

# FICC Research

## Commodities: Daily

### Focus: Nickel prices, inventories and spreads



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Walter de Wet, CFA\*  
Walter.De.Wet@standardbank.com

Leon Westgate\*  
Leon.Westgate@standardbank.com

**Focus: Nickel prices, inventories and spreads** Nickel prices have had a resurgence so far this year, boosted by strike action in Canada and the re-emergence of small scale demand from stainless steel mills. Looking at the overall picture however, nickel prices appear to have done enough for the time being, and look set for a period of stagnation.

- Friday has seen the base metals drift sideways to lower on the back of particularly light volumes. With the metals continuing to tread water, the dollar is again having some impact on price direction.
- Precious metals are range-bound. There is no data due for release today; we therefore expect trade to remain range-bound. Our strategy for gold is unchanged: buy dips and sell rallies.
- WTI front-month has been failing to break above \$83. There seems to be very little risk appetite to push prices higher despite the strong performance by US equities. With crude above \$80, we foresee strong resistance to a move higher.

#### Commodity price data (18 March 2010)

##### Base metals LME 3-month

|           | Open   | Close  | High   | Low    | Daily change | Change (%) | Cash Settle | Change in cash settle | Cash – 3m |
|-----------|--------|--------|--------|--------|--------------|------------|-------------|-----------------------|-----------|
| Aluminium | 2,280  | 2,276  | 2,284  | 2,264  | -19          | -0.18%     | 2,244.00    | 2                     | -33.50    |
| Copper    | 7,520  | 7,487  | 7,550  | 7,476  | -48          | -0.45%     | 7,476.00    | -12                   | -35.50    |
| Lead      | 2,250  | 2,247  | 2,260  | 2,242  | -10          | -0.13%     | 2,222.50    | -23                   | -28.00    |
| Nickel    | 22,305 | 22,780 | 22,900 | 22,600 | 510          | 2.13%      | 22,250.00   | 125                   | -38.00    |
| Tin       | 17,700 | 17,795 | 17,799 | 17,750 | -50          | 0.54%      | 17,695.00   | 140                   | -77.00    |
| Zinc      | 2,328  | 2,334  | 2,349  | 2,326  | -12          | 0.26%      | 2,298.00    | -18                   | -30.75    |

##### Energy

|            | Open   | Close  | High   | Low    | day/day | Change (%) |
|------------|--------|--------|--------|--------|---------|------------|
| ICE Brent  | 81.42  | 80.88  | 81.42  | 80.79  | -0.60   | -0.74%     |
| NYMEX WTI  | 82.17  | 81.64  | 82.17  | 81.51  | -0.56   | -0.69%     |
| ICE Gasoil | 674.00 | 672.50 | 674.75 | 671.25 | -1.25   | -0.19%     |
| API2 Q1'10 | 76.50  | 75.60  | -      | -      | -0.90   | -1.19%     |
| EUA Dec10  | 13.10  | 13.03  | -      | -      | 0.07    | 0.01%      |

##### Precious metals

|           | AM Fix   | PM Fix   | High bid | Low offer | Closing bid | Change (d/d) | EFPs     |
|-----------|----------|----------|----------|-----------|-------------|--------------|----------|
| Gold      | 1,122.75 | 1,122.75 | 1,129.20 | 1,119.00  | 1,127.80    | 4.00         | -.2/2    |
| Silver    | -        | 17.34    | 17.54    | 17.34     | 17.42       | -0.10        | 0/2      |
| Platinum  | 1,629.00 | 1,633.00 | 1,632.00 | 1,627.00  | 1,627.00    | -6.00        | -0.5/1.5 |
| Palladium | 474.00   | 477.00   | 480.00   | 474.00    | 477.00      | -1.00        | 0/2      |

Sources: Standard Bank; LME; BBG

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**Focus: Nickel prices, inventories and spreads**

Nickel prices have had a resurgence so far this year, boosted by strike action in Canada and the re-emergence of small scale demand from stainless steel mills. On-warrant inventories have also been declining steadily since early February, lending background support to prices, while the expected 2-week closure of BHP Billiton's Kwinana refinery - due to a hydrogen shortage - has also kept the market on its toes.

The physical market is also showing signs of activity. The long-running strike at Vale's Sudbury operations tightened up the physical market in the US, which has in turn seen premiums also recover strongly. Asian and European premiums currently stand at the highest levels since November.

Looking at the overall picture however, nickel prices appear to have done enough for the time being, and look set for a period of stagnation at the very least.

