Commodities

Commodities: Daily

Focus: Slowing physical demand not a real concern

27 January 2012

Focus: For the first time since mid-November 2011, our *Standard Bank Physical Gold Flow Index* moved into negative territory yesterday—this indicates that physical market participants have turned net sellers. While slowing physical demand might provide some resistance during price rallies, we do not feel that it would be the cause of prices moving significantly lower.

- A possible deal with Greece and its creditors has again been talked up, this time by EU Commissioner Rehn, though the comments remain hopeful rather than offering anything more substantial for the moment. Nevertheless, combined with lower Italian bond yields, the Euro has continued to rally and the metals have again rallied, albeit after a nervous start.
- Precious metals continued to move higher yesterday, as US markets digested the previous day's Fed announcement. Real interest rates in the US have fallen to new lows, which is good news for commodities, and of course gold in particular. However, this investor interest in precious metals might be a bit overdone and we expect profit taking to weigh on prices as we move into next week.
- The oil market continued to strengthen yesterday on strong refining margins and generally improved macroeconomic data. WTI and Brent gained 30c/bbl and 98c/bbl respectively. The spread between Brent and Dubai narrowed further on very strong fuel oil, particularly in the Asian market. Driven by a strong physical market, both term structures and price differentials for physical cargoes were firmer.

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Commodity price data (26 January 2012)

Base metals LME 3-month		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,260	2,277	2,290	2,260	17	0.75%	2,232.00	46	-32.25
Copper	8,467	8,590	8,610	8,436	124	1.46%	8,560.00	289	-13.00
Lead	2,275	2,325	2,329	2,271	50	2.20%	2,277.00	81	-24.75
Nickel	21,200	21,600	21,680	20,965	400	1.89%	21,350.00	840	-65.00
Tin	22,500	24,005	24,300	22,500	1,505	6.69%	23,330.00	1,325	-51.00
Zinc	2,171	2,205	2,220	2,165	35	1.59%	2,178.50	83	-15.75

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	111.00	110.99	111.25	110.87	0.20	0.18%
NYMEX WTI	99.93	99.78	100.04	99.64	0.08	0.08%
ICE Gasoil	945.00	951.00	951.00	945.00	6.25	0.66%
API2 Q1'12	105.75	105.60	-	-	-0.15	-0.14%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,713.00	1,727.00	1,731.30	1,708.50	1,726.70	26.00	-0.5/-0.1
Silver	-	33.53	33.79	33.04	33.74	0.67	-4.0/-2.0
Platinum	1,597.00	1,615.00	1,615.00	1,580.00	1,615.00	40.00	1.5/3.5
Palladium	696.00	698.00	698.00	693.00	698.00	8.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Slowing physical demand not a real concern

For the first time since mid-November 2011, our *Standard Bank Physical Gold Flow Index* moved into negative territory yesterday—this indicates that physical market participants have turned net sellers. This lack of physical demand partly explains the inability of gold to make a sustained move beyond the $1,730 level.

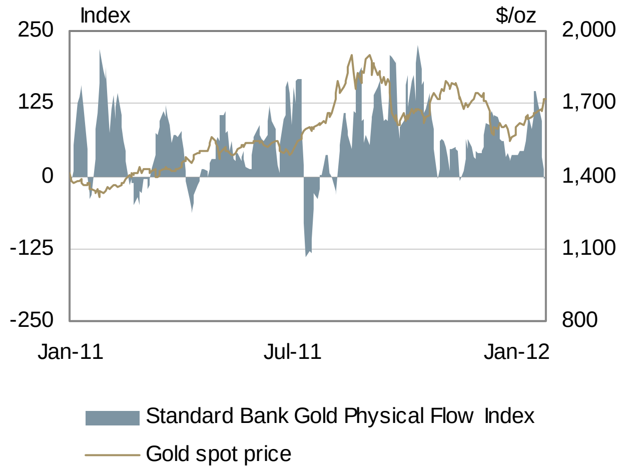
The lacklustre interest in physical gold can partly be explained by the absence of Far East participants away for the lunar New Year celebrations (China, Singapore, Malaysia and Indonesia). However, as we move into next week it is important to consider the other factors that are currently weighing on physical demand for gold and whether these factors might evaporate when the Far East returns to the market.

One of these factors has been increasing scrap scales, especially out of South East Asia. However, compared to historical levels, these sales are not substantial and we don't expect them to be a significant drag on prices over the coming week.

Secondly, while Indian physical buying had been picking up momentum as a) the rupee appreciated over the past few weeks, and b) we move into Indian wedding season, the recent rally in prices might dampen enthusiasm. Again, we don't view this as a serious threat to gold in the short term. The market already appears to be comfortable with the fact that Indian gold demand will not provide the support that is has in previous years, mostly, as a result of a weaker rupee and higher interest rates. Consequently, we feel that weaker Indian demand is already largely discounted in current prices.

