

Ted Arnold's Weekly Report

20 July 2011

Market Report

Macro-economic Developments and Comments

US industrial production rose 0.2% month on month in June and was 3.7% higher on a year on year basis. Manufacturing was flat for the month. May's IP number was revised down to -0.1%. The University of Michigan's preliminary consumer confidence index for July came in at 63.8, its lowest level since March 2009.

European industrial production in May was up 0.1% month on month. The consensus was going for 0.4% increase.

The IEA said last week that it is still assessing the oil market on whether or not to embark on a further reserve release. The IEA's latest oil market report, released last week, forecasts that about 1.3 million bpd of extra production from OPEC will be needed during Q3 2011 to balance global oil demand. With the next official OPEC meeting scheduled for December 14, it is unlikely that OPEC will come to any agreement to increase its production quotas before then.

China

A summary of a State Council meeting held last week said that Beijing will expand its efforts to curb the rise in residential property prices in second and third tier cities. The government will move to restrict the number of homes that each family is allowed to buy. The State Council meeting was chaired by Premier Wen Jiabao. China is intensifying property restrictions nationwide after developers posted gains in first half sales. Housing transactions rose 31% in June, even after more curbs were imposed earlier this year. June home prices rose 0.4% above the levels seen in May, according to SouFun Holdings Ltd, China's biggest property website.

China's oil imports in June fell to 19.7 million tonnes which is the equivalent of 4.85 million barrels per day. This was the lowest level of imports in eight months. The latest data from the China Federation of Logistics and Purchasing showed that China's refinery run rate has also declined to 35.55 million tonnes or around 8.75 million barrels per day, the lowest level since September last year.

Standard Bank oil analyst James Zhang points out that the decline in imports and refinery runs partially reflects poor Chinese refining margins dictated by the policy implemented during the second half of 2008. The government policy said that refining margins will be diminishing to zero as the price of a basket of benchmark crude reaches \$130 per barrel. The average price for Brent for June was \$113.50 per barrel.

Mr. Zhang's analysis suggests that a significant portion of Chinese crude imports might have been moved into strategic reserve building. Standard takes the reported crude imports, refinery runs and domestic crude production data to derive the amount of crude that goes into or out of storage

for each month. Excessive crude has been going into storage for most months since the beginning of 2006.

It is also quite clear that the strategic reserve buys less oil when prices are high. This is an interesting observation as it shows the Chinese are more sensitive to price than many market commentators think they are. They don't chase after prices.

Mr. Zhang concludes that "For now, the data does not suggest an underlying demand slowdown yet for oil in China. The softening pace in import growth probably reflects a slowdown in reserve building because of heated prices."

China released its June and Q2 macro-economic data last week. These were generally speaking better than expected and show a strong Chinese economy and little sign of any hard landing.

GDP growth was 9.5% year on year in Q2 although down from 9.7% growth year on year in Q1. Industrial production growth was 15.1% year on year in Q2 versus consensus expectations of 13.1% year on year. Year to date fixed asset investment increased by 25.6% year on year while retail sales growth was 17.7% year on year.

Economists point out the headline industrial production and retail sales growth data are quoted as value figures rather than volume figures, and as such the headline figures have been supported by a rise in inflation to the 6.4% year on year rate that was reported on Monday.

Deflating the headline value figures by CPI would give a 'real' volume increase in industrial output of around 8% to 9% year on year. That compares with a peak of around 20% year on year in Q1 in 2010 when annualised comparisons were flattered by the poor levels of growth in Q1 2009.

Nevertheless, the average growth rate in real output this year has been around 8.7% year on year. This is a level that is consistent with an increase in non-ferrous metals consumption of between 8% to 10% year on year in 2011.

Beijing is still worried about inflation. It is too high at 6.5% for the CPI in June and 7.1% for the PPI in June. It is also of some concern that the PPI is well above the CPI as it indicates that there are cost-push pressures coming on down the line and with them perhaps more monetary tightening. It is something to watch out for.

Mind you, the CPI rise was driven almost entirely by pork prices and it is safe to say that the higher pork prices go the more certain we can be of a strong supply response. So the CPI should start to work lower from July onwards.

And there are signs that Beijing will start to loosen its tight credit policy somewhat during the current half. Recent trips to the provinces by the top leadership strongly suggest some special packages will be designed to help the small and medium sized enterprises (SME). The SME sector has been particularly hard hit.

An example of this is that manufacturers of excavator equipment and heavy trucks report that around 70% of their customers are entrepreneurs. If the buyers can't get the money, then the producers can't make the sales. And this was highlighted in June when sales of heavy trucks fell by 30% year on year.

And it is widely expected that the lending ceiling for this year will be raised from Rmb 7.2 trillion to Rmb 7.5 trillion in the coming weeks. As it is loans so far this year have only totalled Rmb 7.0 on an annualised basis so there is already some leeway left on the original target figure.

The six LME metals' stocks and prices

	LME closing price on 15/7/11	LME closing price on 8/7/11	LME closing price on 1/7/11	LME closing price on 24/6/11	LME closing price on 17/6/11	LME closing price on 10/6/11	LME closing price on 3/6/11
Cu	9,672	9,661	9,445	9,045	9,095	8,938	9,099
Al	2,494	2,535	2,503	2,500	2,545	2,619	2,637
Pb	2,708	2,719	2,674	2,580	2,450	2,545	2,433
Zn	2,378	2,356	2,365	2,254	2,188	2,255	2,258
Ni	24,155	23,890	23,000	22,150	21,625	22,850	22,800
Sn	27,200	26,800	25,655	24,975	25,005	25,350	26,400

Source of prices: LME. All prices in dollars per metric tonne and basis three months LME.

