

FICC Research

Commodities: Daily

Focus: Commodities - the scorecard so far...



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Focus: With the end of the first half of 2010 fast approaching, it is interesting to note how the various commodities have performed so far. What is clear, is that commodities have had a very tough time of it, with many of the markets trading rather than trending, against an uncertain economic backdrop. Since the beginning of the year, the only commodities that have managed to post gains are Palladium, Gold, Platinum and Nickel.

- The main activity this morning has been in copper, with decent SHFE-LME arbitrage buying interest emerging overnight to see the metal trade up to \$6,684. After the initial momentum faded however, a stronger dollar has seen copper prices come off the boil a little heading into the afternoon.
- Gold continues to struggle for upside momentum. The market seems content to sell into rallies on approach of \$1,250.
- WTI crude oil is trading back where it was exactly one week ago — just above \$76/bbl.

Commodity price data (23 June 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,948	1,941	1,970	1,931	-7	-0.36%	1,922.00	21	-32.25
Copper	6,610	6,516	6,645	6,480	-95	-1.43%	6,576.00	116	-27.50
Lead	1,813	1,816	1,838	1,775	3	0.17%	1,782.00	16	-24.25
Nickel	19,700	19,275	19,848	19,131	-425	-2.16%	19,430.00	30	-73.00
Tin	18,000	17,825	1,841	17,800	-175	-0.97%	17,810.00	-65	-63.00
Zinc	1,812	1,830	1,834	1,770	18	0.99%	1,775.50	49	-34.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	76.03	76.37	76.49	76.03	0.10	0.13%
NYMEX WTI	76.00	76.38	76.50	75.93	0.03	0.04%
ICE Gasoil	660.00	662.50	663.00	660.00	4.00	0.60%
API2 Q3'10	91.50	92.00	-	-	0.50	0.54%
EUA Dec10	15.34	15.36	-	-	0.02	0.13%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,243.00	1,226.50	1,243.50	1,225.50	1,233.90	-5.80	0.6/1.0
Silver	-	18.60	18.89	18.33	18.43	-0.46	-2.5/-0.5
Platinum	1,578.00	1,575.00	1,592.00	1,570.00	1,564.00	-28.00	-1.0/1.0
Palladium	486.00	485.00	489.00	475.00	472.00	-15.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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Focus: Commodities - the scorecard so far...

With the end of the first half of 2010 fast approaching, it is interesting to note how the various commodities have performed so far. Fig. 1 shows various commodities indexed to January 2010, while Fig. 2 shows those commodities indexed to April 2010.

What is clear, is that commodities have had a very tough time of it, with many of the markets trading rather than trending, against an uncertain economic backdrop. Since the beginning of the year, the only commodities that have managed to post gains are Palladium, Gold, Platinum and Nickel. Since the start of Q2, the picture is even worse with only gold managing to hold its head above water.

Another interesting feature is how closely some commodities track each other. Copper and Aluminium, for example, have traded in a remarkably similar fashion this year, in spite of copper having by far the stronger fundamentals of the two metals. Looking ahead we expect the fundamentals to have more of an impact going forward and for the metals to differentiate on those grounds. However, for the moment at least, the data reinforces the view that macro themes have been the main driver so far in 2010 for many of the metals.

In very simplistic terms, the performance so far this year from the commodities can be regarded as a price pause - following the rapid price recovery seen during 2009 - while the underlying global economy plays catch up, and against the backdrop of the sovereign debt crisis in Europe. Either way, the volatile and unpredictable market conditions over the past few months have seen many participants step back from the market and take risk off the table while they wait for a clearer sense of direction.

Over the next few days, position housekeeping will likely emerge as participants look to make the best of what has been a tough quarter. Looking further ahead however, there is undoubtedly a lot of money sat on the sidelines with the key factor being how long that money can sit doing nothing in a very low interest environment. The trigger may be a resumption of positive macro signals, or clarity over European sovereign debt, or it may even just be an

Base metals

The main activity this morning has been in copper, with decent SHFE-LME arbitrage buying interest emerging overnight to see the metal trade up to \$6,684. Interestingly, both SHFE and LME copper prices rallied during Asian trade, with the arbitrage ratio remaining constant for much of the Shanghai morning session. After the initial momentum faded however, a stronger dollar has seen copper prices come off the boil a little heading into the afternoon.

