

FICC Research

Commodities: Daily

Focus: Chinese money supply and exchange rates



31 March 2010

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Focus: There is mounting concern that China will look to increase interest rates or increase the deposit ratio of commercial banks as the country attempts to rein in liquidity. However, as far as the base metals are concerned, we believe the two Chinese government decisions that will have the greatest impact on prices are either a dramatic reining in of the stimulus spending, or to allow the Yuan to strengthen.

- After a bit of a wobble this morning, the base metals are continuing to strengthen heading into the afternoon, helped by a weaker dollar.
- We continue to see large-scale physical gold demand. This physical demand is supporting the metal on approach of \$1,100. Combined with a struggling euro and good physical demand, we still prefer gold in euro relative to gold in dollars.
- The crude oil market will be presented with the much-awaited US DOE crude and product inventory numbers today. API inventory numbers (yesterday) showed a sizable draw-down in product inventory. Furthermore, the API figures indicated only a small build in crude inventories (rising 421K). Crude inventories at Cushing were lower by 191K, which is also bullish.

Commodity price data (31 March 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,306	2,294	2,313	2,282	11	-0.52%	2,267.50	43	-32.00
Copper	7,821	7,850	7,840	7,759	51	0.37%	7,786.00	151	-32.50
Lead	2,167	2,140	2,146	2,115	16	-1.26%	2,137.00	-16	-29.50
Nickel	24,195	24,400	24,615	24,200	300	0.85%	24,200.00	250	-31.00
Tin	18,225	18,370	18,450	18,350	345	0.80%	18,325.00	525	-82.00
Zinc	2,360	2,380	2,377	2,328	48	0.85%	2,327.50	51	-33.00

Energy

	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	81.44	81.35	81.45	81.10	0.07	0.09%	-	-	-
NYMEX WTI	82.49	82.48	82.53	82.22	0.11	0.13%	-	-	-
ICE Gasoil	676.75	679.25	680.25	675.25	4.75	0.70%	-	-	-
API2 Q1'10	73.85	74.85	-	-	1.00	1.20%	-	-	-
EUA Dec10	13.11	12.84	-	-	-0.27	-2.06%	-	-	-

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,109.75	1,107.00	1,113.25	1,103.00	1,104.50	12.00	-5/-1
Silver	-	17.51	17.46	17.24	17.30	0.58	-0.5/1.5
Platinum	1,627.00	1,622.00	1,626.00	1,617.00	1,618.00	18.00	4/7
Palladium	473.00	472.00	473.00	471.00	469.00	18.00	0/2

Sources: Standard Bank; LME; BBG

Please refer to the disclaimer at the end of this document.

Focus: Chinese money supply and exchange rates

There is mounting concern that China will look to increase interest rates or increase the deposit ratio of commercial banks as the country attempts to rein in liquidity.

The relationship between Chinese money supply and prices of commodities - more specifically those commodities where it remains a net importer - is fairly strong (see fig 1) and has strengthened over recent years.

However, with government spending remaining such a key driver behind the Chinese economy compared to the likes of the banking sector, other than an immediate knee-jerk reaction from the markets, there is little or no lasting impact on prices resulting from the raising bank reserve requirements. This is likely to remain the case.

As far as the base metals are concerned, we believe the two Chinese government decisions that will have the greatest impact on prices are either a dramatic reining in of the stimulus spending - bearish for metals demand and prices, or to allow the Yuan to strengthen -extremely bullish for dollar denominated commodity prices.

Arguably, the appreciation of the Yuan in mid-2005 was one of the key drivers behind the increase in dollar denominated commodity prices. Another period of Yuan appreciation vs. the dollar would likely see dollar prices shift higher once again as Chinese consumers make the most of their additional spending power. Whether this is enough to counter any slowdown in stimulus spending remains to be seen however.

By Leon Westgate

Base metals

The base metals had another strong afternoon session on Tuesday, though profit taking emerged towards the close across several of the metals. After a bit of a wobble this morning, the base metals are continuing to strengthen heading into the afternoon, helped by a weaker dollar.

It's a busy end to the quarter data-wise, with this afternoon seeing the release of the US ADP employment figures for March (expected +40k), the Chicago PMI (expected at 61.0) and the February Factory Orders (expected +0.5%). The data may trigger a bit of movement in prices, particularly if out line with expectations, before quarter-end position housekeeping kicks in.

