

# Commodities

## Commodities: Daily



Focus: What cost rings true for one tonne of Chinese ore?

26 February 2013

**Focus:** Two iron ore miners published industry cost curves in their earnings releases last week. Their cost curve compilations differed markedly. One forecasts Fe 62% iron ore prices to remain above \$120/t into the long term. The other forecasts Fe 62% prices will fall to c.\$85/t. This \$35/t differential is often the “make or break” for the profitability of many hopeful new iron ore projects, particularly those trying to build Greenfield facilities.

- Base metals are under pressure, with copper falling below its 200day MA at \$7,828 to find support at around \$7,800. Aluminium is also approaching its 200day MA at \$2,001, while zinc and lead are also under pressure.
- The platinum/gold spread is almost back at zero, with gold holding its ground around the \$1,590 level, and platinum falling to \$1,590. The platinum speculative market has been very long and the long liquidation has not come as a surprise, especially in the face of dollar strength.
- Oil markets were taken lower yesterday, despite the threat of an escalation in geo-political tensions surrounding Iranian negotiations starting today, by a stronger dollar. After trading as high as \$115.80/bbl, Brent sank to a \$114.44/bbl close—down 34c/bbl on Friday’s close. WTI ended the day at around \$92.10/bbl.
- China’s PBOC was the iron ore market’s passion killer today. We had thought yesterday’s weak HSBC Flash PMI print may have dissuaded the Central Bank from conducting further repos. However, the PBOC was back in the market today, conducting a 5bln RMB 28-day repo at 2.75%.

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### Commodity price data (25 February 2013)

#### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,048	2,037	2,055	2,029	-11	-0.55%	2,004.00	-21	-43.75
Copper	7,825	7,836	7,903	7,820	11	0.14%	7,865.50	41	-24.50
Lead	2,305	2,294	2,317	2,286	-11	-0.49%	2,306.50	-15	-7.00
Nickel	16,900	16,705	16,978	16,688	-195	-1.15%	16,710.00	-35	-61.00
Tin	23,185	23,150	23,393	23,025	-35	-0.15%	23,305.00	10	-42.00
Zinc	2,088	2,089	2,099	2,073	1	0.05%	2,083.00	-2	-12.25

#### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	113.64	113.61	114.17	113.30	-0.83	-0.73%
NYMEX WTI	91.92	92.33	92.65	91.92	-0.78	-0.84%
ICE Gasoil	968.00	967.25	971.50	965.00	-11.50	-1.19%
API2 Q1'13	89.60	89.35	-	-	-0.25	-0.28%

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,592.50	1,586.25	1,592.00	1,576.00	1,587.50	14.50	-0.8/+0.4
Silver	-	28.93	29.89	28.60	29.00	0.53	-5.0/-3.0
Platinum	1,627.00	1,620.00	1,620.00	1,599.50	1,620.00	9.00	+1.5/+3.5
Palladium	747.00	748.00	748.00	737.50	748.00	16.00	+0.0/+1.0

Sources: Standard Bank; LME; BBG

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**Focus: What cost rings true for one tonne of Chinese ore?**

Two iron ore miners published industry cost curves in their earnings releases last week. Their cost curve compilations differed markedly. FMG forecasts Fe 62% iron ore prices to remain above \$120/t into the long term. BHP forecasts Fe 62% prices will fall to c.\$85/t. This \$35/t differential is often the “make or break” for the profitability of many hopeful new iron ore projects, particularly those trying to build Greenfield facilities, with complicated Fe processing and upgrading engineering facilities or for those dealing with lower Fe grades below 58% or those shipping across large distances. With such a huge divergence regarding future iron ore price directions, the market may be confused over which version of the forecasts to back.

At the heart of the difference in the miner cost forecasts is their interpretation of (1) how many Chinese ore tonnes to consider “high cost” and (2) what cost range to apply. FMG’s cost curve assumes 300m tonnes of high-cost Chinese domestic concentrate tonnes sits at the top of the seaborne cost curve, in the range of \$120-\$165/t. From past published analysis, we know BHP believes that Chinese ore covers across a more normal seaborne-miner cost distribution spectrum, with perhaps only 100-120mt of Chinese material sitting at the top of the cost curve, and their latest cost curve publication suggests these tonnes sit more in the \$120-140/t range.

For us, it’s a case of which truth appears more real and believable? Both our past work and our discussions with Chinese miners suggest that BHP has a good handle on the Chinese tonnage-cost distribution curve.

