Commodities

Commodities: Daily

Standard Bank

Focus: Chinese PMI's slump

1 December 2011

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- The base metals market is suffering a bit of a hangover this morning following yesterday's coordinated central bank action on liquidity swaps and the subsequent euphoric party that followed. Prices retreated during Asian trade, following the Chinese PMI figures, however, a better than expected Spanish bond auction has helped boost the euro and has given the metals a lift ahead of US trade.
- After yesterday's exuberance over easing Chinese monetary policy and the coordinated action from global central banks, it appears that markets are realising the implications of these announcements, i.e. that the global economy must be in pretty dire straits to warrant such announcements. If this feeling gathers momentum, we could see precious metals surrender some of yesterdays gains, although for now, participants might be content to wait for tomorrow's nonfarm payrolls for a reading on the strength of the US economy.
- Oil jumped on the news that US private sectors had added more jobs than expected in November. But much of the gains were given back later due to a sizable inventory build in the US.

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Commodity price data (30 November 2011)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,000	2,110	2,116	1,976	110	5.50%	1,977.00	-14	-7.25
Copper	7,474	7,885	8,000	7,290	411	5.50%	7,405.50	-43	-25.50
Lead	2,020	2,110	2,136	1,992	90	4.46%	1,985.50	-14	-19.00
Nickel	17,150	17,500	18,100	16,550	350	2.04%	16,935.00	-45	-8.00
Tin	20,300	20,900	20,950	20,050	600	2.96%	20,100.00	-400	-25.00
Zinc	1,955	2,071	2,112	1,915	116	5.93%	1,943.00	7	2.25

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	110.75	110.79	110.89	110.20	0.27	0.24%
NYMEX WTI	100.51	100.61	100.84	100.51	0.25	0.25%
ICE Gasoil	961.00	965.00	965.50	961.00	-0.25	-0.03%
API2 Q1'12	111.50	112.65	-	-	1.15	1.02%
ICE EUA Dec'11	7.85	8.37	-	-	0.52	6.62%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,704.00	1,746.00	1,750.50	1,706.00	1,746.50	31.50	3.5/3.9
Silver	-	32.68	32.95	31.58	32.76	0.86	3.0/5.0
Platinum	1,515.00	1,558.00	1,555.00	1,515.00	1,555.00	19.00	1.5/3.5
Palladium	574.00	620.00	621.00	583.00	612.00	27.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Chinese PMI's slump

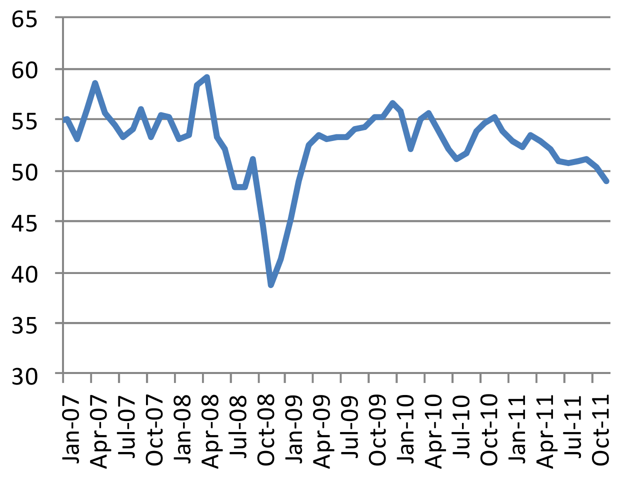
Both the official and HSBC Chinese manufacturing PMI's came in below expectations, weakening dramatically and falling below the 50-level. The official Chinese manufacturing PMI for November came in at 49.0, from 50.4 in October, the weakest reading in 33 months. The HSBC Manufacturing PMI came in at 47.7 compared to a preliminary estimate of 48.0 and October's reading of 51.0.

We postulated in yesterday's report that China may have cut its Bank Reserve Ratio Requirements (RRR) — the first since 2009 — as a pre-emptive strike against much weaker than anticipated PMI data. That seems to have been proved correct, with risks of a major economic slowdown now appearing to outweigh concerns over runaway inflation.

China has been faced with the unenviable prospect of maintaining reasonable growth levels while keeping inflation in check for some time. The ongoing turmoil surrounding the Eurozone debt crisis and the spill-over effect this has had on consumer confidence and economic activity has spread dramatically. The global cooling in economic activity has combined with government efforts to tighten liquidity and ease inflation, and appears to be reflected in recent disappointing economic data, culminating in the latest sharp and broad based downturn in the Chinese Manufacturing PMI figures.

The signs are however that inflation is finally starting to ease, allowing the Chinese government some room for manoeuvre. We have to wait until December 9th for confirmation of this however, with the release of the November CPI and PPI figures (expected to fall to 4.5% and 3.5% respectively). Nevertheless expectations of lower inflation have allowed the government to focus back towards economic growth as they attempt to engineer a soft landing.

