

FICC Research

Commodities: Daily

Focus: Asian copper stocks and premia



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Focus: Copper stocks in Asia have continued to come under pressure over recent weeks, with SHFE inventory falling 8.3% this week to 104,507 mt, the lowest level in 6 months. The rate at which copper is leaving LME warehouses has declined over the past week or so, however, the overall trend is still for lower inventories in the region.

- Physical demand for gold in Asia continues unabated, providing good support to gold below \$1,160. With gold above \$1,250 we saw plenty of selling in the physical market and there were increased volumes of scrap coming to the market. This changed when gold dropped below \$1,200 and selling turned into buying.
- WTI front-month crude oil remains at its 200-day MA, at \$77.80. But resistance to a sustained move above \$79 remains great and we expect selling to increase if crude oil moves higher.
- The base metals have had a mixed start to the day, with the complex generally trading sideways. Aluminium has been the exception, rallying strongly on the back of further short covering.

Commodity price data (28 July 2010)

Base metals LME 3-month									
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,140	2,143	2,113	2,058	3	0.14%	2,083.00	24	-16.75
Copper	7,235	7,235	7,283	7,126	0	0.00%	7,206.00	86	-22.25
Lead	2,058	2,058	2,057	2,000	0	0.00%	2,003.00	35	-22.50
Nickel	20,700	20,680	20,850	20,350	-20	-0.10%	20,385.00	-50	-69.00
Tin	19,575	19,650	2,060	19,450	75	0.38%	19,550.00	140	-21.00
Zinc	1,997	1,995	2,005	1,950	-2	-0.10%	1,971.00	48	-27.00
Energy									
	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	77.42	77.39	77.56	77.32	-0.20	-0.26%			
NYMEX WTI	78.25	78.14	78.45	78.06	-0.22	-0.28%			
ICE Gasoil	650.25	650.00	650.50	649.25	-0.50	-0.08%			
API2 Q3'10	92.60	93.90	-	-	1.30	1.38%			
EUA Dec10	13.75	14.03	-	-	0.28	2.04%			
Precious metals									
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs		
Gold	1,166.00	1,162.50	1,169.50	1,160.40	1,168.50	8.50	2.0/2.5		
Silver	1,760.00	17.62	17.68	17.50	17.61	0.19	-1.0/1.0		
Platinum	1,545.00	1,553.00	1,557.00	1,543.00	1,554.00	19.00	1.5/3.5		
Palladium	473.00	488.00	490.00	469.00	488.00	21.00	-0.5/1.5		

Sources: Standard Bank; LME; BBG

Focus: Asian copper stocks and premia

Copper stocks in Asia have continued to come under pressure over recent weeks, with SHFE inventory falling 8.3% this week to 104,507 mt, the lowest level in 6 months. The rate at which copper is leaving LME warehouses has declined over the past week or so, however, the overall trend is still for lower inventories in the region.

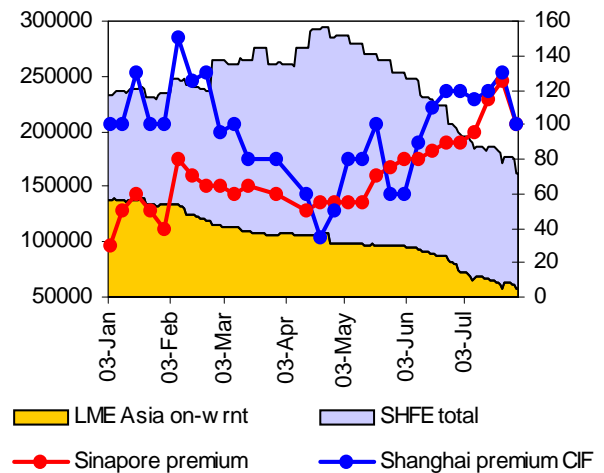
Over the past 5 years, a clear seasonal pattern has emerged in terms of LME copper inventory flows in Asian locations, with stock draws seen from January through April, followed by stock increases from May through December, with the summer months of July through September seeing particularly large inflows.

In that regard, 2010 is turning out to be rather unusual, with LME inventories in Asian warehouses coming under pressure throughout the first 7 months of the year. This points to just how solid Chinese demand for refined copper has been this year. If historical patterns are anything to go on, we would expect inventories in Asian locations to start building again over the balance of the year.