In turn, we estimate the total Chinese cost curve ranges between c.\$40/t and \$130/t. We have just upgraded our estimate for the top 100-120mt of Chinese costs by \$5/t, following last week’s rise in Chinese energy and rail costs. As a result, our latest high cost Chinese ore tonnage range estimate upgrades from \$105-\$125/t to \$110-130/t.

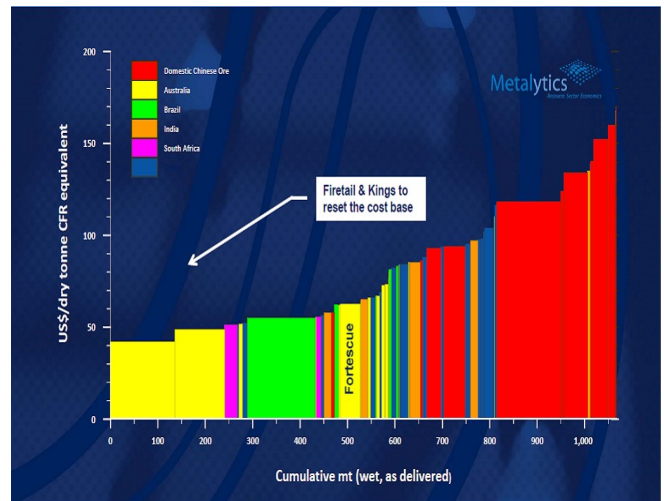
Many estimate higher ranges, including FMG. We do not believe they are giving due consideration to the cost reductions which have occurred across China’s bulk mining sector since early 2011. Wages have fallen; energy costs have fallen, taxes have fallen, currency translation rates have fallen. All this may be a shock to international miners who are struggling to contain

**Base metals**

Base metals are under pressure, with copper falling below its 200day MA at \$7,828 to find support at around \$7,800. Aluminium is also approaching its 200day MA at \$2,001, while zinc and lead are also under pressure. The selling comes amid euro weakness following the Italian elections where no clear winner emerged creating uncertainty, specifically about future fiscal policy decisions in that country.

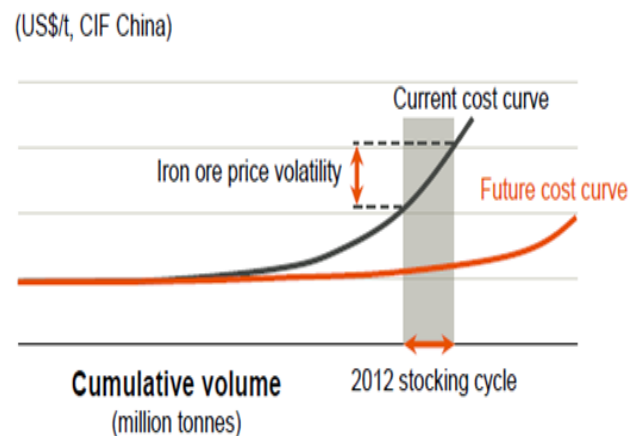
Copper saw another 7,650mt of metal going into LME warehouses, with 2,000mt going into Antwerp, Belgium again. This brings total copper stock in Antwerp to 103,125mt — up from zero in October last year. As pointed out before, while the headline number of metal flows into LME warehouses is bearish for prices, in reality, the delivery of the metal into a tightly-controlled location with long exit queues already in place, effectively means that there should be question marks over the availability of the metal to the market over the longer term (see our *Commodities Daily: Copper—the new aluminium?* dated 29

Figure 1: Seaborne iron ore cost curve



Source: Fortescue

Figure 2: Schematic iron ore cost curve



Source: BHP Billiton

costs in the face of exorbitant inflationary pressures. China was first to cut costs and was forced to cut hard, when Beijing began to tighten monetary policy in mid-2011. It is therefore crucial for investors to stay on top of the trends.

**By Melinda Moore**

## Base metals (Cont.)

January 2013).

A further 4,975mt of copper went into Johor, Malaysia — up from 12,250mt in November last year. Total LME copper inventory has now climbed to 438,375mt, with metal relatively evenly split between the Americas, Asia and Europe. The level of copper inventory in LME warehouses is the highest since October 2011.

We believe that base metals in general would remain vulnerable to selling ahead of the PMI manufacturing data out on Friday. Following the weak Flash PMI number for China, and in line with our view, there seems to be some nervousness in the market about the sustainability of base metal rallies in general.