Figure 1 plots the relationship between on-warrant LME inventories and Nickel prices over the last decade. The stock-price cluster is an outlier in terms of recent behavior, with little or no precedent to justify a significant shift higher in prices while stocks remain at current levels.

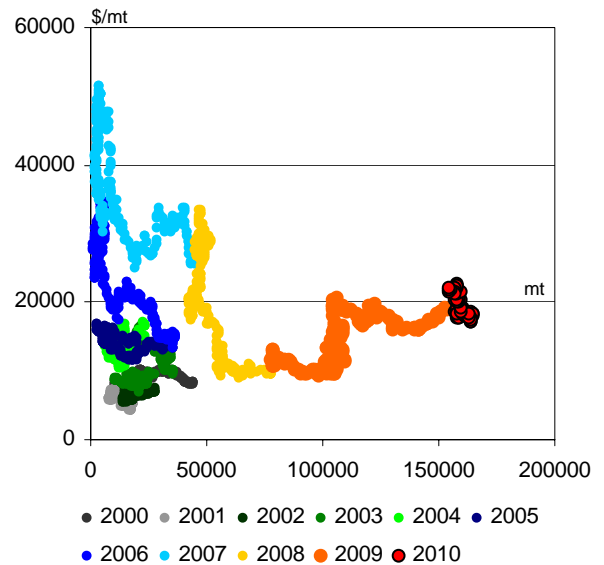
Figure 2 plots the relationship between the 3mth-15mth spread vs. on-warrant LME stocks. Again, recent trends suggest the forward curve is likely to remain relatively flat until LME inventories start approaching the 50,000 mt mark.

With commodities now viewed as partly a financial instrument, the impact from the traditional fundamentals on prices has diminished, particularly for the larger and more liquid markets such as copper and aluminum. Nickel has also been impacted by investor activity, however it remains a relatively small market, and one that continues to be dominated by the stainless steel industry.

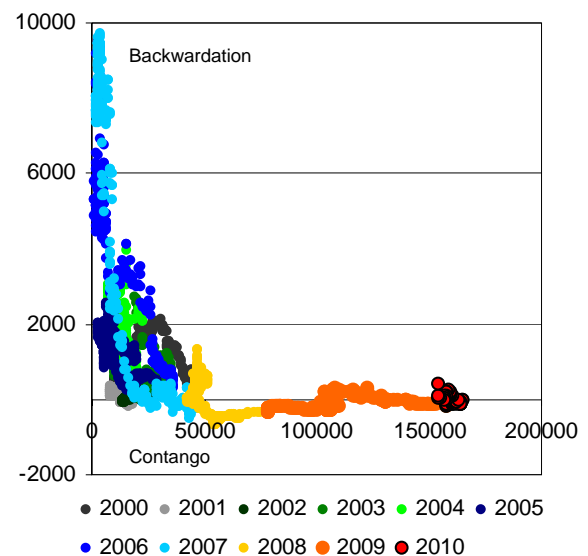
Therefore, while we do not anticipate a significant retracement in prices, we do see prices stagnating, at least until the inventory overhang starts to get worked through.

**By Leon Westgate**

**Fig 1: LME Nickel 3mth price vs. On-warrant stocks**



**Fig 2: LME Nickel 3-15mth spread vs. On-warrant stocks**



Sources: Standard Bank, LME

**Base metals**

Friday has seen the base metals drift sideways on the back of particularly light volumes. A stronger dollar has put the metals under a bit of pressure, though the metals are continuing to hold up pretty well overall. With no significant economic data today, the metals are likely to continue tracking the dollar and the wider global markets.

Nickel rallied on Thursday, boosted by news of the Kwinana refinery shutdown and by bullish inventory data. Another fall in on-warrant stocks has helped support prices this morning, with prices looking to consolidate around yesterday's closing levels.

Copper has continued to hold up well, trading sideways around \$7,500. Another fall in LME on-warrant inventory, down 1,575 mt this morning has helped to support sentiment, though a 13,632 mt increase in SHFE copper stocks has taken the shine off the LME numbers a little. Meanwhile, Tongling Nonferrous Metals Group has started building a 400 ktpy capacity copper smelting and refining complex in Anhui province, due to come on-stream in 2012. Once completed, the facility will bring Tongling's total refined copper output capacity to 1.2 Mtpy, making it China's largest copper producer.

**By Leon Westgate**

## Precious metals

Precious metals are range-bound. There is no data due for release today; we therefore expect trade to remain range-bound.

