

# Commodities

## Commodities: Daily



South African supply concerns could resurface

14 May 2013

### Focus: Focus: Lead tightness - the next episode?

Over the past couple of years, lead has seen episodes of sometimes quite pronounced tightness emerge in the nearby spreads. The nearby portion of lead's forward curve has started to tighten once again, with some stress also appearing in Tom/Next in recent days with the spread trading out to a \$7 backwardation this morning.

- Platinum and palladium rallied on the back of reports that Lonmin workers have refused to go underground for their shift following a shooting of an AMCU union representative. Platinum reached \$1,508 and palladium \$724. However, both have given up these gains and are currently around \$1,490 and \$710 respectively.
- Base metals have come back under pressure heading into Tuesday afternoon, under a little pressure from a weaker Euro but also some concerns over Chinese power consumption figures and the state of the global economy more generally.
- In iron ore news, RioT is being forced to backpay ore mining royalties by the NSW Supreme Court to Gina Rinehart & Wright Prospecting under a 1970 agreement to pay 2.5% from sales of ore from Channar and Eastern Ridge. Arcelor Mittal Canada is planning to ramp up its Mt Wright concentrate expansion by the end of June, beginning to add +8mtpa (\$2.1bn cost) to take capacity to 24mtpa. Aurizon is talking to FMG about taking a stake in its Pilbara rail way line.

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### Commodity price data (10 May 2013)

#### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	1,875	1,867	1,882	1,850	-8	-0.43%	1,848.00	-17	-27.83
Copper	7,412	7,415	7,444	7,350	3	0.04%	7,390.50	80	-21.00
Lead	2,002	2,008	2,017	1,994	6	0.30%	1,983.50	-29	-19.65
Nickel	15,440	15,280	15,510	15,275	-160	-1.04%	15,325.00	-10	-72.00
Tin	20,896	20,900	21,075	20,850	4	0.02%	20,775.00	125	-55.00
Zinc	1,867	1,863	1,878	1,850	-4	-0.23%	1,835.50	-12	-31.50

#### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	102.82	102.73	103.10	102.57	-0.09	-0.09%
NYMEX WTI	94.93	95.01	95.66	94.90	-0.16	-0.17%
ICE Gasoil	862.50	860.25	865.25	859.75	-0.50	-0.06%
API2 Q3'13	84.85	84.00	-	-	-0.85	-1.01%

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,449.25	1,426.50	1,436.90	1,429.50	1,435.80	-1.80	-1.2/-0.8
Silver	-	23.67	23.82	23.62	23.72	0.06	-5.0/-3.0
Platinum	1,502.00	1,490.00				-1,490.00	+1.5/+3.5
Palladium	704.00	702.00				-702.00	+0.0/+1.0

Sources: Standard Bank; LME; BBG

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**Focus: Lead tightness - the next episode?**

Over the past couple of years, lead has seen episodes of sometimes quite pronounced tightness emerge in the nearby spreads. The nearby portion of lead's forward curve has started to tighten once again, with some stress also appearing in Tom/Next in recent days with the spread trading out to a \$7 backwardation this morning.

The latest LME data shows a holder of Cash warrants in the 80-89% band, and the presence of a holder of warrants in the Tom category in the 30-39% band. This appears to explain the very nearby tightness, though whether the episode is fleeting, or has the potential to be more prolonged remains to be seen.

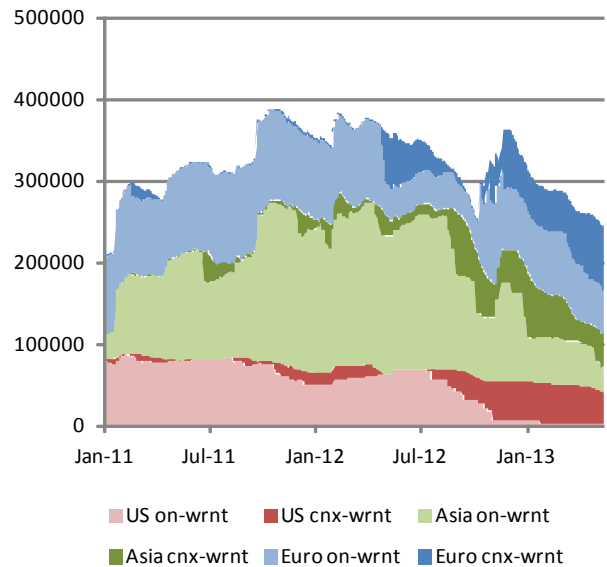
The most obvious change in the lead market has been the surge in cancelled warrants in recent weeks. Cancelled warrants now stand at 157,850 mt or some 64% of the total LME inventory. The bulk of those cancelled warrants are held in Detroit, Port Klang, Johor, Antwerp and Vlissingen. As for the recent cancellations however, it is interesting to note that that of the 22,125 mt increase since April, almost all have occurred in Johor and Vlissingen with negligible warrant cancellation activity at the other warehouse locations.

