FICC Research

Commodities: Daily

Focus: Nickel stocks and spreads

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Focus: Nickel stocks and spreads - While the resumption of operations at Vale's Sudbury facility will have been factored in, therefore having little impact on the majority of analysts' longer-term supply demand balances, the farther-dated nickel spreads have nevertheless eased.

- The base metals had a mixed start to the week, generally trading sideways. After a solid start, boosted by stronger Asian equities and Chinese arbitrage activity on copper and zinc, momentum has faded.
- For now, we are neutral on the precious metals basket. In fact, we have a slight bearish bias following gold's failure to consolidate above $1,200 last week. That said, for gold we still prefer a core long strategic position on a 6-month horizon. But selling into rallies seems the best tactical strategy at the moment. Our target of $1,300 for Q4:10 stands.
- WTI crude oil remains range-bound at $74/bbl to $78/bbl. Within this range, we are neutral crude oil, and expect the market to sell on approach of $78/bbl. That said, we still expect more upside for crude oil in H2:10 (we expect front-month prices to move above $80/bbl).

Commodity price data (19 July 2010)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,972	1,972	1,992	1,962	0	0.01%	1,947.00	-62	-21.75
Copper	6,511	6,510	6,551	6,470	-1	-0.02%	6,514.00	-136	-15.25
Lead	1,772	1,775	1,792	1,756	3	0.17%	1,751.50	-38	-20.00
Nickel	19,000	18,805	19,200	18,700	-195	-1.03%	18,735.00	-485	-70.00
Tin	17,925	17,950	6,610	17,750	25	0.14%	17,855.00	0	-20.00
Zinc	1,814	1,809	1,829	1,785	-5	-0.28%	1,784.00	-16	-27.50

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	75.80	75.68	75.96	75.48	0.06	0.08%
NYMEX WTI	76.40	76.65	76.91	76.36	0.11	0.14%
ICE Gasoil	645.00	644.50	646.00	644.50	-4.00	-0.62%
API2 Q3'10	93.25	93.00	-	-	-0.25	-0.27%
EUA Dec10	14.36	14.52	-	-	0.16	1.11%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,190.25	1,181.00	1,193.80	1,178.80	1,181.50	-6.50	-0.2/0.2
Silver	1,778.00	17.67	17.86	17.47	17.55	-0.23	0.0/2.0
Platinum	1,515.00	1,499.00	1,512.00	1,501.00	1,507.00	-3.00	1.5/3.5
Palladium	456.00	447.00	454.00	441.00	444.00	-3.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

Focus: Nickel stocks and spreads

While the resumption of operations at Vale's Sudbury facility will have been factored in, therefore having little impact on the majority of analysts' longer-term supply demand balances, the farther-dated nickel spreads have nevertheless eased. Physical premiums have also come off the boil a little, although LME inventories have continued to decline.

Looking at the generic 15-27 month nickel spread, it happily traded at a ~$1000 backwardation throughout much of April, May & June this year. Compared to how the spreads have moved, in relation to on-warrant LME stocks, the size of backwardation was rather anomalous and behaved as if inventories were closer to 40-50 kt rather than the 120-140 kt stock levels seen during this period.

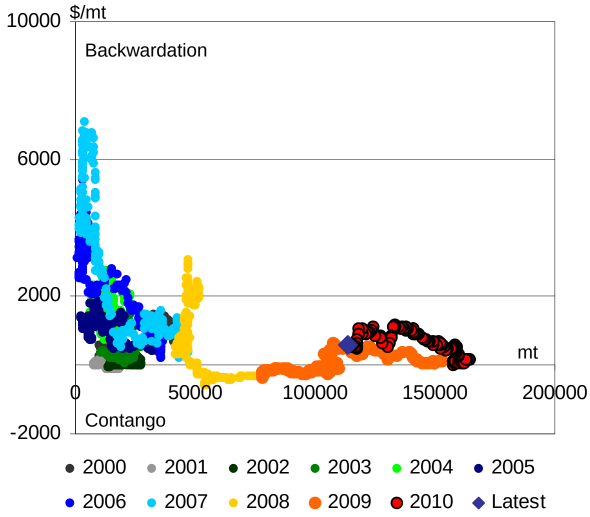
Recently, the 15-27 month spread has moved much more in line with historical norms. The backwardation is still pronounced, however, if you take H2-2008 and H1-2009 as being an abnormal period - dominated by massive inventory gains and very weak fundamentals - then current spreads are arguably approaching more normal levels.

Over the past decade, nickel stocks have tended to fall during the first half of the year, then rise during the second half of the year. Given the return of the remaining 50% of Sudbury's production - albeit likely a slow ramp up - rising, or at least stable inventories, over the balance of the year again seem likely.