So **while slowing physical demand might provide some resistance during price rallies, we do not feel that it would be the cause of prices moving significantly lower**.

Gold physical demand



Sources: Bloomberg; Standard Bank Research

Investor enthusiasm, spurred by the US real interest rate falling to new lows according to US government inflation-linked bonds (off the back of the Fed's assurances that it expects to maintain accommodative monetarily policy until the end of 2014), should keep gold prices buoyant. Although, while the improvements in market positioning over the past few weeks (before this week's rally) have been encouraging, their tentative nature indicates a speculative market that remains not entirely convinced of gold's short-term prospects. So as we move into next week, we expect the recent euphoria to subside and some profit taking to kick in.

By Marc Ground

Base Metals

A possible deal with Greece and its creditors has again been talked up, this time by EU Commissioner Rehn, though the comments remain hopeful rather than offering anything more substantial for the moment. Nevertheless, combined with lower Italian bond yields, the Euro has continued to rally and the metals have again rallied, albeit after a nervous start.

The European economic data was rather depressing all in all, with Spanish unemployment rising to 22.9%, the highest level since 1996. Eurozone money supply also came in below expectations with M3 down to 1.6% from 2%. Private sector credit also collapsed to 1% compared to expectations of 1.9%. While the data isn't really the sort to have an immediate impact on the markets, it is still a fairly ominous sign of weakness ahead.

Momentum continues to carry copper higher, leaving the current fundamental picture even further behind. Copper has however now closed its long-standing gap in the chart between $8,656 and $8,680 which opened up back in September. Whether that is enough for now remains to be seen, particularly as some participants appear to believe Chinese shorts may be forced to cover back when they return from New Year holidays next week. In that regard, it's worth noting that although the Chinese are on holiday, there is nothing stopping them picking up the phone to their LME broker to do something about a short position if they are worried. Given the subdued state of the Chinese market before the New Year holidays, arb positions are also likely to have been reduced.

On-warrant LME stocks fell 11,425 mt as a result of further large warrant cancellations in the US, this time in New Orleans where cancelled warrants jumped 9,375 mt. , though headline inventories are down by 2,450 mt. The location also saw a fresh inflow of 1,000 mt however.

This afternoon sees the release of the US GDP numbers for Q4-11 (expected at 3.0% annualised) while the final iteration of the Michigan Confidence index for January is also released (expected at 74.0).

By Leon Westgate

Precious metals

Precious metals continued to move higher yesterday, as US markets digested the previous day's Fed announcement. Real interest rates in the US have fallen to new lows, which is good news for commodities, and of course gold in particular. However, as we warn in today's Focus, this investor interest in precious metals might be a bit overdone and we expect profit taking to weigh on prices as we move into next week. Already, there was some evidence of this on TOCOM, in overnight trading. In addition, the lack of physical interest also prevented gold from making a sustained break above the $1,730 level.

This morning though, European markets are still upbeat, pushing prices higher. With US equity futures currently trading in the black, perhaps the upward momentum will continue into the later sessions of today. However, we feel enthusiasm is waning and that another significant move higher is becoming less likely. On the downside though, we are seeing solid buying on dips which should keep prices buoyant—for gold it appears as if a sub-$1,700 is not likely today.

Looking at some longer-term issues, today's release of Eurozone money supply figures showed a significant slowing down. M3 money supply grew only 1.6% y/y in December, compared to 2% y/y in the previous month. Private sector credit expansion only grew by 1.0% y/y, significantly lower than the 1.7% y/y growth recorded in November. The ECB has assured markets that the figures do not imply financial contagion effects from the region's ongoing debt crisis. Nevertheless, we think that they warrant attention and we will be keeping a close eye on these numbers going forward. We feel that a drying up of money market liquidity in the Eurozone remains a key risk to commodity prices (even precious metals) over the coming months.

Gold support is at $1,707 and $1,691. Resistance is $1,736 and $1,748. Silver support is at $33.13 and $32.66, resistance is at $33.96 and $34.30.

Platinum support is at $1,589 and $1,561, resistance is at $1,634 and $1,650. Palladium support is at $687 and resistance at $699.

By Marc Ground

Energy

The oil market continued to strengthen yesterday on strong refining margins and generally improved macroeconomic data. WTI and Brent gained 30c/bbl and 98c/bbl respectively. Oil products outperformed crude oil for another day, resulting in firmer product cracks and refining margins. The spread between Brent and Dubai narrowed further on very strong fuel oil, particularly in the Asian market. In fact, prompt Singapore fuel cracks over Dubai have even turned positive. Driven by a strong physical market, both term structures and price differentials for physical cargoes were firmer.

