# Commodities

## Commodities: Daily

Standard Bank

## Iranian sanction tightens global oil supply

5 January 2012

**Focus:** The US president signed into law measures that deny access to the US financial system any foreign bank that conducts business with the Central Bank of Iran at the end of last week. Also, reportedly the EU has reached a deal, in principle, to ban imports of Iranian oil. In addition, the US and EU are seeking support from Asia countries that are traditionally the biggest importers for Iranian crude.

- After an initial rebound, base metals have come under downward pressure since yesterday, with losses becoming more acute in early morning trade today. Overnight, copper managed to gain briefly as Chinese buyers engaged in arbitrage buying.
- Despite lacklustre activity, gold managed to hold on to it gains in overnight trading. We are seeing decent physical interest coming out of Asia, mostly China, on approach of the New Year celebrations there that will occur earlier this year than usual. Investor support is mild, although ongoing tensions in Iran have been keeping interest alive.
- The global oil market is now tighter after the sanction imposed by the US on Iran and an imminent embargo to be imposed by the EU. As traditional buyers for Iranian oil step away, some Iranian supply has effectively been taken out the market, which will keep the oil price heated. However, the Eurozone debt crisis carries significant downside risk, as the euro is testing a previous low. A collapse in the euro would certainly drag oil down with it.


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**Commodity price data (4 January 2012)**

| Base metals LME 3-month | Open | Close | High | Low | Daily change | Change (%) | Cash Settle | Change in cash settle | Cash - 3m |
|---|---|---|---|---|---|---|---|---|---|
| Aluminium | 2,075 | 2,065 | 2,087 | 2,047 | -10 | -0.47% | 2,052.00 | 46 | -23.75 |
| Copper | 7,725 | 7,540 | 7,745 | 7,531 | -185 | -2.39% | 7,652.00 | -9 | -12.25 |
| Lead | 2,085 | 2,060 | 2,092 | 2,057 | -25 | -1.20% | 2,043.00 | 49 | -22.75 |
| Nickel | 18,950 | 18,795 | 18,950 | 18,475 | -155 | -0.82% | 18,705.00 | 275 | 8.00 |
| Tin | 19,973 | 19,605 | 19,973 | 18,900 | -368 | -1.84% | 19,675.00 | 225 | -58.00 |
| Zinc | 1,879 | 1,869 | 1,881 | 1,853 | -10 | -0.51% | 1,844.50 | 18 | -15.50 |

| Energy | Open | Close | High | Low | day/day | Change (%) |
|---|---|---|---|---|---|---|
| ICE Brent | 113.50 | 113.75 | 113.75 | 112.93 | 0.05 | 0.04% |
| NYMEX WTI | 103.29 | 103.29 | 103.38 | 102.80 | 0.07 | 0.07% |
| ICE Gasoil | 970.25 | 970.75 | 971.00 | 968.25 | 6.00 | 0.62% |
| API2 Q1'12 | 109.45 | 109.45 | - | - | 0.00 | 0.00% |

| Precious metals | AM Fix | PM Fix | High bid | Low offer | Closing bid | Change (d/d) | EFP's |
|---|---|---|---|---|---|---|---|
| Gold | 1,603.00 | 1,613.00 | 1,616.70 | 1,594.00 | 1,612.00 | 12.00 | 0.7/1.1 |
| Silver | - | 29.47 | 29.72 | 28.97 | 29.14 | -0.45 | -4.5/-2.5 |
| Platinum | 1,431.00 | 1,415.00 | 1,430.00 | 1,420.00 | 1,420.00 | -5.00 | 1.5/3.5 |
| Palladium | 663.00 | 656.00 | 661.00 | 647.00 | 649.00 | -13.00 | 0.0/1.0 |

*Sources: Standard Bank; LME; BBG*


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## Focus: Iranian sanction tightens global oil supply

