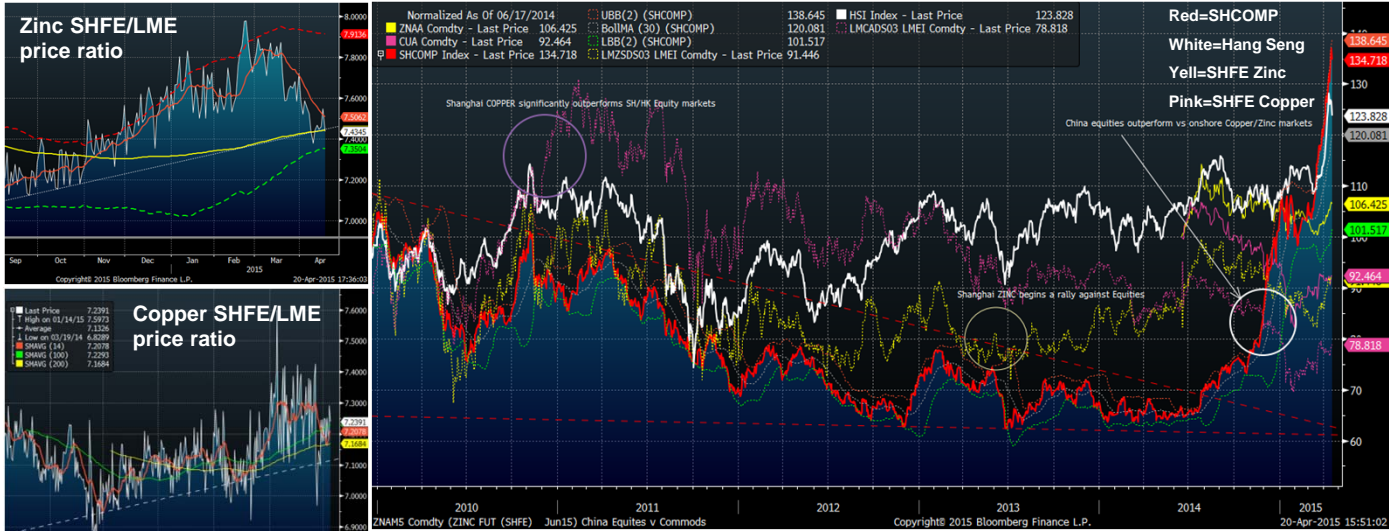


20-Apr-15

Orange=14d avg / Yellow=100d avg + Boll bands

THEMES & TRADES



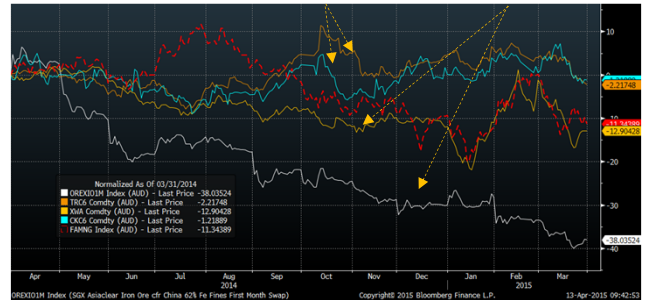
China Equities rally has so far not taken the usually popular speculative Copper and Zinc higher

Chinese commodity fundamentals are weak. Consumers import little on long-term contracts this year. Copper CIF SH promo trades \$5-10 last. Iron ore has lost 38% over 1 year without the USD effect. Extraordinary hits to steel demand due to pollution campaigns in China is the main culprit. By comparison however, onshore Chinese thermal and coking coal prices actually held up well this year. Buying **domestically** for the Chinese is more suitable this year – e.g. domestic coking and thermal Coal prices onshore in China hold up well and import prices decline. What does it mean for Copper and Zinc? Chinese are likely to buy **domestically** when possible, LME prices will be weaker in relative terms. Arbitrage ratio dips will be bought.

ZINC arb was active **today** (Monday, 20th April) as we opened post a 1% RRR cut in China. The expectation of increased **stimulus** could be interpreted as helping the onshore Zinc price to recover against LME Zinc. And perhaps the Equity rally will lift domestic Zinc and Copper as well...