**By Walter de Wet**

## Precious metals

The platinum/gold spread is almost back at zero, with gold holding its ground around the \$1,590 level, and platinum falling to \$1,590. The platinum speculative market has been very long and the long liquidation has not come as a surprise, especially in the face of dollar strength. Dollar strength, or rather euro weakness, comes after the Italian election results show that there is no majority party in control. However, we believe that the further decline in the platinum price is also on the back of an unwinding of the long platinum/short gold trade.

For gold we continue to see support on approach of \$1,550 but \$1,600 should continue to see strong resistance ahead of Mr Bernanke's monetary policy testimony. Our base case remains that the Fed will continue to purchase \$85bn of bonds per month until year-end, and is not in a great hurry to exit the current policy easing. If we are correct and Mr Bernanke indicates that the market's fear of an early exit is overdone, we could see gold breaking above \$1,600. As a result, even though we are at the top end of our preferred tactical trading range, we believe that there is merit to remain tactically long gold ahead of the testimony. If gold breaks above \$1,600, we would look at \$1,610 and \$1,630 as resistance.

Confirmation by Mr Bernanke of what we believe the market is pricing already—i.e. an early end to QE3, should see gold push towards support around \$1,580 and then \$1,566.

We believe that platinum should start finding support below \$1,600 too. A platinum price below \$1,600 should entice greater volumes of jewellery demand compared to platinum above \$1,700. Furthermore, although the market length remains long, we believe some of the weak longs have liquidated already.

Gold support is at \$1,547 and \$1,528. Resistance is \$1,598 and \$1,629. Silver support is at \$28.65 and \$28.23, resistance is at \$29.22 and \$29.36.

Platinum support is at \$1,585 and \$1,574. Resistance is at \$1,619 and \$1,641. Palladium support is at \$728 and resistance at \$746.

**By Walter de Wet**

## Energy

Oil markets were taken lower yesterday, despite the threat of an escalation in geo-political tensions surrounding Iranian negotiations starting today, by a stronger dollar. After trading as high as \$115.80/bbl, Brent sank to a \$114.44/bbl close—down 34c/bbl on Friday's close. WTI ended the day at around \$92.10/bbl.

Today we've seen some support coming through, although yesterday's highs are nowhere near in sight. Reports that Iran might be taking a more conciliatory approach to today's negotiations with the US, UK, France, Germany, China and Russia are perhaps containing any upside in the geo-political risk premium. It is hoped that a long-term agreement on the Iran nuclear enrichment programme can be reached in exchange for a gradual easing of sanctions.

However, as we pointed out yesterday, we feel that the distribution of risks appear to be tilted to a mild escalation of tensions this week. Although, with no real change in the status quo of the past few months expected, we expect, at worst, a temporary surge in prices. Of course, should an agreement be reached and the oil embargo be lifted, significant downside would be opened up. A signal to this possibility would be a decision to have a direct meeting between US and Iranian officials.

**By Marc Ground**

## Bulks

China's PBOC was the iron ore market's passion killer today. We had thought yesterday's weak HSBC Flash PMI print may have dissuaded the Central Bank from conducting further repos. However, the PBOC was back in the market today, conducting a 5bn RMB 28-day repo at 2.75%. This took the 7-repo rate up to 3.68%, spiking to 4.1% intraday at one point. Such large funding cost increases hold grave concerns for us, remembering that such moves last June triggered last July's downstream market sell-off.

Further negative property policies also overhang the Chinese market, although in our view, the government needs to tread carefully to ensure supply restrictions do not generate a further inflationary housing cycle, exactly the situation they are trying to prevent.

On the ore supply side, Cyclone Watch continues to prevail in the Pilbara. Rusty upgraded from a CAT1 yesterday to a CAT2 and is expected to morph into a CAT4 by the time it reaches Port Hedland tomorrow afternoon. It will reduce to a CAT3 once it crosses the coast, reducing further into a CAT1 as it passes over the key mining districts of Newman and Tom Price etc. While heavy rains, winds of up to 100km and potential flooding of roads can be expected, we are assuming minimal damage to inland mining facilities at this stage, with only a few days of reducing activities, with safety key. Nevertheless, we expect over 5mt to be impacted, representing 5%+ of the monthly global seaborne shipments. With Brazil also struggling to ship under the weight of recent port maintenance (we estimate impacting 4mt), supply volumes remain tight heading into March.