Outside of copper, volumes for the other base metals have been rather lacklustre. As a result the other metals are tending to track copper and the dollar ahead of the key US Durable Goods Orders this afternoon. Expectations are for May Durable Goods Orders to show a 1.4% decline, albeit with Orders Ex-Transportation expected to increase 1.0%.

Inventory-wise, copper saw a 3,650 mt jump in cancelled warrants in Busan, suggesting material is again being readied to depart, most likely to China. Meanwhile, nickel inventories continue to show steady declines, with headline stocks falling 804mt this morning.

Falling nickel inventories and firm premiums point to the degree of tightness in the market following the Vale industrial action in Canada and the pick up in stainless demand. In addition, a shortage of cutting facilities have seen premiums for cut cathodes push on towards \$450-500/mt, outstripping the premium for full plate cathode by some \$200-300/mt.

By Leon Westgate

Fig 1. Commodity price performance - Indexed to Jan-2010

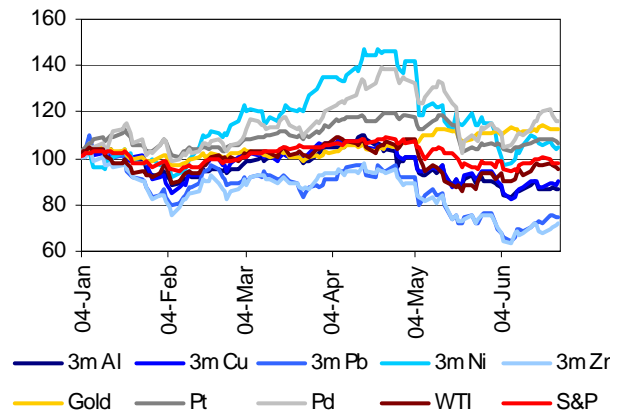
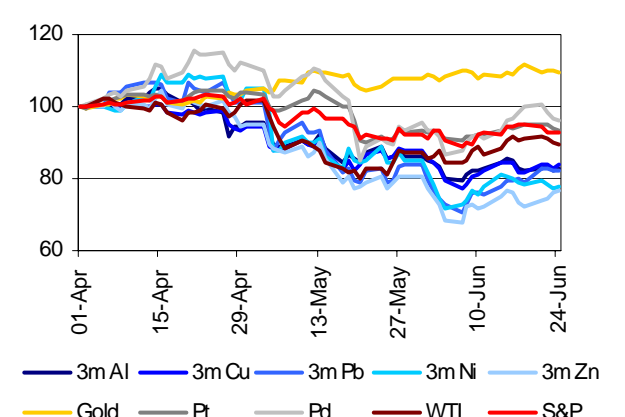


Fig 2. Commodity price performance - Indexed to Apr-2010



Sources: Standard Bank

issue of timing as participants feel the pressure to take risk and put the money to work.

Whether risk starts being put back on in Q3, or whether the market waits for Q4 or even the start of 2011 remains to be seen, though once money starts to flow again the metals are likely to see another sustained price rally.

By Leon Westgate

Precious metals

Gold continues to struggle for upside momentum. The market seems content to sell into rallies on approach of \$1,250. The rapid rise in ETF gold holdings has slowed in recent days. ETF holdings have remained almost unchanged this past week. This is in stark contrast to the rapid rise in ETF holdings in May.

Eurozone problems persist. Over the past two days, the 5-year CDS on European sovereign debt has all moved higher. This continues to provide background support for investment demand. In the physical market, scrap metal is still coming to the market on approach of \$1,250. We continue to prefer the \$1,220–\$1,250 range with an eventual break to the upside. However, at this stage, we maintain that gold will only see a sustainable break above \$1,250 closer to Q4. We prefer buying gold on dips. Gold support is at \$1,226 and \$1,222. Resistance is at \$1,247 and \$1,257.

Platinum is struggling. We continue to see the fundamental floor from a cost perspective at \$1,500 for platinum. We view a drop below this level as a good buying opportunity. Palladium is holding steady around \$470. We view palladium below \$420 as good buying opportunity. On a six-month basis, given our price targets for PGM towards the end of the year, the risk/reward for both metals remains skewed towards reward from current price levels.

Silver has declined sharply yesterday. We remain constructive on silver, although right now, it continues to shadow gold. Over the past two weeks, the \$18.25 level has been providing good support. We would buy dips.

By Walter de Wet

Energy

WTI crude oil is trading back where it was exactly one week ago — just above \$76/bbl. But there is a difference in risk perception. Last week, risk appetite was improving, and in the US, the S&P and the Dow broke above their 200d MA. Now, risk aversion is rising again, and the S&P and Dow are below their 200d MA.

