Commodities

Commodities: Daily

Standard Bank

Focus: Tighter middle-distillate market ahead

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Focus: Are we heading into a tight middle-distillate market as that of H2:07 and H1:08? We believe not, as the gradual return of Libya crude should ease the crude market, and there is still abundant spare capacity in the European refining sector. Nevertheless, we expect a strong middle-distillate market until year-end, and potentially into Q1:12.

- Short covering in the Euro helped the base metals to rally strongly on Monday, however, a return of the sovereign debt doom and gloom, plus the added uncertainty surrounding the Slovakian vote for the ratification of the EFSF, has seen the complex come under heavy pressure during Tuesday morning.

- Sentiment continues to waver, with risk appetite tentative. European equity markets appear to be backtracking today, which could see some support for precious metals as an alternative asset. Further upside could be on the cards if US equity futures are correct in signalling similar losses on US equity markets.

- Oil staged a powerful rally yesterday amid the soaring euro and equity markets as risk appetite returned on the renewed drive to resolve the Eurozone's debt crisis. WTI and Brent gained $2.43/bbl and $3.07/bbl respectively. However, oil products failed to catch up with crude, as normally happens during sharp price moves. Also, sentiment toward product cracks softened after news that Shell was starting up its refinery in Singapore. The term structures for Brent and WTI rose further, on tight crude supplies.

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Commodity price data (10 October 2011)

Base metals LME 3-month		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,210	2,259	2,265	2,210	49	2.22%	2,186.00	10	-35.50
Copper	7,289	7,495	7,501	7,274	206	2.83%	7,314.00	64	-19.25
Lead	1,937	2,005	2,006	1,937	68	3.51%	1,976.00	30	3.00
Nickel	19,100	19,380	19,550	18,651	280	1.47%	18,835.00	125	-35.00
Tin	23,000	23,050	23,200	22,800	50	0.22%	23,000.00	280	-26.00
Zinc	1,920	1,951	1,959	1,920	31	1.60%	1,903.50	59	-21.00
Energy									
	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	108.85	108.76	109.15	108.61	-0.19	-0.17%			
NYMEX WTI	85.70	85.36	85.70	85.20	-0.05	-0.06%			
ICE Gasoil	913.00	911.75	913.25	911.50	-6.25	-0.69%			
API2 Q4'11	118.90	119.25	-	-	0.35	0.29%			
ICE EUA Dec'11	10.40	10.71	-	-	0.31	2.98%			
Precious metals									
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's		
Gold	1,664.00	1,661.00	1,669.00	1,639.00	1,669.00	33.00	1.3/1.7		
Silver	-	32.16	32.34	31.25	32.00	1.00	0.0/2.0		
Platinum	1,521.00	1,513.00	1,522.00	1,490.00	1,520.00	30.00	1.5/3.5		
Palladium	615.00	612.00	616.00	584.00	612.00	24.00	0.0/1.0		

Sources: Standard Bank; LME; BBG

Focus: Tighter middle-distillates market ahead

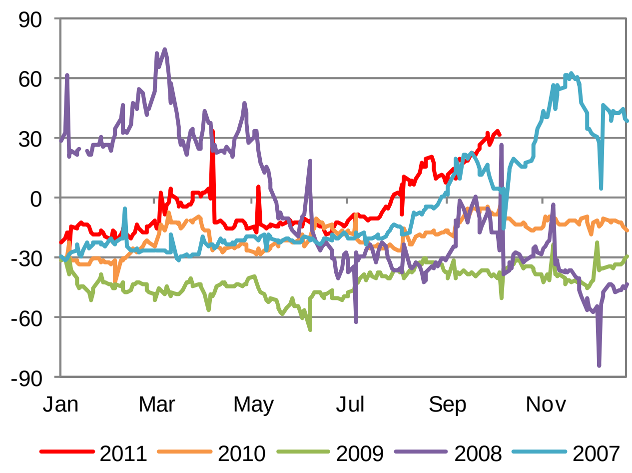
The term structure of European gasoil turned into backwardation in early August, and the structure has been strengthening even since. Figure 1 shows that the time spread between the first month and sixth month of ICE gasoil futures contracts follows a similar path as in 2007 when the oil market had a middle-distillate crunch as the global refining industry failed to produce enough middle-distillates to meet demand.

Are we heading into a middle-distillate market as that of H2:07 and H1:08?

The rather steep backwardated structure in middle-distillates has been driven by (a) the crude market and (b) better demand for middle-distillates than other oil products. *Firstly*, the backwarded structure in middle-distillates reflects a similar structure in Brent crude, as the crude market is facing rather tight supply of low sulphur crude. *Secondly*, demand for both light ends and heavy products has been lacklustre, which has weighed on refining margins. Therefore, refineries in Europe have been running on low rates by historical standard for most part of this year, thereby limiting middle-distillate supply.

