

# Commodities

## Commodities: Daily



Focus: China's manufacturing continues to struggle

20 January 2012

**Focus:** The release of the HSBC Flash PMI data this morning confirmed that manufacturing in China continues to struggle. The HSBC PMI manufacturing index printed 48.8 for January, from 48.7 in December. This index is biased towards the highly externalised smaller firms in China. With European exports constituting 17% of China's total exports, the data also reflects an export sector which continues to struggle.

- Another weak, sub-50, reading for the HSBC Manufacturing Flash PMI and a stronger dollar have combined to weigh on the base metals complex this morning. With China heading off on holiday, volumes have remained subdued, with the focus of the market for the next week shifting more towards the US markets.
- This morning gold has resumed its fall, taking the rest of the precious metals along with it. Once again, the threat of dwindling physical demand as China celebrates the Lunar New Year is curbing participants enthusiasm in the metal. With physical demand providing little support, the dollar continues to largely dictate movements in gold and consequently precious metals.
- The oil market rallied modestly during the early trading session yesterday, prompted by a stronger euro. However, the strength soon faded as geopolitical risks eased. Gasoline crack weakened following a hefty inventory build reported by the DOE. By contrast, heating oil cracks strengthened, also driven by the DOE report. The term structure for Brent was firmer yesterday after the recent slide, which might have bottomed out due to low crude inventories globally.

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### Commodity price data (19 January 2012)

#### Base metals LME 3-month

	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m	
Aluminium	2,210	2,232	2,238	2,208	22	1.00%	2,181.00	6	-35.25
Copper	8,278	8,365	8,410	8,270	87	1.05%	8,350.50	195	-10.00
Lead	2,138	2,183	2,187	2,136	45	2.10%	2,131.50	40	-26.50
Nickel	19,620	20,200	20,251	19,551	580	2.96%	19,680.00	220	-52.00
Tin	21,850	21,875	22,135	21,700	25	0.11%	22,000.00	400	-52.25
Zinc	2,010	2,030	2,035	2,001	20	1.00%	2,011.50	14	-17.00

#### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	111.53	111.94	112.05	111.41	0.39	0.35%
NYMEX WTI	100.39	100.68	100.68	100.35	0.29	0.29%
ICE Gasoil	947.00	948.50	948.75	946.75	5.25	0.55%
API2 Q1'12	104.40	105.20	-	-	0.80	0.76%

#### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,664.00	1,655.00	1,665.50	1,650.10	1,654.30	-5.20	0.0/0.4
Silver	-	30.64	30.75	30.40	30.54	-0.02	-4.0/-2.0
Platinum	1,537.00	1,530.00	1,533.00	1,517.00	1,515.00	-5.00	1.5/3.5
Palladium	670.50	678.00	680.00	669.00	675.00	10.00	0.0/1.0

Sources: Standard Bank; LME; BBG

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### Focus: China's manufacturing continues to struggle

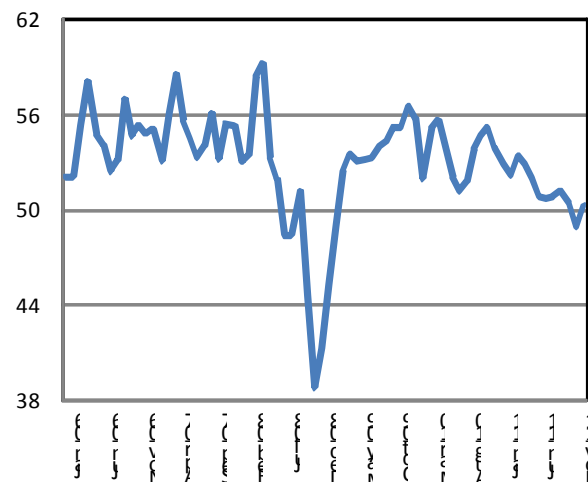
The release of the HSBC Flash PMI data this morning confirmed that manufacturing in China continues to struggle. The HSBC PMI manufacturing index printed 48.8 for January, from 48.7 in December. This index is biased towards the highly externalised smaller firms in China. With European exports constituting 17% of China's total exports, the data also reflects an export sector which continues to struggle.

But we believe that the problem is greater than just Europe. As pointed out in our note "*A view from China: commodity trip notes*" dated 7 Dec'11, it appears that many Chinese businesses have gone into "lockdown" mode, with a strong focus on cash preservation. The reasons are multiple, including sluggish exports, tight monetary policy, and great policy uncertainty. Given this background, we find it hard to imagine China's economic growth being very strong in the next few months.

