

FICC Research

Commodities: Daily

Focus: Long liquidation giving way to new shorts



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Focus: The sharp deterioration in market sentiment over the past week or so triggered a wave of long liquidation across the base metals complex as investors headed for the exit. With a run of positive US macro data also coming to an end last week, and mounting concerns over the European sovereign debt crisis, that episode of long liquidation has since given way to outright selling. The only metal to so far avoid fresh aggressive selling interest is nickel.

- Friday's weakness has continued into this morning, with the base metals coming under heavy pressure during overnight trade. Better than expected German Factory Orders have helped to shore up the Euro however, with the metals picking up heading into the afternoon.
- Gold was the prime beneficiary from Friday afternoon's panic, closing the week at \$1,219.90/oz. Given the continuing uncertainty in the markets and concern over Europe, gold will likely continue benefit from its safe haven status and from any further bouts of market jitters.
- Crude oil came under heavy pressure on Friday, with front month WTI closing over 4% lower. In spite of the fall however, WTI remains rangebound.

Commodity price data (4 June 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,968	1,882	1,885	1,830	-74	-4.37%	1,915.50	-36	-31.75
Copper	6,480	6,281	6,215	6,076	-195	-3.07%	6,450.00	-171	-31.00
Lead	1,640	1,608	1,590	1,535	-38	-1.95%	1,621.00	-20	-24.50
Nickel	18,376	17,955	18,100	17,375	-750	-2.29%	18,300.00	-905	-69.00
Tin	17,250	16,010	15,951	15,750	-1,645	-7.19%	17,245.00	-340	-62.00
Zinc	1,705	1,641	1,650	1,577	-99	-3.75%	1,665.50	-76	-31.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	71.55	71.15	71.55	70.50	-0.94	-1.32%
NYMEX WTI	70.35	70.06	70.59	69.51	-1.45	-2.07%
ICE Gasoil	617.00	615.00	617.00	611.25	-11.50	-1.87%
API2 Q3'10	91.80	93.70	-	-	1.90	2.03%
EUA Dec10	15.26	15.33	-	-	0.07	0.46%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,203.50	1,203.50	1,218.75	1,197.80	1,216.30	8.30	1.4/1.7
Silver	-	17.39	18.00	17.30	17.29	-0.64	-1.0/1.0
Platinum	1,546.00	1,527.00	1,550.00	1,512.00	1,523.00	-20.00	0.0/3.0
Palladium	450.00	440.00	451.00	429.00	430.00	-20.00	0.0/2.0

Sources: Standard Bank; LME; BBG

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Focus: Long liquidation giving way to new shorts

The sharp deterioration in market sentiment over the past week or so triggered a wave of long liquidation across the base metals complex as investors headed for the exit.

With a run of positive US macro data also coming to an end last week, and mounting concerns over the European sovereign debt crisis, that episode of long liquidation has since given way to outright selling. The only metal to so far avoid fresh aggressive selling interest is nickel.

Interpreting changes in open interest vs. prices, a combination of rising open interest and falling prices suggest that the addition of significant new short positions has been the dominant theme in many of the base metals over the past couple of days.

Copper's initial price weakness in late-May was heralded at first by falling open interest, pointing to long liquidation as market participants started to head for the exit (see Fig. 1). So far during June however, the price weakness has been accompanied by rising open interest as participants, concerned about the short to medium term economic outlook, have actively sold the metal.

This pattern has been repeated for the likes of aluminium and zinc, while lead has seen steady selling interest and short positions build up since the beginning of May.

Nickel has been the only LME metal not to see open interest rise with the latest fall in prices, perhaps reflecting how long the market had been in mid-April, but also the metal's relative illiquidity compared to the likes of copper aluminium and zinc. The lack of fresh selling activity in nickel is a supportive factor and suggests that the metal may hold up better than most over the coming weeks.

