

FICC Research

Commodities: Daily

Focus: US gasoline inventories are normalizing slowly but surely



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Focus: The US still has a large crude and product stock overhang. This overhang has been particularly acute in distillate inventory. Also, inventory at Cushing is near all-time highs. However, since May last year, there has been a steady normalization in US crude and product inventory. Despite concerns regarding economic growth, the latest Chinese export data and European industrial production figures indicate that economic growth continues apace. We therefore expect further upside for crude oil in Q3.

- Base metals have broken out of all trading ranges — with sustained short-covering, the triggering of stops and fresh buying interest. Stronger US equities and a weaker dollar fuelled momentum, resulting in intraday short-covering as weak shorts exited. The metals closed below their highs but there was a lot of buying interest, with further short-covering perhaps still on the cards.
- Gold support is at \$1,186 and \$1,173, while resistance is at \$1,206 and \$1,213.
- WTI front-month crude oil managed to close above its 200day MA, at \$77.66. We view this as a positive development.

Commodity price data (22 July 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,039	2,045	2,062	1,991	6	0.29%	2,006.50	31	-22.00
Copper	6,950	7,011	7,050	6,751	61	0.88%	6,920.50	150	-17.75
Lead	1,914	1,940	1,945	1,833	26	1.36%	1,894.00	50	-21.25
Nickel	19,835	20,255	20,300	19,330	420	2.12%	19,825.00	610	-73.00
Tin	18,450	18,575	1,970	18,050	125	0.68%	18,395.00	115	-35.00
Zinc	1,925	1,949	1,958	1,875	24	1.22%	1,902.50	34	-26.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.66	77.55	77.87	77.50	-0.27	-0.35%
NYMEX WTI	79.27	79.02	79.34	79.01	-0.28	-0.35%
ICE Gasoil	655.75	656.00	658.50	655.75	2.75	0.42%
API2 Q3'10	92.00	92.60	-	-	0.60	0.65%
EUA Dec10	13.88	14.26	-	-	0.38	2.74%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,187.00	1,199.50	1,201.50	1,181.50	1,196.00	4.00	-0.6/-0.3
Silver	1,782.00	18.13	18.18	17.65	18.12	0.32	-1.0/1.0
Platinum	1,518.00	1,519.00	1,528.00	1,509.00	1,525.00	1.00	1.5/3.5
Palladium	449.00	453.00	457.00	447.00	456.00	5.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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Focus: US gasoline inventories are normalizing

The US still has a large crude and product stock overhang. This overhang has been particularly acute in distillate inventory. At the same time, inventory at Cushing is near all-time highs. However, since May last year, there has been a steady normalization in crude and product inventory in the US.

For gasoline, days-forward cover has declined steadily since January. Current days-forward cover for gasoline inventories stands at 23.7 days. The 5-year average cover is 22.7 days. The inventory levels are closing in on levels observed during the same month in 2009 and 2008 around 23 days but still well off levels seen in 2007 (around 21 days). However, gasoline inventories are normalizing slowly but surely. The market will be focused on gasoline in the coming weeks, on approach of the seasonal increase in gasoline demand as well as the hurricane season in the US.

On a days-forward cover, we have seen a steady decrease in distillate inventory — but the stock overhang remains large. Days forward cover peaked at 50.5 days in October 2009 and declined to 38.6 days at the start of June. Since then, inventory levels have been rising towards 46.3 days as seasonal demand tails off (5-year average is 34.2 days). With the market focusing on gasoline rather than distillates, we expect that any build in distillate stocks will be ignored in August.

Although the market now focuses on gasoline, the overall product overhang persists. Furthermore, refineries capacity utilisation was at 88.7% last week (from lows of 77% at the start of February). With higher utilisation rates, more product is produced, which should see inventories struggle to decline fast, especially distillate inventories. However, higher utilization rates may see US crude

Base metals

Base metals have broken out of all trading ranges — with sustained short-covering, the triggering of stops and fresh buying interest. Stronger US equities and a weaker dollar fuelled momentum, resulting in intraday short-covering as weak shorts exited. The metals closed below their highs but there was a lot of buying interest, with further short-covering perhaps still on the cards.