While the market appears to be concerned with product supplies following recent refinery closures, weekly oil product inventory data for both the ARA region (Amsterdam-Rotterdam-Antwerp) and Singapore seem to tell a different story, with the exception of middle-distillates in Singapore. Total product inventories rose 258kt w/w, with gasoil stocks up 307kt. In Singapore, total product stocks increased 1.8mb w/w and fuel oil stocks grew 2.8mb, while middle-distillates fell 1mb. Ample product stocks are likely to dampen the product cracks and refining margins.

Yesterday saw the US durable good orders beating market expectations, and consumer confidence in core Eurozone countries appeared to be stabilising. The company results so far for Q4:11 reporting season in the US have generally bested market expectations. The resumption of Greek debt negotiations today has given some positive signs, but certainly carries significant downside risk.

In the very short term, we expect the market to climb high, supported by strong refining margins and hence good physical buying. Technically, the market also appears to have turned from its recent bearish trend. However, we are cautious that the strength in products is unlikely to last as refineries ramp up throughput and warm weather continues to erode demand. Consequently, we have a slightly bearish bias the next few weeks. In addition, we are looking to sell into the strength of product cracks.

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	5,000,150	5,003,800	0	3,650	-3,650	29,750	972,200	19.44	186,563
Copper	337,875	339,750	0	1,875	-1,875	-33,025	81,450	24.11	135,842
Lead	344,525	345,850	0	1,325	-1,325	-8,550	46,775	13.58	50,813
Nickel	94,452	94,104	402	54	348	4,404	3,612	3.82	33,779
Tin	9,665	9,685	25	45	-20	-2,525	2,190	22.66	4,543
Zinc	848,500	849,175	0	675	-675	26,800	22,875	2.70	134,041

Shanghai 3-month forward prices				COMEX active month future prices				
Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	-	-	-	Ali Mar'12	-	-	-	-
Copper	-	-	-	Cu Mar'12	390	387.10	-3.05	-0.78%
Zinc	-	-	-					

ZAR metal prices							
	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,454	66,939	17,806	166,957	182,441	17,036	7.8200
3-month	18,050	68,093	18,430	171,223	190,288	17,479	7.9270

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 ($/bbbl)	128.01	0.12	126.90	0.64	126.40	0.58	125.33	0.44	-	-
Gasoil 0.1% Rdam ($/mt)	951.00	6.25	951.25	4.50	949.25	4.25	943.75	4.25	935.00	2.50
NWE CIF jet ($/mt)	1,019.83	0.39	1,018.25	1.84	1,020.06	2.21	1,020.75	2.04	1,020.35	1.43
Singapore Kero ($/bbl)	126.41	0.19	126.55	0.44	126.77	0.35	125.97	0.33	125.38	0.27
3.5% Rdam barges ($/mt)	667.93	1.29	659.75	4.00	648.00	3.25	629.50	2.75	605.50	1.00
1% Fuel Oil FOB ($/mt)	678.81	1.52	675.00	3.00	672.25	3.50	660.50	1.75		
Sing FO180 Cargo ($/mt)	723.31	1.16	712.75	2.50	695.75	2.25	667.75	1.25		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	105.60	-0.15	107.30	-0.10	109.70	0.20	108.80	0.05	115.95	0.45
API4 (FOB RBCT)	106.75	0.20	107.40	0.30	108.30	0.20	108.15	0.25	112.70	0.45

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.54133	0.56833	0.59917	0.60950	0.64333		
Silver	0.21667	0.20500	0.20833	0.21500	0.24333		
USD Libor	0.27050	0.40350	0.55310	0.78675	1.10170		
Technical Indicators	**30-day RSI**	**10-day MA**	**20-day MA**	**100-day MA**	**200-day MA**	**Support**	**Resistance**
Gold	56.34	1,677.22	1,648.47	1,683.36	1,647.75	1,707.00	1,736.00
Silver	56.73	31.80	30.59	32.23	35.41	33.13	33.96
Platinum	57.73	1,550.70	1,497.16	1,556.94	1,672.86	1,589.00	1,634.00
Palladium	56.10	676.09	657.35	644.04	704.84	687.0	699.0
Active Month Future	**COMEX GLD Apr'12**	**COMEX SLV Mar'12**	**NYMEX PAL Apr'12**	**NYMEX PLAT Apr'12**	**DGCX GLD Feb'12**	**TOCOM GLD Dec'12**	**CBOT GLD Feb'12**
Settlement	1,721.00	33.4400	692.25	1,616.80	1,725.50	4,254.00	1,721.50
Open Interest	434,997	102,516	18,433	44,469	5,149	123,426	1,721
Change in Open Interest	7,965	-509	334	364	-122	1,469	41

Sources: Standard Bank; LME; Bloomberg

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