The technically driven rally in copper prices over the past week has impacted negatively on short term physical appetite, and unsurprisingly has seen physical premiums drop away as a result. The premium for copper in Singapore has fallen for the first time since April, while Shanghai premiums have also come off the boil for the first time since late-May.

As we head into the traditionally slower summer period, sustained high copper prices may well see physical premiums soften further

Asian Copper Inventories and Regional Premia



Source: Standard Bank, LME

over the next month or so. The key will be whether Asian copper inventories continue to buck the seasonal pattern and come under further pressure or not.

If LME and SHFE inventories remain stable, or even fall further over the summer, it may lay the groundwork for a very bullish end to the year for both Asian premiums and outright copper prices.

By Leon Westgate

Base metals

The base metals have had a mixed start to the day, with the complex generally trading sideways. Aluminium has been the exception, rallying strongly on the back of further short covering. Poor US GDP figures have seen the metals drag their heels heading into the afternoon session, though prices have nevertheless held up relatively well.

Looking ahead, the Chicago PMI and University of Michigan Confidence figures (expected at 56.0 and 76.0 respectively) will likely set the tone for the afternoon, with weak figures perhaps triggering some profit taking ahead of the weekend. Month-end factors may also play a role in dictating price direction, particularly for the US equity markets.

After a very slow start, both in terms of price action and turnover, aluminium burst into life this morning with short covering activity emerging as prices climbed back above \$2,100. Volumes have also picked up dramatically compared with recent days, with aluminium turnover on LME Select exceeding 9,000 lots by the start of US trade.

Copper came under pressure during overnight trade as more sustained SHFE-LME arbitrage selling emerged. Copper prices have nevertheless continued to hold up well, with the metal recovering to trade back around Thursday's closing levels. On warrant LME inventories climbed 4,950 mt this morning, though the figures had little impact on prices with the main location for the increases being Rotterdam and New Orleans. SHFE inventories continued to decline, with stocks falling 9,415 mt over the week to 104,507 mt.

In other news, a spate of pollution spills and accidents in the Chinese mining and energy industries may again result in a Chinese government clampdown. The number of environmental accidents in the country rose 98% in the first 6 months of 2010, with strong demand appearing to impact on safety. The number of accidents so far this year currently stands at 102, compared to 171 for the whole of 2009. Whether more stringent inspections start to emerge over the coming months remains to be seen, however it is certainly something to look out for and an issue that could have a dramatic impact on the commodities markets.

By Leon Westgate

Precious metals

Physical demand for gold in Asia continues unabated, providing good support to gold below \$1,160. With gold above \$1,250 we saw plenty of selling in the physical market and there were increased volumes of scrap coming to the market. This changed when gold dropped below \$1,200 and selling turned into buying. Now, with gold below \$1,170, demand is even stronger in Asia.

On the back of strong physical demand for gold, we look at the price movements of a kilo bar of gold in Indian Rupee (INR) terms. The price of 1kg of gold in INR has come down substantially in the past few days, falling from INR19,000/kg to just below INR18,000/kg today. This is a sizeable price decline, which is spurring demand. We continue to see metal moving to India in anticipation of the wedding season that kicks off in the latter part of August. At the same time, there is increased demand from countries such as Turkey.

While gold jewellery demand (in absolute levels and as a share of total demand) has been declining over the past few years, the recent demand response in the physical market is evidence of two key factors in the gold market: **firstly**, physical gold demand and more specifically jewellery demand is very price-sensitive, especially with seasonal demand expected to pick up in less than a month. **Secondly**, although the price of gold has fallen sharply in recent days, it remains high compared with levels seen last year this time (gold in INR is 20% higher than the same time last year). To us, this is a clear indication that physical demand is adaptive and that price expectations adjust along with other developments in the gold market.

As with gold, we believe the price move in platinum and palladium is also spurring renewed interest in China. We've seen this in Swiss exports of metal to China, where China (in June) turned to a net importer of palladium for the first time since December. Platinum exports from Switzerland to China also picked up in May and June after falling steadily since December.

Technically, we look for gold to close above the \$1,176 level today for the technical bearish view to turn more neutral. Support for the metal lies at \$1,161 and \$1,155.

By Walter de Wet

Energy

WTI front-month crude oil remains at its 200-day MA, at \$77.80. But resistance to a sustained move above \$79 remains great and we expect selling to increase if crude oil moves higher.