As far as the market's ability to absorb financed material is concerned, total lead inventory, measured as a percentage of market open interest, is well within recent levels (Fig. 2). This suggests that any tightness is more likely to be related to positioning issues rather than because of a structural imbalance between borrowers and potential lenders of the spreads, as is the case in aluminium at the moment.

Overall, market positioning is rather inconclusive. Open interest has fallen steadily since February, which, combined with weaker prices, suggests that long liquidation has been the overriding theme, albeit with the addition of new shorts perhaps also playing a minor role. Open interest is however clustered around the June and July prompt dates, suggesting that any protracted tightness may be focused on these dates as participants try to reposition themselves out of harm's way.

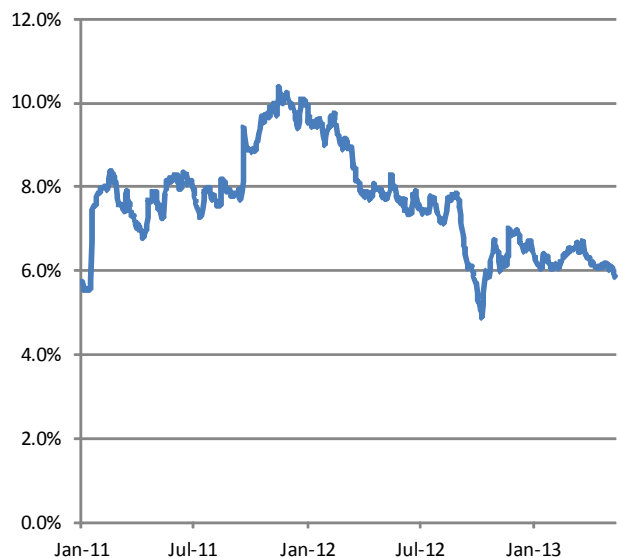
**By Leon Westgate**

**Figure 1: LME Lead warehouse inventory by region (mt)**



Sources: LME; Standard Bank

**Figure 2: LME Lead inventory as a percentage of open interest**



Sources: NYMEX; Standard Bank Research

**Base metals**

Base metals have come back under pressure heading into Tuesday afternoon, under a little pressure from a weaker Euro but also some concerns over Chinese power consumption figures and the state of the global economy more generally.

Copper has traded below \$7,250 heading into the afternoon amid steady selling pressure. Worth noting was a large jump in on-warrant stocks (+32,425 mt) vs. a modest increase in headline inventory (+12,000 mt). The main location for the activity was Johor where 18,225 mt of previously cancelled material was placed back on warrant (and back at the end of the exit queue), while the location also saw a fresh inflow of 7,175mt. Other notable inflows were seen in Antwerp (+6,100 mt) and New Orleans (+1,525 mt).

Elsewhere, Rio Tinto is reportedly looking to supplement its Kennecott Utah Copper smelter with 3rd party concentrates following the recent pit wall failure at the Bingham Canyon mine. Spot concentrate, perhaps facing competition from material displaced by Tuticorin smelter outage, may well find its way to Utah. The tonnages are likely to be relatively small however and only take the edge off what remains a significant disruption. Rio has warned that 100 kt of metal production will be lost this year owing to the landslide.

**By Leon Westgate**

## Precious metals

Platinum and palladium rallied on the back of reports that Lonmin workers have refused to go underground for their shift, following a shooting of an AMCU union representative. Platinum reached \$1,508 and palladium \$724. However, both have given up these gains and are currently around \$1,490 and \$710 respectively.

As always, there are no guarantees on how long the strike can continue, we do on balance expect the shifts to continue sooner rather than later. The dispute sits between the two unions, AMCU and NUM, and not necessarily with the company. Ultimately, the strike is illegal and chances seem good that they will embark on strikes in the upcoming wage negotiations, thereby impacting on wages. That said, the latest development confirms our view on platinum expressed in the Focus section in our *Commodities Daily* dated 10 May — we don't think the metal will sustain drops below \$1,450 for long periods of time and that metal should be bought on approach of that level rather than sold. We do note the ZAR has depreciated again towards \$9.20 and could depreciate further in the medium term. This could offset some of the production pressure on miners.