By Leon Westgate

Fig. 1 LME Copper 3m price vs Open Interest

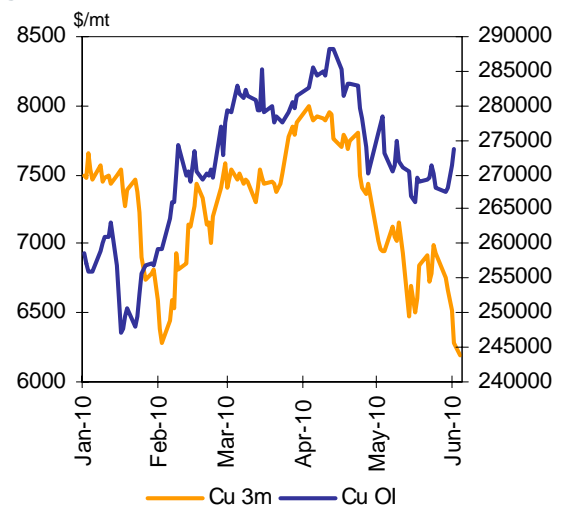
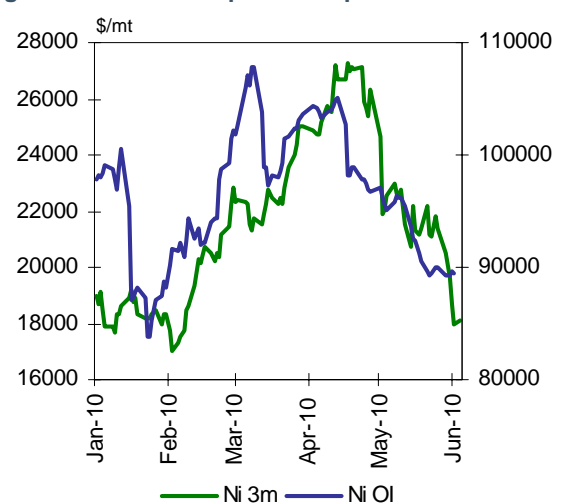


Fig. 2 LME Nickel 3m price vs Open Interest



Sources: Standard bank, LME

Base metals

Friday saw a sharp sell-off across the base metals complex, as Hungary's comments over the state of its finances, the Euro dropping below 1.20 against the dollar and very disappointing US Nonfarm Payroll figures all combined to send investors into a panic. Friday's weakness has continued into this morning, with the metals coming under heavy pressure during overnight trade. Better than expected German Factory Orders have helped to shore up the Euro however, with the metals picking up heading into the afternoon.

Copper opened limit down in Shanghai, pulling LME prices lower with it. Slumping Asian equity markets kept copper under pressure, however, a recovery in the euro has seen copper climb from its intraday lows heading into the afternoon. Turnover has been pretty solid, pointing to a good degree of two-way interest, though prices remain rather volatile. Of note, physical copper in Shanghai is trading at a ~\$40 discount to the SHFE spot month, suggesting that the sell-off has unnerved the physical market there, with any potential buyers staying on the sidelines.

Meanwhile, reports suggest that Chinese zinc smelters have started cutting output, with perhaps 400-500kt of capacity being idled or undergoing maintenance work. The shutdowns are in the face of weak prices and rising inventories, while a shortage of concentrates is also becoming a factor.

There is no significant US data this afternoon to guide the markets. The base metals will therefore likely look towards the dollar and US equity markets for direction.

By Leon Westgate

Precious metals

Gold was the prime beneficiary from Friday afternoon's panic, closing the week at \$1,219.90/oz. Uncertainty over the Euro-zone sovereign debt situation and resurgent fears of a double dip recession have seen the market flee towards the perceived safe haven of gold.

Unsurprisingly, the various gold ETF's saw very good interest last week. The SPDR Gold ETF did see a 112 K oz fall in holdings on Friday, though this was after a 685 k oz rise on Thursday. Given the continuing uncertainty in the markets and concern over Europe, gold will likely continue benefit from its safe haven status and from any further bouts of market jitters.

Physical demand in India meanwhile remains poor, with high prices deterring consumers. The start of the monsoon is also dampening physical interest from that part of the world.

PGM's are weaker, however, compared to the base metals platinum and palladium are holding up pretty well, boosted by last week's better than expected auto sales data. Both metals are holding above their 200-day MA, whereas all of the base metals are currently well below their respective 200-day MA levels.

By Leon Westgate

Energy

Crude oil came under heavy pressure on Friday, with front month WTI closing over 4% lower. In spite of the fall however, WTI remains rangebound and, technically speaking, looks far more comfortable than some of the base metals for example. On an intraday basis, the dollar remains a key price driver, while the performance of the equity markets will also likely have an impact.

As far as crude oil is concerned, the main interest is towards the very back end of the curve. The US governments move to curb drilling has raised concerns over a potential supply squeeze at some point in the future, while the prospect of additional new legislation and higher costs are also boosting sentiment towards farther-dated crude oil prices.

