Commodities

Commodities: Daily

Focus: Seasonal oil inventory build to cool the market

5 April 2012

Focus: The weekly US DOE oil inventory report published yesterday surprised the market with a hefty $9mbbl build in total US crude oil stocks. The build pushed US crude stocks above last year's level and set a new record for the past five years.

- The return of the Chinese to the market overnight saw some small scale and opportunistic buying interest emerge in copper and aluminium, with participants attracted by softer LME prices and emboldened by a firmer Shanghai equity market. The effect has been rather short-lived, however, with the metals coming back under pressure from a stronger dollar and softer European equity markets.

- In Asian markets, interest in precious metals remained severely lacking, with the lower price levels even failing to attract significant physical buying. Nevertheless, there was enough interest again (as there was the previous day) to keep prices relatively stable. This morning, we've seen cautious buying give the complex a moderate lift.

- The oil market was hit by a slew of bearish data, including a large oil inventory build, soft US data and a dim outlook for the Eurozone economy. WTI and Brent fell $2.54/bbl and $2.52/bbl respectively. Oil products again outperformed crude as product inventories continued to draw. The time spreads across the Brent curve were sold on improved crude supply and weak demand. The spread between WTI and Brent exceeded $21/bbl as investment money continued shifting from WTI to Brent.

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Commodity price data (4 April 2012)

Base metals LME 3-month		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,122	2,093	2,125	2,088	-29	-1.37%	2,059.50	-32	-39.65
Copper	8,550	8,350	8,565	8,348	-200	-2.34%	8,451.50	-124	8.50
Lead	2,065	2,013	2,065	1,990	-53	-2.54%	2,014.00	-31	-6.00
Nickel	18,150	17,855	18,310	17,817	-295	-1.63%	18,035.00	-290	-70.00
Tin	23,000	22,695	23,000	22,515	-305	-1.33%	22,550.00	-550	-64.00
Zinc	2,002	1,982	2,009	1,970	-20	-1.00%	1,986.50	-8	-5.75

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	122.54	123.38	123.40	122.47	1.04	0.84%
NYMEX WTI	101.96	102.31	102.34	101.88	0.84	0.82%
ICE Gasoil	1,010.25	1,012.50	1,013.25	1,009.00	-0.25	-0.02%
API2 Q2'12	101.55	100.40	-	-	-1.15	-1.15%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,631.75	1,621.00	1,648.00	1,613.00	1,613.50	-56.70	1.0/1.4
Silver	-	31.47	32.68	30.02	31.01	-2.24	-2.5/-0.5
Platinum	1,627.00	1,616.00	1,644.00	1,600.00	1,600.00	-54.00	1.5/3.5
Palladium	645.00	647.00	656.00	632.00	633.00	-25.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Seasonal oil inventory build to cool the market

The weekly US DOE oil inventory report published yesterday surprised the market with a hefty $9mbbl build in total US crude oil stocks. The build pushed US crude stocks above last year's level and set a new record for the past five years (Figure 1).

Total US product inventories were also seasonally high. In fact, total US commercial inventories, including crude and products, have been setting new seasonal record highs since mid-February (Figure 2).

One of the key drivers of the oil inventory build in the US is the sharp increase in domestic crude oil production, led by shale oil. The DOE reported yesterday that it might have underestimated domestic crude production by up to 228,000 b/d during the past year.

One would be forgiven for thinking that the oil market fundamentals are soft and that prices should be much weaker.

Indeed, there are signs of market easing in price activity, reflected by a falling time spread at the front-end of the Brent curve. Dated Brent and price differentials for physical cargoes are struggling as well. This is particularly significant in the context of very strong refining margins in Europe and crude cargo delays from the North Sea. Saudi announced that they had cut price differentials for their cargoes to both Asia and Europe, adding to the pressure on oil prices.

We expect the seasonal global oil inventory build to continue throughout the second quarter, which will lead to both softer time spreads and weaker flat prices. That said, the flip-side of this expected development will reduce the odds of a reserve release by the OECD member countries.

