Trade Booster

25 March 2014

A Putin premium for palladium and a China PMI punishment for copper

Summary

- **Supply shortages of palladium resulting from Russia's depleted stock levels and falling exports are reinforced by sanctions against Russia.**
- **Destocking of copper has only just started in Shanghai warehouses, with inventory levels hovering close to peak levels attained in 2012, 2013 and so far this year. Deeper contractions in China producer output for March may add fuel to copper weakening.**
- **Speculators have positioned along the contrasting supply conditions between copper and palladium. Resilient bullish positioning in palladium vs. growing bearish positioning in copper may drive the performance wedge between the metals wider.**
- **Investors who share this sentiment may consider the following short and long products from the Boost ETPs product platform *(www.boostetp.com/products)*:**

Shorts:

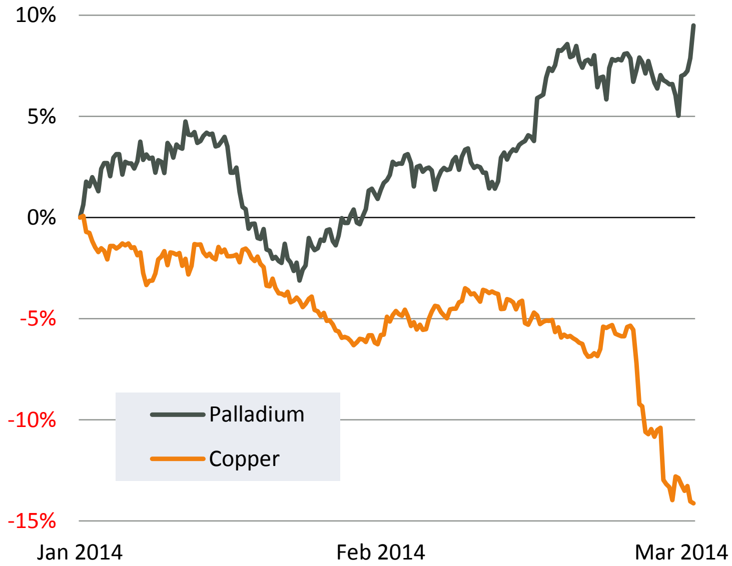
1. **Boost Copper 3x Short Daily ETP (3HCS)**

Longs:

1. **Boost Palladium 2x Leverage Daily ETP (2PAL)**

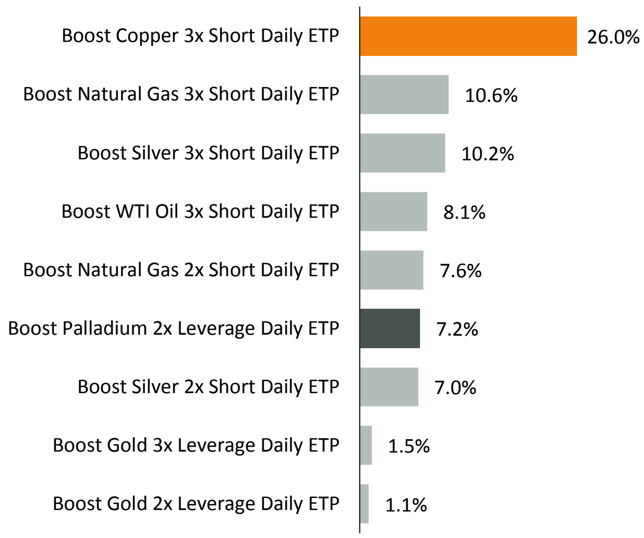
Palladium thriving, copper suffering

Performance YTD (1 Jan to in USD



Boost's top performing commodity ETCs

Performance MTD (1 to 20 March 2013) in USD



Source: Boost ETP Research, Bloomberg. Data as at 20 March 2014

The political backlash against Russia surrounding the separation of Crimea from Ukraine leaves palladium exposed. As the largest exporter of palladium, Russia may face further sanctions, potentially hampering the trade of palladium. Concerns here reinforce supply shortages of palladium, and bolsters bullish positioning in the metal. In contrast, copper's weakness is underpinned by China's disappointing March PMI numbers for manufacturing, pointing towards deepening output contraction and weak industrial profits. Set against the excessive copper inventory levels in Shanghai warehouses, copper may continue to succumb to more weakness. Investors sharing this sentiment may consider the following long and short positions:

Long:

1. Boost Palladium 2x Leverage Daily ETP (2PAL)

Shorts:

2. Boost Copper 3x Short Daily ETP (3HCS)

Worries over sanctions against Russia may reinforce tight supply conditions of palladium

According to Johnson Matthey PLC's semi-annual review of platinum and palladium markets released in November last year, the tight supply conditions in palladium should push the market into deficit in 2014. This is driven mainly by palladium's increasing use in the automotive industry, which uses palladium in the manufacturing of catalytic converters. Its robust demand there is expected to outweigh the weakness in demand in the other sectors, most notably jewellery.