The net result is demonstrated by the counter-season decline in gasoil inventories. Gasoil inventories in the Amsterdam-Rotterdam-Antwerp (ARA), the trading hub in Northwest Europe, have been drawing steadily since June, rather a typical seasonal build. As we head into the winter, custom

ICE Gasoil M1/M6 spread ($/te)



Sources: ICE; Standard Bank Research

restocking for gasoil and heating demand will pick up. Low inventories pose the risk of big rallies in middle-distillate cracks, especially if winter is particularly cold. As demand for light and heavy oil products is likely to remain soft, middle-distillate cracks would have to strengthen much further to incentivise refineries to increase throughput.

However, the gradual return of Libya crude should ease the crude market, and there is still abundant spare capacity in the European refining sector. Therefore, we do not foresee a middle-distillate market that mimics that of H2:07 and H1:08. Nevertheless, we expect a strong middle-distillate market until year-end, and potentially into Q1:12.

By James Zhang

Base metals

Short covering in the Euro helped the base metals to rally strongly on Monday, however, a return of the sovereign debt doom and gloom, plus the added uncertainty surrounding the Slovakian vote for the ratification of the EFSF, has seen the complex come under heavy pressure during Tuesday morning. An LME data feed problem with its warehouse inventory figures - reporting millions of tonnes of increases across the board - has also spooked the market a little, adding to the general confusion.

China's sovereign investment fund - Central Huijin Investment Ltd. - ventured into the domestic Chinese market this morning, buying up state-owned banking equities including ICBC, China Construction Bank, Bank of China and the Agricultural Bank of China. The Chinese banking sector has been particularly hard hit in recent weeks, however, although the intervention from the investment fund is positive for those equities and the sector generally, the fact they felt the need to step in is a concern.

In Europe, Jean Claude Trichet commented this morning that the European debt crisis has reached a "systemic dimension" while Luxembourg Prime Minister Jean-Claude Juncker added to the gloom, talking about write downs for Greek bondholders of 60% plus. With the Slovakian vote on the EFSF also taking place, European markets have understandably been rather depressed.

Indonesian refined tin exports were down 39% in September, coming in at 5,233mt. The figures are also down 24% in y-o-y terms. The figures, combined with steadily falling LME inventories paint a bullish picture for the metal, however, with prices recovering back above $23,000/mt, PT Timah has announced it will resume exports. Some other smelters are holding out for $25,000/mt. While the impact of a potential recession on demand is still being assessed, however, Timah's decision to resume exports likely caps prices over the short term, at least until the underlying fundamentals reassert themselves more obviously.

After touching $7,500 this morning, copper has come under heavy selling pressure, initially form Asia and then again during European trade. The fact that positive physical market indicators, and an increasingly bad tempered and violent strike at Grasberg - Indonesian tropes shot 2 protestors, killing one and critically injuring another - have had little impact on prices, suggests that broader macroeconomic themes still remain firmly in charge.

By Leon Westgate

Precious metals

Yesterday, gold and silver continued to push higher, although as in most markets, this was largely driven by short-covering. A weaker dollar also contributed to the rally. Early this morning, as Asian markets closed we saw some profit-taking from participants that had taken positions on last week's dip, which saw the precious metals complex lose some ground. However, this was short-lived, as short-covering resumed on the open of European markets.

Despite the upward trend, volumes remain light with little conviction evident in the precious metals markets. Consequently, we don't expect a strong push higher today but rather a slow upward grind. Strong support around $1,650 from physical buying is still very much in place, which should protect gold from significant downside.

Sentiment continues to waver, with risk appetite tentative. European equity markets appear to be backtracking today, which could see some support for precious metals as an alternative asset. Further upside could be on the cards if US equity futures are correct in signalling similar losses on US equity markets.

Not much data of significance out today, with the most notable for commodities being Chinese monetary and credit data possibly released overnight. While this may have an effect on precious metals (positive if money supply continues to grow), this will be to much lesser extent than the effect on industrial metals. Japanese machine orders data might also spark some movement in PGM, as investors try to gauge the recovery of that country's auto industry. Analysts are expecting a 3.6% y/y fall (3.9% m/m increase) for the month of August.

Gold support is at $1,640 and $1,619. Resistance is $1,681 and $1,699. Silver support is at $31.16 and $30.57, resistance is at $32.36 and $32.96.

Platinum support is at $1,496 and $1,472, resistance is at $1,537 and $1,553. Palladium support is at $583 and resistance at $622.

By Marc Ground

Energy

Oil staged a powerful rally yesterday amid the soaring euro and equity markets as risk appetite returned on the renewed drive to resolve the Eurozone's debt crisis. WTI and Brent gained $2.43/bbl and $3.07/bbl respectively. However, oil products failed to catch up with crude, as normally happens during sharp price moves. Also, sentiment toward product cracks softened after news that Shell was starting up its refinery in Singapore. The term structures for Brent and WTI rose further, on tight crude supplies.