However, crude oil is fairly steady despite the weakness in equity markets and strength in German and US government bond markets. The US 10y government bond yields are testing levels last seen in May 2009. The demand for US treasuries is high and signals little concern over inflation but highlights concern over economic growth. Lower bond yields are consistent with lower equities and the stronger dollar. Given the strong correlation between crude oil and equities, we are watching US government bond yields closely.

Yesterday's DOE inventory data showed a large rise in crude oil inventory (2,071K barrels). But gasoline inventory dropped a sizable 762K barrels. At the same time, crude inventory at Cushing dropped 826K barrels. On a day-forward-cover basis, gasoline inventories continue to see a steady improvement in the numbers, and believe this will remain the case. Gasoline days forward cover dropped to 23.6 days (from 24 days at the start of the month). Crude oil days forward cover remains around the 24 days. We believe on a days-forward-cover basis, inventory levels should continue to recover. In our view, crude oil will trend higher from current levels in H2:10.

Front-month WTI crude oil support is at \$75.07 and \$74. Resistance is at \$77.80 and \$79.10.

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	4,453,375	4,463,675	250	10,550	-10,300	-175,525	305,650	6.86	92,152
Copper	454,700	456,425	-	1,725	-1,725	-47,625	30,700	6.75	82,934
Lead	189,225	188,800	600	175	425	42,725	16,775	8.87	21,071
Nickel	126,618	127,422	-	1,134	-804	-31,392	6,936	5.48	19,588
Tin	19,180	19,215	10	45	-35	-7,585	2,135	11.13	6,374
Zinc	616,950	617,850	-	900	-900	128,900	16,425	2.66	46,421

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	14,840	14,930	135	Ali May'10	-	-	-	-
Copper	53,130	53,700	750	Cu May'10	295	301.60	6.15	2.08%
Zinc	15,170	15,345	410					

ZAR metal prices (23 June 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,531	49,718	13,473	146,901	134,653	13,424	7.5605
3-month	14,903	50,027	13,943	147,995	136,862	14,051	7.6781

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)	85.57	-0.73	87.49	-2.85	87.74	-3.02	89.04	-3.02	-	-
Gasoil 0.1% Rdam (\$/mt)	662.50	4.00	664.00	3.25	668.00	3.50	677.50	3.25		
NWE CIF jet (\$/mt)	704.11	-6.78	709.53	-25.00	715.64	-23.77	731.07	-23.50		
Singapore Kero (\$/bbl)	86.46	-0.78	88.19	-3.00	88.69	-3.12	90.54	-3.17		
3.5% Rdam barges (\$/mt)	419.80	-1.22	417.50	-11.75	420.25	-11.75	429.00	-12.00		
1% Fuel Oil FOB (\$/mt)	443.88	-0.96	449.75	-12.25	454.25	-11.50	465.50	-11.75		
Sing FO 380 Cargo (\$/mt)	439.75	-11.50	441.75	-12.25	441.75	-12.25	441.75	-12.25		
Sing FO180 Cargo (\$/mt)	443.01	-0.66	446.00	-11.25	449.25	-12.00	457.50	-12.75		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	92.00	0.50	94.40	0.40	96.60	0.05	99.50	-0.20	106.75	0.20
API4 (FOB RBCT)	91.25	0.00	91.65	-0.10	93.30	0.05	96.10	-0.20	100.15	0.20

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.47500	0.50667	0.54833	0.66667	0.77200		
Silver	0.66000	0.67000	0.71000	0.76000	0.79600		
USD Libor	0.34719	0.43281	0.53825	0.74869	1.17875		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	57.08	1,236.07	1,229.69	1,159.88	1,127.61	1,226.00	1,250.00
Silver	52.75	18.60	18.40	17.63	17.55	18.60	19.40
Platinum	46.40	1,571.49	1,554.55	1,610.06	1,519.52	1,550.00	1,620.00
Palladium	49.86	475.16	462.47	477.89	422.09	485.00	510.00
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	1,237.40	18.6300	477.30	1,574.70	1,237.50	3,580.00	1,237.70
Open Interest	602,411	139,019	21,790	30,667	1,295	111,971	2,863
Change in Open Interest	-1,516	2,043	115	-326	236	-2,530	-5

Date: 23 June 2010

Sources: Standard Bank; LME; Bloomberg

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