

FICC Research

Commodities: Daily

Focus: Chinese zinc imports



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Focus: China looks set to remain a small net importer of zinc metal, with the figures normalizing after the surge in imports in the first part of 2009. The June figures put net refined zinc imports at 19,392 mt, down some 26% m-o-m from the net 26,361 mt figure for May, reflecting a 29% m-o-m fall in refined imports to 21,700 mt but also a 46% drop in refined exports to 2,308 mt.

- Short covering across the base metals complex has been a feature over the past couple of days, with all of the metals recovering strongly during Wednesday afternoon. Short covering has again been the dominant theme this morning, with the metals rallying strongly heading into the afternoon session.
- Gold is struggling for momentum. We believe that the best short-term strategy is to sell into rallies. However, we still see gold higher towards year-end and we would prefer a core long-gold strategic position.
- We see support for front-month prices at \$75.70 and \$74.75, resistance at \$77.60 and \$79.50.

Commodity price data (21 July 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,000	2,008	2,024	1,969	8	0.41%	1,975.50	45	-21.50
Copper	6,825	6,865	6,886	6,612	40	0.59%	6,771.00	245	-17.00
Lead	1,867	1,866	1,880	1,817	-1	-0.03%	1,844.00	82	-20.75
Nickel	19,350	19,500	19,575	19,100	150	0.78%	19,215.00	405	-76.00
Tin	18,325	18,375	1,921	18,015	50	0.27%	18,280.00	355	-30.00
Zinc	1,897	1,918	1,939	1,855	21	1.11%	1,869.00	59	-27.75

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	75.44	75.06	75.49	75.05	-0.31	-0.41%
NYMEX WTI	76.43	76.35	76.69	76.23	-0.21	-0.28%
ICE Gasoil	636.00	635.00	637.25	634.75	-2.00	-0.31%
API2 Q3'10	92.25	92.00	-	-	-0.25	-0.27%
EUA Dec10	14.25	13.88	-	-	-0.37	-2.60%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,191.25	1,191.50	1,196.00	1,189.30	1,192.00	0.00	-0.5/-0.2
Silver	1,788.00	17.66	17.88	17.66	17.80	0.12	-1.0/1.0
Platinum	1,509.00	1,524.00	1,525.00	1,506.00	1,524.00	12.00	1.5/3.5
Palladium	448.00	453.00	454.00	449.00	451.00	1.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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Focus: Chinese zinc imports

China looks set to remain a small net importer of zinc metal, with the figures normalizing after the surge in imports in the first part of 2009. The latest June figures put net refined zinc imports at 19,392 mt, down some 26% m-o-m from the net 26,361 mt figure for May, reflecting a 29% m-o-m fall in refined imports to 21,700 mt but also a 46% drop in refined exports to 2,308 mt.

Net refined imports for 2009 totaled 652.9 kt, compared with only 112 kt in 2008. On a ytd basis, 2010 imports are already ahead of the 2008 total, but are still running some 374 kt below the levels seen this time last year. Nevertheless, Asian physical premiums have picked up strongly since early June, with a 16% fall in SHFE inventory over that period also suggesting that domestic demand has picked up and that the market has tightened. The SHFE-LME arbitrage window also remains open.

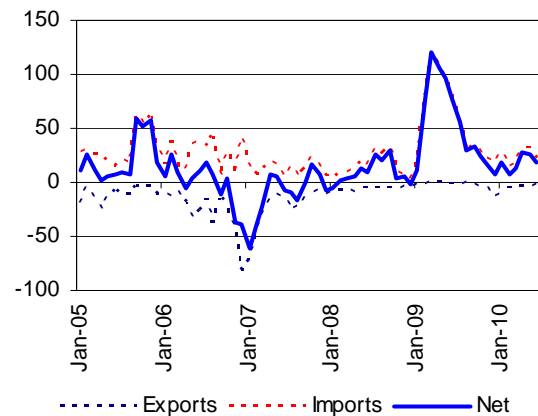
Although no plants have reported any problems, so far, from the recent flooding in southern China and the approach of Typhoon Chanthu, there are concerns over the potential for disruption to zinc smelters and transportation networks over the coming weeks.

On balance, the level of imports in 2009 suggest the country is likely to be relatively well-stocked, and that any potential disruption is unlikely to result in panic from consumers. SHFE inventories - although under pressure since early June - also remain very healthy at just under 250,000 mt.

That said however, should regional premiums start to push higher again, and should the SHFE-LME arbitrage window widen further it may well herald a burst of extra Chinese demand.

