

# FICC Research

## Commodities: Daily

### Focus: Thermal coal price support remains in place



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**Focus:** Thermal coal prices continue to rise. Richards Bay coal price (API4 FOB) for delivery in October reached \$90.25/mt yesterday. Front-month coal for delivery into ARA (API2) touched \$98.90/mt.

- After a poor start to the week, the base metals rallied strongly during Monday afternoon, ignoring worse than expected US economic data and instead climbing on the back of a weaker dollar. The base metals have continued to look towards the dollar for direction this morning, trading sideways to lower heading into the afternoon
- Along with most other commodity markets, movements in precious metal prices remain dominated by the dollar. After starting yesterday on the back foot, renewed dollar weakness saw precious metals regain lost ground on investor demand. Physical demand once again all but evaporated as prices rose.
- In the crude oil market underlying demand fundamentals remain weak, with inventory levels high. Yesterday's weak US industrial production figures disappointment on the downside and is another indication that demand for especially middle-distillates in the US may remain weak and inventories high for months to come.

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

Base metals LME 3-month									
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,375	2,411	2,431	2,407	35	1.52%	2,348.50	-20	-35.25
Copper	8,352	8,444	8,492	8,421	43	1.10%	8,340.50	-22	-16.62
Lead	2,400	2,440	2,468	2,445	-25	1.65%	2,373.00	-4	-26.50
Nickel	23,675	23,810	24,100	23,840	-225	0.57%	23,670.00	-580	-59.00
Tin	26,150	26,650	26,850	26,550	-100	1.91%	26,540.00	-315	30.00
Zinc	2,398	2,430	2,458	2,420	1	1.33%	2,365.50	-15	-29.50
Energy									
	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	84.36	83.91	84.45	83.58	-0.46	-0.55%			
NYMEX WTI	82.95	82.82	83.20	82.49	-0.26	-0.31%			
ICE Gasoil	718.50	715.50	719.50	713.25	0.25	0.03%			
API2 Q4'10	99.40	100.30	-	-	0.90	0.90%			
EUA Dec10	15.49	15.33	-	-	-0.16	-1.03%			
Precious metals									
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs		
Gold	1,359.75	1,367.25	1,372.70	1,356.50	1,371.50	0.50	0.4/0.8		
Silver	-	24.37	24.45	23.74	24.38	0.12	-1.0/1.0		
Platinum	1,677.00	1,686.00	1,693.00	1,680.00	1,692.00	2.00	3.5/5.5		
Palladium	574.00	582.00	589.50	574.00	587.00	-1.00	1.0/3.0		

Sources: Standard Bank; LME; BBG

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**Focus: Thermal coal price support remains in place**

Thermal coal prices continue to rise. Richards Bay coal price (API4 FOB) for delivery in October reached \$90.25/mt yesterday. Front-month coal for delivery into ARA (API2) touched \$98.90/mt.

Thermal coal prices are finding support from different sources. *Firstly*, relative pricing in the energy complex remains important and, as crude oil and crude oil products rise, so should natural gas and thermal coal prices. Should the pricing disparity between different sources of energy become too great on a BTU/\$ basis, potential substitution becomes possible for certain energy sources. As a result, a positive correlation exists between energy sources (Figure 1). With crude oil trading above \$80/bbl, thermal coal is

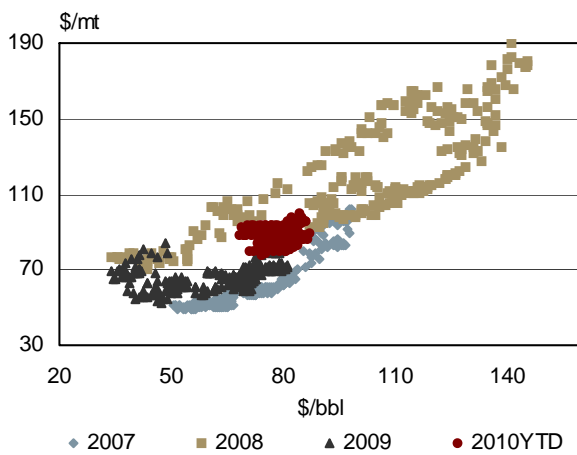
also pushing higher.

*Secondly*, like many base metals, thermal coal has great exposure to EM — China specifically. China consumes 43% of global thermal coal, and EM markets as a whole almost 2/3 of thermal coal. We have seen electricity generating capacity grow fast in places such as China, where thermal coal is the major feedstock for power stations (Figure 2).