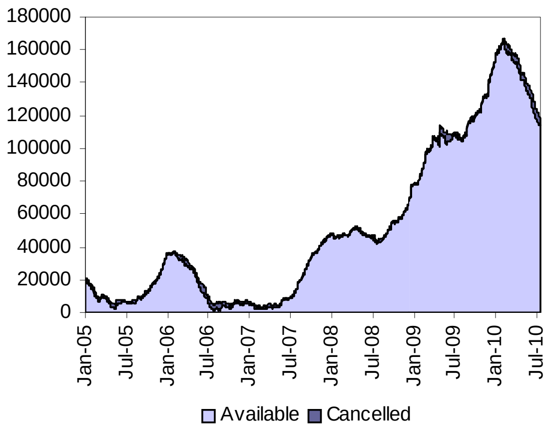
On that basis, and given expectations of a tightening market over the course of 2011, the second half of the year may present a good opportunity to build a position in the farther-dated nickel spreads to benefit from the impact that a tighter market during H1-2011 will have.

By Leon Westgate

Nickel 15-27 month spread vs. On-warrant stocks



LME Nickel Inventory



Sources: LME, Standard Bank

Base metals

The base metals had a mixed start to the week, generally trading sideways. After a solid start, boosted by stronger Asian equities and Chinese arbitrage activity on copper and zinc, momentum has faded with the metals once again appearing to settle back into sideways trading ahead of the afternoon.

The currencies appear to be exerting more of an influence today, with a stronger dollar weighing on prices. That said, with another busy day in terms of earnings releases, the equity markets will likely dictate price direction this afternoon. Volumes have picked up, helped by a busy overnight session, though activity still remains rather subdued.

After a long period of inventory draws, aluminium stocks reverted to "normal" behaviour with LME stocks climbing 52,275 mt. The activity was almost entirely focused in the US, with the inflow split fairly evenly between Baltimore, Detroit and Chicago. Also of note, the Aug-Sep spread moved back into contango yesterday, suggesting the worst of the tightness around the August date may have passed.

Copper rallied overnight, helped by Chinese arbitrage-related buying and stronger Asian equities. The LME inventory data meanwhile saw another decline in on-warrant stocks this morning - down 5,025 mt - with inventory draws in Busan, accompanied by fresh cancellations in Singapore, New Orleans and Bilbao. Falling copper inventories continue to lend background support to the metal, though short term price direction continues to come from equities and technical signals.

Elsewhere, the latest Indonesian Tin export figures showed a decline in exports in June to 8,029.9 mt, down 25.7% y-o-y and 7.5% lower m-o-m, continuing the trend of lower exports seen in March and April.

By Leon Westgate

Precious metals

The latest ETF gold holdings stand at 2,041 tonnes. While this is 9 tonnes more than at the start of July, the rate at which holdings have increased has slowed substantially. In June, ETF holdings increased by 76 tonnes. Since inception, ETF holdings have defied any major liquidation of holdings. We expect this to remain the case as long as interest rates, especially longer-dated yields in the US, are low.

For now, we are neutral on the precious metals basket. In fact, we have a slight bearish bias following gold's failure to consolidate above $1,200 last week. That said, for gold we still prefer a core long strategic position on a 6-month horizon. But selling into rallies seems the best tactical strategy at the moment. Our target of $1,300 for Q4:10 stands.

Gold support is at $1,175 and $1,167, resistance at $1,192 and $1,202.

The PGM market remains quiet. However, there are two developments worth noting:

- *Firstly*, rhodium has declined to $2,250 in the past week. We reiterate that, based on our cost-curve analysis, we see $1,500 for platinum and $420 for palladium as a fundamental floor (with ZAR/USD at $7.50). However, although rhodium production constitutes only about 9% of South African producer's PGM production, it constitutes a much larger portion of the revenue stream for mines (because of its price relative to platinum and palladium). A lower rhodium price fuels our conviction that value lies below $1,500 for platinum and $420 for palladium (if the ZAR remains stable).

- *Secondly*, the recent directive received by Aquarius Platinum from the Department of Minerals & Energy in South Africa to halt production at some of its mines confirms that the cost of PGM production and operational issues are likely to support platinum and palladium at higher levels.

In conclusion, we do not expect a rally in platinum just yet, but do see solid downside support for PGM.

By Walter de Wet

Energy

WTI crude oil remains range-bound at $74/bbl to $78/bbl. Within this range, we are neutral crude oil, and expect the market to sell on approach of $78/bbl. That said, we still expect more upside for crude oil in H2:10 (we expect front-month prices to move above $80/bbl).