LME Stocks

LME stocks	15/7/11	8/7/11	1/7/11	End 2010 stock level	Change since end 2010	% ch since end 10
Copper	462,025	461,850	463,450	377,550	+84,475	+22.4
Aluminium	4,412,175	4,440,225	4,487,600	4,277,050	+135,125	+3.2
Lead	307,850	308,300	318,600	208,275	+99,575	+47.8
Zinc	891,350	879,725	860,750	701,425	+189,925	+27.1
Nickel	103,194	104,370	106,836	135,672	-32,478	-23.9
Tin	21,305	21,890	22,385	16,275	+5,030	+30.9

Source: LME N.B. all figures are metric tonnes

High-Lows for LME Metals 2011

Cu	Al	Pb	Zn	Ni	Sn
10190/8504	2778.50/2360	2904/2200	2599/2048	29425/22050	33600/24550

High-Lows for LME Metals 2010 and 2009

	Cu	Al	Pb	Zn	Ni	Sn
2010	9728/6035	2500/1828	2690/1535	2736/1577	27250/16975	27500/14850
2009	7423/3025	2305/1279	2525/957	2615/1070	21325/9250	17000/9700

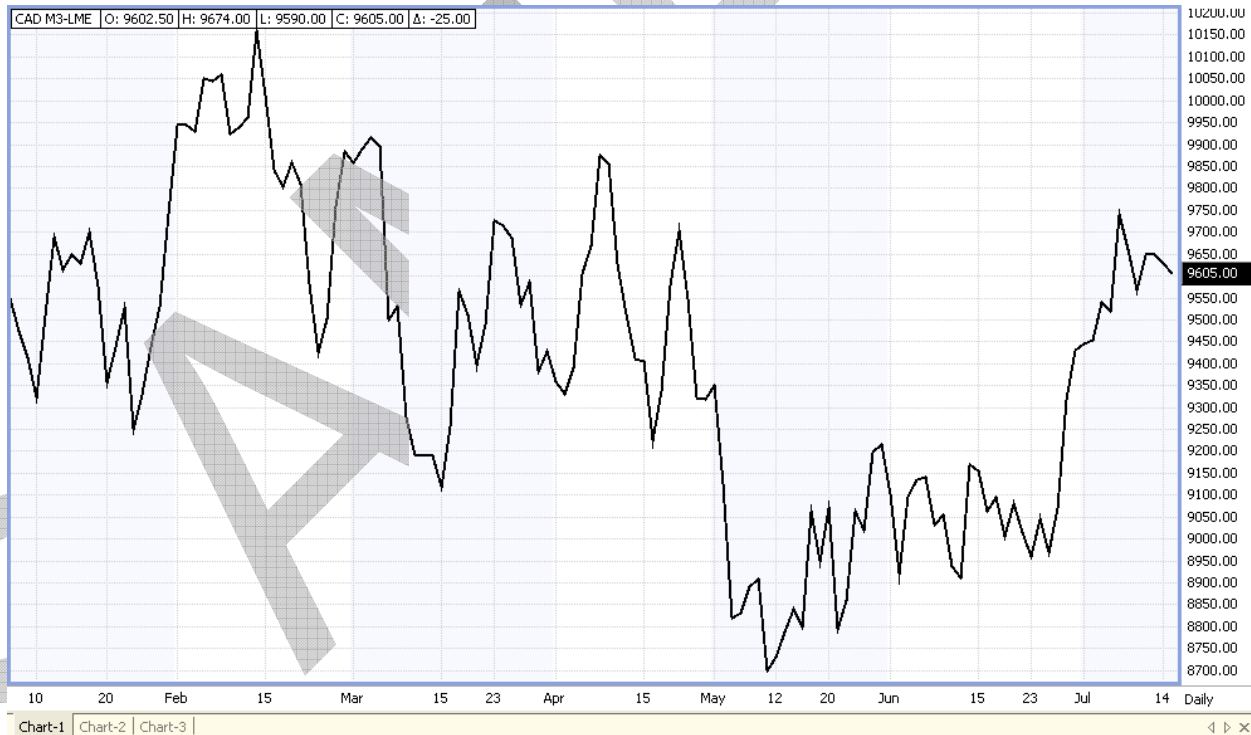
All in dollars per metric tonne basis three months LME

Average Prices for Cash LME Metals in \$ per metric tonne and cents per pound

	Average year to date 2011	Average for 2010	Average for 2009
Copper	\$9,413.72 (427.0 cents lb)	\$7,526.57 (341.4 cents lb)	\$5,163.22 (234.2 cents lb)
Aluminium	\$2,535.31 (115.0 cents lb)	\$2,171.55 (98.5 cents lb)	\$1,666.69 (75.6 cents lb)
Lead	\$2,579.41 (117.0 cents lb)	\$2,145.10 (97.3 cents lb)	\$1,726.22 (78.3 cents lb)
Zinc	\$2,314.85 (105.0 cents lb)	\$2,158.32 (97.9 cents lb)	\$1,657.87 (75.2 cents lb)
Nickel	\$25,397.22 (1,152 cents lb)	\$21,801.49 (988.9 cents lb)	\$14,700.41 (666.8 cents lb)
Tin	\$29,123.03 (1,321 cents lb)	\$20,401.55 (925.4 cents lb)	\$13,591.48 (616.5 cents lb)

Copper

Three months LME copper chart – daily close – September 2010 to the present



Source: [Futuresource](#)

Three months LME copper closed on Friday at \$9,672 per tonne. This morning copper is trading at \$9,775 per tonne. Dollar/euro is \$1.4030 versus a close on Friday of \$1.4150. On Friday copper had a contango of \$21 per tonne versus a contango of \$17 per tonne on the previous Friday. Copper fell 0.7% last week after rising by 2.3% in the previous week. Shanghai copper stocks rose 19,963 tonnes to 109,461 tonnes.

Technical analysts that I talk to see copper beginning to consolidate within a range of \$9,780/\$9,800 per tonne basis three months at the top end of the trading range while very good support exists in and around the \$9,580/\$9,600 area basis three months.

Looking at it from a fundamental perspective there are two broad groupings of opinion.

The first grouping is bullish in outlook. They would list the bull points along the following lines.

1. A growing belief that the Fed, despite what the Chairman has said, will launch a new QE programme in Q3 or early Q4. That means a lower dollar and lots and lots of liquidity and higher prices for all commodities denominated in dollars. Copper is a very good bet because it is in a deficit situation which will only begin to improve in H2 2012 and 2013 as much more mine supply comes on stream.
2. A growing belief that the worst of the credit tightening is over in China and that things will begin to loosen up during the second half of this year. This coincides with the Chinese copper fabricators and merchants more or less having exhausted their copper stocks. This means that the Chinese will increasingly be buyers on the world market for copper. They won't chase after prices. But they will be looking to buy whenever they deem the market to be offering reasonable value.
3. The macro funds are returning to the market in search of trading profits. The funds have had a very poor time of it recently and they feel copper will offer them some good returns. But the funds I have talked to are definitely looking to only buy on weakness.

The second grouping is more cautious and sees prices trading in and around the \$9,200 to \$9,500 per tonne range basis three months for the rest of the third quarter and possibly even into much of the fourth quarter.