Gold is struggling at \$1,430 despite the continued strong physical demand. Dollar strength is weighing on the metal. Tomorrow sees US industrial production numbers. The market expects a -0.2% decline in April. Should this data surprise on the upside, gold could come under more pressure. Technically, gold looks vulnerable as long as it stays below \$1,450.

Gold support is at \$1,411 and \$1,400. Resistance is at \$1,455 and \$1,480. Silver support is at \$23.24 and \$22.86, resistance is at \$23.96 and \$24.30.

Platinum support is at \$1,466 and \$1,448. Resistance is at \$1,500 and \$1,526. Palladium support is at \$697 and resistance at \$713.

**By Walter de Wet**

## Bulks

A quiet day on the Chinese policy front, Shanghai Equities fell 1.11% to 2,217, partly impacted by government-related corruption scandals, with the sacking of a top NDRC official. Investors are assuming this may be the first of many dominoes in Beijing etc. to be culled under the new regime. Some of the NDRC's project approvals are speculated to also be potentially under review, with any fallout hitting government contract awards and project construction timings as well. On a more positive note, top four bank loan approvals appear to be accelerating in early May versus April. If the pace continues, this augurs well for a Q3 that doesn't sink into quite the same hole it has over the past 3 years, as investors have been expecting.

We also note that some economists are suggesting another stimulus package or rate cut may be in the offing. We strongly caution against such views and recommend that any rallies on the basis of such rumours should be viewed as SELL opportunities for iron ore, at least for the next 6 months. As we have highlighted time and time again, inflationary pressures remain front and centre in Beijing's mind. The economy is travelling along fine, in line with the government's original forecasts, with plans afoot to move the structure of Chinese business further towards market forces. Shanghai 7-day interbank rates dropped to a comfortable 2.79%, even after the PBOC sold RMB 52bln of 28-day repos today.

Shanghai Rebar Futures closed down RMB 21/t at RMB 3,654/t, largely profit-taking on a lack of news, after rallying from RMB 3,621 since last Thursday. Physical steels all traded flat today, with southern rains continuing to hamper construction projects.

Meanwhile, Tangshan government has ordered 199 industrial plants to close, most of which are steel and coke manufacturers. Although no blast furnaces are involved, certain sinter facilities without de-sulphurisation capabilities may be closed or will be forced to stop purchasing high sulphur ores. This could affect US (Sulphur: c.0.6%) and Iranian (c.0.8%) imported ore materials in particular, as well as Malaysian (c.1.2%) imports, since these compare with key Australian and Brazilian materials with sulphur closer to the 0.02-0.03% ranges.

Among physical sales today, trades were mixed, with tenders performing far better than exchange deals. RioT sold PB Fines Fe 61.4% cargo at \$130.30/dmt CFR China to a local Chinese trader, as well as Palabora concentrate Fe 64.5% cargo at \$132.01/t, both with late May-early June laycans. Meanwhile, BHPB sold a MAC fines Fe 61% cargo, together with a MAC lump Fe 62.5% cargo. RioT's trades were well above deals done on the physical exchanges, partly due to earlier laycans, including a Fe 62% cargo at \$127/t (June laycan) on globalIORE. Two BHPB Yandi Fe 57.7% cargoes were also sold on globalIORE, one at \$117/t; the other at \$116.50/t. As well, a Fe 62% fines cargo sold on CBMX at \$127/t for late May/early June loading.

The TSI Fe 62% China CFR price index fell \$1.30/t to \$128.10/t (MTD: \$129.20/t). The Platts Fe 62% fell \$1/t to \$129/t, while the TSI Fe 58% fell 90 cents to \$117.10/t (MTD: \$120/t). The Metal Bulletin Fe 62% rose 54 cents to \$129.64/t, while its Fe

58% price fell 52 cents to \$113.54/t.

In iron ore news, RioT is being forced to backpay ore mining royalties by the NSW Supreme Court to Gina Rinehart & Wright Prospecting under a 1970 agreement to pay 2.5% from sales of ore from Channar and Eastern Ridge. Arcelor Mittal Canada is planning to ramp up its Mt Wright concentrate expansion by the end of June, beginning to add +8mtpa (\$2.1bn cost) to take capacity to 24mtpa. Aurizon is talking to FMG about taking a stake in its Pilbara rail way line.