Chinese Manufacturing PMI (SA)



Source: Bloomberg

Given anecdotal reports over the sorry state of the housing market, and the impact of tighter lending conditions on economic activity, further RRR cuts seem likely as China tires to navigate between a hard landing and social unrest, and resurgent inflation.

By Leon Westgate

Base Metals

The base metals market is suffering a bit of a hangover this morning following yesterday's coordinated central bank action on liquidity swaps and the subsequent euphoric party that followed. Both the Dow and S&P 500 closed over 4% higher with Chinese equity markets rallying overnight too. Metal prices have retreated during Asian trade, following the weaker than anticipated Chinese PMI, however, a better than expected Spanish bond auction has helped boost the euro and has given the metals a lift ahead of US trade.

Ignoring the various conspiracy theories circulating as to why the Central banks decided to act - potential Bank failure or preparation for sovereign default - the fact that the move was made is a bad sign, suggesting the liquidity strains and tensions in the market were worse than many participants had appreciated. Whether the lower central bank swap rate actually changes anything, particularly with the associated stigma of using the liquidity facility, remains to be seen, though it has nevertheless bought time for Europe to get its house in order. In that regard it will be interesting to see whether the coordinated action triggers a change in investor perceptions over Europe, silencing the doom and gloom merchants, or whether it just spooks the market even further.

The main data this afternoon is the US ISM Manufacturing index for November, expected at 51.8. Focus then switches towards tomorrow's NFP figures and US unemployment rate.

Copper rallied all the way up to $8,000 on Wednesday afternoon before tailing off to finish at $7,890. Turnover was exceptional at just under 40,000 lots on LME Select, as short covering and fresh buying interest combined, though this is still some 6,000 lots below the all time record. The other base metals were similarly busy, and with the exception of nickel and tin, posted similar 4-5% gains. Nickel closed 2% higher while tin gained 0.6%.

Prices have since drifted sideways during Thursday with copper trading around $7,850 ahead of the ISM figures. Aluminium has perked up, trading back above $2,120 however nickel and tin remain very subdued. The apparent fracturing of the Indonesian smelters' pact to withhold metal from the market appears to be the main factor undermining support for tin prices this morning.

By Leon Westgate

Precious metals

Gold has managed to hang on to the gains it made yesterday, as the dollar remains weaker on the back of yesterday's coordinated central bank action on dollar swap rates. However, Asian markets hardly reacted, with prices remaining relatively range-bound overnight. For the most part, this range-bound trading has been extended into this morning, although we have seen some gains induced by further dollar weakness.

The Dec-Feb spread blew out to $7 as concerns over year-end liquidity seemed to weigh on markets. This spread has however come back in as markets seem to be taking comfort in yesterday's central bank action. We are not entirely convinced that liquidity problems in the Eurozone have been adequately addressed. To this end, we keep an eye on the 3m Euribor/Overnight swap spread, as a measure of the liquidity premium in Eurozone money markets. Unsurprisingly, this spread has jumped recently and is currently at levels last seen in March 2009. A liquidity squeeze would be detrimental to all commodities, even gold.

After yesterday's exuberance over easing Chinese monetary policy and the coordinated action from global central banks, it appears that markets are realising the implications of these announcements, i.e. that the global economy must be in pretty dire straits to warrant such announcements. If this feeling gathers momentum, we could see precious metals surrender some of yesterdays gains, although for now, participants might be content to wait for tomorrow's nonfarm payrolls for a reading on the strength of the US economy.

Gold support is at $1,715 and $1,683. Resistance is $1,765 and $1,782. Silver support is at $31.89 and $30.64, resistance is at $33.67 and $34.19.

Platinum support is at $1,524 and $1,493, resistance is at $1,575 and $1,594. Palladium support is at $583 and resistance at $636.

By Marc Ground

Energy

Oil jumped on the news that US private sectors had added more jobs than expected in November. But much of the gains were given back later due to a sizable inventory build in the US. The lacklustre performance of the oil market was in sharp contrast with the euphoria in the equity market. Net for the day, WTI strengthened only 57c/bbl, while Brent actually lost 30c/bbl. Gasoline outperformed distillates yesterday, which was also driven by the US oil inventory report.

The DOE reported US weekly oil inventory changes for crude/gasoline/distillates at 3.9/+0.2/+5.5mb w/w. Crude inventories at Cushing fell by 0.7mb. The hefty build in crude inventories was led by a jump in total crude imports, by 0.74mb/d. Meanwhile, the total US refinery utilisation rate fell slightly, by 0.9%, as seasonal maintenance continued. Implied demand for gasoline grew w/w, helped by the Thanksgiving holiday. In contrast, implied demand for distillate fuel fell sharply, by 0.8mb/d, as the harvest season comes to an end.