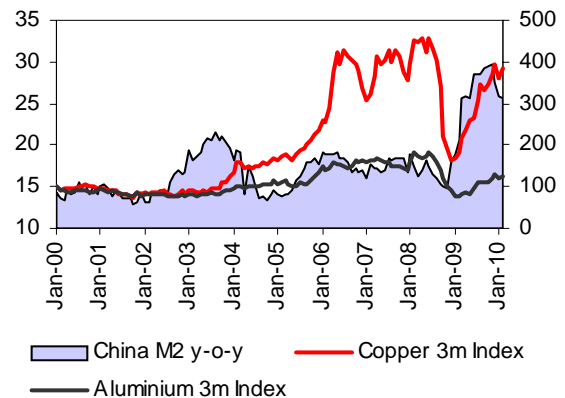
In a repeat performance of yesterday morning copper was sold off again during Asian trade with further Chinese arb selling emerging. Prices have stabilised and are picking up strongly heading into the afternoon - helped by a weaker dollar - with copper climbing back above \$7,850. The strength has come in spite of comments from the Chairman of Jiangxi Copper Co. noting that the government will cut power investment by 25.5% this year, a sector that accounts for around 45% of current Chinese copper demand.

Workers at Freeport's Cerro Verde mine are preparing for strike action over a dispute over bonuses. Whether the strike goes ahead or not depends on whether it is declared illegal by regional labour authorities. Cerro Verde produced 324 kt of copper in 2008 and 308 kt in 2009.

Elsewhere, Nickel has continued to rally strongly, building on yesterday afternoon's momentum. With technical signals still in charge and still looking bullish, the metal is rapidly closing in on \$25,000. Zinc is tracking copper so far this morning, though volumes have improved. Aluminium has meanwhile climbed back above \$2,300, recovering from a late sell-off on Tuesday.

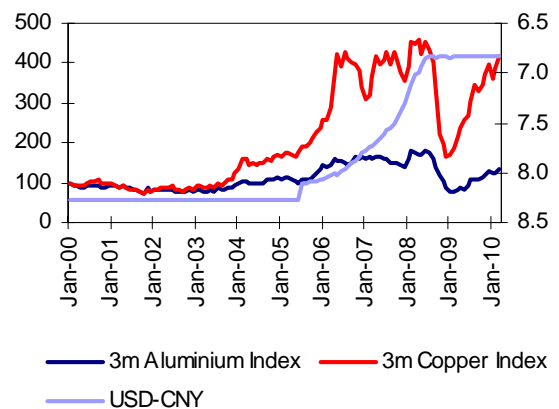
By Leon Westgate

Chinese M2 Money Supply vs. Cu and Al (indexed to Jan 00)



Sources: Standard Bank, LME, Bloomberg

Chinese Yuan ex-rate (RH) vs. Cu and Al (indexed to Jan 00)



Sources: Standard Bank, LME, Bloomberg

Precious metals

Greece came to the market yesterday after reopening an earlier 12-year bonds issue. The yield ceiling was set at 6%; interest at a 6% yield was limited. The 7y bond issued on Monday also sold off. Clearly, concerns persist about Greece's balance of payment problems. The euro is unlikely to find good support under such conditions.

We continue to see large-scale physical gold demand. This physical demand is supporting the metal on approach of \$1,100. Combined with a struggling euro and good physical demand, we still prefer gold in euro relative to gold in dollars.

Q1 ends today. We therefore still foresee fairly limited downside today. Resistance is at \$1,116 and \$1,122, support at \$1,100 and then \$1,092.

Platinum and palladium are trading higher. Platinum's next resistance is at \$1,650. Palladium's resistance is at \$480. We are bullish both metals but believe that palladium will outperform platinum. Relative to platinum, palladium has much greater exposure to the US. Should US ADP employment data (today) and the non-farm payroll data (Friday) be bullish, this could further favour palladium. Watch out for US auto sales for March (tomorrow) the numbers should beat those of February.

By Walter de Wet

Energy

The crude oil market will be presented with the much-awaited US DOE crude and product inventory numbers today. API inventory numbers (yesterday) showed a sizable drawdown in product inventory. Furthermore, the API figures indicated only a small build in crude inventories (rising 421K). Crude inventories at Cushing were lower by 191K, which is also bullish.

