

Commodities

Commodities: Daily



Focus: PGM still in favour

18 February 2013

Focus: Interest in palladium and palladium is still remains fairly robust. [Refer to page 2.](#)

- The return of the Chinese from the week-long Lunar New Year holiday has seen a bout of price weakness across the complex. Copper turnover is understandably much stronger than during the Chinese holiday period, though both aluminium and zinc turnover is struggling, compared to last week's activity. With the US out today for the President's Day holiday, the markets will only really start to get back to normal from tomorrow.
- Gold had a torrid time last week, closing Friday at \$1,610/oz, down \$57/oz for the week. Much of this was owing to a market anxious about the lack of support from Asia due to the Lunar New Year celebrations. This morning though, we have already seen some upside as Asian participants return.
- A rosier demand outlook has kept interest in oil markets alive. Strong crude oil imports from China and last week's demand outlooks from EIA and OPEC have lent support to the view of a tightening market. Coupled with the inability of increasing US supply to gain access to the global oil market, we would concur that prices could remain relatively sticky.
- Physical and forward steel prices moved in opposite directions today in China. Shanghai Rebar Futures have fallen by huge c.\$16/t (2.4%) in the most actively traded May front end month.

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Commodity price data (15 February 2013)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,157	2,168	2,174	2,149	11	0.51%	2,123.00	8	-40.75
Copper	8,236	8,206	8,266	8,200	-30	-0.36%	8,198.50	2	-34.00
Lead	2,418	2,435	2,449	2,402	17	0.70%	2,404.00	3	-14.25
Nickel	18,285	18,380	18,383	18,175	95	0.52%	18,250.00	-40	-68.00
Tin	24,801	24,800	24,900	24,800	-1	0.00%	24,925.00	145	-34.00
Zinc	2,186	2,175	2,210	2,167	-11	-0.50%	2,168.00	3	-28.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	117.81	117.80	118.19	117.74	0.14	0.12%
NYMEX WTI	95.97	95.61	95.97	95.45	-0.25	-0.26%
ICE Gasoil	1,010.00	1,011.50	1,012.50	1,010.00	8.50	0.84%
API2 Q1'13	89.40	89.10	-	-	-0.30	-0.34%

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,629.25	1,612.25	1,635.50	1,598.00	1,609.30	-25.70	-0.4/+0.0
Silver	-	30.03	30.47	29.77	29.85	-0.49	-3.0/-1.0
Platinum	1,693.00	1,676.00	1,713.00	1,692.50	1,676.00	-48.00	+1.5/+3.5
Palladium	761.00	754.00	763.50	762.50	754.00	-16.00	+0.0/+1.0

Sources: Standard Bank; LME; BBG

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

Focus: PGM still in favour

For a sixth consecutive week, **net speculative length for NYMEX platinum was added to**, although enthusiasm is definitely fading—only 27.5k oz were added this past week, considerably less than the 153.3k oz average added in the preceding five weeks. This fatigue is understandable, given the absence of any significant developments in the South African mining debacle, which has served as the primary catalyst for interest in the metal of late.

Speculative longs increased by a paltry 7.8k oz. However, although the market seems to be questioning the value of adding length, on the bright side, some participants are also questioning being short. Ending three weeks of increase, 19.8k oz of speculative shorts were unwound.

An increase in open interest outpaced the mild increase in net speculative length, allowing the ratio of the two to ease to 60.3% (from 62.0%). This is still well above the 5-year average (51.1%), a clear indication of an **overstretched market vulnerable to correction**.

ETFs appeared to be growing wary of platinum, selling some of their holdings (13.1k oz) for the first time in four weeks, after they had reached a record high of 1,664.4k oz the previous week.

Although the increase in net speculative length for NYMEX palladium did slow down, it was not to the same extent as for platinum. In fact, with 80.0k oz added, **interest in palladium remains fairly robust**. After being briefly unseated the previous week, palladium has reclaimed its crown as the most favoured of the precious metals.

Unlike the preceding weeks, this week's net increase was driven by a strong unwinding of shorts (50.k oz) rather than a desire to add length (only 29.8k oz were added to long positions). This fall in shorts has more than undone the increase seen in the previous week, although at 349.4k oz, total shorts are still a little elevated.