The RBOB/WTI front-month crack spread is now below $10, and we expect further downside in gasoline spreads in July and August. US refinery utilisation continues at a relatively high level of 87.1% — which will require more crude and produce more product. As a result, tonight's API inventory data and tomorrow' DOE data could show a large draw in crude oil inventories and a build in both gasoline and distillate inventories.

On a day-forward-cover basis, gasoline inventories remains largely unchanged, at 23.7 days, but we continue to see steady improvement in the numbers. Gasoline days forward cover had dropped to 26.9 days in February, to the current level of 23.7 days. Crude oil days forward cover has dropped to 23.2 days, from 24.1 days a month ago. We believe on a days-forward-cover basis, inventory levels will recover further and crude oil prices will trend higher in H2:10.

Front-month WTI crude oil support is at $75.50 and $74.40. Resistance is at $77.60 and $78.50.

Coal prices are still trading sideways. API2 for Q4-10 fell $0.15/mt to $94.00, while API4 for the same period fell by $0.20/mt to $91.20. The news that China has surpassed the US as the largest energy consumer is confirmation of a world wherein energy demand will be increasingly driven by emerging markets. We find a very strong non-linear relationship between energy consumption per capita and human development. Many EM countries are fast improving their human development indicators which depend on not only on income, but also other factors such as longevity, health, education, transport etc. Higher levels of human development require higher energy consumption, including that of thermal coal.

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	4,417,100	4,368,825	52,975	4,700	48,275	-211,800	250,875	5.68	289,897
Copper	419,600	422,850	100	3,350	-3,250	-82,725	33,050	7.88	117,342
Lead	185,775	186,775	575	1,575	-1,000	39,275	11,150	6.00	32,036
Nickel	118,206	118,536	-	330	-330	-39,804	4,908	4.15	30,893
Tin	15,830	16,075	50	295	-245	-10,935	970	6.13	4,259
Zinc	618,925	617,500	1,575	150	1,425	130,875	22,675	3.66	70,618

Shanghai 3-month forward prices				COMEX active month future prices				
Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	14,930	15,060	150	Ali Jul'10	-	-	-	-
Copper	52,340	52,930	720	Cu Jul'10	294	297.15	3.35	1.14%
Zinc	15,165	15,435	335					

ZAR metal prices (19 July 2010)							
	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,834	49,630	13,345	142,742	136,037	13,592	7.6190
3-month	15,252	50,351	13,729	145,445	138,832	13,992	7.7344

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 ($/bbbl)	84.41	0.56	86.40	1.41	86.86	1.38	88.41	1.32	-	-
Gasoil 0.1% Rdam ($/mt)	644.50	-4.00	649.25	-4.25	654.25	-3.75	670.50	9.75		
NWE CIF jet ($/mt)	687.88	4.97	702.68	11.00	708.57	10.50	723.63	9.33		
Singapore Kero ($/bbl)	85.13	0.68	87.50	1.51	88.16	1.43	89.96	1.37		
3.5% Rdam barges ($/mt)	414.95	0.85	421.50	2.00	421.75	2.00	428.25	2.25		
1% Fuel Oil FOB ($/mt)	453.32	0.49	461.00	0.75	462.25	1.25	470.00	2.00		
Sing FO 380 Cargo ($/mt)	441.75	2.25	441.75	1.00	441.75	1.00	441.75	1.00		
Sing FO180 Cargo ($/mt)	444.52	0.92	449.25	2.25	449.75	2.25	457.00	2.25		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	93.00	-0.25	94.00	-0.15	96.00	-0.15	98.50	-0.10	105.40	-0.10
API4 (FOB RBCT)	91.25	-0.25	91.20	-0.20	92.90	-0.15	95.25	-0.10	100.40	-0.10

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.44800	0.51167	0.54833	0.63167	0.68667		
Silver	0.70833	0.70833	0.70833	0.74167	0.75833		
USD Libor	0.33688	0.42188	0.51781	0.71813	1.11656		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	46.67	1,199.78	1,213.43	1,179.66	1,144.87	1,085.00	1,105.00
Silver	46.41	18.01	18.18	18.04	17.66	16.30	16.90
Platinum	42.87	1,520.37	1,528.92	1,610.53	1,538.72	1,500.00	1,550.00
Palladium	46.36	455.30	453.84	482.44	435.42	420.00	433.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	Jul'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,183.20	17.6650	447.00	1,513.10	1,182.60	3,321.00	1,183.50
Open Interest	570,745	118,779	19,682	27,661	1,113	115,502	2,784
Change in Open Interest	3,451	-297	-6	82	0	-409	93

Date: 19 July 2010

Sources: Standard Bank; LME; Bloomberg

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