The number of rigs drilling in the Mexican gulf fell to the lowest level in 16 years last week, while the likes of Royal Dutch Shell have seen a ban on deepwater permits and exploration in the Alaskan Arctic extended for 6 months. Whether these shortages actually manifest themselves or not remains to be seen, but are certainly attracting investor interest.

Coal managed to shrug-off the weakness in crude oil on Friday, with API2 for Q3-10 posting a \$1.90/mt gain. API4 struggled a little bit but nevertheless also managed to increase. Whether that strength can be continued remains uncertain, particularly with China's benchmark coal prices at Qinhuangdao falling for the first time in 3 months. The fall in price has been attributed to Chinese power stations stepping back from the market after completing their stockpiling ahead of the Chinese summer season.

By Leon Westgate

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	4,532,075	4,541,150	25	9,100	-9,075	-96,825	278,500	6.15	259,036
Copper	473,000	474,300	0	1,300	-1,300	-29,325	22,175	4.69	143,610
Lead	191,925	192,200	0	275	-275	45,425	14,550	7.58	30,385
Nickel	135,942	136,848	48	954	-906	-22,068	4,842	3.56	38,914
Tin	21,590	20,975	650	35	615	-5,175	1,195	5.53	3,918
Zinc	617,350	617,950	0	600	-600	129,300	18,625	3.02	81,517

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change	Open	Close	Change	Change (%)
Aluminium	14,030	14,000	-740	Ali May'10	-	-	-
Copper	50,180	50,180	-2,650	Cu May'10	282	274.90	-7.05
Zinc	13,780	13,780	-730				

ZAR metal prices (4 June 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,845	49,988	12,563	141,825	133,649	12,908	7.7500
3-month	14,804	49,408	12,649	141,239	125,939	12,909	7.8663

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)	83.06	-1.67	83.97	-1.57	84.45	-1.64	86.12	-1.74	-	-
Gasoil 0.1% Rdam (\$/mt)	615.00	-11.50	618.00	-11.25	622.00	-11.75	635.75	-12.75	674.75	-13.25
NWE CIF jet (\$/mt)	684.50	-9.69	687.32	-11.42	692.68	-11.66	709.61	-12.16	746.31	-12.08
Singapore Kero (\$/bbl)	84.33	-1.76	85.12	-1.47	85.70	-1.59	87.67	-1.71	91.23	-1.75
3.5% Rdam barges (\$/mt)	407.50	-10.00	407.00	-10.00	410.00	-10.00	419.50	-10.00	436.34	-10.00
1% Fuel Oil FOB (\$/mt)	432.00	-5.75	435.50	-7.50	440.50	-7.50	454.75	-6.75		
Sing FO 380 Cargo (\$/mt)	430.00	-9.00	432.25	-9.50	441.75	2.75	441.75	2.75		
Sing FO180 Cargo (\$/mt)	433.00	-8.50	436.25	-8.75	439.25	-9.25	448.25	-9.25		

Thermal coal

	Q3-10	Q4-10	Q1-11	Cal 11	Cal 12
API2 (CIF ARA)	93.70	1.90	95.35	1.75	97.75
API4 (FOB RBCT)	93.45	0.30	94.45	1.30	94.50

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.61200	0.68500	0.71000	0.79000	0.93600
Silver	0.70200	0.71800	0.74400	0.80200	0.82200
USD Libor	0.35000	0.43563	0.53656	0.74919	1.19656

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	58.01	1,215.33	1,214.17	1,142.01	1,111.98	1,085.00	1,105.00
Silver	45.94	18.11	18.40	17.41	17.41	16.30	16.90
Platinum	39.92	1,537.17	1,588.16	1,609.18	1,501.53	1,500.00	1,550.00
Palladium	40.50	448.85	469.85	473.42	410.62	420.00	433.00

Active Month Future	COMEX GLD Jun'10	COMEX SLV Jul'10	NYMEX PAL Jun'10	NYMEX PLAT Jul'10	DGCX GLD Jun'10	TOCOM GLD Feb'11	CBOT GLD Jun'10
Settlement	1,219.90	17.3900	422.50	1,525.30	-	3,584.00	1,219.40
Open Interest	548,614	122,671	21,393	29,648	1,003	110,724	2,815
Change in Open Interest	4,243	-362	-270	364	28	-975	37

Date: 4 June 2010

Sources: Standard Bank; LME; Bloomberg

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