1. They argue that China is more likely to slow down further rather than pick up during the course of the second half of 2011 as the PBoC continues to fight inflation. The Chinese are definitely not going to chase after prices. This was demonstrated last week in several ways. The first was the rise in SHFE stocks. They rose 19,963 tonnes to 109,500 tonnes last week and wiped out much of the around 30,000 tonne fall seen since early May. The premiums on refined copper in Shanghai fell as the LME price rose last week, not a sign of strong demand. And buying interest noticeably thinned out the higher prices went above \$9,200 per tonne basis three months. The best quote on this came from a Shanghai trader interviewed by Metal Bulletin. He noted that "Few people are importing copper at current prices as no one is a fool. Just do your maths; it's like borrowing at 3% for three months and 10% for a year, much higher than the current bank rate." Some Shanghai traders suggested that metal may be re-exported. So watch what happens to copper stocks in South Korean warehouses. Meanwhile, with prices over \$9,700 the SHFE-LME arbitrage window has closed again.
2. Growth will definitely slow further in Europe as sovereign debt problems grow worse and contagion spreads further. This will be very bad for business confidence. Equally, this second grouping feels that whether or not there is a QE3, growth in the US will remain

disappointing for some time to come. This will impact upon copper demand going forward. And this economic uncertainty should keep a cap on copper and other base metal prices.

Readers can decide for themselves which of those two groupings they think the most sensible. I personally tend to favour the first grouping more than I do the second. But as I think the sovereign debt issue in Europe will worsen over coming weeks I think standing to one side for the time being is the safest position to have.

Other Copper News

The nine day strike at Freeport McMoRan Copper & Gold's Grasberg mine ended last Wednesday with the workers returning to work after having agreed with management to resume dialogue. Talks on the 2011 – 2013 work contract begin on July 20 in Timika. The workers are looking for an increase in wages to \$3 per hour from the current level of \$1.50. They argue that other Freeport workers around the world are paid at least \$15 to \$30 per hour.

Codelco's first national strike in nearly two decades began and ended last week. It was a one day strike. Production lost was estimated at around 4,900 tonnes. But the strike was over growing fears the workers have over the restructuring of Codelco. Many think it will lead to benefit cuts, huge layoffs and the sale to private interests of many of Codelco's assets. Chile's Mining Minister Laurence Golborne told Reuters that the government is pushing for talks with the unions to ease tensions and prevent more strikes. Universidad de los Andes mining lecturer Juan Ignacio Guzman told Reuters that he saw tensions continuing throughout the rest of 2011 but "...Codelco will start 2012 with this issue completely resolved". "They (Codelco) will probably make some compromise in which jobs will be protected but in return they'll ask for some sort of productivity increase."

China imported 280,009 tonnes of refined copper in June, a rise of 9.9% over May's level. Total imports for the first six months of 2011 were 1,701,200 tonnes, a fall of 23.8% from 2010.

Chinese refined copper production in June totalled 477,000 tonnes, taking the half year total to 2.64 million tonnes, a rise of 13.9% year on year. At this rate of production China should produce around 5.6 million to 5.8 million tonnes of refined copper this year. Copper concentrates production in the first six months of the year rose 15.5% year on year and look set to hit 1.5 million tonnes for this year.

Rio Tinto's second quarter copper production continues to suffer from declining grades at Escondida in Chile and Kennecott Utah Copper in the United States. June quarter mined output was down 13% and refined production 6% lower than in the preceding quarter. The company's share of mine copper output was 24% lower year on year at 127,200 tonnes while refined copper production fell 1% to 89,900 tonnes. Guidance for 2011 was unchanged at 539,000 tonnes for its share of mined copper and 350,000 tonnes for refined copper production.

Peru's copper output fell 4.7% in May to 98,628 tonnes due largely to falls in production at mines operated by Southern Copper Corporation, the Peruvian government said last week.

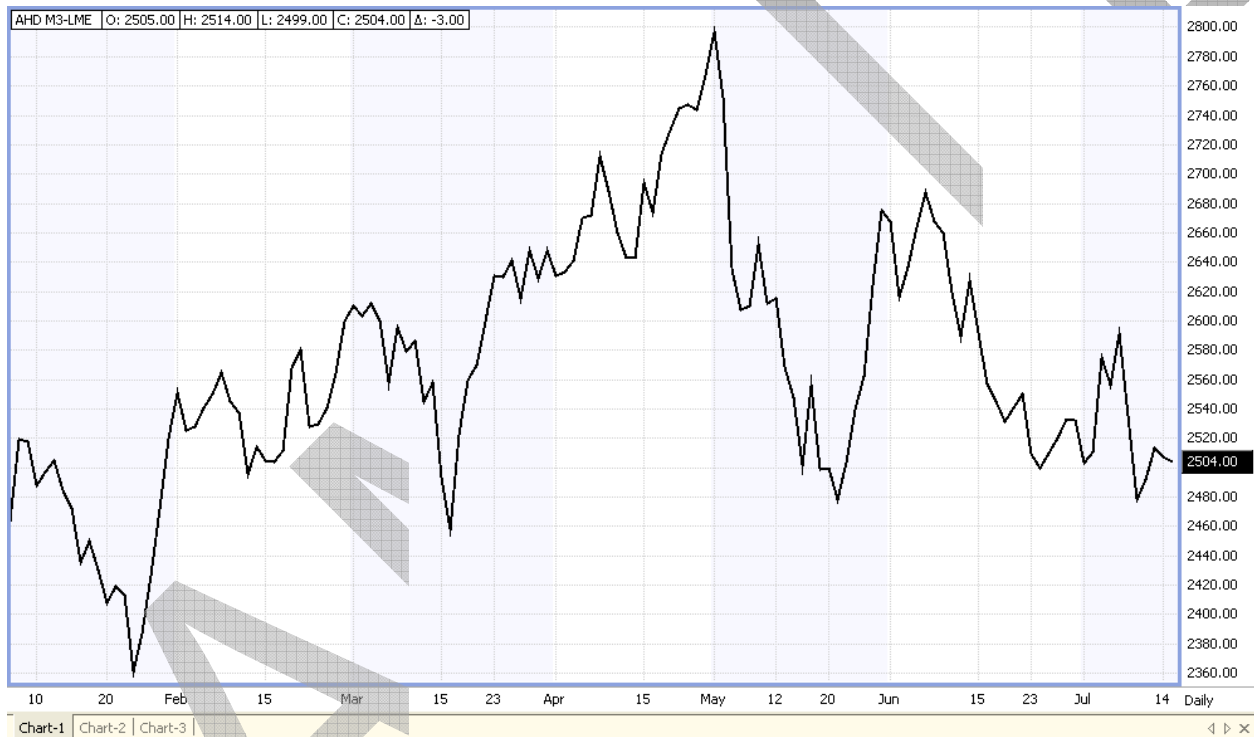
Fluor Corporation said last week it has won a \$1 billion contract from Quadra FNX Mining for work on its new Sierra Gorda copper and moly project in Chile. The mine is expected to begin production in 2014 with a processing capacity of 110,000 tonnes per day of ore. This will rise to 190,000 tonnes per day in the fourth year of operation.