However, total longs are more than twice their 5-year average leaving net speculative length as a percentage of open interest at 53.9% (marginally down from 55.3%), well above the 5-year

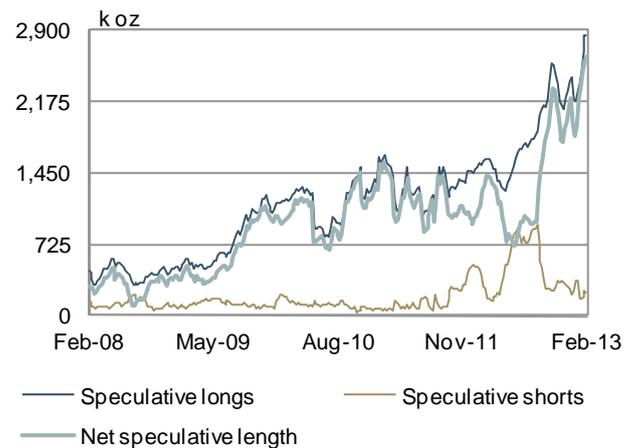
Base metals

The return of the Chinese from the week-long Lunar New Year holiday has seen a shrug of the shoulders and a bout of price weakness across the complex. Copper turnover is understandably much stronger than during the Chinese holiday period, though both aluminium and zinc turnover is struggling, compared to last week's activity. With the US out today for the President's Day holiday, the markets will only really start to get back to normal from tomorrow.

Chinese retail sales data over the holiday period was rather disappointing, triggering some weakness on the Shanghai Composite Index. The Ministry of Commerce data showed the weakest sales growth (albeit still 14.7%) during the holiday period, since the comparable week in 2009 which saw 13.8% growth.

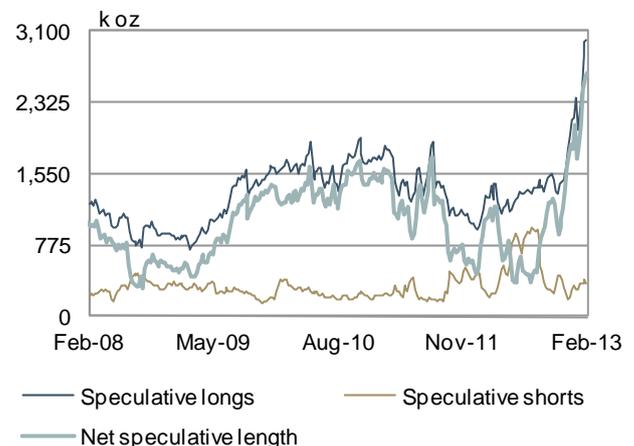
Copper saw long liquidation activity on the SHFE this morning, with open interest falling around 4% amid a 0.9% fall in the price for the 3-month SHFE contract. The price weakness was also reflected in the LME, with copper falling back towards \$8,130 heading into the afternoon, after opening the day some \$120 higher at \$8,249.50. The market usually starts slowly,

Figure 1: NYMEX platinum speculative longs and shorts



Sources: NYMEX; Standard Bank Research

Figure 2: NYMEX palladium speculative longs and shorts



Sources: NYMEX; Standard Bank Research

average of 47.7%. Clearly, the market is still looking overstretched.

Among ETFs, palladium also appeared to remain in favour. They added 21.5k oz to their holdings, up from the 19.5k oz added previously.

By Marc Ground

Base metals (continued)

after the Chinese New Year, with the US holiday today affectively putting the ball immediately back in the Chinese court in terms of initiative. It may therefore take another day or so for the market to have a proper shake out and start firing again. Volumes have nevertheless been much stronger however, on the back of increased Chinese activity, with LME Select turnover by midday well on the way to exceeding the average daily level seen during last week of 8,815 lots/day. LME inventories meanwhile climbed further this morning with a 3,650 mt in on-warrant stocks split between New Orleans (+2,525 mt) and Antwerp (+1,450 mt). In light of the Antwerp activity, it's worth noting that Metal Bulletin have reported that warehouse companies in Antwerp are offering incentives of \$100/mt to attract copper on to warrant there.

Aluminium has fallen back towards \$2,140 this morning, with the metal's recent upwards momentum appearing to fade. Lead and nickel prices are also weaker this morning and are tending to track copper heading into the afternoon. Zinc meanwhile has traded sideways after a weak start but is finding support around \$2,160. Worth noting data-wise is that the latest numbers from the ILZSG put Chinese refined zinc production in 2012 at 4.83 Mt, from 5.22 Mt in 2011, the first annual decline in refined output since 1983. Improved domestic prices and higher TC's have emerged recently however, and are likely behind reports of increased Chinese capacity utilization rates in the past couple of months. What will be interesting is whether this can be sustained as we head into 2013.