Figure 1: Total US commercial crude oil stocks

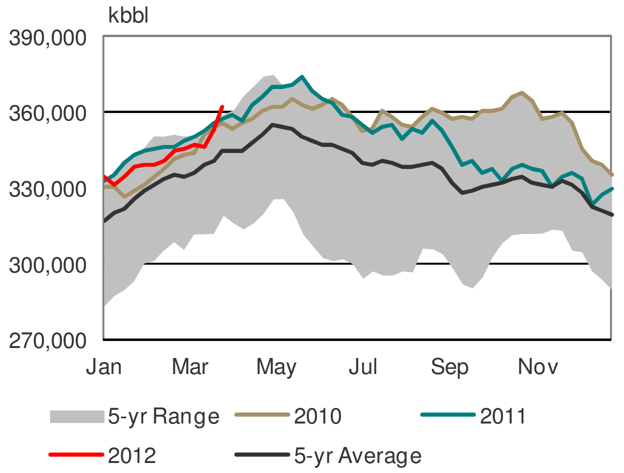
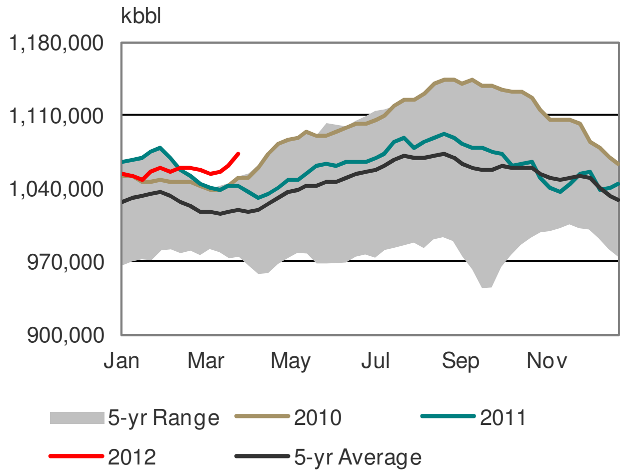


Figure 2: Total US commercial oil stocks (crude + products)



Sources: DOE; Standard Bank Research

By James Zhang

Base Metals

The return of the Chinese to the market overnight saw some small scale and opportunistic buying interest emerge in copper and aluminium, with participants attracted by softer LME prices and emboldened by a firmer Shanghai equity market. The effect has been rather short-lived, however, with the metals coming back under pressure from a stronger dollar and softer European equity markets.

With the LME closed on Friday and Monday, position squaring activity may well emerge this afternoon, particularly given tomorrow's release of the US Nonfarm Payroll figures for March (expected at +205K) and the release of Chinese economic data next week. In the interim however, this afternoon's US initial jobless figures may be more closely watched than normal, as participants try to gauge tomorrow's NFP figures.

Copper came under sustained selling pressure on Wednesday, finishing the day at $8,350. Prices briefly attempted to rally back above $8,400 this morning, before falling back towards $8,320 heading into the afternoon. Elsewhere, the Cash-3m backwardation continues to persist, with the latest LME data showing the presence of two dominant position holders of copper cash warrants in the 30-39% and 50-70% band respectively, with one dominant holder in Tom warrants in the 50-79% band. The copper backwardation is continuing to attract metal into LME warehouses however, with on-warrant stocks climbing 6,025 mt this morning. Baltimore was again the main location of interest in the US, with 1,700 mt entering the warehouse today, while Singapore and Busan saw stocks increase by 2,100 mt and 1,500 mt respectively.

Zinc has reverted to tracking copper in terms of intraday price movements, something reflected in a noticeable drop in turnover in recent days. This is perhaps indicative of the lack of Chinese activity owing to the Tomb-sweeping holidays, however, it's interesting to note that turnover has failed to pick up significantly this morning. Inventory-wise, this morning saw a very large 11,275 mt jump in cancelled warrants in Chicago, though this again looks more likely to be related to warehousing issues however, rather than indicative of a recovery in demand.

By Leon Westgate

Precious metals

The downward pressure on precious metals continued into the early part of the New York trading session, with already negative sentiment (especially regarding the prospects of central bank easing) compounded by ECB President Draghi's remarks after the bank's interest rate announcement. The emphasis he placed on inflation concerns is most likely what has spooked the markets as it reduces the possibility that the central bank will engage in any further monetary easing. However, he did attempt to balance these remarks by saying that he did not think that he was being overly hawkish and that "any talk of exit strategy is premature".

In Asian markets, interest in precious metals remained severely lacking, with the lower price levels even failing to attract significant physical buying. Nevertheless, there was enough interest again (as there was the previous day) to keep prices relatively stable. This morning, we've seen cautious buying give the complex a moderate lift.

PGMs are faring slightly better then the rest of the precious metals group, as supply concerns linger regarding South African mine production. Negotiations between management and workers continue as the work stoppage at the Modikwa mine enters its third week. However, it seems as if the end is in sight as today's meeting is said to be "mainly about clarifying the wording in the agreement".

Gold support is at $1,607 and $1,591. Resistance is $1,644 and $1,664. Silver support is at $30.63 and $29.99, resistance is at $32.31 and $33.35.

Platinum support is at $1,580 and $1,562, resistance is at $1,633 and $1,666. Palladium support is at $627 and resistance at $652.

