

FICC Research

Commodities: Daily

Focus: SHFE - arbitrage selling on copper



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Focus: The technically driven rally in LME copper prices over the past week has outpaced the gains seen in SHFE copper prices. The markets kept pace with each other initially, however the continued strength in LME prices on Thursday and Friday last week finally attracted significant Chinese arbitrage selling activity.

- The base metals remain in consolidation mode this morning, though prices are again generally firmer across the board. Aside from copper, volumes are pretty disappointing with the market uncertain as to how sustained the rally may be.
- In technical terms, gold looks bearish within a \$1,181 - \$1,174 range where the 100-day MA and long-term support trendlines meet. However, in the physical market, buying interest is providing support around this crucial technical range for gold. A break below this range could see gold decline to \$1,150.
- Front-month WTI prices pushed above \$79.00 on Friday, but resistance to a move higher is considerable. However, risk parameters have been displaying fairly strong risk appetite since Thursday, which should support crude oil on the downside.

Commodity price data (23 July 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,023	2,031	2,070	2,021	8	0.37%	2,008.50	2	-20.25
Copper	7,020	7,030	7,090	6,940	10	0.14%	6,995.00	75	-21.00
Lead	1,960	1,979	1,984	1,916	19	0.97%	1,930.50	37	-21.00
Nickel	20,500	20,355	20,631	20,120	-145	-0.71%	20,380.00	555	-74.00
Tin	18,700	19,495	2,063	18,350	795	4.25%	18,635.00	240	-32.00
Zinc	1,925	1,906	1,962	1,906	-19	-0.99%	1,891.00	-12	-26.85

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.45	77.64	77.91	77.06	0.19	0.24%
NYMEX WTI	78.98	79.05	79.28	78.64	0.07	0.09%
ICE Gasoil	652.25	656.00	658.00	652.25	4.50	0.69%
API2 Q3'10	92.60	92.95	-	-	0.35	0.38%
EUA Dec10	14.26	14.05	-	-	-0.21	-1.47%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,198.75	1,190.50	1,204.00	1,187.30	1,188.50	-7.50	-0.6/-0.3
Silver	1,817.00	18.17	18.23	18.08	18.10	-0.02	-1.0/1.0
Platinum	1,545.00	1,541.00	1,546.00	1,531.00	1,538.00	13.00	1.5/3.5
Palladium	462.00	460.00	466.00	460.00	466.00	10.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

Focus: SHFE - arbitrage selling on copper

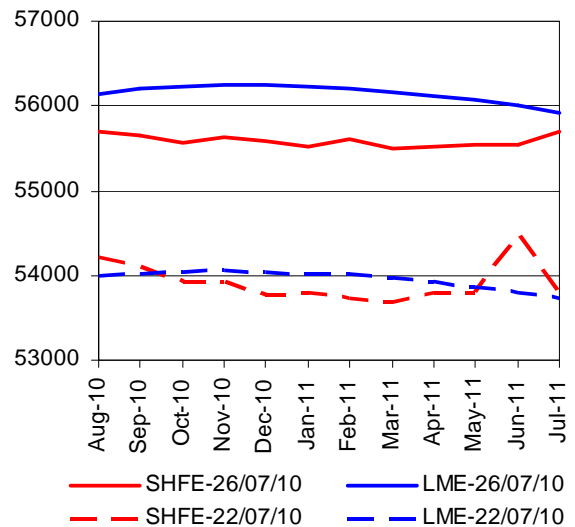
The technically driven rally in LME copper prices over the past week has outpaced the gains seen in SHFE copper prices. The markets kept pace with each other initially, however the continued strength in LME prices on Thursday and Friday last week finally attracted significant Chinese arbitrage selling activity.

Weak shorts, covering back positions on an intraday basis, were a key feature of the LME copper market towards the end of last week. Participants, trying to call the top, quickly exited their short positions as copper prices continues to strengthen, with intraday short covering exacerbating some of the price strength.

Given the positive signals from the physical markets, including firmer premiums across Asia and falling LME and SHFE inventories, it will be interesting to see how sustained the arbitrage selling will be, particularly if LME prices manage to remain well supported and margin calls start to become an issue.