Should DOE numbers show a similar trend today, combined with window-dressing for quarter-end, we may see crude test the upper resistance levels at \$83.50 of the current trading range. The market expects a sizable draw of 1.8m barrels of gasoline and 1.4m barrels of distillates.

As with all the other commodities, we are looking at US employment data for March. The ADP employment numbers are out today and non-farm payrolls data on Friday. The median estimate for ADP data is 40K new jobs in March, while the NFP data's median estimate is at 184K. Both are expected to show a US economy still in recovery. Should the numbers be bullish, we believe that crude will benefit, due to its large exposure to US demand.

Prices for both API2 and API4 have firmed, although their performance has been solid rather than spectacular. API2 for Q2:10 gained \$1.00, to \$74.85/mt, while API4 for the same delivery posted a \$0.65 gain, to \$83.25/mt.

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	4,600,150	4,604,850	1,100	5,800	-4,700	-28,750	280,875	6.11	124,026
Copper	514,325	514,900	1,075	1,650	-575	12,000	18,550	3.61	131,643
Lead	175,850	175,725	825	700	125	29,350	9,000	5.12	19,379
Nickel	156,426	156,090	780	444	336	-1,584	4,236	2.71	29,906
Tin	24,305	24,225	80	-	80	-2,460	685	2.82	5,501
Zinc	542,200	542,250	-	50	-50	54,150	14,450	2.67	72,165

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,690	16,590	-60
Copper	62,100	61,640	-130
Zinc	19,000	18,880	-30

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'10	-	-	-
Copper	Cu Mar'10	356	354.80	-1.55
Zinc				

ZAR metal prices (29 March 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,696	57,328	15,735	178,185	134,927	17,137	7.3630
3-month	17,165	58,738	16,013	182,573	137,454	17,808	7.4825

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)	87.76	-0.05	89.31	-0.65	89.75	-0.70	91.02	-0.55		
Gasoil 0.1% Rdam (\$/mt)	679.25	4.75	676.00	3.75	677.50	3.50	689.75	2.50		
NWE CIF jet (\$/mt)	707.14	-0.28	722.64	-4.70	727.55	-4.91	744.61	-4.34		
Singapore Kero (\$/bbl)	87.47	-0.05	89.56	-0.80	90.15	-0.80	92.07	-0.60		
3.5% Rdam barges (\$/mt)	443.98	-0.67	445.50	-3.50	449.00	-3.25	455.75	-2.50		
1% Fuel Oil FOB (\$/mt)	468.80	-0.46	478.25	-3.75	479.25	-3.25	491.25	-2.00		
Sing FO 380 Cargo (\$/mt)	465.75	-3.75	468.75	-3.75	471.75	-3.50	474.00	0.00		
Sing FO180 Cargo (\$/mt)	470.59	-0.59	472.75	-4.00	476.00	-3.75	482.75	-3.25		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	73.00	-0.25	76.00	-0.50	79.20	0.05	85.60	0.15	96.60	0.25
API4 (FOB RBCT)	81.25	1.25	82.00	0.95	83.45	0.60	85.85	0.65	93.00	0.40

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.25500	0.25167	0.26667	0.33333	0.53833
Silver	0.54667	0.55000	0.56000	0.57667	0.61000
USD Libor	0.24863	0.26638	0.29088	0.44188	0.91469

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	50.11	1,104.85	1,111.85	1,119.77	1,054.32	1,088	1,109
Silver	54.44	17.07	17.15	17.26	16.36	16.60	17.50
Platinum	59.37	1,611.69	1,608.27	1,521.24	1,392.73	1,580.00	1,640.00
Palladium	59.21	464.57	466.22	416.71	352.34	455.00	470.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'10	Mar'10	Mar'10	Apr'10	Feb'10	Dec'10	Feb'10
Settlement	1,110.00	17.5100	478.05	1,626.10	1,110.40	3,330.00	1,110.50
Open Interest	469,841	115,199	22,829	37,785	72	104,153	3,250
Change in Open Interest	18,548	-2,861	665	38	302	3,703	8

Date: 30 March 2010

Sources: Standard Bank; LME; Bloomberg

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