The reluctance of firms to expand would be consistent with today's data and also recent data such as the official Chinese PMI manufacturing data for December where not only the headline number is weak, but sub-indices showed a build in final products, a decline in employment, and a fall in order books and export demand.

While many commodities have experienced a strong price rally the past few days, the underlying physical market has, however, been left far behind. For example, as pointed out in the Focus in our *Commodities Daily* note yesterday, the chasm between futures prices and physical activity in copper seems to

China manufacturing PMI



Sources: CFLP, NBS

be growing ever wider.

When the official China PMI data for January is released in two weeks time, based on seasonality, we would not be surprised to see the index remaining largely flat, if not pushing lower again. We expect the same for February, irrespective of any monetary stimulus that may be implemented by the PBOC in the next few weeks. The monetary transmission mechanism takes time to filter through to the rest of the economy.

We maintain that it is too early to expect real demand for industrial metals to improve.

**By Walter de Wet**

### Base Metals

Another weak, sub-50, reading for the HSBC Manufacturing Flash PMI and a stronger dollar have combined to weigh on the base metals complex this morning. With China heading off on holiday, volumes have remained subdued, with the focus of the market for the next week shifting more towards the US markets.

China has seemingly shied away from an RRR cut for now. The recent run of slowing, albeit better than expected economic data, and perhaps because it doesn't want its actions to be perceived by the wider market as a change in policy, have instead seen the PBoC opt to use reverse repos to help shore up short-term liquidity issues at banks and reduce interbank lending rates. Another interesting aspect to Chinese monetary policy, and one which has a significant impact on commodities, is to what extent the CNY continues to appreciate against the dollar. The spot CNY rate is now back where it was towards the middle of December and is some 0.7% weaker against the dollar than where it started the year. The pressure on Chinese companies exporting goods to Europe and the US are likely to intensify further over the coming months. In that regard, it will be interesting to see how the CNY strength evolves and to what extent China looks to boost domestic consumption of goods to offset those weaker export markets.

Copper has come under fairly heavy selling pressure this morning, with weak Chinese data and a stronger dollar seeing prices fall below \$8,300 ahead of US trade. Inventory-wise, SHFE copper stocks climbed 11,193 mt this morning to 131,645 mt, though South Korea did see a fresh 1,000 mt increase in LME cancelled warrants.

Aluminium also saw large warrant cancellations this morning, with on-warrant stocks falling 95,750 mt. The focus has however switched away from Vlissingen and back towards Detroit, where cancelled warrants jumped 98,525 mt. Cancelled warrants at Detroit are now 359,925 mt, or just over 26% of total inventory at that location. By way of comparison, cancelled warrants at Vlissingen are 480,500 mt which is 51% of the total inventory currently held there.

**By Leon Westgate**

## Precious metals

Despite a weakening dollar yesterday, precious metals came under pressure in the afternoon as investors anticipated lacklustre Asian demand. Better-than-expected jobless claims data (352k, consensus: 384k) might have also bolstered sentiment, reducing the appeal of safe-haven assets. While activity in Asian markets was subdued, as anticipated, precious metals managed to hold their ground, mostly trading in relatively tight ranges. With Chinese buyers now away for next week, we could see gold struggle to maintain current levels. Encouragingly, we are seeing some Indian buying coming through, although this could easily evaporate if the rupee weakens, given the current price sensitivity of the country's buyers.

This morning gold has resumed its fall, taking the rest of the precious metals along with it. Once again, the threat of dwindling physical demand as China celebrates the Lunar New Year is curbing participants enthusiasm in the metal. With physical demand providing little support, the dollar continues to largely dictate movements in gold and consequently precious metals. A return of risk aversion this morning (as evidenced by weaker European equities) has seen the dollar strengthen, putting downward pressure on the complex. US equity futures are currently in the red, which points to continued dollar interest with the accompanying precious metals weakness.

Not much in terms of data flow, although General Electric's Q4:11 earnings report could prompt some reaction in markets, as the company is considered a bellweather of the US economy.

Gold support is at \$1,640 and \$1,634. Resistance is \$1,662 and \$1,677. Silver support is at \$30.25 and \$30.05, resistance is at \$30.77 and \$31.08.

Platinum support is at \$1,500 and \$1,494, resistance is at \$1,527 and \$1,547. Palladium support is at \$663 and resistance at \$680.