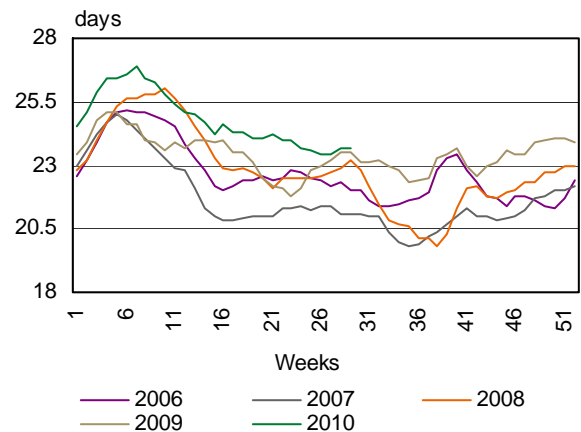
This morning's German IFO data was very strong, with the Business Climate Index, Current Assessment Index and Expectations Index all beating market expectations. Unlike many other European data, German data has in general been good recently. The data has supported the euro and also induced some buying of metal.

The S&P and Dow rallied yesterday. We would not be surprised to see some profit-taking in metals as the Dow and S&P move closer to their 200-day MAs. Trading patterns over the past few weeks in many financial assets would suggest the 200-day MA remains formidable resistance. Despite this resistance in equities, we maintain our bullish view on copper and zinc, while we watch whether equities can break through key resistance. Some short-covering in metals may induce another rally. This morning, the US equity futures were trading marginally higher.

Copper saw over 21,000 lots trade on LME Select yesterday, indicating the degree of two-way interest. Prices closed off their highs, with metal trading around \$6970 (as of 18.30 in ldn). The high of the day was \$7050.

Lead and nickel both saw comparatively good volumes, with turnover coming in at 3,769 and 3,334 lots respectively. Aluminium and zinc turnover was solid but also far from spectacular — at 12,336 lots and 6,278 lots respectively.

US gasoline inventory days forward cover



Source: US DOE; Standard Bank

inventory decline in coming weeks if imports remain stable. On a days-forward basis, crude oil inventory is at 23.1 days; the 5-year average is 22.3 days.

Despite concerns regarding economic growth, the latest Chinese export data and European industrial production figures indicate that economic growth continues apace.

We expect further upside for crude oil in Q3.

By Walter de Wet

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Precious metals

Gold is back at \$1,200 after waves of buying in New York yesterday pushed gold from \$1,185 to \$1,202 in just hours. But gold remains within its recent trading range between \$1,210 and \$1,180, and this may continue as we head towards options expiry next week Thursday. There is large volume of options with strikes at and around \$1,200. Despite gold touching \$1,200, physical buying interest remains in place which, for now, supports gold on approach of \$1,185.

In the US, we are witnessing a positive development. Unlike in Europe, US Libor is starting to decline. After reaching a high of 0.539% in June, 3m Libor has declined steadily to below 0.50% yesterday. This is not a big move yet but a move in the right direction nevertheless. We view a decline in LIBOR as a bullish development for precious metals.

Furthermore, we find confidence in the strength of EM currencies which indicates that risk appetite for precious metals may remain firm.

Gold support is at \$1,186 and \$1,173, while resistance is at \$1,206 and \$1,213.

We are not confident of a sustained PGM rally yet, but we continue to see the substantial downside risk for platinum diminish slowly but surely. Platinum managed to break through its 3 week \$1540 resistance, holding just under \$1550. We would also view a close above the 200day MA at \$1541 as a positive signal for further buying support. Our fundamental view remains unchanged — there is value below \$1,500 in platinum and \$420 in palladium.

By Walter de Wet

Energy

WTI front-month crude oil managed to close above its 200day MA, at \$77.66. We view this as a positive development. However, we are keeping an eye on the S&P and Dow which is also closing in on their respective 200-day MAs (but still trading below them). We would not be surprised to see some profit-taking in oil as the Dow and S&P move closer to their 200-day MAs. A look at correlations show that crude oil and crude oil products continue to have a relatively high correlation with US equities.

