TIN REPORT

27th January 2011

Summary

LME Settlement Prices

Cash	**USD 29,195/-**
3 months	**USD 29,100/-**

LME

Tin is currently trading on the systems between USD 29,255 and USD 29,195 basis 3 months. The Cash to 3 months spread is in the range 60 to 50 backwardation.

Indicative 3 months Chinese Tin prices were trading at RMB 192,278/192,652. In Euros 3 months was trading at €21,268/€21,200. Currently Euro is trading at 1.3726/1.3728 against US Dollar.

LME STOCKS

	WEEK 4(27/01/11)
Total	**17,720 MTS**
Cancelled stocks	**995 MTS**
Freely available stocks	**16,725MTS**

SUPPLY & DEMAND

Although eyes have, in general focused on Copper, the darling of the hedge funds, Tin has in fact outperformed Copper on the LME this year rising by 5% while Copper has actually lost 4.2%. Societe Generale's D Wilson is quoted as saying that he expects a price of USD 30,000 on the back of further stagnation in mining supply. Tin has seen a 180% surge since the depths of the recent global financial crisis. According to ITRI (International Tin Research Institute) global refined Tin consumption rose by 12.5% in 2010, there was also a significant rise in China's consumption, which rose to a record 147,000 tonnes. An ITRI spokesman made the interesting point that we have not seen the price of Tin reach a point as yet, where consumers would be better placed to switch to an alternative material and thus the current prices should be sustainable.

Recent efforts by the Chinese authorities have resulted in the closure of numerous un reported mines. China's Nonferrous Metals Association (CNIA) reported that national production of tin-in-concentrates rose by 15% to 74,304 tonnes in the 11 months to November 2010, but we believe that unreported production has fallen. The great majority of production comes from three provinces/regions: Yunnan (38%), Hunan (35%) and Guangxi (19%), all of which were included in the latest campaign. ITRI estimates that as a result of the efforts by the authorities, unreported tin mine production in China has declined sharply from a peak of some 40-50,000/Mt per annum in 2006-2007 to around 10,000 tonnes last year.

Tin, the best performer last year of the six principal base metals traded in London, may rally to a record USD 40,000 per metric ton as global supply may lag behind demand until at least 2013, according to Malaysia Smelting Corp. "You still have upside," Mohd. Ajib Anuar, group chief executive officer of Malaysia's largest producer, said in an interview. A price of USD 35,000 to USD 40,000 in the next five years "is not impossible" as demand climbs, new mines take longer than expected to start output, and ore quality drops, Anuar said.

Tin, used in electronics and packaging, was the first base metal to reach a record last year after the worst global recession since the World War II. The metal rose 59 percent in 2010, touching USD 27,500 per ton on Nov. 9, on increased demand and supply disruptions in Indonesia, China and Africa. Barclays Capital has forecast a global shortage of 17,000 tons this year. "In real terms, the peak was over USD 40,000 and today it's USD 26,000," Anuar said on Jan. 14 in Singapore, referring to the price in 1980 adjusted for inflation. According to the U.S Geological Survey, tin averaged $8.46 a pound (USD 18,646 a ton) that year, equivalent to about USD 22.39 a pound last year when adjusted to reflect the change in the value of money.

PT Timah, Indonesia's largest tin exporter, said on Jan. 14 that production may drop in 2011 for a fourth straight year as bad weather disrupts operations. Output may be 37,000 to 40,000 tons this year compared with 40,000 tons last year, Corporate Secretary Abrun Abubakar said. Tin futures recovered from intraday losses of as much as 1.1 percent that day to end level.

A La Nina weather pattern has brought heavier-than-usual rain to parts Asia this year and last, curbing tin production in Indonesia, the biggest exporter. Power cuts in China, the world's largest producer, also curbed output. In the Democratic Republic Congo, Africa's largest tin producer, a general ban on mining was imposed in September in three eastern provinces.

The global tin deficit may be 21,300 tons this year after an estimated 25,100 ton shortfall in 2010, according to industry group ITRI Ltd. Malaysia Smelting is one of ITRI's board members. There was a deficit of 15,700 tons from January to October last year, according to the World Bureau of Metal Statistics.