By Leon Westgate

SHFE forward curve vs. LME equivalent* (RMB/mt)



Sources: Standard Bank, LME, SHFE

*includes RMB exchange rate, VAT and other Charges

Base metals

Friday afternoon saw momentum fade across much of the base metals complex, with the metals consolidating after a very strong week and ahead of the European Bank Stress tests. The base metals remain in consolidation mode this morning, though prices are again generally firmer across the board. Aside from copper, volumes are pretty disappointing with the market uncertain as to how sustained the rally may be, but also cautious about taking an aggressive short position either.

There is little in the way of economic figures today, the main data release being the US New Home Sales numbers for June (expected at 311 K). With the Euro fairly static so far this morning, the market will likely take direction from the US equity markets this afternoon.

Copper has had a bit of a rollercoaster ride this morning, with arbitrage selling overnight giving way to a bout of short covering activity as London got going. Prices have drifted back ahead of the afternoon session after failing to trade convincingly above its 100-day MA (~\$7,072), with prices trading around Friday's closing levels. Volumes have been comparatively good, suggesting there is decent two way interest, though the market is waiting for the start of US trade before committing itself. Inventory-wise, headline LME stocks fell 3,375 mt this morning with draws in Asia accounting for most of the drop.

Elsewhere, reports suggest that mid-year copper TC/RCs have been agreed between BHP Billiton and Sumitomo. No details of the settlement are available as yet, though they will likely be reported over the next few days. The calendar 2010 contracts were set at \$46.50/mt and 4.65¢/lb.

Tin was the stand out performer on Friday, with a burst of activity in the late afternoon seeing the metal close over 4% higher. A background of steadily falling LME inventories, ongoing concerns over supply have lent fundamental support for the metal, while thin conditions also appear to have exacerbated the recent strength. Tin is trading sideways so far this week, with the market taking a breather after Friday's activity.

Elsewhere, nickel and zinc, the only metals not to finish last week on a high, are the strongest performers heading into Monday afternoon, with the metals playing catch up to the rest of the complex. Nickel has been boosted by yet another fall in on-warrant LME stocks, with the metal also seeing decent turnover. In contrast, Zinc, although performing relatively well price-wise, has seen very disappointing volumes so far and looks vulnerable to a bout of profit taking if US equities come under pressure.

By Leon Westgate

Precious metals

The European banks' stress tests were released on Friday. On paper, they look great, which signals a stable European banking sector. However, the jury is still out on how stressed these test scenarios were. We will look at 3-month Euribor for the market's interpretation of these tests. Until Friday, 3m Euribor had continued to climb, reaching 0.885%. We would read a decline in 3m Euribor this week as a positive result for precious metals, and interpret it as positive, as lower interbank lending rates imply greater liquidity, which could drive precious metals higher.

In technical terms, gold looks bearish within a \$1,181 - \$1,174 range where the 100-day MA and long-term support trendlines meet. However, in the physical market, buying interest is providing support around this crucial technical range for gold. A break below this range could see gold decline to \$1,150.

While the physical market is supporting gold, the futures market has seen COMEX non-commercial shorts almost double — to 120 tonnes last week. Non-commercial longs on COMEX declined 62 tonnes — to 758 tonnes. This left the net commercial position on COMEX 639 tonnes long — the lowest level since March this year. As a percentage of open interest, the net long non-commercial position now stands at 25.5% — the lowest level since Nov 2008. We therefore foresee more gold longs.

Platinum and palladium are seeing increased buying support, and we are increasingly confident that these metals' downside risk is dissipating. Our fundamental floor remains at \$1,500 for platinum and \$420 for palladium. We reiterate that the risk/return profile favours a return on a 6-month horizon. From a fundamental perspective, we still prefer palladium to platinum. Since late last week, platinum has been attracting light buying under \$1,550. Support is at \$1,542 and \$1535.

By Walter de Wet

Energy

Front-month WTI prices pushed above \$79.00 on Friday, but resistance to a move higher is considerable. However, risk parameters have been displaying fairly strong risk appetite since Thursday, which should support crude oil on the downside. EM FX are generally trading stronger, and equities in Shanghai closed higher today.