By Leon Westgate

Precious metals

Gold had a torrid time last week, closing Friday at \$1,610/oz, down \$57/oz for the week. Much of this was owing to a market anxious about the lack of support from Asia due to the Lunar New Year celebrations. This concern was understandable since, as we have said before, a key point of support for the gold price in previous weeks has been unusually strong physical demand, mostly out of Asia. With this support absent, downside for gold was been opened up. However, we do foresee a recovery and maintain our preference for a strategic long position in gold, targeting an average price of \$1,720 this year. This morning though, we have already seen some upside as Asian participants return.

Looking at the latest CFTC data (covering the week ended 12 February), the confidence displayed in the previous week (43.2 tonnes was added to net speculative length for COMEX gold) evaporated this past week, with a 51.2 tonne fall in net speculative length. This highlights the markets concern that downside would be opened up in the absence of Asian players that were celebrating Lunar New Year. Driving this point home was the decidedly bearish nature of the underlying moves. A massive 50.0 tonnes was added to speculative shorts—just shy of the 5-year record of 51.3 tonnes. Clearly, the market was positioning itself for weakness. After all the talk of large players divesting from gold last week, the drop in ETF holdings was not particularly dramatic—13.2 tonnes were liquidated, equating to 0.5% of total holdings.

Concerns over gold's prospects were echoed in the silver market, with net speculative length for COMEX silver slipping 664.4 tonnes—the hardest fall since December last year. Bearish underlying moves were also a feature of this net liquidation, although participants were not reluctant to unwind long positions in silver (379.5 tonnes were lost). This marks a second week of hefty declines in speculative longs. Speculative shorts grew by 284.8 tonnes—the largest addition since July last year. For a second week, the underlying moves show a market particularly keen to get out of silver. ETFs, however, remained resolute buyers of silver, adding a strong 127.9 tonnes to their holdings this past week, building on the 48.5 tonnes added the previous week.

By Marc Ground

Energy

A rosier demand outlook has kept interest in oil markets alive. Strong crude oil imports from China and last week's demand outlooks from EIA and OPEC have lent support to the view of a tightening market. Coupled with the inability of increasing US supply to gain access to the global oil market, we would concur that prices could remain relatively sticky.

However, with a significant geo-political risk premium currently priced in, we feel that some downside is warranted, unless there is a significant escalation in MENA tensions.

According to the latest CFTC data (covering the week ended 12 February), the futures market (NYMEX WTI) saw 5.8m bbls in net speculative length added, which was not a particularly strong increase but nevertheless a marked turnaround from the 0.5m bbls liquidated the previous week. 7.1m bbls were added to speculative longs. Disconcertingly, we saw another addition to speculative shorts, of 1.3m bbls this time—some participants appear to be growing uneasy.

By Marc Ground

Bulks

Physical and forward steel prices moved in opposite directions today in China. Shanghai Rebar Futures have fallen by huge c.\$16/t (2.4%) in the most actively traded May front end month. We are not surprised by this move, given that financial market momentum in Shanghai pre-holidays had carried futures to as much as a RMB180/t premium above physical rebar spot prices and looked ripe for retracement.

Physical rebar prices in Shanghai on the other hand have risen by RMB60/t over the weekend in catch-up, with further strong restocking required in our view, ahead of the peak March construction season. As a result, the gap between physical and financial rebar has narrowed to RMB 42/t (\$7/t). Tangshan billet rose RMB20/t today. Liquidity is likely to improve over the next week, as more steel industry participants return from family holidays in the countryside.

IO swaps experienced early falls of up to \$5/t, pushed lower by Chinese profit-taking, on the back of falling Shanghai Rebar Futures trading. However, sense returned to the front-end over the course of the day, particularly following stronger physical tender results by Rio Tinto. RioTinto has concluded a Fe 61.5% PB fines cargo at \$160.66/t, the first on-spec physical bell-weather to trade, strongly above the TSI Fe 62% close of \$155.10/t across last week, as margins improve for steel-makers from rising end-product pricing over the weekend. RioTinto had sold a Fe 64.5% Palabora concentrate cargo at \$156.66/t earlier in the day, a surprisingly low price relative to the later PB fines and considering a squeeze on domestic concentrate availability due to winter.