We remain constructive on thermal coal prices as EM energy demand continues to grow into 2011. We expect API4 front-month to average \$95 in 2011 and possibly trade towards \$100 in Q2/Q3 2010.

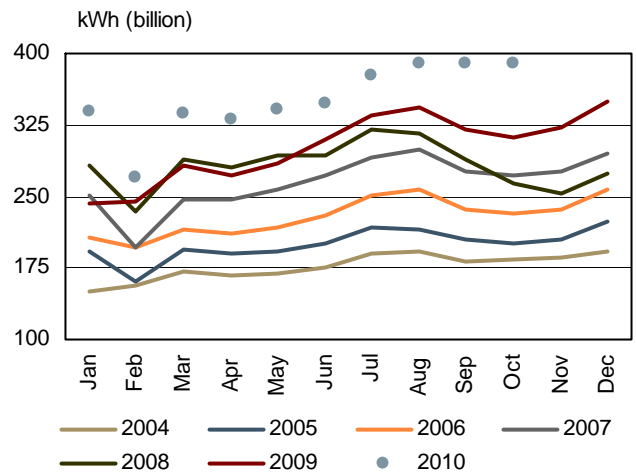
**By Walter de Wet**

**Figure 1: API4 Q4 vs. WTI front month**



Sources: Standard Bank; Tullett Prebon

**Figure 2: China electricity production**



Sources: CEIN; Standard Bank

**Base metals**

After a poor start to the week, the base metals rallied strongly during Monday afternoon, ignoring worse than expected US economic data and instead climbing on the back of a weaker dollar. The base metals have continued to look towards the dollar for direction this morning, trading sideways to lower heading into the afternoon. Turnover remains subdued across the complex however, with only copper seeing any signs of life in turns of volumes.

The market seems to be increasingly focused on the next FOMC meeting on November 3rd, and clarity on what is likely to be the next round of quantitative easing. As a consequence, and for the moment at least, the metals have essentially turned into a dollar play.

That said, it is also worth noting that the past few months have generally seen metal prices end the month strongly, likely in anticipation of fresh fund money at the beginning of the month. With QE2 another factor impacting on sentiment, that pattern may well be repeated towards the end of October too.

Chinese power curbs have resulted in further cutbacks at metal production facilities, the latest being Jiaozuo Wanfang Aluminium which is cutting its annual capacity by 140 ktpy, effective immediately. The company's full capacity prior to the curbs was 420 ktpy, suggesting its new maximum capacity is 280 ktpy.

In other news, and after slamming into the northern Philippines, Typhoon Megi is now heading towards the southern Chinese coast. The provinces currently in the storm's line of fire are Guangxi, the island of Hainan, Hong Kong and its surrounding province of Guangdong. Aside from the likely disruption to ports along the southern coast - important in terms of scrap supplies and flows - other areas potentially impacted by the storm include aluminium fabricators, mainly in Guangdong and some tin production in Guangxi.

**By Leon Westgate**

## Precious metals

Along with most other commodity markets, movements in precious metal prices remain dominated by the dollar. After starting yesterday on the back foot, renewed dollar weakness saw precious metals regain lost ground on investor demand. Physical demand once again all but evaporated as prices rose.

Today, comments by the US Treasury Secretary have lent the dollar some support, prompting a slight pullback across the precious metals complex. Treasury Secretary Geithner committed to working “very hard” in order to ensure that “confidence in a strong dollar” is preserved. Unlike yesterday, the dip in prices, has failed to attract significant physical buying in gold and silver.

The dollar’s gains are expected to be temporary, as the markets once again focus on further quantitative easing by the Fed. As such, we expect to see investor demand return to gold and silver markets.

Gold support is at \$1,356 and \$1,343. Resistance is at \$1,378 and \$1,388. Silver support is at \$23.88 and \$23.41, resistance is at \$24.65 and \$24.97.

As investors try to determine the possible quantity of the Fed’s monetary easing, today’s US housing starts and consumer confidence data could prompt some price action. Disappointing numbers might raise investors’ expectations of further accommodation and consequently send precious metal prices higher.

Platinum support is at \$1,677 and \$1,659, resistance at \$1,706 and \$1,717. Palladium support is at \$571 and resistance at \$597.