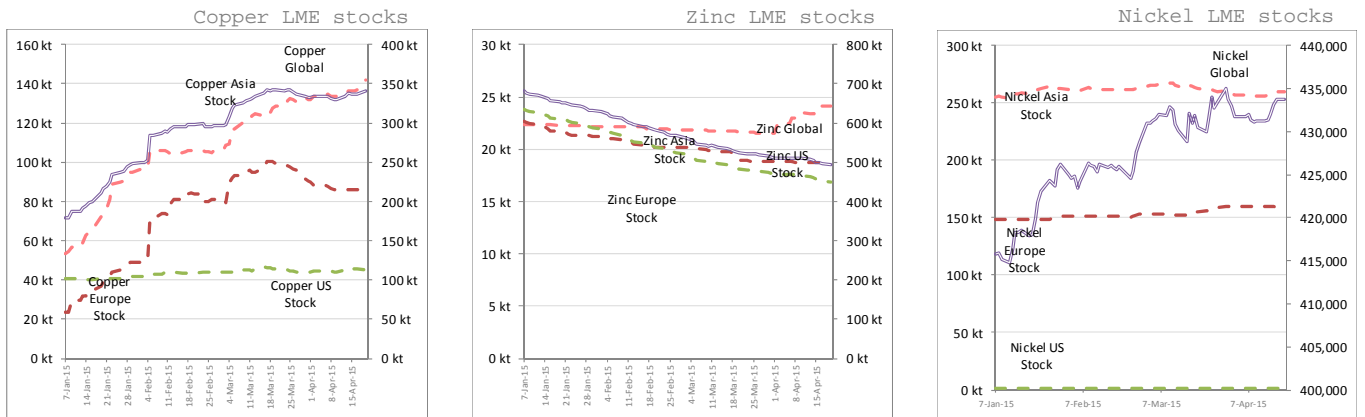
Core **trade** here is buying Chinese onshore commodities, and an active proxy would be selling imported arb-able commodities: Zinc, Copper, Coal.

Iron Ore and Coal – China prices stable, international prices sliding



Iron ore (OREXIO1M) and thermal Coal (Newcastle XWA / Zhengzhou TRCA), coking coal (CRCA) and ASX mining equities index. Neutralized the USD-effect by looking at prices in AUD. Chart gives you 1 year performance in %.

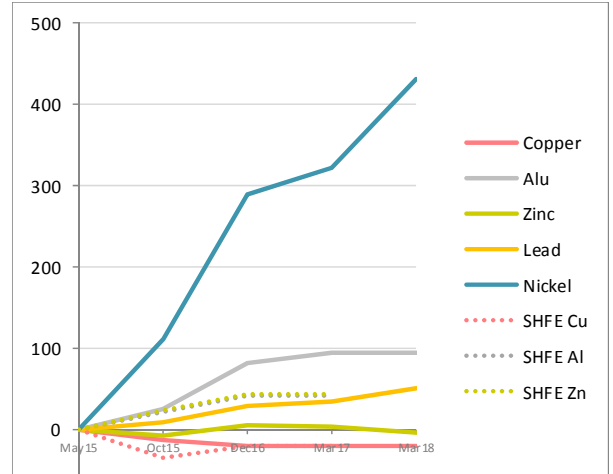
PHYSICAL INDICATORS



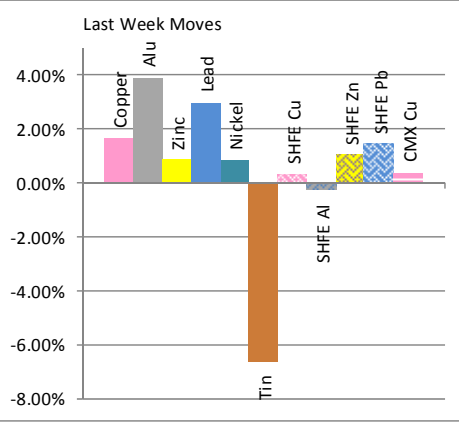
China Arbitrage Calculations

CU Arb		3mo Arb		ZINC Arb		3mo Arb	
LME Cash	6069		6081	LME Cash	2206.25		2222
LME 3M				LME 3M			
LME warrant				LME warrant			
CIF Shanghai	60		60	CIF Shanghai	100		100
CNY spot	6.2014			CNY spot	6.2014		
CNY 3m			6.1692	CNY 3m			6.1692
VAT	6461.4		6440.5	VAT	2431.3		2435.2
Inspection	57.0		56.8	Inspection	21.5		21.5
Import Duty	0.0		0.0	Import Duty	143.0		143.2
Rental	22.5		22.5	Rental	22.5		22.5
90days LC	114.0		113.7	90days LC	42.9		43.0
Price of Import	44,663		44,518	Price of Import	16,963		16,990
RMB Diff	-CNY 693		-CNY 668	RMB Diff	-CNY 363		-CNY 350
USD Diff	-\$112		-\$108	USD Diff	-\$59		-\$57
Price Onshore	43,970		43,850	Price Onshore	16,600		16,640
SHFE cash	43,920			SHFE cash	16,525		
SHFE 3M			43,800	SHFE 3M			16,565
SHFE warrant	50			SHFE warrant	75		
ARB Cash	7.24			ARB Cash	7.49		
ARB 3M			7.20	ARB 3M			7.45

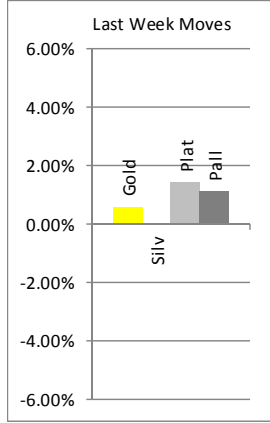
Base Forward Curves (in USD)