Our strategy for gold is unchanged: buy dips and sell rallies. We don't foresee that gold can yet break out of the \$1,150 – \$1,100 range in which it has been since the second week of December. As indicated in the *Focus*, downside support is increasing. Support is at \$1,116 and \$1,101, resistance at \$1,134 and \$1,140.

Swiss PGM export data was released yesterday. Switzerland was a net exporter of platinum and palladium in February. On closer analysis, the Swiss figures for February are bullish for platinum but neutral for palladium. It is encouraging that large consumers such as US and Japan have stopped exporting platinum after many months, which saw metal flow to Swiss vaults. Also, China has increased its buying again after showing very little buying interest since late last year. Switzerland remains a large net exporter of palladium. However this is being distorted by large exports to the UK. Platinum and palladium can be settled Loco London as of Sep'09; as a result, some Zurich stockpiles are set to shift from Zurich vaults to London vaults. But despite this expected move in above-ground stockpiles, we believe that demand is improving. The Swiss customs data seems to favour platinum relative to palladium.

Platinum resistance is at \$1,640, support is at \$1,610. Support for palladium is at \$460 and resistance at \$480.

Silver support is at \$16.20 and \$16.90, resistance at \$17.60 and \$17.75. As with gold, we believe that silver will remain range-bound.

By Walter de Wet

## Energy

Energy markets are range-bound and quiet. We expect this to continue. WTI front-month has been failing to break above \$83. There seems to be very little risk appetite to push prices higher despite the strong performance by US equities. With crude above \$80, we foresee strong resistance to a move higher.

Our FX view remains unchanged, with the trend in the euro still towards more weakness. We expect the dollar to move below \$1.35 against the euro again within the next month, and that trade will be volatile.

On the demand side, support is growing. We continue to see non-OECD product demand recover (demand had reached record levels in January). OECD demand remains lackluster and still well below 2008 levels. OECD countries' product demand constitutes 54% of global demand. At an aggregate level, demand is recovering. On a monthly comparison, demand in January 2010 has matched that of January 2008.

Supply is still abundant. OPEC's decision this week to keep production constant should not support prices. OPEC production was at 29.1m bpd in February, which matches 2008 production levels. Inventory levels are high in the US, and refinery utilization is not coming down. In accordance with our FX view, we foresee downside for the oil price.

Coal prices are pushing lower with API2 for Q2-10 falling another \$1.10 to \$74.50/mt and Cal-11 falling \$1.70 to \$88.80/mt. The coal market has been very quiet this morning, with prices drifting down, in line with the stronger dollar and weaker crude prices. Global growth continues to recover and as a result electricity production should continue to rise. On the back of this we expect thermal coal demand to improve steadily.

However as we head towards the northern hemisphere summer we do expect coal prices to show to push slightly lower than levels seen in Q1. But weakness should be confined to seasonal factors rather than declining demand. We expect API4 front month prices to average \$80/mt in Q2 — compared to \$83 in Q1.

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 | 4,611,725 | 4,618,200 | 1,050    | 7,525 | -6,475         | -17,175         | 303,750                 | 6.59                   | 196,582           |
| Copper    | 522,975   | 524,175   | #N/A N/A | 1,200 | -1,200         | 20,650          | 21,825                  | 4.17                   | 96,661            |
| Lead      | 171,000   | 170,350   | 725      | 75    | 650            | 24,500          | 12,075                  | 7.06                   | 32,532            |
| Nickel    | 157,752   | 158,478   | #N/A N/A | 726   | -726           | -258            | 4,500                   | 2.85                   | 25,282            |
| Tin       | 24,135    | 24,040    | 115      | 20    | 95             | -2,630          | 640                     | 2.65                   | 4,522             |
| Zinc      | 540,325   | 540,400   | #N/A N/A | 75    | -75            | 52,275          | 3,325                   | 0.62                   | 63,568            |

### Shanghai 3-month forward prices

| Metal     | Open   | Last   | 1d Change |
|-----------|--------|--------|-----------|
| Aluminium | 16,700 | 16,830 | 55        |
| Copper    | 59,690 | 60,090 | 270       |
| Zinc      | 18,760 | 18,895 | 30        |

### COMEX active month future prices

| Metal     | Open       | Close | Change | Change (%) |
|-----------|------------|-------|--------|------------|
| Aluminium | Ali Mar'10 | -     | -      | -          |
| Copper    | Cu Mar'10  | 340   | 341.10 | 1.55       |
| Zinc      |            |       |        |            |