Net for November, front-month WTI gained $7.17/bbl, while Brent was largely unchanged with a gain of 96c/bbl. The physical market remained tight through the month as Brent stayed in steep backwardation. The strength in WTI was mainly helped by the news that Enbridge planned to reverse the Seaway pipeline to take oil from Cushing to the US Gulf starting at the end of Q2:12. The Brent market tracked the overarching concerns about the deteriorating Eurozone debt.

Central banks came to the rescue yesterday with the Fed and five other major central banks slashing their dollar funding to banks. In addition, US economic data continued to provide positive surprises, US private sectors added over 200k jobs, much more than the expected 130k. The market has shifted its expectation for the all-important non-farm payroll number from 120k to around 150k.

The market could seize the constructive US data to stage a short-term rally into year-end. The rescue effort from the central banks yesterday provides only short-term relief, by no means rooting out the Eurozone debt crisis. That said, the Spanish and French government bond auctions went through positively this morning. We expect oil volatility to remain elevated, and the market to bid tail risks. The oil price is set to remain heated in the near future as supply shortfalls continue.

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	4,560,350	4,563,000	0	2,650	-2,650	283,300	175,625	3.85	187,483
Copper	386,625	390,525	450	4,350	-3,900	9,075	24,125	6.24	114,191
Lead	369,825	371,700	175	2,050	-1,875	161,550	23,325	6.31	40,187
Nickel	90,390	89,778	936	324	612	-45,282	2,640	2.92	25,867
Tin	12,490	12,575	115	200	-85	-3,785	2,420	19.38	6,047
Zinc	739,850	741,425	250	1,825	-1,575	38,425	41,200	5.57	69,317

Shanghai 3-month forward prices Metal	Open	Last	1d Change
Aluminium	16,220	16,195	380
Copper	58,180	57,790	2,900
Zinc	16,080	15,780	610

COMEX active month future prices	Open	Close	Change	Change (%)
Ali Mar'12	-	-	-	-
Cu Mar'12	358	355.65	-1.90	-0.53%

ZAR metal prices	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,449	61,614	16,519	140,899	167,232	16,166	8.3200
3-month	17,792	66,486	17,792	147,560	176,229	17,463	8.4320

Energy

Energy futures pricing	Price 1 month	Change 1 month	Price 2 month	Change 2 month	Price 3 month	Change 3 month	Price 6 month	Change 6 month	Price 1 year	Change 1 year
Sing Gasoil ($/bbbl)	126.29	0.67	125.75	0.73	125.39	0.83	124.75	1.03	-	-
Gasoil 0.1% Rdam ($/mt)	965.00	-0.25	956.00	-0.50	950.75	0.00	937.25	7.00	931.25	8.50
NWE CIF jet ($/mt)	1,022.00	6.83	1,025.00	9.16	1,024.58	8.91	1,020.26	8.37	1,016.78	10.42
Singapore Kero ($/bbl)	126.94	0.62	127.05	0.70	126.79	0.75	125.53	0.89	124.84	1.11
3.5% Rdam barges ($/mt)	630.00	-0.75	624.25	-0.75	620.50	0.00	610.25	0.75	591.50	2.00
1% Fuel Oil FOB ($/mt)	660.75	-1.75	659.00	-1.50	656.25	-1.25	648.00	-0.25		
Sing FO180 Cargo ($/mt)	676.50	-2.25	662.50	-2.00	655.50	-1.25	643.00	-0.50		

Thermal coal	Q1-12		Q2-12		Q3-12		Cal 12		Cal 13	
API2 (CIF ARA)	112.65	1.15	113.95	1.25	116.10	1.50	115.35	1.35	121.25	1.25
API4 (FOB RBCT)	106.00	1.35	108.60	1.45	110.80	1.55	109.65	1.50	115.60	1.40

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.71967	0.76000	0.77000	0.78500	0.81500
Silver	0.55833	0.53333	0.50500	0.49667	0.47833
USD Libor	0.27144	0.38756	0.52889	0.74833	1.07106

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	52.57	1,709.14	1,739.54	1,723.34	1,606.89	1,715.00	1,765.00
Silver	46.85	32.11	33.11	36.44	37.00	31.89	33.67
Platinum	44.43	1,552.64	1,593.06	1,685.89	1,731.47	1,524.00	1,575.00
Palladium	45.92	592.49	622.99	692.28	727.06	583.00	636.00

Active Month Future	COMEX GLD Feb'12	COMEX SLV Mar'12	NYMEX PAL Jan'12	NYMEX PLAT Jan'12	DGCX GLD Dec'11	TOCOM GLD Oct'12	CBOT GLD Feb'12
Settlement	1,751.00	32.7150	616.95	1,560.80	1,745.60	4,366.00	1,750.40
Open Interest	423,176	98,959	19,847	38,820	7,237	144,501	1,705
Change in Open Interest	-19,465	-5,730	361	565	-237	-2,595	-190

Sources: Standard Bank; LME; Bloomberg

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