported only a small build in distillates.

The DOE reported changes in US oil inventories for crude/gasoline/distillate of +2.6/+4.4/+1.0 mmbbls respectively for week ending 14 January. PADD3/Gulf Coast reversed its seasonal inventory de-stocking trend, and ended the week with a 6.9mb build. Cushing crude inventory was down by 0.6MB. Crude domestic production decreased 370kbd last week, presumably due to the Alaska oil field shut-in. Crude oil imports rose by 100kbd w/w to 9mbd, while refinery runs showed a sharp drop of 3.4%. Despite the reduction in refinery runs, the DOE reported a 142kbd increase in gasoline production. On 4-week average basis, implied demand for both gasoline and distillate were 110kbd lower w/w.

Last week, the US surprised the market with much higher-than-expected weekly initial jobless claim numbers. However, the number fell back to 404K this week, which suggests that last week's number was most likely a seasonal blip. The US also released its December Home Sales number and latest Leading Indicators, both of which came out better than market expectations. Overall, the US economic recovery appears to be still on track.

For the coming week, we expect markets to enter a period of downward correction, barring any more supply disruptions. The recent supply disruption in Alaska is now settling down. Winter demand is also set to wane in a few weeks time. The latest US DOE inventory report confirmed that US inventories have started the seasonal build up, which will continue until June. However, Chinese oil demand is set to remain strong, although China's monetary policy will also keep the market on its toes. In addition, the US is likely to continue with its positive economic news, which should continue to support the market.

By James Zhang

Precious metals

The threat of further monetary tightening in China continues to overwhelm precious metals markets, with gold and silver the hardest hit. Given their high correlation with global liquidity this is to be expected. Encouraging data flow has bolstered confidence in the US economy, adding to gold and silver's woes as safe-haven demand falls.

Margin requirements for COMEX gold and silver contracts have been raised. This is contributing further to the bearish mood on these markets. Gold initial margins are raised from \$6,075 to \$6,751, and maintenance margins from \$4,500 to \$5,001. Silver initial margins will increase from \$10.463 to \$11.138, and maintenance margins \$7.750 to \$8.250. The new margin requirements will be effective from close of business today.

Physical demand for gold is strong and we expect it to rise even more should gold fall further.

China's platinum imports for 2010 was up 40% y/y, with much of the imports moving into China during the first half of 2010. While auto sales have pushed higher, we believe jewellery demand has been equally strong. That said, the picture painted by Swiss import/export data indicates demand for platinum from China has been tailing off in recent months—some indication that consumers of platinum may be well stocked. As a result, while we remain bullish on the metal, we believe demand from China may fade if the platinum price rise to fast in Q1:2011.

Gold support is at \$1,344 and \$1,343. Resistance is at \$1,349 and \$1,352. Silver support is at \$27.16 and \$26.99, resistance is at \$27.59 and \$27.83.

PGM's have managed to retrace some of yesterday's losses, supported in part by a more optimistic outlook for the US economy, although concerns over South African production (as more rains are forecast) are most likely the most significant driver. Lower prices are also seeing bargain hunters coming to the market.

Platinum support is at \$1,804 and \$1,798, resistance is at \$1,815 and \$1,821. Palladium support is at \$800 and resistance at \$813.

By Walter de Wet

Base metals

Daily LME Stock Movement (mt)

Metal	Today	Yesterday	In	Out	One day change	YTD change (mt)	Cancelled		Contract turnover
							warrants (mt)	Cancelled warrants (%)	
Aluminium	4,486,325	4,485,675	4,975	4,325	650	209,275	159,800	3.56	252,949
Copper	380,525	381,750	350	1,575	-1,225	2,975	30,925	8.13	136,769
Lead	264,350	261,925	2,925	500	2,425	56,075	5,175	1.96	47,819
Nickel	137,124	137,238	0	114	-114	1,452	8,010	5.84	27,394
Tin	17,265	17,290	0	25	-25	990	300	1.74	10,918
Zinc	711,550	711,125	475	50	425	10,125	2,200	0.31	75,239

Shanghai 3-month forward prices

Metal	Open	Last	1d Chnge
Aluminium	16,750	16,860	10
Copper	70,450	71,230	-500
Zinc	18,780	18,940	-180

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'11	-	-	-
Copper	Cu Mar'11	427	426.80	-0.40
Zinc				

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,615	66,395	17,710	179,550	190,400	16,338	7.0000
3-month	17,331	67,309	17,539	185,431	194,243	16,770	7.1942