The RBOB/WTI front-month crack spread is still edging lower, currently below \$9.40. We expect further downside in gasoline spreads in July and August. US refinery utilisation continues at a very high level of 87.1% — which will require more crude and produce more product. While this could put crack spreads under pressure, we would look for crude oil demand to increase as a result of robust refinery utilisation. With risk appetite picking up and crude demand increasing, oil front-month prices should see support this week.

In the futures market, while interest remains relatively low, buying is returning. NYMEX crude's net long non-commercial position was 114m barrels last week. This is 24m barrels higher than the levels seen two weeks ago. However, the net long non-commercial position remains well below 170m barrels (and higher than in March and April 2010). We see room for more longs to be added if last week's equity rally continues.

Front-month WTI crude oil support is at \$78.40 and \$77.80. Resistance is at \$79.60 and \$80.20.

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	4,404,650	4,409,975	2,025	7,350	-5,325	-224,250	244,175	5.54	130,901
Copper	416,275	419,650	825	4,200	-3,375	-86,050	33,525	8.05	136,871
Lead	182,800	183,225	50	475	-425	36,300	7,625	4.17	29,784
Nickel	116,262	116,814	-	552	-552	-41,748	4,656	4.00	39,603
Tin	15,370	15,620	50	300	-250	-11,395	1,130	7.35	8,579
Zinc	620,600	620,775	-	175	-175	132,550	22,600	3.64	54,171

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	15,270	15,260	65	Ali Jul'10	-	-	-	-
Copper	55,330	55,150	40	Cu Jul'10	319	317.50	-1.00	-0.31%
Zinc	15,840	15,860	45					

ZAR metal prices (23 July 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,909	51,924	14,330	151,281	138,328	14,037	7.4230
3-month	15,298	52,964	14,910	153,355	146,875	14,360	7.5340

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)	84.57	0.02	87.07	-0.15	87.46	-0.25	89.19	-0.27	-	-
Gasoil 0.1% Rdam (\$/mt)	656.00	4.50	662.00	4.75	666.75	4.25	676.00	-2.25		
NWE CIF jet (\$/mt)	689.24	-0.45	707.79	-2.53	713.46	-2.45	728.98	-3.25		
Singapore Kero (\$/bbl)	85.22	0.00	87.92	-0.20	88.66	-0.25	90.61	-0.30		
3.5% Rdam barges (\$/mt)	416.11	0.46	432.00	0.25	431.25	0.00	437.00	0.25		
1% Fuel Oil FOB (\$/mt)	454.86	0.54	471.00	-2.50	471.75	-1.50	478.50	-1.00		
Sing FO 380 Cargo (\$/mt)	448.75	-1.00	449.75	5.00	449.75	5.00	449.75	5.00		
Sing FO180 Cargo (\$/mt)	445.10	0.43	457.00	-0.75	457.75	-0.75	465.25	-0.50		

Thermal coal

	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	92.95	0.35	93.50	-0.10	95.50	-0.05	98.10	0.00	105.45	-0.05
API4 (FOB RBCT)	90.40	-0.70	90.00	-0.60	92.00	-0.25	94.30	-0.30	99.70	-0.30

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.40250	0.46800	0.50800	0.56200	0.61000
Silver	0.75000	0.75000	0.76250	0.80000	0.80000
USD Libor	0.32688	0.40563	0.49313	0.69700	1.07469

Technical Indicators

	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	48.41	1,195.87	1,203.17	1,182.06	1,147.57	1,180.00	1,198.00
Silver	50.22	18.01	18.03	18.07	17.67	17.50	18.10
Platinum	48.65	1,525.21	1,522.37	1,608.60	1,542.35	1,500.00	1,550.00
Palladium	51.06	458.38	451.14	482.28	438.04	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	1,191.80	18.1700	471.80	1,542.80	1,192.30	3,365.00	1,192.10
Open Interest	552,377	117,862	19,488	28,033	1,103	111,084	2,634
Change in Open Interest	6,485	-1,566	-176	-319	-222	444	12

Date: 23 July 2010

Sources: Standard Bank; LME; Bloomberg

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