PRICE MOVES



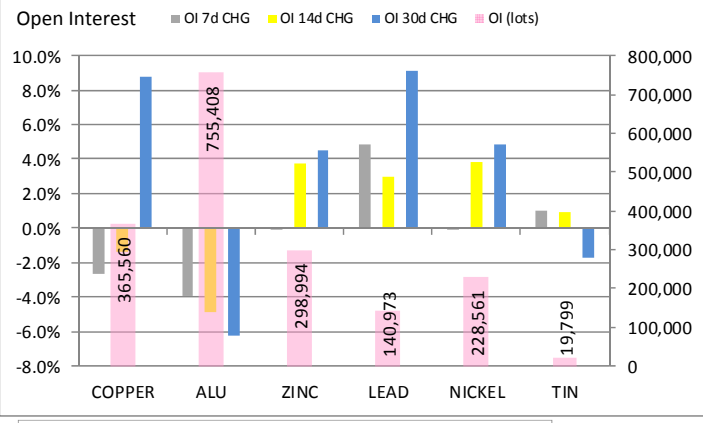
Tin just had an extraordinary adjustment lower last week, while other base metals recovered marginally.



Silver was unchanged after a negative week. There is no support from the positive China arb that we saw late March.

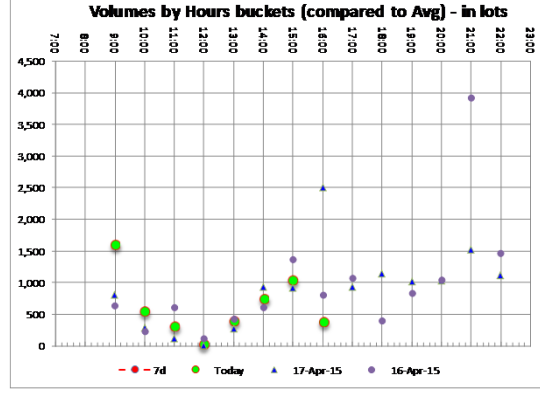
Chinese banks' bids disappeared almost completely.

OPEN INTEREST & VOLUME



Open interest in Metals mostly increased.

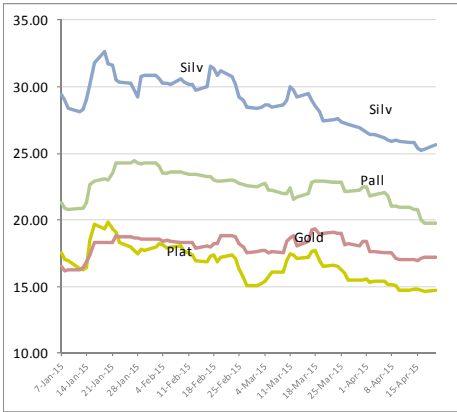
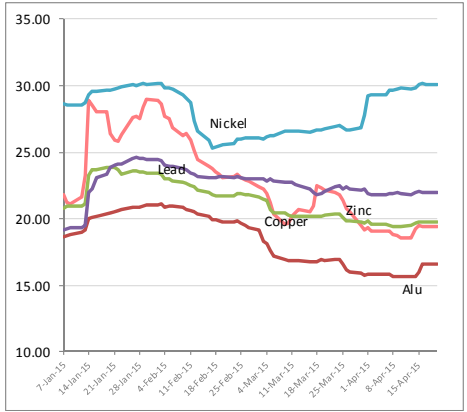
Copper gained almost 9% net new positions over the past month – mostly shorts. The past week has seen 2.1% short covering and long liquidation.



Average weekly trading volumes have shown a big upswing as we broke \$5950 in Copper in early London hours.

Early London hours are also coinciding more with the Shanghai night session.

VOLATILITY



Gold vols in 1 month ATM touched 13% and this is an attractive level if you intend to delta hedge because ranges remained relatively wide with \$1180-1220.

Base Metals: Nickel vols returned to 30% as call options were bought. Copper vol returned sub-20% as we rallied to \$6250 and given a potential break lower, it is an opportunity to buy puts.

It is a good time to consider buying Copper puts and Nickel calls.

Options Bid Indications

	Expiry	Upside Call		ATM		Dow nside Put	
		\$ Prem.	\$ Prem.	\$ Prem.	\$ Prem.		
	3-Jun-15	-22 delta		-50 delta		-22 delta	
GOLD	1280.0	9.1 / 12.4	1206.0	33.2 / 37	1160.0	16.5 / 20	
SILV	17.9	0.2 / 0.4	16.3	0.7 / 0.9	15.5	0.4 / 0.6	
PLAT	1240.0	11.9 / 20.3	1169.1	36.2 / 45.4	1110.0	15.5 / 24	
PALL	840.0	8.3 / 16.7	779.2	28 / 37.2	730.0	10.5 / 18.9	
COPPER	6,370	\$ 38	6,069	\$ 150	5,770	\$ 53	
ALU	1,900	\$ 9	1,809	\$ 37	1,740	\$ 11	
ZINC	2,340	\$ 11	2,212	\$ 51	2,100	\$ 11	
LEAD	2,160	\$ 9	2,034	\$ 46	1,930	\$ 10	
NICKEL	13,540	\$ 152	12,533	\$ 475	11,780	\$ 170	