Physical steels were lower today, with Tangshan billet prices off RMB10/t at RMB3250/t EXW, and Shanghai physical rebar off a further RMB20/t also, with traders wary of taking positions while cash rates remain high.

Shanghai Rebar Futures fell a further 0.9% today in the May-13 contract, with long liquidation and fresh selling entering during the afternoon, on the back of macro-equity weakness. Shanghai Equities closed off 1.36%. The May contract is trading at a RMB104/t premium to spot.

IO swaps initially held the gains of yesterday afternoon's rally, with April continuing to win the popularity stakes on the basis of Cyclone Rusty causing significant damage to port, rail and mining facilities. Profit-taking emerged once Shanghai Rebar Futures closed on its lows however, with the market retracing all of yesterday afternoon's gains.

We had felt yesterday's rally was too heated, particularly across the 2Q series. Selling pressure could be further compounded later in the week, if Thursday's Indian budget decides to reduce ore export taxes by 50%. This would impact fresh supplies from April.

The TSI Fe 62% price index printed unchanged today at \$151.90/t (MTD:\$155/t), while the TSI Fe 58% price fell 30 cents to \$141.60/t. CBMX traded a FMG Special Fines Fe 57.7% at \$138, compared to yesterday's Super Special Fines Fe 56.7% at \$136/t, suggesting physical markets remain in line today.

In thermal coal, Port Kembla's No.2 shiploader (c.7mtpa) will remain out of action for up to 3-4 weeks, while in Queensland, further heavy rains over the weekend is causing difficulties for the Moura and Blackwater lines again into Gladstone. With further rains expected, rail operator Aurizon is not giving guidance on recovery times. API-2 March-13 is trading at \$89.25/t; API 4 is trading at \$85.50/t; while Newcastle is trading at \$92.80/t, all down on the day, due principally to weakness in China and European power/gas/oil/emissions pricing.

**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	5,157,100	5,164,200	0	7,100	-7,100	-52,950	1,940,925	37.64	265,023
Copper	430,725	424,350	6,500	125	6,375	110,675	27,800	6.45	181,101
Lead	287,925	288,025	0	100	-100	-32,400	150,900	52.41	55,445
Nickel	155,568	154,500	1,158	90	1,068	15,660	23,772	15.28	50,375
Tin	13,650	13,580	70	0	70	825	2,200	16.12	7,697
Zinc	1,180,650	1,185,150	0	4,500	-4,500	-40,100	631,325	53.47	97,032

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	14,760	14,825	-30	Ali May'13	-	-	-	-
Copper	57,050	57,340	90	Cu May'13	356	356.70	0.60	0.17%
Zinc	15,550	15,590	40					

### ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,710	69,511	20,384	147,675	205,958	18,409	8.8375
3-month	18,212	70,058	20,510	149,351	206,973	18,677	8.9405

## 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)	133.32	0.10	131.60	0.67	130.82	0.66	128.40	0.77	124.82	-0.34
Gasoil 0.1% Rdam (\$/mt)	967.25	-11.50	966.00	-9.50	962.25	-7.50	949.00	-8.00	936.75	4.25
NWE CIF jet (\$/mt)	1,086.84	0.75	1,068.64	3.96	1,060.92	3.62	1,039.34	4.63	-	-
Singapore Kero (\$/bbl)	134.32	0.12	131.52	0.64	130.44	0.68	128.34	0.72	125.67	0.54
3.5% Rdam barges (\$/mt)	630.53	1.15	615.50	1.75	614.50	1.25	611.50	0.75	603.75	0.50
1% Fuel Oil FOB (\$/mt)	668.98	1.05	647.00	0.00	648.00	0.75	646.75	0.50		
Sing FO180 Cargo (\$/mt)	652.28	0.57	644.25	1.75	645.75	1.50	644.50	0.50		
Thermal coal	Q2-13		Q3-13		Q4-13		Cal 13		Cal 14	
API2 (CIF ARA)	89.35	-0.25	91.00	-0.25	93.30	-0.30	98.40	-0.35	104.95	-0.30
API4 (FOB RBCT)	86.90	-0.50	88.70	-0.25	90.60	-0.30	95.25	-0.35	100.60	-0.30

## Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.16167	0.18500	0.20333	0.29667	0.35333		
Silver	0.62000	0.61600	0.61800	0.61200	0.56800		
USD Libor	0.20270	0.24400	0.28660	0.45990	0.75450		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	37.93	1,601.16	1,634.10	1,687.18	1,665.94	1,547	1,598
Silver	38.78	29.43	30.50	31.72	30.73	28.65	29.22
Platinum	43.73	1,656.85	1,680.14	1,617.56	1,556.06	1,585	1,619
Palladium	54.07	750.07	753.67	684.80	649.57	728	746
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Apr'13	May'13	Apr'13	Apr'13	Mar'13	Dec'13	Apr'13
Settlement	1,592.80	28,9450	737.80	1,620.70	1,592.10	4,729.00	1,587.00
Open Interest	446,292	157,030	38,611	66,950	3,191	135,400	698
Change in Open Interest	-528	595	-36	-1,013	-456	-2,640	-8

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 (Iskinderun CFR) \$/t	392.76	-	3.36%	-0.77%	0.11%	-3.29%	-
China Tangshan Steel Billet \$/t	525.00	-	-1.13%	0.57%	5.42%	8.70%	-12.21%
China HRC export (Shanghai FOB) \$/t	603.00	-	-	1.69%	9.04%	9.64%	-4.29%
North Europe HRC domestic (ex-works) \$/t	502.50	-	3.61%	3.08%	14.20%	0.50%	-
North America HRC domestic (Midwest FOB) \$/t	620.80	-	-	-0.45%	0.68%	-5.94%	-14.73%
<b>Steel—Futures</b>							
LME Billet Cash \$/t	284.00	-	0.71%	0.98%	-8.53%	-20.00%	-44.50%
LME Billet Futures (1-mth) \$/t	291.75	-	-0.26%	0.69%	-8.11%	-18.96%	-43.65%
LME Steel Billet Stocks—change	-	-	-	-	-	-	-
Shanghai Rebar Futures (Active contract) \$/t	610.03	-0.52%	-2.46%	-1.13%	2.17%	8.64%	-10.12%
Shanghai Rebar Futures On-Warrant Stocks—change	-1,187	-	-	-	-	-	-
SHFE Rebar - Open Interest -	3,302	-	-	-	-	-	-
SHFE Rebar - Total Volume	1,248	-	-	-	-	-	-
China Steel Inventory (million tonnes)	19.15	-	26.09%	38.86%	55.73%	27.89%	0.81%
<b>Iron ore</b>							
China Iron Ore Fines (62% Fe; CFR Tianjin) \$/t	151.90	-	-3.86%	2.36%	28.51%	52.82%	8.11%
China Iron Ore Fines (58% Fe; CFR Tianjin) \$/t	141.90	-	-0.91%	1.57%	31.27%	55.76%	10.60%
SGX AsiaClear IO Swaps 62% Fe \$/t (1-mth)	155.00	-	-0.44%	3.07%	28.77%	43.29%	10.71%
SGX AsiaClear IO Swaps 62% Fe—Open interest	31,904	-	4.46%	14.80%	37.24%	74.52%	138.09%
China Iron Ore Inventory (million tonnes)	68.76	-	2.80%	-0.76%	-13.68%	-29.10%	-29.94%
<b>Coking coal</b>							
Premium Hard Coking Coal (Qld FOB) \$/t	171.00	-	-	3.01%	7.55%	-0.87%	-17.79%
<b>Capesize freight</b>							
Tubarao Brazil-Beilun China (C3)	17.94	-	-0.77%	-3.65%	-17.89%	4.18%	-12.95%
Pilbara Australia-Qingdao China (C5)	7.35	-	-1.61%	3.81%	-12.91%	7.46%	-6.96%
Saldanha South Africa-Beilun China	13.10	-	-1.87%	0.77%	-18.13%	4.38%	-7.75%
Tubarao Brazil to Rotterdam Europe	7.85	-	-2.00%	-10.39%	-31.68%	12.95%	-9.04%
Saldanha South Africa-Rotterdam Europe	10.10	-	-	-	-	65.57%	48.53%
<b>Financials pricing</b>							
RMB Currency	6.2298	-0.06%	-0.24%	0.08%	0.07%	-2.00%	-1.14%
China 7-day repo	3.8100	15.45%	30.93%	27.00%	32.29%	10.43%	4.10%
Shanghai Equities Composite	2,321.5405	-0.18%	-2.58%	-1.06%	15.07%	12.93%	-5.13%

Sources: Standard Bank; LME; Bloomberg

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