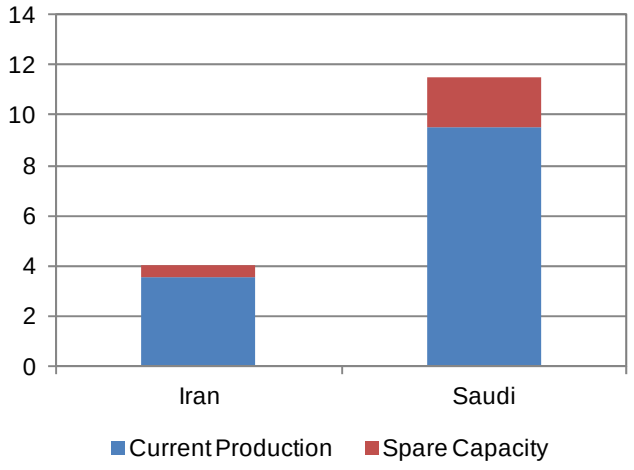
The US president signed into law measures that deny access to the US financial system any foreign bank that conducts business with the Central Bank of Iran at the end of last week. Also, reportedly the EU has reached a deal, in principle, to ban imports of Iranian oil. In addition, the US and EU are seeking support from Asia countries that are traditionally the biggest importers for Iranian crude.

Latest data shows that China has cut its oil imports from Iran by more than half in January, and could extend the cut next month. The oil market should be concerned that there are few others who would comfortably step up their oil purchases from Iran as China cuts back its purchases. To bridge this import gap, Asian refineries have seen buying North Sea crude oil, and the arbitrage from Europe to Asia has become profitable.

Recent developments have effectively taken some of the Iranian crude oil out of global supply, which has tightened fundamentals — at least in the short term.

Further escalation of the already tense situation could push the oil price even higher. Although we believe that a full-blown crisis, such as a closure of the Strait of Hormuz, remains a small probability, as such a move would not only hurt "the West" but rather the entire globe, given the importance of oil to the world economy. Diplomatic efforts have certainly been aimed at easing the situation. In addition, Iran itself relies on the revenues from its oil exports.

**Iran and Saudi oil production (mbbl/d)**




*Sources: Standard Bank Research*

Currently, there are a number of relief factors for the market. First, Saudi appears willing to step up its production for import countries to replace Iranian oil. Secondly, Libya's crude production continues to ramp up.

Nevertheless, Saudi has ~2mb/d spare capacity, smaller than Iran's ~2.5mb/d export level. More importantly, the 2mb/d spare capacity is untested. Consequently, the current situation and any further deterioration warrants a higher oil price.

**By James Zhang**

## Base metals

After an initial rebound, base metals have come under downward pressure since yesterday, with losses becoming more acute in early morning trade today. For a brief period overnight, copper managed to gain as Chinese buyers engaged in arbitrage buying. This morning's renewed weakness throughout the complex is largely owing to another blow to confidence in the Eurozone economy dealt by disappointing industrial orders data. Eurozone industrial orders for October only managed to grow 1.8% m/m, a far cry from the 2.5% m/m gain analysts had expected. Apart from concerns over industrial demand, particularly for aluminium and copper, the news has pushed the dollar higher in relation to the euro, adding to the downward pressure on commodity prices.

Rio Tinto has declared *force majeure* at two of its aluminium smelters in Canada, citing technical problems at one smelter and a breakdown in labour negotiations at the other. This should not provide much support for prices, as both smelters' annual capacity is marginal, and current global supply continues to exceed demand. The plunge in Alcoa earnings estimates attests to this excess supply, as many analysts question the profitability of some smelters.

Other than following movements in the euro/dollar exchange rate, we look to this afternoon's US data releases for direction. Market participants will be looking to the Challenger job cuts and ADP employment change numbers, ahead of tomorrow's all-important non-farm payrolls data. Better-than-expected numbers could help markets shake off some of the pessimism surrounding the Eurozone economy. However, we feel that upside will be limited as markets adopt a wait-and-see approach ahead of tomorrow's data release.

**By Marc Ground**

## Precious metals

Despite lacklustre activity, gold managed to hold on to it gains in overnight trading. We are seeing decent physical interest coming out of Asia, mostly China, on approach of the New Year celebrations there that will occur earlier this year than usual. Investor support is mild, although ongoing tensions in Iran have been keeping interest alive.