Stillwater Mining has paid Peregrine Metals of Vancouver \$487 million in cash and shares for Peregrine's Altar copper-gold prospect in Argentina. The prospect is said to have the potential to produce 280 million lbs per year of copper and 24,000 ozs of gold per year for a mine life of around 36 years. Stillwater estimates that it will cost \$2.5 billion to develop the prospect.

Copper scrap supplies remain tight in the United States at the beginning of the third quarter due in part to the prolonged downturn in the housing sector and a slow rate of industrial demolition. Higher grade material is becoming increasingly difficult to find with the result that it is the lesser grades that Chinese and other Asian buyers are going for.

Aluminium

Three months LME aluminium – daily close – September 2010 to present day



Source: [Futuresource](#)

Three months LME aluminium is trading this morning at \$2,495 per tonne. Last Friday the close was \$2,494 per tonne. Aluminium had a contango of \$31 per tonne versus a contango of \$30 per tonne on previous Friday. Aluminium fell 3.2% last week after rising by 1.3% in the previous week. Shanghai aluminium stocks fell by 23,065 tonnes to 215,829 tonnes. This was the 18th consecutive week of falling stocks.

Aluminium is struggling at present as it tries to consolidate. Technical analysts see good support coming in first at \$2,440 - \$2,450 area basis three months and then if that level is breached at \$2,360 - \$2,370 area basis three months. Over head resistance still remains in the \$2,540 - \$2,550 area and then at the \$2,590 - \$2,600 area basis three months.

The LME has lifted the daily load-out rate for warehouse companies holding over 900,000 tonnes of metal in one location to 3,000 tonnes per day from April 2012. This is double the current rate of

1,500 tonnes per day.

The new policy currently only applies to Goldman Sachs-owned Metro International in Detroit, where stock holders currently face a nine-month queue to take delivery of their metal. But a four and a half month delay still seems outrageous to most observers.

The decision was largely expected and was received in a mix of ways by market participants. It was approved at a board meeting last Thursday.

At its last meeting on June 16, the LME had failed to agree on the minimum amount of metal Metro would have to load each day in Detroit, which has been the centre of attention for months due to the bottleneck to access material there.

The LME board has discarded the recommendation made by independent consultancy Europe Economics that a loading out requirement of 1,500 tonnes per day per 300,000 tonnes of stock - or 6,000 tonnes each day in the case of Metro in Detroit - would address the most acute problem.

It said the independent survey looked into the narrow issue of loading out rates, while the LME board "had to consider all aspects of the puzzle".

In June, the board had accepted that daily load-out rates would stay at 1,500 tonnes for warehouse companies holding less than 300,000 tonnes of metal in one location but would increase to 2,000 tonnes from those holding between 300,000 and 600,000 tonnes and to 2,500 tonnes for those holding between 600,000 tonnes to 900,000 tonnes.

Warehouse companies that do not comply with the new policy may be de-listed, the LME said. "If they do not want to comply, they have the option to delist. If they do delist they would have to make arrangements for the transfer of all warrants to other approved warehouses at their own expense," said LME commercial director Chris Evans.

The new policy is largely aimed at the Goldman Sachs-owned Metro, which currently holds in Detroit a quarter of all LME-warranted aluminium stocks, 10 percent of zinc stocks and large quantities of lead.

Metro is holding nearly all of the 1.12 million tonnes of aluminium held in Detroit, out of global stocks of 4.41 million tonnes, and 56 percent of all aluminium cancelled warrants (metal booked to be removed from the warehouse). The decision was "expected and a fair change," a source at Goldman Sachs said.

This opinion was not shared by many other market participants. Many saw the decision as being too moderate.

The LME insisted it had received "no official complaints from consumers on LME warehousing". Coca-Cola and Novelis recently openly criticised the queues in Detroit, arguing that it was putting upward pressure on the premiums they have to pay to obtain physical aluminium.

Some market participants had suggested increasing the load-out rate in Detroit to 10,000 tonnes or more per day in order to relieve queues, but the LME's Chief Executive Officer Martin Abbott

said consumers weren't necessarily benefitting when metal leaves LME warehouses.

"This is not about consumers taking metal for productive usage. It's about banks taking metal and storing it elsewhere for financing deals," he said.

"Other parts of the system will start to creak" if the load-out rate is increased beyond 3,000 tonnes per day, Mr. Abbott said.

The increased cost of delivering out more metal - which implies additional fork-lifts, employees and perhaps space - could be passed on to end-consumers, while the critical shortage of trucks in the US poses logistical issues.

External factors are also at play, such as the influence of near-record low interest rates in the US, the UK and the Eurozone on metal financing through easy access to cheap money.

"The key to fixing the entrenched queue is not the load-out rate, it's the point at which Ben Bernanke raises interest rates," Abbott said, because financing deals will become less attractive.

Today a trader can buy spot metal using cheap money and sell it forward at a generous profit, helped by generous contangos in place for metals like aluminium and zinc.

Financing deals have served a positive purpose, keeping aluminium producers running throughout the depths of the financial crisis, Abbott noted. In the past, many producers would have been forced to shut down operations until demand recovered.

Some Excellent Criticisms from Reuters

So whether you like it or not, that is the LME's final decision. But a comment piece carried by Reuters has some interesting and constructive criticisms for the LME to consider.

The article asks is the exchange being as proactive as might be with the logistics industry? And is it ensuring its approval process is as efficient as it could be?

The LME "...should devise a mechanism for managing dominant logistics positions in the same way as it manages dominant futures positions. Quite simply, if an operator cannot move metal in under a certain number of days, it should be prohibited from receiving more metal until it can. Interestingly, the LME executive dismissed the idea of "capping" when it commissioned Europe Economics' report because 'the idea of setting an absolute limit to the level of stocks in a location goes against the principle that the LME's stocks should expand and contract freely in order to reflect the physical market'. Readers are invited to apply that consideration what is happening right now in Detroit."