Chile CAP-CMP exported 1.44mt of ore during Q1:13, at an average price of \$139.80/t, falling partly due to a strike by Port workers in March. Meanwhile the company has delayed the start-up of its 4mtpa pellet feed Cerro Negro Norte Greenfield project from Oct'13 until Feb'14. Capex has escalated to \$960m, representing an expensive \$240/t, due to currency appreciation and the lack of local skilled labour. Meanwhile capex at its 2mtpa brownfield Los Colorados project expansion has increased to \$438m, with the project start date delayed until July'13. CAP's capacity will increase to 14mtpa as a result of the latter expansion and 18mtpa if the latter expansion comes on.

Meanwhile, Sable Mining is continuing to drill its Nimba deposit in Southern Guinea, 40km from Liberia's Port Buchanan, hoping to expand its JORC resource from 121.5mt, grading Fe 57.8. Unfortunately, until the Guinea government allows cross-border mineral exports, the project is unlikely to hold much strategic value.

Cape Lambert has been granted an environmental licence for its planned Marampa mine in Sierra Leone, allowing the company to apply for a mining licence over the next few months. The company also expects to agree a 2mtpa rail and Pepel port access rights with African Minerals shortly. Marampa has a JORC Resource of 680mt grading Fe 28.2%. AML has the option to buy 2mtpa mine gate for the first 3 years of Marampa's production life, under a binding Heads of Agreement, which is being revised to accommodate AML's shift away from building the Tagrin Port. Marampa still hopes to expand to 15mtpa via a trans-shipment operation although we remain confused how they would get it to market, without building new rail facilities or sharing in a build up-grade of AML's existing rail, should AML expand to 35mtpa.

For Q3:13 thermal coal prices, API 2 is trading at \$83.50/t; API 4 is trading at \$81.70/t; while Newcastle is trading at \$86.15/t, flat to slightly weaker on the day. The Hunter Valley system will close for 4 days maintenance until Saturday morning, while Transnet is undergoing rail maintenance into RBCT from today until 25 May. We don't expect either to have an impact on shipments or seaborne pricing however.

Coking coal spot prices are still struggling to find a floor, with Qld FOB prices in the \$143-146/t range. Vale is experiencing troubles in Mozambique with blockading brickmakers, who were relocating when the Moatize mine was originally being constructed. They are requesting greater levels of compensation.

**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	5,230,300	5,154,175	83,075	6,950	76,125	20,250	2,098,050	40.11	392,831
Copper	618,700	606,700	14,800	2,800	12,000	298,650	191,525	30.96	224,924
Lead	245,650	243,775	4,000	2,125	1,875	-74,675	157,850	64.26	42,143
Nickel	178,434	177,840	1,350	756	594	38,526	26,802	15.02	47,077
Tin	14,170	14,145	25	0	25	1,345	3,310	23.36	6,209
Zinc	1,033,375	1,038,200	0	4,825	-4,825	-187,375	615,100	59.52	108,512

### Shanghai 3-month forward prices

### COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	14,590	14,585	-15	Ali Jul'13	-	-	-	-
Copper	53,760	53,320	-220	Cu Jul'13	336	330.75	-5.20	-1.55%
Zinc	14,560	14,510	-40					

### ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,780	67,106	18,010	139,151	188,637	16,666	9.0800
3-month	17,158	68,144	18,454	140,423	192,071	17,121	9.1900

## 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)	115.26	-1.38	114.95	-2.32	114.77	-2.33	114.93	-2.36	117.39	0.53
Gasoil 0.1% Rdam (\$/mt)	861.00	9.25	864.00	9.00	867.00	8.50	872.50	8.00	858.75	-15.25
NWE CIF jet (\$/mt)	910.89	-13.57	916.49	-17.88	923.37	-16.92	934.20	-16.56	951.13	4.75
Singapore Kero (\$/bbl)	114.36	-1.63	114.43	-2.46	114.63	-2.46	115.29	-2.38	115.53	-2.15
3.5% Rdam barges (\$/mt)	587.86	-2.86	586.14	-3.87	583.95	-4.14	579.72	-3.62	573.02	-4.00
1% Fuel Oil FOB (\$/mt)	609.05	-2.52	615.01	-2.88	616.14	-3.20	611.60	-3.01		
Sing FO180 Cargo (\$/mt)	619.98	-4.05	615.95	-4.31	614.02	-4.32	610.62	-4.22		
Thermal coal	Q3-13		Q4-13		Q1-14		Cal 13		Cal 14	
API2 (CIF ARA)	84.00	-0.85	86.40	-0.90	88.65	-0.90	91.65	-0.85	98.00	-0.85
API4 (FOB RBCT)	82.30	-0.75	84.05	-0.85	86.15	-0.80	88.45	-0.85	93.80	-0.85

## Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.03833	0.05833	0.07167	0.13167	0.20500		
Silver	0.62000	0.61600	0.61800	0.61200	0.56800		
USD Libor	0.19920	0.23600	0.27510	0.42640	0.70110		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	39.46	1,460.71	1,441.16	1,585.58	1,648.17	1,427.63	1,445.13
Silver	36.63	23.92	23.75	28.47	30.40	23.57	23.78
Platinum	45.40	1,496.17	1,470.90	1,583.50	1,582.48	1,485.13	1,513.18
Palladium	48.33	697.02	687.25	726.72	684.43	717.22	725.62
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'13	Jul'13	Jul'13	Jul'13	Jun'13	Apr'14	Jun'13
Settlement	1,432.30	23.6200	703.75	1,486.00	1,428.40	4,695.00	1,436.20
Open Interest	442,341	145,324	36,144	63,474	1,474	104,687	651
Change in Open Interest	480	-8	171	-441	87	-1,810	1

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	361.36	-	-0.79%	-5.03%	-5.60%	-10.28%	-19.15%
China Tangshan Steel Billet \$/t	506.00	-	-1.75%	-3.62%	-4.35%	-1.17%	-13.36%
China HRC export (Shanghai FOB) \$/t	542.00	-	-	-4.91%	-10.12%	-1.63%	-16.62%
North Europe HRC domestic (ex-works) \$/t	460.00	-	-1.08%	-5.15%	-5.15%	4.55%	-14.02%
North America HRC domestic (Midwest FOB) \$/t	587.80	-	-	-4.23%	-5.38%	-2.94%	-12.27%
<b>Steel—Futures</b>							
LME Billet Cash \$/t	150.00	-	4.17%	-7.12%	-46.76%	-52.00%	-66.54%
LME Billet Futures (1-mth) \$/t	150.00	-	2.92%	-7.12%	-46.81%	-52.00%	-66.54%
LME Steel Billet Stocks—change	0.00	-	-	-	-	-	-
Shanghai Rebar Futures (Active contract) \$/t	557.89	-0.31%	-1.20%	-5.12%	-10.65%	-8.32%	-16.24%
Shanghai Rebar Futures O/W Stocks—change	-306	-	-	-	-	-	-
SHFE Rebar - Open Interest -	8,880	-	-	-	-	-	-
SHFE Rebar - Total Volume	420	-	-	-	-	-	-
China Steel Inventory (million tonnes)	18.84	-	-1.95%	-8.45%	24.02%	51.19%	10.90%
<b>Iron ore</b>							
China Iron Ore Fines (62% Fe; CFR Tianjin) \$/t	129.40	-	-0.46%	-8.16%	-16.57%	5.72%	-5.34%
China Iron Ore Fines (58% Fe; CFR Tianjin) \$/t	118.00	-	-1.99%	-9.65%	-17.48%	5.64%	-9.79%
SGX AsiaClear IO Swaps 62% Fe \$/t (1-mth)	129.38	-	-0.90%	-6.92%	-17.98%	7.37%	-5.82%
SGX AsiaClear IO Swaps 62% Fe—Open interest	31,086	-	-	-	-	-	-
China Iron Ore Inventory (million tonnes)	68.21	-	0.89%	-0.32%	1.97%	-19.86%	-28.40%
<b>Coking coal</b>							
Premium Hard Coking Coal (Qld FOB) \$/t	152.00	-	-	-3.18%	-11.11%	-4.40%	-28.97%
<b>Capesize freight</b>							
Tubarao Brazil-Beilun China (C3)	17.66	-	-0.39%	1.26%	-2.48%	-21.72%	-13.81%
Pilbara Australia-Qingdao China (C5)	7.36	-	-1.74%	1.66%	-0.41%	-24.59%	-3.41%
Saldanha South Africa-Beilun China	12.70	-	0.79%	-1.55%	-3.79%	-20.63%	-13.31%
Tubarao Brazil to Rotterdam Europe	7.64	-	-0.26%	5.82%	-6.14%	-29.06%	-16.14%
Saldanha South Africa-Rotterdam Europe	-	-	-	-	-	-	-
<b>Financials pricing</b>							
RMB Currency	6.1429	-0.06%	-0.18%	-0.71%	-1.44%	-1.32%	-2.82%
China 7-day repo	2.7500	-5.24%	-13.52%	-7.09%	-23.16%	-17.91%	-8.33%
Shanghai Equities Composite	2,217.0100	-1.11%	-0.83%	1.61%	-8.86%	7.86%	-6.88%

Sources: Standard Bank; LME; Bloomberg

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