Energy

Energy futures pricing	Price		Change		Price		Change		Price		Change	
	1 month		2 month		3 month		6 month		1 year			
Sing Gasoil (\$/bbl)	107.96	-0.73	108.56	-2.18	108.81	-2.11	109.81	-1.99	111.04	-1.63		
Gasoil 0.1% Rdam (\$/mt)	807.50	1.25	811.75	1.25	815.00	2.50	820.25	0.50	833.50	0.00		
NWE CIF jet (\$/mt)	880.93	-5.98	893.01	-12.50	894.39	-13.50	900.93	-13.70	914.22	-11.91		
Singapore Kero (\$/bbl)	109.36	-0.72	110.41	-1.78	110.46	-1.81	111.36	-1.89	113.14	-1.53		
3.5% Rdam barges (\$/mt)	504.04	-4.28	501.59	-10.97	502.16	-10.56	502.77	-8.44	507.34	-8.43		
1% Fuel Oil FOB (\$/mt)	512.57	-4.59	511.59	-10.97	513.66	-10.81	520.02	-9.19				
Sing FO180 Cargo (\$/mt)	533.10	-3.53	530.09	-11.22	529.91	-10.81	529.27	-8.69				

Thermal coal	Q1-11		Q2-11		Q3-11		Cal 11		Cal 12	
API2 (CIF ARA)	119.65	-1.80	115.60	-2.05	115.60	-1.85	116.90	-1.90	117.10	-1.75
API4 (FOB RBCT)	120.90	-1.90	118.00	-1.75	116.10	-1.35	117.55	-1.75	113.85	-1.50

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.31600	0.33200	0.35200	0.44600	0.59400
Silver	-0.17000	-0.17000	-0.17000	-0.07200	-0.02200
USD Libor	0.26000	0.28313	0.30313	0.45469	0.78031

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	45.85	1,367.42	1,380.81	1,352.88	1,280.55	1,344.00	1,349.00
Silver	48.13	28.63	29.26	25.82	22.08	27.16	27.59
Platinum	60.80	1,801.47	1,775.32	1,694.96	1,636.11	1,804.00	1,815.00
Palladium	61.73	799.26	789.77	671.15	577.47	800.00	813.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'11	Mar'11	Apr'11	Apr'11	Feb'11	Dec'11	Feb'11
Settlement	1,345.60	27.2850	805.00	1,818.60	1,346.00	3,602.00	1,348.00
Open Interest	581,113	136,552	22,707	42,137	2,554	132,410	2,459
Change in Open Interest	6,719	-877	-110	-533	114	-1,961	116

Sources: Standard Bank; LME; Bloomberg

Forecasts

Base metals

Base metals LME cash prices (US\$/mt)

	Q1:11	Q2:11	Q3:11	Q4:11	Avg. 2011	Avg. 2012
Aluminium	2,460	2,470	2,350	2,440	2,430	2,510
Copper	9,150	8,900	9,300	9,450	9,200	10,000
Lead	2,450	2,390	2,520	2,560	2,480	2,600
Nickel	24,500	23,800	22,000	22,500	23,200	22,000
Tin	26,200	27,000	29,000	29,800	28,000	29,500
Zinc	2,350	2,300	2,250	2,380	2,320	2,500

Energy

Energy front-month prices

	Q1:11	Q2:11	Q3:11	Q4:11	Avg. 2011	Avg. 2012
WTI (\$/bbl)	90	90	93	95	92	100
Brent (\$/bbl)	92	91	94	96	93.50	100
ICE Gasoil (\$/mt)	760	775	790	790	780	830
Nymex RBOB Gasoline (c/gal)	240	245	245	240	245	260
API2 Coal Cif ARA (\$/mt)	120	115	110	115	115	120
API4 Coal Fob Ricahrds Bay (\$/mt)	120	115	110	115	115	115

Precious metals

Precious metals spot prices (US\$/oz)

	Q1:11	Q2:11	Q3:11	Q4:11	Avg. 2011	Avg. 2012
Gold	1,370	1,440	1,500	1,435	1,430	1,450
Silver	27.00	28.35	28.20	27.35	27.70	27.80
Platinum	1,850	1,800	1,750	1,950	1,850	2,000
Palladium	780	740	700	880	775	850
Rhodium	2,400	2,300	2,400	2,700	2,500	3,000

Source: Standard Bank

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