This morning's German IFO data was very strong, with the Business Climate Index, Current Assessment Index and Expectations Index all beating market expectations. Unlike many other European data, German data has in general been good recently. Should US equities manage to continue its upward momentum today, combined with the positive data out of Germany this morning should provide additional support to crude oil prices. As a result, we maintain a short-term bullish bias towards crude oil.

The RBOB/WTI front-month crack spread is remains below \$10, and we expect further downside in gasoline spreads in July and August. US refinery utilisation continues at a relatively high level of 87.1% — which will require more crude and produce more product. As a result, tonight's API inventory data and tomorrow' DOE data could show a large draw in crude oil inventories and a build in both gasoline and distillate inventories.

By Walter de Wet

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	4,409,975	4,415,950	-	5,975	-5,975	-218,925	250,050	5.67	173,498
Copper	419,650	416,525	4,750	1,625	3,125	-82,675	37,575	8.95	163,238
Lead	183,225	184,200	-	975	-975	36,725	8,100	4.42	35,203
Nickel	116,814	117,210	-	396	-396	-41,196	4,872	4.17	31,596
Tin	15,620	15,535	125	40	85	-11,145	1,340	8.58	7,860
Zinc	620,775	620,825	-	50	-50	132,725	22,750	3.66	78,623

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	15,160	15,170	135	Ali Jul'10	-	-	-	-
Copper	54,800	55,140	1,370	Cu Jul'10	316	316.15	-0.30	-0.09%
Zinc	15,750	15,785	210					

ZAR metal prices (22 July 2010)	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,125	52,167	14,277	149,441	138,662	14,341	7.5380
3-month	15,648	53,648	14,845	154,991	142,136	14,910	7.6520

Energy

Energy futures pricing	Price Change		Price Change		Price Change		Price Change		Price Change	
	1-month forward		2-month forward		3-month forward		6-month forward		1-year forward	
Sing Gasoil (\$/bbl)	84.55	0.63	87.22	2.21	87.71	2.14	89.46	2.08	-	-
Gasoil 0.1% Rdam (\$/mt)	656.00	2.75	661.50	2.25	667.50	3.25	678.25	15.50		
NWE CIF jet (\$/mt)	689.69	5.85	710.32	17.00	715.91	16.16	732.23	15.50		
Singapore Kero (\$/bbl)	85.22	0.59	88.12	2.06	88.91	2.09	90.91	2.03		
3.5% Rdam barges (\$/mt)	415.65	0.49	431.75	6.00	431.25	5.25	436.75	4.75		
1% Fuel Oil FOB (\$/mt)	454.32	0.66	473.50	6.75	473.25	6.00	479.50	5.75		
Sing FO 380 Cargo (\$/mt)	449.75	5.00	449.75	5.00	449.75	5.00	449.75	5.00		
Sing FO180 Cargo (\$/mt)	444.67	-0.06	457.75	5.50	458.50	5.25	465.75	4.75		

Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	92.60	0.60	93.60	1.00	95.55	1.05	98.10	1.20	105.50	1.20
API4 (FOB RBCT)	91.10	0.60	90.60	0.10	92.25	0.55	94.60	0.70	100.00	1.20

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.39667	0.48000	0.53833	0.59667	0.64200
Silver	0.69667	0.71333	0.72167	0.76333	0.76333
USD Libor	0.32875	0.40938	0.49781	0.70075	1.08000

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	48.72	1,196.85	1,205.76	1,181.43	1,146.95	1,180.00	1,198.00
Silver	49.95	17.99	18.06	18.06	17.67	17.50	18.10
Platinum	46.05	1,520.72	1,522.74	1,608.98	1,541.34	1,500.00	1,550.00
Palladium	48.93	456.35	451.00	482.26	437.34	420.00	455.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	Jul'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,194.90	18,1550	459.50	1,529.40	1,195.50	3,348.00	1,195.10
Open Interest	558,862	116,296	19,312	27,714	881	111,528	2,646
Change in Open Interest	611	1,235	-46	-68	188	3,974	117

Date: 22 July 2010

Sources: Standard Bank; LME; Bloomberg

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