US vehicle sales data, released overnight, was mildly supportive of PGM. Total vehicle sales for December were slightly better than expected, at 13.52m (consensus: 13.5m), but still a drop from the 13.59m seen in November. Growth in Japanese vehicles sales declined to 23.5% y/y in December, from 24.1% y/y in November. Given the relatively modest nature of these changes, PGM markets seem to be ignoring the data, rather following the general trend of the rest of the precious metals complex.

Once again, movements in the dollar seem to be most crucial in dictating the path for precious metals today. As long as confidence in the Eurozone is being undermined, we could see a strengthening dollar cut into any upside for precious metals, which might result from safe-haven demand. We don't expect much market activity today as participants remain on the sidelines ahead of tomorrow's non-farm payrolls data.

Gold support is at $1,596 and $1,582. Resistance is $1,623 and $1,634. Silver support is at $28.72 and $28.43, resistance is at $29.54 and $30.06.

Platinum support is at $1,405 and $1,398, resistance is at $1,429 and $1,445. Palladium support is at $633 and resistance at $656.

**By Marc Ground**

## Energy

Oil climbed further yesterday, driven by the news that the EU would impose an embargo on Iranian oil. WTI and Brent gained 26c/bbl and $1.57/bbl respectively. Oil products were stronger too, and are supporting relatively strong refining margins. However, the API report later in the day dampened sentiment for the product market. The term structures for both Brent and gasoil weakened yesterday.

The API reported US weekly oil inventory changes for crude/gasoline/distillates at -4.4/+3.4/+5.2mb w/w. Total crude imports were broadly unchanged, as US refining throughput was also largely flat. The large build in product stocks was likely driven by a sharp, probably only temporary, fall in demand during the holidays.

It was reported yesterday that EU governments had reached a deal, in principle, to ban imports of Iranian oil. Although details of the ban and a starting date are unclear, and further talks are required, we can only assume that traditional EU importers for Iranian oil have already had already started to cut the links. The recent weakness in Urals and a possible cut in Saudi's OSP would help some European refineries looking for alternatives.

The global oil market is now tighter after the sanction imposed by the US on Iran and an imminent embargo to be imposed by the EU. As traditional buyers for Iranian oil step away, some Iranian supply has effectively been taken out the market, which will keep the oil price heated. However, the Eurozone debt crisis carries significant downside risk, as the euro is testing a previous low. A collapse in the euro would certainly drag oil down with it.

**By James Zhang**

# 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 | 4,983,175 | 4,978,750 | 7,300 | 2,875 | 4,425 | 12,775 | 658,075 | 13.21 | 229,941 |
| Copper | 369,150 | 371,575 | 0 | 2,425 | -2,425 | -1,750 | 41,000 | 11.11 | 112,565 |
| Lead | 353,075 | 351,725 | 2,725 | 1,375 | 1,350 | 0 | 27,775 | 7.87 | 54,686 |
| Nickel | 89,550 | 90,516 | 0 | 966 | -966 | -498 | 2,370 | 2.65 | 33,178 |
| Tin | 11,795 | 12,095 | 0 | 300 | -300 | -395 | 1,320 | 11.19 | 5,260 |
| Zinc | 820,750 | 820,300 | 500 | 50 | 450 | -950 | 13,550 | 1.65 | 114,198 |

| Shanghai 3-month forward prices | | | | COMEX active month future prices | | | | |
|---|---|---|---|---|---|---|---|---|
| Metal | Open | Last | 1d Change | | Open | Close | Change | Change (%) |
| Aluminium | 15,915 | 15,945 | 0 | Ali Mar'12 | - | - | - | - |
| Copper | 55,420 | 56,030 | -120 | Cu Mar'12 | 343 | 346.80 | 3.35 | 0.98% |
| Zinc | 14,755 | 14,875 | 30 | | | | | |

| ZAR metal prices | Aluminium | Copper | Lead | Nickel | Tin | Zinc | ZAR/USD fix |
|---|---|---|---|---|---|---|---|
| Cash | 16,675 | 62,180 | 16,601 | 151,997 | 159,879 | 14,988 | 8.1260 |
| 3-month | 17,024 | 62,160 | 16,983 | 154,946 | 161,624 | 15,408 | 8.2440 |