### ZAR metal prices (18 March 2010)

|         | Aluminium | Copper | Lead   | Nickel  | Tin     | Zinc   | ZAR/USD fix |
|---------|-----------|--------|--------|---------|---------|--------|-------------|
| Cash    | 16,401    | 54,642 | 16,244 | 162,625 | 129,333 | 16,796 | 7.3090      |
| 3-month | 16,919    | 55,652 | 16,704 | 169,340 | 132,283 | 17,350 | 7.4337      |

## 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)      | 87.81           | -0.21           | 88.91           | -0.30           | 89.33          | -0.29 | 90.80        | -0.23 |              |  |
| Gasoil 0.1% Rdam (\$/mt)  | 672.50          | -1.25           | 670.75          | -1.75           | 671.50         | -2.50 | 684.50       | -2.00 |              |  |
| NWE CIF jet (\$/mt)       | 708.76          | 0.33            | 720.86          | -3.03           | 726.00         | -3.67 | 743.08       | -1.06 |              |  |
| Singapore Kero (\$/bbl)   | 87.72           | -0.19           | 89.46           | -0.40           | 90.03          | -0.34 | 92.00        | -0.28 |              |  |
| 3.5% Rdam barges (\$/mt)  | 443.59          | -1.86           | 444.25          | -4.25           | 447.25         | -4.25 | 453.25       | -3.25 |              |  |
| 1% Fuel Oil FOB (\$/mt)   | 465.97          | -2.53           | 471.75          | -1.00           | 476.00         | -1.25 | 491.50       | -0.75 |              |  |
| Sing FO 380 Cargo (\$/mt) | 461.50          | -4.75           | 465.00          | -4.25           | 467.75         | -3.75 | 472.25       | -3.00 |              |  |
| Sing FO180 Cargo (\$/mt)  | 470.28          | -3.46           | 470.75          | -4.25           | 473.75         | -4.00 | 480.25       | -3.00 |              |  |

| Thermal coal    | Q2-10 |       | Q3-10 |       | Q4-10 |       | Cal 10 |       | Cal 11 |       |
|-----------------|-------|-------|-------|-------|-------|-------|--------|-------|--------|-------|
| API2 (CIF ARA)  | 74.50 | -1.10 | 78.00 | -1.10 | 81.60 | -1.00 | 88.80  | -1.70 | 99.40  | -1.10 |
| API4 (FOB RBCT) | 82.25 | -0.15 | 82.50 | -0.35 | 84.60 | 0.00  | 87.45  | -0.90 | 94.60  | -0.70 |

## Precious metals

| Forwards (%) | 1-month | 2-month | 3-month | 6-month | 12-month |
|--------------|---------|---------|---------|---------|----------|
| Gold         | 0.24600 | 0.25400 | 0.25600 | 0.32200 | 0.48400  |
| Silver       | 0.55000 | 0.55400 | 0.56000 | 0.56200 | 0.57600  |
| USD Libor    | 0.23975 | 0.25200 | 0.27100 | 0.40766 | 0.85688  |

| Technical Indicators | 30-day RSI | 10-day MA | 20-day MA | 100-day MA | 200-day MA | Support  | Resistance |
|----------------------|------------|-----------|-----------|------------|------------|----------|------------|
| Gold                 | 52.48      | 1,117.29  | 1,118.63  | 1,119.28   | 1,047.58   | 1,100    | 1,134      |
| Silver               | 53.47      | 17.25     | 16.91     | 17.29      | 16.24      | 16.90    | 17.60      |
| Platinum             | 59.95      | 1,614.38  | 1,581.19  | 1,500.99   | 1,376.11   | 1,630.00 | 1,640.00   |
| Palladium            | 61.49      | 469.65    | 455.59    | 406.34     | 343.52     | 460.00   | 480.00     |

| Active Month Future     | COMEX GLD | COMEX SLV | NYMEX PAL | NYMEX PLAT | DGDX GLD | TOCOM GLD | CBOT GLD |
|-------------------------|-----------|-----------|-----------|------------|----------|-----------|----------|
|                         | Feb'10    | Mar'10    | Mar'10    | Apr'10     | Feb'10   | Dec'10    | Feb'10   |
| Settlement              | 1,123.90  | 17.3450   | 477.05    | 1,631.00   | 1,123.90 | 3,277.00  | 1,124.10 |
| Open Interest           | 496,649   | 113,089   | 24,035    | 36,950     | 1,282    | 106,473   | 2,133    |
| Change in Open Interest | 10,397    | -276      | -990      | -533       | 49       | 247       | 380      |

Date: 18 March 2010

Sources: Standard Bank; LME; Bloomberg

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