At the same time, momentum seemed to fade in other financial markets too. The S&P index in the US failed to break above the 200-day MA. The VIX (which measures equity volatility) failed to break below its 200-day MA. There was a failure by 10y US treasury yields to break higher. All three markets are consistent in their moves since Wednesday, which signals strong resistance to greater risk appetite.

This morning in Japan the PMI manufacturing index was released. The manufacturing sector is still growing in Japan (index reading of 52.8 in July) but the index has topped out at 54.7 in May. Looking at the history of the index, readings above 55 in Japan are the exception rather than the rule and a decline in the index is therefore natural. However, industrial production contracted 1.5% m/m and was well below the expectations of 0.2% m/m growth. As with many other countries, the data confirms a slowdown in economic activity in Japan. However, we also believe the data generally still suggests only a slowdown and not a contraction in growth — for crude oil demand outlook there is a big difference between slower growth and a growth contraction.

The RBOB/WTI front-month crack spread remains well below \$10, and we expect further downside in gasoline spreads in July and August. US refinery utilisation continues at a high level, which will require more crude and produce more product. As a result, concerns over demand for these products may keep crack spreads under pressure.

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	4,385,300	4,390,625	-	5,325	-5,325	-243,600	230,625	5.26	93,914
Copper	413,500	411,525	5,000	3,025	1,975	-88,825	32,675	7.90	80,454
Lead	184,150	183,825	450	125	325	37,650	4,025	2.19	28,434
Nickel	117,498	116,778	798	78	720	-40,512	5,358	4.56	17,993
Tin	15,000	15,050	-	50	-50	-11,765	1,035	6.90	5,874
Zinc	620,350	619,725	925	300	625	132,300	21,325	3.44	56,271

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	15,410	15,340	-70	Ali Jul'10	-	-	-	-
Copper	56,260	56,020	-130	Cu Jul'10	329	326.55	-2.45	-0.74%
Zinc	16,235	16,130	-75					

ZAR metal prices (29 July 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,248	52,748	14,662	149,218	143,106	14,428	7.3200
3-month	15,558	53,720	15,231	153,644	145,992	14,822	7.4296

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)	84.66	0.16	87.35	1.67	87.61	1.61	89.20	1.55	-	-
Gasoil 0.1% Rdam (\$/mt)	650.00	-0.50	656.50	-0.25	662.50	12.25	675.75	11.50		
NWE CIF jet (\$/mt)	688.01	0.93	705.98	12.16	712.17	12.25	729.68	11.57		
Singapore Kero (\$/bbl)	85.29	0.06	88.15	1.87	88.76	1.76	90.65	1.65		
3.5% Rdam barges (\$/mt)	417.97	-0.05	432.50	8.25	431.50	8.00	437.50	7.75		
1% Fuel Oil FOB (\$/mt)	456.18	-0.34	467.25	7.00	468.25	7.00	477.00	7.00		
Sing FO 380 Cargo (\$/mt)	100.15	0.00	100.15	0.00	100.15	0.00	100.15	0.00		
Sing FO180 Cargo (\$/mt)	446.23	-0.22	458.25	8.50	458.50	8.25	466.00	8.25		

Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	93.90	1.30	95.95	1.25	97.65	1.15	98.50	1.15	106.10	1.15
API4 (FOB RBCT)	90.10	0.60	92.65	1.05	93.95	0.95	94.60	0.85	100.20	1.00

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.37200	0.44600	0.48200	0.54200	0.60000		
Silver	0.71000	0.71000	0.73500	0.76833	0.77500		
USD Libor	0.31156	0.38094	0.46563	0.67769	1.05044		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	44.94	1,179.01	1,191.16	1,184.18	1,149.69	1,150.00	1,176.00
Silver	46.50	17.76	17.90	18.09	17.67	17.40	18.00
Platinum	50.18	1,535.30	1,527.84	1,606.47	1,546.11	1,535.00	1,565.00
Palladium	54.63	464.87	458.80	482.87	440.88	465.00	485.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Aug'10	Sep'10	Sep'10	Oct'10	Aug'10	Jun'11	Aug'10
Settlement	1,170.70	17.6200	491.00	1,563.40	1,167.80	3,261.00	1,171.00
Open Interest	538,172	118,143	20,005	28,884	1,112	109,918	3,306
Change in Open Interest	21,894	-773	196	87	161	-333	-732

Date: 27 July 2010

Sources: Standard Bank; LME; Bloomberg

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