**By Marc Ground**

## Energy

WTI front-month prices continue to fluctuate between \$80 and \$84. We expect crude prices to remain largely range-bound with selling into rallies above \$84 until the FOMC meeting on 3 Nov’10. Within this trading-range we expect volatility. We find it’s the speed of FX moves rather than the actual level of FX which influence commodity prices. The possibility of sharp FX moves remains great until the first week of November.

On the back of the possibility of renewed quantitative easing, potential inflation concerns and how it may affect commodity prices are at the forefront again. In the current environment we believe it’s not inflation that will drive commodity prices higher but rather liquidity. We’ve seen over the past decade that inflation and liquidity is not necessarily the same thing. Will more QE result in much higher inflation? It’s possible but not our base case scenario (at least not in 2011). We look for liquidity to support prices, not inflation. Empirically we find that precious metals (gold in particular) benefit the most from liquidity, followed by crude oil and then base metals.

In the crude oil market underlying demand fundamentals remain weak, with inventory levels high. Yesterday’s weak US industrial production figures disappointment on the downside and is another indication that demand for especially middle-distillates in the US may remain weak and inventories high for months to come.

WTI front-month prices support is at \$81.20 and \$79.30. Resistance is at \$84.10 and \$85.20.

**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	4,312,375	4,313,975	4,025	5,625	-1,600	-316,525	209,550	4.86	212,000
Copper	370,450	371,025	300	875	-575	-131,875	22,700	6.13	129,801
Lead	197,625	197,700	175	250	-75	51,125	6,525	3.30	32,698
Nickel	123,822	124,056	60	294	-234	-34,188	4,056	3.28	23,059
Tin	12,525	12,525	35	35	-	-14,240	280	2.24	4,892
Zinc	607,325	608,250	-	925	-925	119,275	39,375	6.48	79,792

### Shanghai 3-month forward prices

### COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	16,520	16,540	90	Ali Dec'10	-	-	-	-
Copper	63,900	63,750	490	Cu Dec'10	386	385.35	-0.15	-0.04%
Zinc	19,520	19,580	190					

### ZAR metal prices (18 October 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,193	57,508	16,362	163,205	182,993	16,310	6.8950
3-month	16,858	59,038	17,061	166,482	186,339	16,991	6.9921

## 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)	93.31	0.12	94.34	0.62	94.78	0.68	95.94	0.37	-	-
Gasoil 0.1% Rdam (\$/mt)	715.50	0.25	716.75	0.25	720.00	0.50	724.75	-1.00		
NWE CIF jet (\$/mt)	764.02	1.78	767.55	3.60	770.09	3.08	778.72	-4.50		
Singapore Kero (\$/bbl)	94.81	0.10	95.54	0.72	95.98	0.78	97.14	0.42		
3.5% Rdam barges (\$/mt)	455.49	1.79	457.00	4.75	459.25	2.50	468.44	6.47		
1% Fuel Oil FOB (\$/mt)	470.17	-0.16	477.50	3.00	482.50	3.00	495.19	5.22		
Sing FO 380 Cargo (\$/mt)	100.15	-	100.15	-	100.15	-	100.15	-		
Sing FO180 Cargo (\$/mt)	475.45	1.01	480.50	3.50	484.25	3.25	493.19	6.72		
Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	100.30	0.90	101.30	1.25	102.10	1.35	102.70	1.35	108.60	1.45
API4 (FOB RBCT)	93.10	0.90	96.70	1.35	97.70	1.65	98.20	1.55	102.60	1.35

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.34667	0.35333	0.38333	0.44167	0.49000		
Silver	0.48000	0.49333	0.50167	0.53500	0.55833		
USD Libor	0.25625	0.27172	0.28906	0.45250	0.76550		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	69.96	1,359.27	1,333.45	1,245.20	1,191.99	1,356.00	1,378.00
Silver	73.43	23.72	22.73	19.45	18.44	23.88	24.65
Platinum	61.32	1,699.53	1,676.55	1,573.05	1,592.61	1,677.00	1,706.00
Palladium	61.55	589.37	575.83	500.31	486.99	571.00	597.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'10	Dec'10	Jan'11	Jan'11	Dec'10	Aug'11	Dec'10
Settlement	1,368.20	24.3050	586.50	1,698.30	1,368.60	3,585.00	1,368.30
Open Interest	636,359	152,268	24,798	38,988	2,144	101,007	2,296
Change in Open Interest	1,924	1,389	55	63	-	2,061	-11

Date: 18 October 2010

Sources: Standard Bank; LME; Bloomberg

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