The article then goes on to suggest that the "LME should consider publishing figures for both metal held off warrant in its warehousing system, as both Comex and the Shanghai Futures Exchange do, and for 'free float' warranted metal. That way at least we would all be able to see what is really going on behind the mass arrivals and cancelations that have come to feature so large in recent stocks movements."

"The reduction of the warehousing issues to just load-out rates," the article concludes, "was always too limited. The very nature of LME warehousing has been transformed in the last couple

of years and it's time for the exchange to take a root and branch look at how the system is operating. It (the LME) almost certainly won't, which is why it should probably brace for a lot more bad publicity about its warehousing function from now on."

Other Aluminium News

Alcoa is expecting the 2011 world aluminium surplus to tighten up to only 115,000 tonnes, with a surplus of 865,000 tonnes in the western world and a deficit of 750,000 tonnes in China.

Alcoa chairman and CEO Klaus Kleinfeld was speaking to journalists last week after the release of the company's second quarter results. Income in the second quarter soared 138% compared to the same period of 2010. First half results showed revenue up 25% year on year at \$12.5 billion while income from continuing operations in the first half was \$635 million or 56 cents a share compared with a loss of \$57 million or 0.06 cents a share for the same period in 2010. Net income in the first half of 2011 was \$630 million or 0.55 cents per share.

World demand for aluminium will double in the next 10 to 12 years, according to Gerhard Falch, the chief executive of the Austrian aluminium group AMAG. Mr. Falch said this growth would be driven by the metal's growing use in aircraft, transportation, and luxury cars. Mr. Falch said the global annual growth rate would be 7%. "This is a nice picture," he said. This year AMAG expects global consumption growth to run at around 9% to 44.6 million tonnes.

Chinese aluminium production hit a new high of 1.59 million tonnes in June. This is a rise of 13.3% year on year. Output is now ramping up with new capacity coming on stream over coming months so higher output looks on the cards despite potential power shortages. Aluminium output could hit 19.1 million tonnes for 2011.

US aluminium imports rose in May for the second consecutive month to near a two year high of 160,847 tons. This figure, from the US International Trade Commission, is up more than 50% from April and stands at its highest level since July 2009 when imports reached 189,671 tonnes. The import record reflects both a domestic market deficit and improved demand.

Nickel

Three months LME nickel – from September 2010 to present – daily close



Source: [Futuresource](#)

Three months LME nickel is trading this morning at around \$24,100 per tonne versus a close on Friday of \$24,155 per tonne. Cash to threes closed with a contango of \$29 per tonne versus a contango of \$34 per tonne on previous Friday. Nickel rose 0.2% last week after rising by 3.9% in the previous week.

Nickel traders see the market running into more and more overhead resistance as it approaches the \$24,400 to \$24,500 per tonne area basis three months. On the other hand, there is good technical support in and around the \$22,700 - \$22,800 per tonne region.

The talking point in the market at present is the poor level of demand from the stainless steel mills. Premiums for uncut cathodes last week fell from \$150 to \$200 per tonne to \$100 to \$150 per tonne. A \$50 per tonne fall was also seen in 4x4 cathodes and nickel briquettes. They were last quoted at \$300 to \$350 per tonne. The mills seem to be both well covered in their supply intake plus production is slowing down as well.

But that said stainless steel demand is expected to pick up again in the fourth quarter and into 2012.

Australia's Minara Resources said last week that it has resumed normal operations at its Murrin Murrin nickel-cobalt operation in Western Australia. It was out of action for 14 days and lost about 2,000 tonnes of nickel production.

Norilsk Nickel said last Friday that it has restarted its Maggie Hays mine at its Lake Johnston operation. The mine was mothballed in 2009 along with Norilsk's other Australian assets due to

low prices. The mine has a capacity to process 100,000 tonnes per day of ore with an average grade of 1.3% nickel. Norilsk intends to produce 3,600 tonnes of nickel by the end of 2011.

Cuba's Che Guevara nickel plant in Moa has been closed for an undisclosed breakdown for an extensive period of maintenance work, Reuters reported last week. The plant has the capacity to produce between 80 to 85 tonnes of unrefined nickel and cobalt per day.

Steel

According to the National Bureau of Statistics China produced 59.9 million tonnes of steel in June, equivalent to 729 million tonnes per year. That is a rise of 11.9% year on year and 2.8% month on month. The previous record high was 718 million tonnes per year set in April this year. China's apparent consumption of steel hit 688 million tonnes per year in June. This was a rise of 15.5% year on year and 3.4% month on month. Yet another record.

Zinc

Three months LME zinc – from September 2010 to present day – daily close



Source: [Futuresource](#)

Three months LME zinc is trading this morning at around \$2,385 per tonne versus a close on Friday of \$2,378 per tonne. Zinc had a contango of \$29 per tonne versus a contango of \$26 per tonne on the previous Friday. Zinc fell 0.8% last week after falling by 0.4% in the previous week. Shanghai zinc stocks fell by 39 tonnes to 401,826 tonnes.

