

FICC Research

Commodities: Daily

Focus: Prices get further support from industrial production



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Focus: China: y/y industrial production up 12.1% in February. Japan: industrial up 18.5% y/y. China is the single biggest consumer of base metals. In fact, China's y/y industrial production didn't contract during the recent downturn. For commodities with exposure industrial demand, the recovery continues.

- The base metals had a very quiet overnight session yet again, with thin volumes seen across the complex. Much better than expected Eurozone Industrial Production figures have seen the euro strengthen against the dollar this morning, with metal prices firming up as a result.
- While gold is responding well to dollar weakness today, we do not foresee a major break-out yet
- Crude oil prices remain very much linked to the dollar, with prices rallying in the wake of the Eurozone figures.

Commodity price data (11 March 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,228	2,235	2,243	2,228	3	0.31%	2,195.00	-38	-29.00
Copper	7,400	7,464	7,475	7,406	24	0.86%	7,384.50	-140	-32.00
Lead	2,265	2,252	2,281	2,250	-38	-0.57%	2,241.00	-42	-25.75
Nickel	21,350	21,295	21,580	21,200	-225	-0.26%	21,325.00	-670	-73.00
Tin	17,550	17,400	17,525	17,390	-400	-0.85%	17,430.00	-220	-73.00
Zinc	2,330	2,340	2,359	2,325	-39	0.43%	2,307.00	-56	-27.80

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	80.41	80.37	80.55	80.24	0.09	0.11%
NYMEX WTI	82.20	82.25	82.40	82.11	0.14	0.17%
ICE Gasoil	665.25	665.25	667.00	664.50	0.00	0.00%
API2 Q1'10	73.50	73.75	-	-	0.25	0.34%
EUA Dec10	13.11	13.24	-	-	0.13	0.99%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,106.00	1,104.00	1,111.25	1,101.50	1,107.50	-14.20	-.2/2
Silver	-	17.26	17.16	16.85	17.14	-0.19	0/2
Platinum	1,587.00	1,580.00	1,608.50	1,581.50	1,608.00	13.00	0.5/1.5
Palladium	451.00	447.00	4,691.00	449.00	4,616.00	4,150.00	0.25/1.25

Sources: Standard Bank; LME; BBG

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Focus: Prices get further support from industrial production

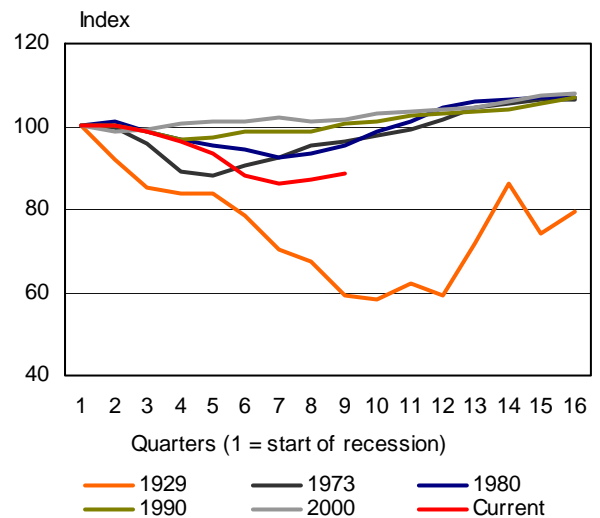
China released its industrial production figures for February yesterday; y/y industrial production was up 12.1%. Japan released its industrial production figures for February this morning; industrial production grew 18.5% y/y. On a m/m basis, industrial production grew 2.7% — the 11th month of positive growth. Good growth figures are easy to achieve because of base effects. In China and Japan, industrial production has turned the corner.

Industrial production in the Eurozone (released this morning) is improving, but is struggling to gain momentum. In January, industrial production has contracted -1.6% y/y but like Japan, the m/m growth figure is encouraging. Industrial production grew by 0.7% m/m in January.

The US will release February industrial production next week. Industrial production is expected to have grown 0.1% m/m in February. Comparing US industrial production with previous recessions reveals that the current downturn in production is the worst since 1929. However, it also reveals that the recovery in industrial production is well underway (see graph alongside).