We still believe risk remains across the IO swaps curve, beyond March (where Pilbara cyclones still risk supplies), particularly driven by uncertainties surrounding the 2013/14 Indian Budget results, which are set to be brought down on 28 February. The Indian Mines Ministry has been lobbying the government to reduce Indian iron ore export taxes by 50%, as well as ore railway charges from Odisha, in order to raise the prospects for iron ore export revenue generation. We estimate that Odisha's exports could jump by 20mtpa if taxes are reduced, even with local restrictions on the levels of annual low grade ore exports. Although steel mills like to tout a lack of domestic Indian ore, this is actually not the case – India has some of the best and largest reserves in the world. However, the mills' "India has no Ore" stance helps them in the war against miners on trying to lower ore input prices or decouple them from seaborne price levels to improve their margins.

TSI 62% Fe China CFR index prices went through at \$157.20/t (MTD \$154.94/t), up \$2.10/t (1.4%) on the day. Meanwhile Platts Fe 62% traded up \$2.75/t at \$158/t, while the TSI Fe 58% index price went through at \$143/t, unchanged (MTD: \$142/80/t). Metal Bulletin Fe 62% closed At the time of writing, IO swaps were trading flat to 50 cents lower at the front end, with other series trading nervously on wide spread quotes, following the day's earlier volatility.

News of note to drive financial markets in China today included the fact that 1) retail sales were considered "weak" over Chinese New Year, up only 14.7% YoY, the slowest pace since 2010, (note: electronics sales were up +38.1%) ... and still vastly better than the UK, where sales continue to contract and many popular retail chains close down; and 2) fuel prices in China look set to rise by RMB 350-400/t. Property sales so far in February also appear to have been significantly weaker than in January. However, much of this would be down to holiday season disruptions.

While Chinese steel prices are rising, we are witnessing continuous falls for Atlantic steel prices. Nucor is lowering longs prices in the US by \$50/t. Meanwhile, apparent steel consumption in the EU continues to trend lower.

By Melinda Moore

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	5,145,150	5,147,800	7,500	10,150	-2,650	-64,900	1,985,125	38.58	338,047
Copper	401,675	399,125	3,075	525	2,550	81,625	30,350	7.56	97,012
Lead	287,150	287,075	375	300	75	-33,175	151,800	52.86	37,501
Nickel	153,480	153,720	0	240	-240	13,572	25,056	16.33	45,227
Tin	13,375	13,350	25	0	25	550	2,265	16.93	6,682
Zinc	1,193,550	1,188,100	7,925	2,475	5,450	-27,200	647,150	54.22	84,583

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	15,130	15,050	-50	Ali Mar'13	-	-	-	-
Copper	59,400	58,890	-620	Cu Mar'13	375	372.85	-2.50	-0.67%
Zinc	15,800	15,680	-135					

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	18,714	72,270	21,191	160,874	219,714	19,111	8.8150
3-month	19,332	73,173	21,713	163,894	221,142	19,394	8.9170

Energy

Energy futures pricing	Price	Change	Price	Change	Price	Change	Price	Change	Price	Change
	1 month		2 month		3 month		6 month		1 year	
Sing Gasoil (\$/bbl)	133.84	-0.49	133.59	-1.08	133.07	-1.18	130.46	-1.16	128.36	0.04
Gasoil 0.1% Rdam (\$/mt)	1,011.50	8.50	1,005.00	8.50	997.50	9.00	981.00	7.50	949.75	-7.75
NWE CIF jet (\$/mt)	1,091.87	-3.30	1,085.44	-6.21	1,078.95	-6.62	1,056.30	-7.17	-	-
Singapore Kero (\$/bbl)	135.16	-0.54	133.87	-1.18	132.79	-1.26	130.37	-1.25	127.55	-1.08
3.5% Rdam barges (\$/mt)	635.09	-5.15	632.25	-8.75	631.25	-8.25	628.00	-7.50	619.50	-7.25
1% Fuel Oil FOB (\$/mt)	679.16	-5.40	678.75	-6.50	676.00	-7.00	671.50	-7.50	-	-
Sing FO180 Cargo (\$/mt)	659.53	-2.45	659.25	-9.75	660.75	-9.25	659.75	-8.00	-	-
Thermal coal	Q2-13		Q3-13		Q4-13		Cal 13		Cal 14	
API2 (CIF ARA)	89.10	-0.30	91.10	-0.30	93.45	-0.35	98.50	-0.35	105.00	-0.40
API4 (FOB RBCT)	87.15	-0.45	88.90	-0.35	90.80	-0.35	95.35	-0.35	100.75	-0.45