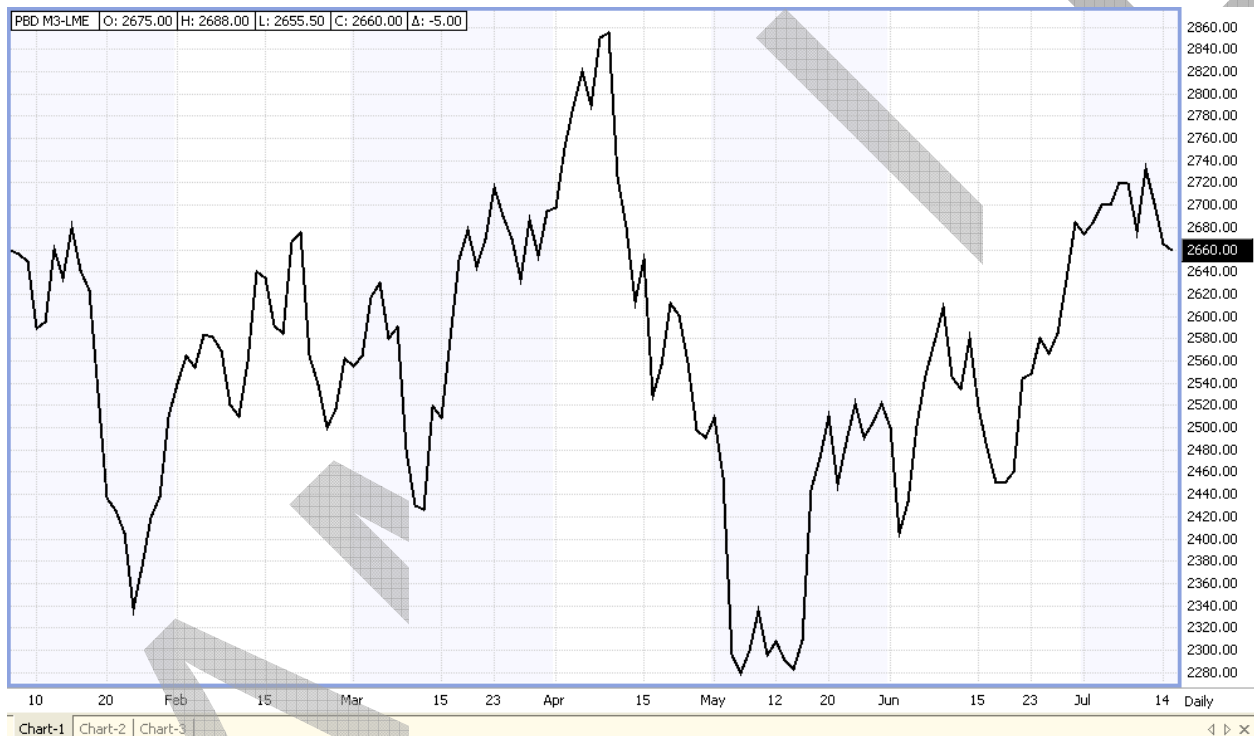
Zinc continues to be a very range bound market with the top end of the range sitting in and around the \$2,410 to \$2,430 area basis three months. The bottom end of the range seems to lie in the \$2,290 to \$2,300 area basis three months.

LME zinc stocks rose another 11,625 tonnes last week. This brings the total stocks increase in the last four weeks to 22,825 tonnes and for the last three months to 155,375 tonnes. The bulk of this metal went into warehouses in New Orleans. As noted last week, New Orleans is to zinc what Detroit is to aluminium. Zinc stocks held in LME registered warehouses in New Orleans now total 549,300 tonnes or 61.6% of the total LME zinc stocks of 891,350 tonnes.

It is difficult to make out a great bull case for zinc against the background of such a stocks rise and the background of slowing production of galvanised steel in many OECD countries.

Lead

Three months LME lead – from September 2010 to present day – daily close



Source: [Futuresource](#)

Three months LME lead is trading this morning at around \$2,725 per tonne versus a close on Friday of \$2,708 per tonne. Lead fell 0.3% last week after rising by 1.7% in the previous week. Lead closed on Friday with a contango of \$12 per tonne versus a contango of \$9 per tonne on the previous Friday. Shanghai lead stocks were unchanged last week at 52,983 tonnes.

Some lead bulls are talking about lead moving up to the \$2,770 - \$2,780 area basis three months in coming days. And the super bulls think that if that level can be breached to the upside then the technical picture suggests a further run higher with \$2,830 per tonne basis three months as the next upside target.

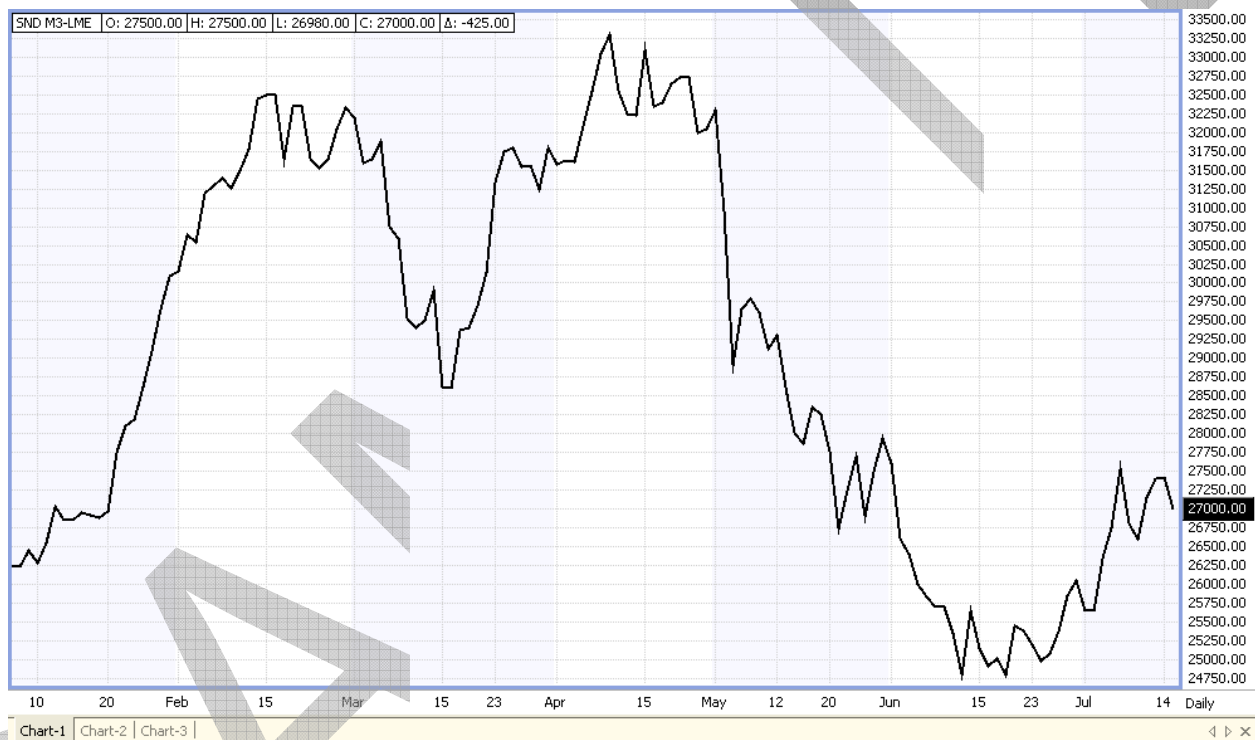
The number of replacement, automotive lead batteries shipped in North America rose nearly 6% month on month in May to 8,477,065 batteries, Battery Council International said last week. Shipments in the first five months of 2011 rose 6.2% year on year to 41,022,430 units.

Treatment charges for spot lead concentrates paid by overseas miners to Chinese lead smelters rose to \$150-\$160 per tonne in July. This is up around 30% from June's level of \$100 to \$140 per tonne, Chinese smelter sources told Platts news agency last week. China imported 572,300 tonnes of lead concentrates in the first five months of 2011. This is a rise of 19% year on year. Chinese domestic production of lead concentrates rose 32% year on year in the first five months of 2011 to 902,000 tonnes, the National Bureau of Statistics said.