After the sabotage of its Trans Forcados pipeline, Shell declared *force majeure* yesterday on exports of Forcadoes crude for Q4:11 . However, Shell lifted the *force majeure* on Bonny Light exports that had been declared in August. The net effect means that crude exports from Nigeria will remain weak in Q4:11. The market is likely to remain tight for sweet crude, too, although Libya's crude production seems to be returning faster than anticipated.

Yesterday, Dexia agreed to be bailed out by the French and Belgium governments as the first banking victim of the Eurozone sovereign debt crisis. However, the market took some comfort from the pledge by Eurozone policymakers that a comprehensive solution would be ready for debate by the EU summit due on 23 October. For today, the market will divert some attention to the ratification vote for EFSF in Slovakia, the last country to pass the vote. In our view, it's unlikely that Slovakia will block the EFSF, even if today's vote fails to pass.

The oil market remains very tight because of ongoing supply issues, due to the absence of the majority share of Libya's supply. The oil market has been finding itself in the slipstream of financial market sentiment. We maintain that the Eurozone debt crisis will continue, and thereby cap the rally in risky assets.

The US Q3:11 company reporting season starts this week, which will shed further light on the health of the US economy. Key for the oil market in the short term is the Eurozone debt crisis and fears of another recession. In the medium term, the oil market has very strong supply and demand fundamentals, which could push the price much higher, with the help of the abundant liquidity in the financial system.

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	4,544,725	4,548,725	0	4,000	-4,000	267,675	238,250	5.24	284,857
Copper	462,525	467,100	0	4,575	-4,575	84,975	52,625	11.38	127,850
Lead	382,000	380,400	2,250	650	1,600	173,725	7,200	1.88	57,644
Nickel	93,366	94,266	0	900	-900	-42,306	6,210	6.65	33,676
Tin	19,795	20,290	15	510	-495	3,520	3,985	20.13	2,607
Zinc	806,475	807,925	2,500	3,950	-1,450	105,050	72,975	9.05	117,010

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,805	16,695	30
Copper	55,780	54,650	-170
Zinc	15,395	15,200	40

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Dec'11	-	-	-	-
Cu Dec'11	337	332.45	-4.35	-1.29%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,199	57,547	15,547	148,194	180,964	14,977	7.8680
3-month	18,005	59,739	15,981	154,468	183,720	15,546	7.9705

Energy

Energy futures pricing	Price 1 month	Change	Price 2 month	Change	Price 3 month	Change	Price 6 month	Change	Price 1 year	Change
Sing Gasoil ($/bbbl)	121.49	1.89	119.35	2.13	118.61	2.22	117.67	2.90	-	-
Gasoil 0.1% Rdam ($/mt)	911.75	-6.25	905.75	-6.50	897.75	-6.25	884.50	20.00	876.50	17.75
NWE CIF jet ($/mt)	986.01	12.82	990.13	16.91	984.75	17.00	971.51	17.66	967.27	16.71
Singapore Kero ($/bbl)	123.04	1.87	121.90	2.18	121.66	2.22	120.62	2.90	119.86	2.60
3.5% Rdam barges ($/mt)	610.19	14.95	607.00	19.75	599.75	19.25	588.50	18.50	571.50	17.75
1% Fuel Oil FOB ($/mt)	632.36	17.06	634.50	22.50	633.50	23.00	625.00	21.00		
Sing FO180 Cargo ($/mt)	640.95	14.14	637.00	19.00	630.75	19.00	619.25	19.25		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	119.25	0.35	120.05	0.60	120.05	0.70	120.65	0.85	123.95	0.90
API4 (FOB RBCT)	114.35	0.25	116.55	0.50	116.50	0.60	117.05	0.75	119.40	0.90

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.52467	0.52500	0.52583	0.53617	0.54333
Silver	0.31400	0.30400	0.30400	0.27400	0.17833
USD Libor	0.24300	0.31233	0.39417	0.58250	0.89600

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	48.43	1,641.43	1,693.63	1,654.72	1,541.51	1,640.00	1,681.00
Silver	41.72	30.88	33.94	37.60	36.36	31.17	32.36
Platinum	35.80	1,511.10	1,612.99	1,752.97	1,773.50	1,496.00	1,537.00
Palladium	38.73	599.94	643.14	745.31	760.93	583.00	622.00

Active Month Future	COMEX GLD Dec'11	COMEX SLV Dec'11	NYMEX PAL Jan'12	NYMEX PLAT Jan'12	DGCX GLD Dec'11	TOCOM GLD Aug'12	CBOT GLD Dec'11
Settlement	1,680.50	32.2000	612.05	1,525.10	1,688.00	4,143.00	1,682.50
Open Interest	436,995	100,221	18,993	38,766	9,213	121,302	1,868
Change in Open Interest	4,049	56	11	797	0	-1,076	0

Sources: Standard Bank; LME; Bloomberg

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