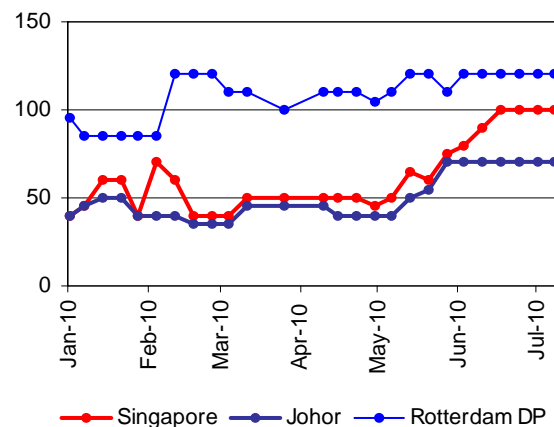
By Leon Westgate

Chinese refined Zinc imports and exports (kt)



Sources: Standard Bank, China Customs, MBR

Regional Zinc premiums (\$/mt)



Sources: Standard Bank, Fast Markets

Base metals

Short covering across the base metals complex has been a feature over the past couple of days, with all of the metals recovering strongly during Wednesday afternoon. Short covering has again been the dominant theme this morning, with the metals rallying strongly heading into the afternoon session.

With many of the metals now towards the upper end of their recent ranges, the price strength has attracted sizeable selling interest as participants, still wary about the macroeconomic outlook, look to play the recent ranges. This has resulted in very good turnover, however, with prices continuing to remain firm and the market starting to wonder whether the rally represents a break-out, weak shorts looking to cover back have served to exacerbate some of the strength.

Copper was the prime example of this behaviour on Wednesday, with around 17,500 lots trading on LME Select by the 5pm close, compared to less than 10,000 lots for much of the preceding couple of weeks as a two-way battle erupted. In spite of what were initially interpreted as bearish comments by Ben Bernanke last night - although in our view merely a statement of the facts and a sign of the Fed's flexibility - copper has continued to remain firm this morning, prompting further short covering that has seen copper trade back above \$6,900.

While copper's fundamental picture is fairly positive, helped by further significant fall's in on-warrant LME stocks and bullish comments from the likes of Luvata - who expects to increase copper purchases by 15% this year - the wider market still remains unconvinced. In that regard, the results of the European stress tests tomorrow still remains key in terms of when risk is put back on the table.

By Leon Westgate

Precious metals

Gold is struggling for momentum. We believe that the best short-term strategy is to sell into rallies. However, we still see gold higher towards year-end and we would prefer a core long-gold strategic position.

US treasury 10y yields are lower, falling below 3.90% after Mr Bernanke's gloomy comments on the US economy. The bond market is clearly bearish on the US economy and sees few inflationary pressures. The 10-y US inflation-linked bond now forecasts average inflation at only 1.2% over the next 10 years. We concur with the bond market's view on inflation.

We also believe that interest rates will remain low for much longer in the US. This view is shared by the futures market which sees the Fed funds rate unchanged until at least May 2011 with a probability of 62%. The Taylor Rule indicates where the Fed may set US interest rates by balancing the Fed's two major targets, inflation and unemployment. According to forward looking estimates of this Rule, we foresee an unchanged Fed funds rate until at least 2012. We maintain that low rates in the medium term are bullish gold despite our view that inflation will remain low.

Gold support is at \$1,179 and \$1,173, resistance at \$1,194 and \$1,203.

We believe more evidence is emerging that, given a 6-month horizon, on a risk/return basis, the bias is skewed towards return. But we don't yet want to discount further downside. Seasonally, July and August are weak months for auto sales and jewellery. Swiss customs data, released earlier this week, has confirmed China's buying of platinum and palladium via Switzerland was picking up again. We ascribe this renewed interest from China in platinum and palladium from Switzerland as a function of lower metal prices.

China's demand for platinum from Switzerland has been declining steadily since the start of the year. This changed in May when platinum imports from Switzerland to China jumped. Swiss customs data for June has confirmed China (and HK) have continued to import platinum, with 170,000oz of the metal flowing from Switzerland to China in May and June.

China turned net importer of palladium from Switzerland in June. After consistently exporting palladium to Switzerland since December last year, China has imported 11K oz of palladium from Switzerland in June. This is not much but remains a reversal of the trend we have noticed YTD.