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.18333	0.20500	0.23833	0.31833	0.38000		
Silver	0.62000	0.61600	0.61800	0.61200	0.56800		
USD Libor	0.20220	0.24650	0.29010	0.46340	0.76000		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	38.07	1,649.00	1,659.82	1,698.71	1,665.45	1,594	1,639
Silver	42.46	30.96	31.32	32.05	30.71	29.66	30.47
Platinum	55.50	1,709.28	1,697.05	1,621.59	1,550.64	1,668	1,713
Palladium	61.27	761.70	751.84	679.57	645.27	748	764
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Apr'13	Mar'13	Apr'13	Apr'13	Mar'13	Dec'13	Apr'13
Settlement	1,614.10	30.0000	760.10	1,677.70	1,614.30	4,899.00	1,609.40
Open Interest	444,559	154,364	38,076	72,959	3,829	130,096	701
Change in Open Interest	-1,715	1,417	-222	160	843	0	0

Sources: Standard Bank; LME; Bloomberg

Bulks

Steel—Physical	Latest Price	Percentage change					
		1-day	1-week	1-month	3-month	6-month	1-year
Turkish Scrap 80:20 (Iskenderun CFR) \$/t	380.00	-	-0.73%	-5.53%	-4.27%	-6.90%	-
China Tangshan Steel Billet \$/t	529.00	-	0.00%	0.76%	5.38%	5.80%	-11.24%
China HRC export (Shanghai FOB) \$/t	603.00	-	0.67%	3.97%	9.44%	9.04%	-3.05%
North Europe HRC domestic (ex-works) \$/t	485.00	-	-1.52%	-0.51%	10.23%	-3.00%	-
North America HRC domestic (Midwest FOB) \$/t	621.20	-	0.13%	-1.49%	2.58%	-3.39%	-15.02%
Steel—Futures							
LME Billet Cash \$/t	281.75	-	0.54%	-4.49%	-9.04%	-22.70%	-41.24%
LME Billet Futures (1-mth) \$/t	282.00	-	-0.27%	-8.14%	-8.96%	-23.94%	-42.12%
LME Steel Billet Stocks—change	-	-	-	-	-	-	-
Shanghai Rebar Futures (Active contract) \$/t	626.13	0.28%	0.28%	1.80%	4.94%	9.56%	-8.14%
Shanghai Rebar Futures On-Warrant Stocks—change	-	-	-	-	-	-	-
SHFE Rebar - Open Interest -	4,002	-	-	-	-	-	-
SHFE Rebar - Total Volume	204	-	-	-	-	-	-
China Steel Inventory (million tonnes)	14.48	-	-	8.66%	17.21%	-5.45%	-23.28%
Iron ore							
China Iron Ore Fines (62% Fe; CFR Tianjin) \$/t	155.10	-	-	6.89%	26.30%	41.90%	14.80%
China Iron Ore Fines (58% Fe; CFR Tianjin) \$/t	143.00	-	-	4.69%	28.14%	41.16%	12.16%
SGX AsiaClear IO Swaps 62% Fe \$/t (1-mth)	156.50	-	-0.95%	4.86%	30.00%	43.14%	12.79%
SGX AsiaClear IO Swaps 62% Fe—Open interest	19,167	-	-	-	-	-	-
China Iron Ore Inventory (10,000 tonnes)	66.89	-	-	-4.05%	-19.48%	-30.90%	-32.19%
Coking coal							
Premium Hard Coking Coal (Qld FOB) \$/t	171.00	-	-	4.27%	7.55%	-5.00%	-18.57%
Capesize freight							
Tubarao Brazil-Beilun China (C3)	18.17	-	1.17%	-6.29%	-19.32%	5.52%	-7.53%
Pilbara Australia-Qingdao China (C5)	7.51	-	2.46%	2.60%	-19.42%	14.31%	-1.31%
Saldanha South Africa-Beilun China	13.20	-	-	1.54%	-21.19%	5.60%	-5.71%
Tubarao Brazil to Rotterdam Europe	8.18	-	-2.04%	-8.60%	-27.55%	21.55%	-5.65%
Saldanha South Africa-Rotterdam Europe	10.10	-	-	-	1.51%	69.75%	14.77%
Financials pricing							
RMB Currency	6.2415	0.07%	0.15%	0.38%	0.11%	-1.85%	-0.96%
China 7-day repo	2.9200	-18.41%	-18.41%	6.57%	-8.75%	-18.89%	-50.77%
Shanghai Equities Composite	2,433.40	0.04%	0.04%	5.02%	20.65%	15.49%	2.95%

Sources: Standard Bank; LME; Bloomberg

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