China is the single biggest consumer of base metals. For many metals, the US is the second-largest consumer. US industrial production is recovering, so is that of China. In fact, China's y/y industrial production didn't contract during the recent downturn. For commodities with exposure industrial demand, the recovery contin-

US industrial production in downturns



Source: Standard Bank

ues (even though production is not at levels seen in 2007 and early 2008). We believe that demand should grow for energy, base metals and PGM as we move deeper into 2010.

By Walter de Wet

Base metals

The base metals had a very quiet overnight session yet again, with thin volumes seen across the complex. Much better than expected Eurozone Industrial Production figures have seen the euro strengthen against the dollar this morning, with metal prices firming up as a result.

A 7.2 Richter scale earthquake in Chile on Thursday - in the Libertador O'Higgins Region - gave copper prices a boost and helped the metal recover from a poor start to the day. The impact from the quake has been rather short-lived however with no reports of any disruption to mines or smelters in the affected region. LME molybdenum prices also rallied on the back of the earthquake news, though the effect was similarly short-lived with molybdenum prices coming back under pressure on Friday.

Copper has actually lagged the rest of the base metals so far today, coming under pressure overnight before picking up on the back of a weaker dollar heading into the afternoon. Overall, copper remains short of direction and will likely continue to take its cues from the FX and equity markets.

Inventory-wise, although SHFE copper stocks climbed 6,849 mt this week, this morning saw available LME inventories fall 4,225 mt, bringing the weekly decline in LME on-warrant stocks to 7,825 mt. Interestingly, the main location for the activity today was New Orleans, which saw cancelled warrants jump 2,775 mt. New Orleans has been very quiet in terms of warrant cancellations over recent weeks, with the last significant decline in on-warrant material (1,850 mt in late February), being quickly followed by an almost identical net inflow of metal over the following couple of days.

Nickel prices have recovered from their mid-week wobble, aided by the weaker dollar but also gaining a boost from bullish LME inventory figures. On-warrant stocks - already declining since early February - fell 1,770 mt, due primarily to a 1,590 mt jump in cancelled warrants in Rotterdam. Nickel activity is starting to pick up, though warrant premiums remain stable rather than showing signs of picking up.

By Leon Westgate

Precious metals

While gold is responding well to dollar weakness today, we do not foresee a major break-out yet. There is still very little physical buying with gold above \$1,120. Furthermore, with gold volatile within a \$1,100 to \$1,130 range, liquidity has also been declining. Gold could struggle to sustain rallies above \$1,130. We don't rule out a revisit of \$1,100 for this range-bound metal. Resistance is at \$1,120 and \$1,132, support at \$1,095 to \$1,089.

Dollar weakness against the euro this morning is partly a function of the much better-than-expected Eurozone industrial production data. While the weaker dollar has been supporting gold, platinum and palladium are also benefiting. Expectations were for a y/y decline of 1.6% in industrial production in January. The actual figure showed growth of 1.4% y/y. This figure is not only supporting the euro, but may also raise expectations for a good reading for EU new car registrations for February. This data is due for release on Monday and may add more support to especially platinum. (Europe is the largest consumer of the metal.) Buy platinum and palladium on the dips.

Silver is benefiting from the higher gold price. Speculative interest (according to CFTC data) is fairly low, compared to platinum, palladium and gold. This could make silver less susceptible to large price swings (up and down). Silver support is at \$16.54 and \$16.30. Resistance is at \$17.50.

By Walter de Wet

Energy

Crude oil prices remain very much linked to the dollar, with this morning's better than expected Eurozone Industrial Production data seeing the dollar weaken against the euro and crude oil prices strengthen. Eurozone Industrial output jumped 1.7% m-o-m in January the biggest increase since the data started to be compiled in 1990.

Data-wise this afternoon sees the release of the US Advance Retail sales for Feb (expected -0.2% but up 0.1% less auto's) and the preliminary Michigan Confidence figure for March (expected at 74.0 from 73.6). With oil apparently welded to the dollar, the data will be closely watched.

Looking ahead, increased global economic activity and the recent run of bullish inventory data suggests the market is on track towards tightening up. If these trends continue and the market does start to tighten up over the coming months, it will be interesting to see what impact that will have on the crude oil forward curve and, in particular, at what point the viability of floating crude oil storage - essentially a cash and carry trade - is called into question.