China's Anhui province has shut down more than 80% of its lead-acid battery plants in the first half of this year, according to Xinhua News Agency. Some 26 of the 97 lead acid battery plants were shut down or demolished and 55 are being idled for safety checks.

Tin

LME three months Tin – from September 2010 to present – daily close



Source: [Futuresource](#)

Tin is trading this morning at \$27,000 per tonne basis three months LME after a close of \$27,200 per tonne on Friday. Tin had a contango of \$62 per tonne versus a contango of \$58 per tonne on the previous Friday. Tin fell 1.1% last week after rising by 4.5% in the previous week.

Many tin traders think the recent strong shortcovering and technical buying rally is more or less at an end. If that is the case then prices are likely to work back down towards the \$25,600 per tonne area basis three months over coming weeks. The market remains rather featureless although dealers worry that last week's 380 tonne rise in stocks may be followed by further rises in the current week.

Indonesia's PT Timah sold around 18,000 tonnes of tin in the January-June period at an average price of \$25,000 per tonne versus sales of 19,700 tonnes in the same 2010 period at an average

price of \$19,000 per tonne. PT Timah chief executive Wachid Usman said last week he was confident that the company would meet its target to mine 40,000 tonnes this year as the company is moving its operations offshore Bangka Island – its main production base – to avoid illegal miners taking its ore.

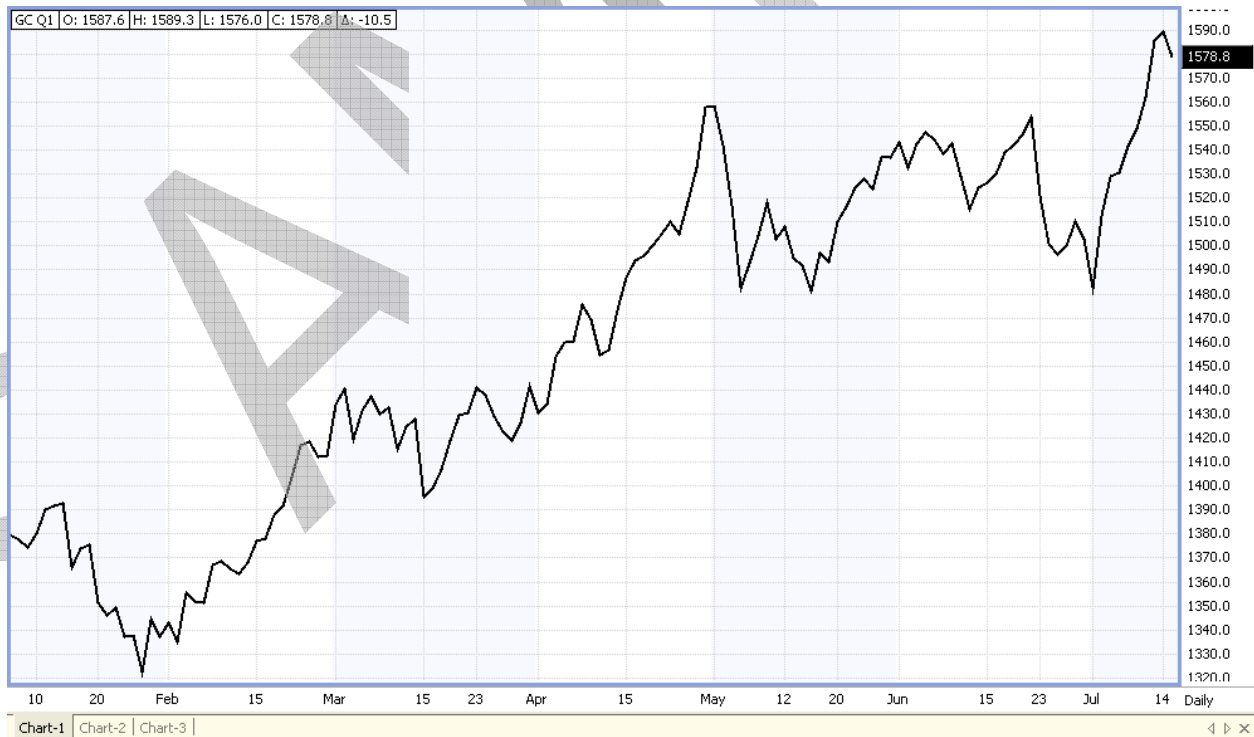
Indonesia's Trade Ministry said last week that exports for the first six months of 2011 totalled 50,165 tonnes, a rise of 16% over the same period of 2010 when heavy rains hampered mining operations. Exports in June were 10,875 tonnes, 35% up over June 2010. This was also the highest monthly export number since March 2009.

Empresa Minera Huanuni (EMH) will construct a 3,000 tonnes per day processing plant over the next two years to replace its existing concentrators. The Bolivian Mining Ministry, which owns and operates the tin mine, said it will extend the life of the mine by 25 years. EMH has signed a \$50.37 million deal with China's Vicstar Union Engineering to construct and assemble the equipment. The mine currently produces around 10,000 tonnes of tin in concentrates and it is thought the new equipment will lift this rate to around 13,000 to 14,000 tonnes per year.

China has issued a second batch of export quotas for tin. The quota is for 7,097 tonnes. China's first batch of export quotas was for 11,340 tonnes of tin and tin alloys but China only exported 4,745 tonnes of that quota in the period January through May. The LME price during that period was well above Chinese domestic prices. Currently, Chinese prices are at a premium to the LME.

Gold

Comex Gold – Basis August – September 2010 to present



Source: [Futuresource](#)

Gold is trading this morning at around \$1,596 per ounce. On Friday gold closed at \$1,587 per oz basis spot London. Gold rose 3.0% last week after rising by 3.9% in the previous week.

Gold hit a new high of \$1,594.16 per oz basis spot at one point late last week. Gold has since come back on very good profit-taking and heavy disinvestment sales of gold jewellery and bars in India, Asia, and the Middle East. The selling was most noticeable, dealers say, above the \$1,550 level basis spot.

We may well see more disinvestment selling this week and some dealers are talking about prices getting down to the \$1,550 - \$1,525 per oz range basis spot. But so long as sovereign debt concerns continue in Europe and people remain uncertain about the American debt ceiling being lifted gold is likely to find investment buyers.