ITRI has also forecast deficits in 2012 and in 2013, after which new supplies from Morocco, Russia and Australia are expected to begin. These are best estimates and could take very much longer to come into full production.

Demand will be underpinned by growth in the electronics and chemical industries, with use in batteries and glass-making having, together with its more traditional use in food packaging. It would appear that, as we have reported before, Tin is very much a twenty first century metal.

London Metal Exchange inventories of tin shrank 39% last year, the largest decrease since 2004. While there are reserves to support tin consumption for the next 20 years, the quality of ore is declining, meaning less metal is extracted from each ton of earth. That's driven up the cost of production, Anuar said. "Because of the lack of exploration for more than two decades, since the collapse of the tin market in 1985, all the richer deposits and the more-accessible deposits have been mined," said Anuar.

Elsewhere

Vinto of Bolivia is about to retender Tin on a long-term basis after only two participated in the recent tender, albeit at very high premiums of above USD 300 basis FOB Arica.

South Korea, Asia's third-biggest buyer of base metals, passed on a tender to buy 200 metric tons of tin ingots yesterday because of a lack of suppliers, according to a state agency. The state-run Public Procurement Service, which stockpiles strategic commodities, will hold bidding again for the metal on Jan. 31, a notice said.

LME TECHNICALS

LME Premiums

Premiums continue to edge higher as a factor of ever-higher LME prices, and the increasing amount of funding required to finance each container. Higher energy prices are also pushing up freight charges. The all-time high LME Tin prices make it increasingly unlikely that much Tin will be shipped to the USA or Europe in the foreseeable future. Recent South American tenders have shown some very high numbers, without sign of a let-up. It appears that less Tin has been booked on a long-term annual contract than usual, and so, we can expect premiums and prices to be more volatile than usual.

LME Activity

LME prices started their recent run up to new highs when JP Morgan and others announced that they were starting ETFs in Tin. This was particularly surprising as the perceived and actual liquidity in LME Tin is not best suited to a speculative vehicle like an ETF in Tin. This makes us believe that there is a greater likelihood that Tin prices will now over-shoot on the upside. Obviously, if and when the market finally reverses, the fall could be quite dramatic, but that looks a long way off for the moment.

The LME backwardation is threatening to flare up again. The LME authorities are monitoring this, especially the immediate Tom-Next activity. Nevertheless, there is little reason for the current cash to 3 months backwardation of USD 60. The forward months, after three months, are in even big backwardations, as LME producers are deterred from selling far forward by the large discounts. The LME backwardation could flare up at any time, and for that reason, we recommend not pricing at the last minute. The tightness is only technical, and the local LME traders could well have a bit more fun and games.

With the stochastics and RSI both trending deep in their positive ranges and with tin finding support from the UBB, momentum remains bullish. We remain bullish as long as Tin continues above $26,700.

RESISTANCE (USD) 28,900/29,100 and 29,250
SUPPORT (USD) 28,324/28,000 and 227,620
OUTLOOK / TREND Generally Bullish with Some Consolidation Expected

OPTIONS

27th January 2011
Basis $ 28,460,$28,550 3 MONTHS Apr 2011

Strike	**CALLS**		**PUTS**	
	BID	OFFER	BID	OFFER
25000	$4496	$4616	$297	$417
27000	$3011	$3131	$805	$925
29000	$1864	$1984	$1650	$1770
31000	$1060	$1180	$2838	$2958
33000	$548	$668	$4319	$4439

TRADING STRATEGY

The shortage on the supply side looks to continue, with new production facilities taking longer to come on stream and existing production facilities set to tail off in both, quality and quantity. It is easy to believe or read that the positive fundamentals for Tin will continue for quite a while longer, and that prices will continue to escalate to ever higher levels. The market is long already, and technically, showing some signs of being overbought, and so, we should expect some profit-taking at some stage. However, do not be short of tin, especially with the current backwardation. Prices could spike much higher.