So far, these floating inventories appear to have been overlooked or pushed to one side. Once the forward curve does start to tighten up however, this material will start to come back to the market. How quickly this stock of crude is absorbed by the market is uncertain, however, what is certain is that once it does start to re-emerge it will make the transition from contango to backwardation a very bumpy and likely rather protracted one.

Near-dated coal prices were slightly firmer on Thursday, helped by the solid, if unspectacular, performance of crude oil, though the farther-dated contracts came under a little bit of pressure. API2 for Q2-10 gained \$0.25/mt to \$73.75, however material for Q2-11 fell \$0.65/mt. By way of comparison, API4 for Q2-10 gained \$0.65/mt while Q2-11 fell \$0.65/mt.

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	4,518,800	4,523,200	2,550	6,950	-4,400	-110,100	278,100	6.15	197,031
Copper	532,575	535,650	-	3,075	-3,075	30,250	28,250	5.30	185,483
Lead	170,150	170,225	75	150	-75	23,650	12,475	7.33	37,695
Nickel	158,940	159,384	-	444	-444	930	3,720	2.34	33,381
Tin	23,835	23,860	145	170	-25	-2,930	1,005	4.22	5,314
Zinc	538,750	539,250	-	500	-500	50,700	3,000	0.56	65,648

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,790	16,740	-20
Copper	59,600	59,390	-210
Zinc	18,755	18,765	-80

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'10	-	-	-
Copper	Cu Mar'10	338	338.85	1.15
Zinc				

ZAR metal prices (11 March 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,307	54,859	16,648	158,423	129,487	17,139	7.4290
3-month	16,886	56,394	17,015	160,892	131,464	17,680	7.5554

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)	88.33	0.66	89.53	-0.39	89.70	-0.47	90.84	-0.61		
Gasoil 0.1% Rdam (\$/mt)	665.25	0.00	667.50	0.50	670.75	0.75	684.75	1.50		
NWE CIF jet (\$/mt)	710.90	-3.48	720.50	-5.77	725.75	-6.63	741.52	-6.00		
Singapore Kero (\$/bbl)	87.46	0.45	89.73	-0.39	90.15	-0.57	91.99	-0.66		
3.5% Rdam barges (\$/mt)	446.50	1.00	449.25	0.75	452.25	1.00	457.50	0.75		
1% Fuel Oil FOB (\$/mt)	461.00	1.00	468.75	2.75	475.75	3.75	490.25	1.00		
Sing FO 380 Cargo (\$/mt)	466.25	0.75	469.50	0.75	471.50	0.00	475.25	-0.50		
Sing FO180 Cargo (\$/mt)	473.25	0.75	475.75	0.75	478.50	0.75	484.25	0.50		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	73.50	1.70	76.60	1.20	80.40	1.00	90.55	1.35	102.05	0.85
API4 (FOB RBCT)	81.50	0.90	81.50	0.90	83.40	0.40	88.55	1.15	97.05	0.85

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.21167	0.22000	0.24333	0.32833	0.48667
Silver	0.54667	0.55000	0.55833	0.56667	0.60000
USD Libor	0.23000	0.24125	0.25703	0.39344	0.86125

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.17	1,123.91	1,116.68	1,115.33	1,043.38	1,085.00	1,120.00
Silver	53.12	17.10	16.57	17.25	16.19	16.30	16.90
Platinum	60.23	1,586.80	1,556.34	1,485.84	1,366.89	1,550.00	1,600.00
Palladium	59.41	459.23	445.20	398.91	338.04	435.00	470.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGX GLD	TOCOM GLD	CBOT GLD
	Feb'10	Mar'10	Mar'10	Apr'10	Feb'10	Dec'10	Feb'10
Settlement	1,114.70	17,2600	465.05	1,612.70	1,114.80	3,254.00	1,114.90
Open Interest	491,264	111,003	22,601	36,113	1,194	104,806	2,772
Change in Open Interest	5,028	675	-709	257	80	-68	153

Date: 11 March 2010

Sources: Standard Bank; LME; Bloomberg

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