An interesting statistic caught my eye last week. If you adjust gold for the impact of inflation over the years, the price is still well below its real price achieved in 1980. That price was \$2,400 per oz basis spot.

How valuable is the gold in Fort Knox?

On Friday a number of people were all talking about the possibility that the US government might sell some or all of its gold reserves and if they did how much would that realise?

US gold reserves stand at 8,133.50 tonnes. With 32,150 ounces to a metric tonne, this gives the metal a value of \$413,418,891,525 basis a spot price of \$1581.

But on the basis that it takes \$2.5 trillion to run the United States government for 18 months the gold in Fort Knox is only worth about three months of US government running costs. So compared to the debt, the gold is a drop in the ocean.

The US gold reserves represent over three years of global mine production. If the US Treasury were to sell the gold (and it is the US Treasury that actually owns it and manages it) on the same sales limits that the European central banks did so as not to disrupt the gold market, then the 8,000 tonnes would take 16 years to sell.

But bullion dealers are generally agreed that in reality there is no country anywhere that would sell gold to reduce its national debt. The gold market is simply too small and the debts are too large in comparison.

The only way gold could be used in the current situation would be in some form of swap or repo. However, this would not be done with the bullion market (again the numbers are simply too big). But it is possible that some smaller countries could do it on a government to government basis. It would be in effect a form of collateralised loan.

But all of the above disregards the public outrage that the US public would feel towards the Treasury for selling off or borrowing against "the family silver" as it were!
So all in all, I think that the US Treasury's gold is likely to remain unused.

An interesting footnote to all of the above is that the gold in Fort Knox has not been independently audited in around 80 years. This is at least the claim put forward by some bullion market sources. So perhaps Fort Knox is empty!

Silver

Comex Silver basis September 11 – September to present day – daily closing price



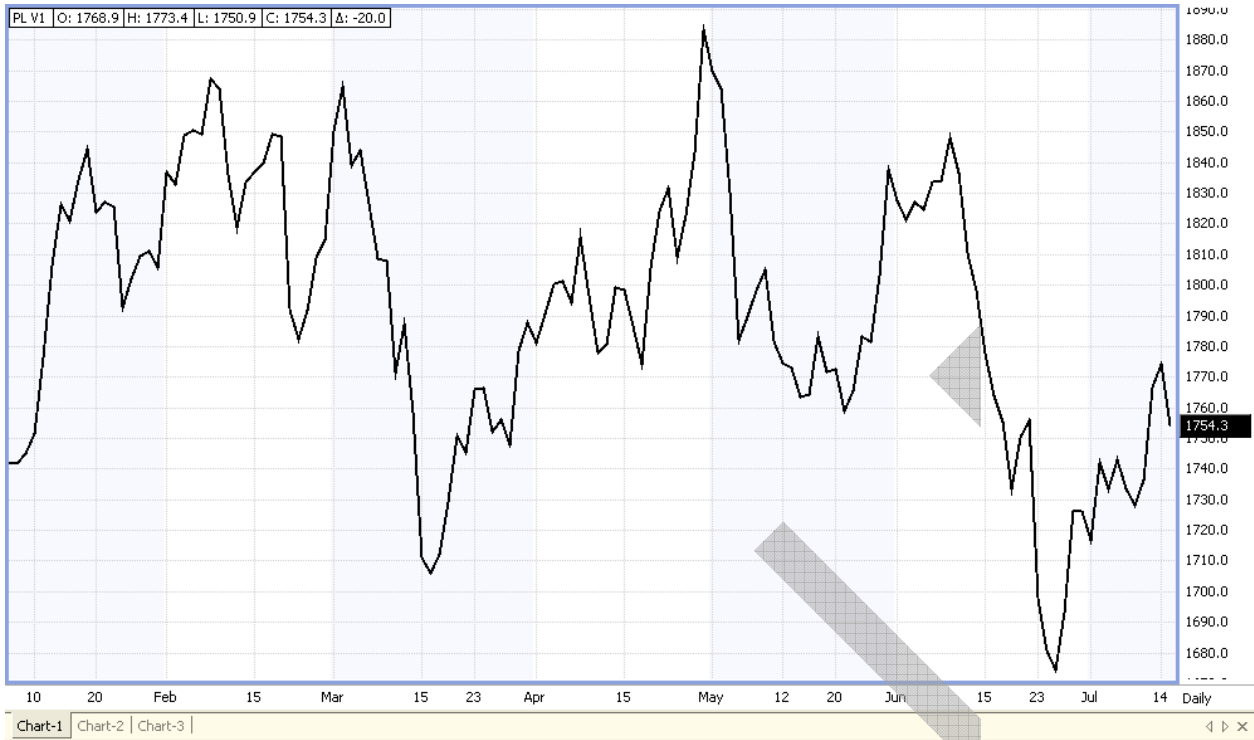
Source: Futuresource

Silver is trading this morning at around \$39.85 per ounce. Last Friday silver closed at \$38.17 per ounce basis spot London. Silver rose 5.2% last week after rising by 7.2% in the previous week.

Silver, like gold, hit a new high late last week. It traded up to \$39.27 per oz basis spot. Silver is likely to follow gold's price moves in the coming week. Like gold, there is a lot of silver held out there in India and Asia and we could see disinvestment selling develop over coming days.

Platinum and Palladium

Nymex Platinum October 11 – September 2010 to present – daily close



Platinum rose 1.7% last week after rising by 1.9% in the previous week. Palladium rose by 0.1% last week after rising by 3.5% in the previous week.

Platinum and palladium continue to enjoy a very steady undertone. This reflects the growing likelihood of the South African platinum mines being hit by industrial action. South Africa is already experiencing wide spread industrial action in various industries, including the chemical and energy industries. Fuel shortages have occurred in some parts of South Africa and the South African Chamber of Mines has warned that fuel shortages could disrupt mining production.

But the big worry is that current wage negotiations in the platinum mining industry are likely to continue until end July. There is a large disparity between what the miners are prepared to offer and what the labour unions want for their workers.

The National Union of Mineworkers has declared a dispute with Northam Platinum and may seek a government mediator if the talks continue to show no progress. The NUM is seeking a 14% wage increase. But if other demands are included the NUM is in fact asking for the equivalent of a 25% wage increase from the company. Northam has not said what it is offering the unions. Northam produces around 300,000 ozs per year of platinum group metals. If the issue is not resolved soon we could be looking at strike action in mid August.

Ted Arnold is an independent commentator. The opinions expressed are his own.