However, with Russia's government having sold only 100,000 ounces of palladium in 2013 even while 250,000 ounces were sold in 2012, it is likely that Russia's stockpile of palladium accumulated in the 1980 and 1990s are on the verge of depletion. Following last year's 6.6% decline of Russian palladium supplies (both from state and private sectors), the tight supply conditions in 2014 are now reinforced by the West's imposition of sanctions against Russia. This is a reaction to the events surrounding Crimea's separation from Ukraine.

With Russia being the largest producer of palladium, the combined effect of the Russian state's depleted stockpiles and a deteriorating export outlook is bolstering bullish sentiment in palladium. On NYMEX, net long speculative positions have risen to over 20,000 contracts on palladium. This is somewhat lower than the record levels of bullish positioning seen in 2013, when net long speculative positions exceeded 25,000 contracts during the months of February, March, August and October. However, at 50% of total open interest on NYMEX, the current net long speculative positions are as high as the levels seen throughout most of last year. The stickiness in bullish positioning may be explained by the fact that last year, palladium stood out as the only precious metals to post gain amidst gold and silver falling into deep bear market territory.

Ironically, palladium may get a further boost given the contrasting supply conditions in industrial metals. The supply overhang in copper is already driving speculators on COMEX to be net short by 21,000 contracts, about the mirror image of the number of contracts that are net long in palladium on NYMEX. Copper may continue to struggle amidst sentiment indicators for China's economy likely to disappoint investors over the coming days. HSBC's China PMI manufacturing shows a continuation in the contraction of industrial output in March. If the downbeat producer sentiment is confirmed in the release of weakening industrial profits later in the week by the National Bureau of Statistics, copper may succumb to further selling pressure. This, coming at a time as the unwinding of supply excesses in copper has helped drive a slump in copper prices, falling 14% this year (see chart 1). At 210,000 tonnes, the deliverable stocks on Shanghai warehouses remain at elevated levels, barely off from last week's peak of 213,000 tonnes attained this year.

As shown in Chart 2, shorting copper with geared ETPs this month produced strong returns to investors. Boost Copper 3x Short Daily ETP (3HCS) was up 26% (see chart 2) even while copper fell by 8.1% in the same period. At the same time, Boost Palladium 2x Leverage Daily ETP (2PAL) is up 7.2% this month, double the 3.6% return of palladium spot prices.

Free-thinking ETPs

Disclaimer

This communication has been provided by Boost ETP LLP which is an appointed representative of Mirabella Financial Services LLP, which in turn, is authorised and regulated by the Financial Conduct Authority.

The products discussed in this document are issued by Boost Issuer PLC (the "Issuer") under a Prospectus approved by the Central Bank of Ireland as having been drawn up in accordance with the Directive 2003/71/EC. The Prospectus has been passported from Ireland into the United Kingdom and is available on the websites of the Central Bank of Ireland and the Issuer. Please read the Prospectus before you invest in any Exchange Traded Products ("ETPs"). Neither the Issuer nor Boost ETP LLP is acting for you in any way in relation to the investment to which this communication relates, or providing investment advice to you. The information is not an offer to buy or sell or solicitation of an offer to buy or sell any security or investment. You are advised to seek your own independent legal, investment and tax or other advice as you see fit.

The value of an investment in ETPs may go down as well as up and past performance is not a reliable indicator of future performance. An investment in ETPs is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

ETPs offering daily leveraged or daily short exposures ("Leveraged ETPs") are products which feature specific risks that prospective investors should understand before investing in them. Higher volatility of the underlying indices and holding periods longer than a day may have an adverse impact on the performance of Leveraged ETPs. As such, Leveraged ETPs are intended for financially sophisticated investors who wish to take a short term view on the underlying indices. As a consequence, Boost ETP LLP is not promoting or marketing Boost ETPs to Retail Clients. Investors should refer to the section entitled "Risk Factors" and "Economic Overview of the ETP Securities" in the Prospectus for further details of these and other risks associated with an investment in Leveraged ETPs and consult their financial advisors as needed.

This marketing information is derived from information generally available to the public from sources believed to be reliable although Boost ETP LLP does not warrant the accuracy or completeness of such information. All registered trademarks referred to herein have been licensed for use. None of the products discussed above are sponsored, endorsed, sold or promoted by any registered trademark owner and such owners make no representation or warranty regarding the advisability on dealing in any of the ETPs.