**By Marc Ground**

## Energy

The oil market rallied modestly during the early trading session yesterday, prompted by a stronger euro. However, the strength soon faded as geopolitical risks eased. Gasoline crack weakened following a hefty inventory build reported by the DOE. By contrast, heating oil cracks strengthened, also driven by the DOE report. The term structure for Brent was firmer yesterday after the recent slide, which might have bottomed out due to low crude inventories globally.

The DOE reported US weekly oil inventory changes for crude/gasoline/distillates at -3.4/+3.7/+0.4mb w/w. Crude inventories at Cushing fell sharply, by 0.8mbbl, which has pushed the WTI structure much firmer, especially further down the curve. The fall in crude inventories appeared to be driven by a sharp fall in imports, which again is most likely to be part of year-end fluctuation caused by accounting issues. The total US refinery utilisation rate fell by 1.9%, while demand for both gasoline and distillates fell by 355kb/d and 191kb/d respectively, on a four-week running average basis.

Following a number of successful Eurozone bond auctions, the euro has broken the upper bound resistance of the downward channel established since November. There are tentative signs that the euro might halt from further decline, pending the ongoing negotiation over Greek debt. The equity market has also been boosted by the euro optimism and better-than-expected economic data from the US. In fact, US weekly initial jobless claims has fallen to its lowest level since mid-2008.

Our view of the past few days remains—we expect further downward correction in oil prices in the short term. This should be prompted by an easing geopolitical situation in the Middle East, a soft physical oil market and an upcoming spring refinery maintenance season in the northern hemisphere. That said, fundamentals remain fairly solid in the medium term for the oil market due to tight supply and low inventories.

**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	5,005,225	5,005,150	4,100	4,025	75	34,825	771,025	15.40	264,452
Copper	351,200	352,500	0	1,300	-1,300	-19,700	69,800	19.87	146,922
Lead	348,725	349,300	500	1,075	-575	-4,350	44,350	12.72	59,676
Nickel	91,788	91,908	0	120	-120	1,740	1,782	1.94	28,573
Tin	10,745	10,885	0	140	-140	-1,445	2,140	19.92	3,898
Zinc	840,500	839,450	1,850	800	1,050	18,800	22,700	2.70	117,210

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,355	16,375	15
Copper	60,850	60,790	500
Zinc	15,725	15,725	100

### COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Mar'12	-	-	-	-
Cu Mar'12	380	381.50	1.45	0.38%

### ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,295	66,219	16,903	156,062	174,460	15,951	7.9300
3-month	17,945	67,255	17,551	162,408	175,875	16,321	8.0400

## 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 (\$/bbl)	127.92	0.10	126.68	-0.17	126.26	-0.07	125.37	0.09	-	-
Gasoil 0.1% Rdam (\$/mt)	948.50	5.25	950.50	5.25	949.75	5.50	940.50	0.50	936.00	0.50
NWE CIF jet (\$/mt)	1,019.99	0.65	1,017.46	1.46	1,020.24	0.67	1,021.67	0.33	1,020.85	-0.33
Singapore Kero (\$/bbl)	126.07	-0.70	126.28	-0.02	126.66	0.03	126.12	0.04	125.54	0.03
3.5% Rdam barges (\$/mt)	669.70	-0.31	650.25	-1.25	641.50	-0.75	626.50	1.00	604.50	1.25
1% Fuel Oil FOB (\$/mt)	681.15	-0.18	677.00	2.25	671.75	1.75	662.25	3.00		
Sing FO180 Cargo (\$/mt)	722.82	0.17	703.75	0.00	688.00	-0.25	663.00	1.50		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	105.20	0.80	105.75	0.95	107.65	0.95	107.30	0.90	113.20	0.70
API4 (FOB RBCT)	104.95	0.75	104.55	0.55	105.55	0.85	105.65	0.75	109.30	0.80

## Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.50467	0.53833	0.56750	0.59783	0.62000
Silver	0.27333	0.27000	0.27000	0.27000	0.27167
USD Libor	0.27890	0.40930	0.56120	0.79175	1.11005

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	50.36	1,644.74	1,616.73	1,691.55	1,642.78	1,640.00	1,662.00
Silver	48.82	30.08	29.31	32.67	35.71	30.25	30.77
Platinum	51.06	1,496.08	1,452.84	1,570.73	1,677.99	1,500.00	1,527.00
Palladium	53.80	647.45	646.71	647.82	706.45	663.0	680.0

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	1,657.00	30.5900	673.00	1,518.00	1,653.80	4,116.00	1,654.70
Open Interest	438,390	102,870	17,609	43,848	5,514	124,768	1,683
Change in Open Interest	5,552	-798	91	-1	0	0	-31

Sources: Standard Bank; LME; Bloomberg

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