# 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 ($/bbbl) | 127.64 | 1.81 | 127.19 | 2.17 | 126.95 | 2.44 | 126.06 | 2.77 | - | - |
| Gasoil 0.1% Rdam ($/mt) | 970.75 | 6.00 | 968.25 | 7.00 | 964.50 | 7.75 | 953.75 | 8.00 | 938.25 | 21.00 |
| NWE CIF jet ($/mt) | 1,019.75 | 14.25 | 1,026.25 | 16.09 | 1,029.93 | 17.60 | 1,023.55 | 15.55 | 1,024.26 | 21.83 |
| Singapore Kero ($/bbl) | 127.17 | 1.81 | 127.79 | 2.17 | 128.18 | 2.44 | 126.98 | 2.78 | 126.06 | 2.84 |
| 3.5% Rdam barges ($/mt) | 655.50 | 9.25 | 643.50 | 8.25 | 637.75 | 9.25 | 624.50 | 10.50 | 601.75 | 11.25 |
| 1% Fuel Oil FOB ($/mt) | 693.00 | 5.00 | 683.25 | 6.75 | 677.50 | 8.25 | 664.50 | 10.00 | | |
| Sing FO180 Cargo ($/mt) | 709.75 | 7.50 | 689.75 | 7.25 | 677.75 | 8.50 | 658.50 | 11.00 | | |

| Thermal coal | Q4-11 | | Q1-12 | | Q2-12 | | Cal 12 | | Cal 13 | |
|---|---|---|---|---|---|---|---|---|---|---|
| API2 (CIF ARA) | 109.45 | 0.00 | 109.85 | 0.00 | 111.60 | -0.15 | 111.20 | -0.05 | 116.90 | 0.05 |
| API4 (FOB RBCT) | 105.55 | 0.35 | 106.20 | 0.60 | 107.90 | 0.65 | 107.30 | 0.50 | 112.15 | 0.30 |

# Precious metals

| Forwards (%) | 1 month | 2 months | 3 months | 6 months | 12 months | | |
|---|---|---|---|---|---|---|---|
| Gold | 0.54960 | 0.56600 | 0.59300 | 0.64740 | 0.71800 | | |
| Silver | 0.18400 | 0.19800 | 0.19600 | 0.26400 | 0.33400 | | |
| USD Libor | 0.29530 | 0.42820 | 0.58250 | 0.81100 | 1.13035 | | |
| **Technical Indicators** | **30-day RSI** | **10-day MA** | **20-day MA** | **100-day MA** | **200-day MA** | **Support** | **Resistance** |
| Gold | 46.11 | 1,587.31 | 1,602.87 | 1,711.85 | 1,632.67 | 1,596.00 | 1,623.00 |
| Silver | 44.66 | 28.57 | 29.24 | 33.97 | 36.27 | 28.72 | 29.54 |
| Platinum | 41.53 | 1,413.83 | 1,436.36 | 1,610.42 | 1,694.31 | 1,405.00 | 1,429.00 |
| Palladium | 50.99 | 649.55 | 646.83 | 660.91 | 713.72 | 633.00 | 656.00 |
| **Active Month Future** | **COMEX GLD** | **COMEX SLV** | **NYMEX PAL** | **NYMEX PLAT** | **DGCX GLD** | **TOCOM GLD** | **CBOT GLD** |
| | **Feb'12** | **Mar'12** | **Apr'12** | **Apr'12** | **Feb'12** | **Dec'12** | **Feb'12** |
| Settlement | 1,620.40 | 29.4200 | 658.00 | 1,426.30 | 1,619.40 | 4,000.00 | 1,613.60 |
| Open Interest | 423,275 | 107,101 | 17,570 | 42,476 | 6,181 | 123,688 | 1,733 |
| Change in Open Interest | 4,121 | 1,432 | -245 | 521 | 35 | 0 | -3 |

*Sources: Standard Bank; LME; Bloomberg*

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