By Walter de Wet

Energy

Largely consistent with seasonal patterns, US refinery utilisation continues to climb, with utilisation rates reaching 88.7% last week. We expect utilisation rates to remain high through August. The high utilisation rates are showing up in rising DOE inventory figures for refined products. Gasoline inventory increased 1,118K last week, while distillate inventories rose a substantial 3,935K barrels. But despite the rise in inventories, gasoline days forward supply levels remains unchanged at 23.7 days as seasonal demand picks up.

However, the fact that crude inventories continue to rise (up 360K barrels last week), especially at Cushing which rose 985K barrels, may cap rallies in WTI front-month crude on approach of \$78/bbl. The 200-day MA at \$77.61 remain key resistance for WTI front-month prices. This level has been providing strong resistance for the past 10-days.

We see support for front-month prices at \$75.70 and \$74.75, resistance at \$77.60 and \$79.50.

As with the metals, we are keeping a close look on movements in the US bond market. US treasury 10y yields are lower, falling below 3.90%, after Mr Bernanke's comments on the state of the US economy yesterday. The bond market is bearish on the US economy and this may slow down crude oil prices.

Coal is still coming under marginal downward pressure — although nearby prices remain steady. API2 for Q4-10 fell \$0.65/mt to \$92.60, while Cal-11 fell \$0.60/mt. It was a similar picture for API4, with Q4-10 falling \$0.35/mt compared to a \$0.35/mt fall in Cal-11.

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	4,415,950	4,420,025	1,500	5,575	-4,075	-212,950	252,750	5.72	155,320
Copper	416,525	417,625	925	2,025	-1,100	-85,800	38,550	9.26	123,365
Lead	184,200	184,625	600	1,025	-425	37,700	8,975	4.87	27,167
Nickel	117,210	117,762	-	552	-552	-40,800	4,974	4.24	24,877
Tin	15,535	15,685	10	160	-150	-11,230	1,020	6.57	8,501
Zinc	620,825	618,875	2,050	100	1,950	132,775	22,800	3.67	64,111

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change	Open	Close	Change	Change (%)
Aluminium	15,030	15,030	0	Ali Jul'10	-	-	-
Copper	53,810	53,830	390	Cu Jul'10	309	305.75	-3.55
Zinc	15,530	15,605	120				

ZAR metal prices (20 July 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,874	50,979	13,883	144,670	137,630	14,072	7.5290
3-month	15,343	52,455	14,258	149,000	140,403	14,655	7.6410

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)	83.92	-0.40	85.01	-1.11	85.57	-1.07	87.38	-0.89	-	-
Gasoil 0.1% Rdam (\$/mt)	635.00	-2.00	640.75	-2.25	646.75	-1.75	662.75	-6.75		
NWE CIF jet (\$/mt)	683.84	-3.33	693.32	-7.77	699.75	-7.49	716.73	-5.65		
Singapore Kero (\$/bbl)	84.63	-0.43	86.06	-1.21	86.82	-1.12	88.88	-0.89		
3.5% Rdam barges (\$/mt)	415.16	0.07	425.75	1.25	426.00	1.25	432.00	0.25		
1% Fuel Oil FOB (\$/mt)	453.66	0.19	466.75	3.00	467.25	2.25	473.75	1.25		
Sing FO 380 Cargo (\$/mt)	444.75	0.50	444.75	0.50	444.75	0.50	444.75	0.50		
Sing FO180 Cargo (\$/mt)	444.73	0.18	452.25	0.50	453.25	0.50	461.00	0.50		

Thermal coal

	Q3-10	Q4-10	Q1-11	Cal 11	Cal 12
API2 (CIF ARA)	92.00	-0.25	92.60	-0.65	94.50
API4 (FOB RBCT)	90.50	-0.05	90.50	-0.35	91.70

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.44800	0.51000	0.54400	0.61600	0.66600
Silver	0.70000	0.70000	0.70000	0.74000	0.74000
USD Libor	0.33063	0.41344	0.50625	0.70263	1.08750

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	46.67	1,197.33	1,208.20	1,180.71	1,146.19	1,180.00	1,198.00
Silver	46.33	17.94	18.08	18.05	17.66	17.50	18.10
Platinum	43.02	1,519.23	1,523.94	1,609.30	1,540.33	1,500.00	1,550.00
Palladium	46.44	455.46	451.53	482.36	436.64	420.00	455.00

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	1,182.10	17.6500	447.10	1,529.80	1,182.60	3,298.00	1,181.50
Open Interest	559,473	117,531	19,266	27,646	1,069	115,502	2,763
Change in Open Interest	5,198	1,371	8	122	-83	0	-43

Date: 21 July 2010

Sources: Standard Bank; LME; Bloomberg

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