By Marc Ground

Energy

The oil market was hit by a slew of bearish data, including a large oil inventory build, soft US data and a dim outlook for the Eurozone economy. WTI and Brent fell $2.54/bbl and $2.52/bbl respectively. Oil products again outperformed crude as product inventories continued to draw. The time spreads across the Brent curve were sold on improved crude supply and weak demand. The spread between WTI and Brent exceeded $21/bbl as investment money continued shifting from WTI to Brent.

The DOE reported US weekly oil inventory changes for crude/gasoline/distillates at +9.0/-1.5/+0mb w/w. Crude inventories at Cushing rose further, by 0.7mbbl. According to the DOE report, US crude imports rose sharply, by 0.5mb/d w/w, while refinery crude input grew by 0.2mb/d, which resulted in a net build in crude inventories. More importantly, the DOE stated that it has significantly underestimated US domestic oil production by over 220kb/d during the past year. 6mbbl of the total 9mbbl build in crude was in PADD3 (the US gulf coast), which diminishes Brent's veracity as international benchmark. Implied demand for gasoline exceeded last year's level for the first time since the start of this year.

Economic data was also soft yesterday with the US ISM non-manufacturing survey disappointing the market, and the Eurozone retail sales which declined further. These have spurred a sharp risk-off move in the market, resulting in a sizeable fall across major equity markets and a weaker euro, which in turn dragged the oil market lower.

Looking ahead, we expect the oil inventory build to continue throughout this quarter, which will continue to pressurise oil prices and term structures. The oil market is clearly facing headwinds, and a rally higher in the short term before any development regarding the Iranian negotiations set for 17 April, is unlikely. That said, the oil product market appears to be well supported by sizeable inventory draws. Consequently, refining margins are very strong, at least for now, and this will support the crude market. With a short week packed with plenty of economic data releases, the market is expected to trade in a more volatile fashion.

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	5,064,600	5,071,100	500	7,000	-6,500	94,200	1,649,500	32.57	207,578
Copper	259,675	260,650	2,675	3,650	-975	-111,225	78,650	30.29	159,737
Lead	374,300	376,300	0	2,000	-2,000	21,225	18,400	4.92	50,974
Nickel	100,614	100,542	120	48	72	10,566	7,836	7.79	48,982
Tin	13,285	13,285	0	0	0	1,095	1,080	8.13	9,667
Zinc	895,700	896,150	0	450	-450	74,000	10,350	1.16	108,197

Shanghai 3-month forward prices				COMEX active month future prices				
Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	-	-	-	Ali May'12	-	-	-	-
Copper	-	-	-	Cu May'12	379	380.30	1.25	0.33%
Zinc	-	-	-					

ZAR metal prices							
	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,085	66,006	15,729	140,853	176,116	15,515	7.8100
3-month	16,565	66,085	15,928	141,312	179,617	15,686	7.9144

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 ($/bbbl)	135.32	-2.33	135.12	-2.58	135.10	-2.52	134.48	-2.33	-	-
Gasoil 0.1% Rdam ($/mt)	1,012.50	-0.25	1,013.75	-0.25	1,013.25	0.00	1,014.25	-18.00	999.00	-16.75
NWE CIF jet ($/mt)	1,091.69	-24.36	1,088.98	-25.07	1,089.12	-24.30	1,091.03	-20.08	1,081.18	-17.80
Singapore Kero ($/bbl)	135.54	-2.54	135.52	-2.73	135.67	-2.65	135.68	-2.39	134.31	-2.31
3.5% Rdam barges ($/mt)	695.00	-11.25	696.00	-11.25	694.25	-11.00	684.50	-10.00	662.50	-8.75
1% Fuel Oil FOB ($/mt)	757.50	-10.25	748.75	-13.00	745.00	-12.25	735.25	-10.25		
Sing FO180 Cargo ($/mt)	737.50	-11.75	734.38	-11.62	732.75	-10.00	722.00	-9.50		

Thermal coal	Q2-12		Q3-12		Q4-12		Cal 13		Cal 14	
API2 (CIF ARA)	100.40	-1.15	104.90	-1.00	108.80	-0.95	113.80	-0.90	119.40	-0.60
API4 (FOB RBCT)	102.80	-0.60	104.15	-0.85	105.85	-0.90	111.20	-0.90	114.80	-0.60

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.37160	0.39600	0.43100	0.48140	0.56600		
Silver	0.48400	0.48000	0.46800	0.44600	0.43200		
USD Libor	0.24125	0.34980	0.46915	0.73440	1.04970		
Technical Indicators	**30-day RSI**	**10-day MA**	**20-day MA**	**100-day MA**	**200-day MA**	**Support**	**Resistance**
Gold	42.84	1,659.45	1,662.92	1,678.82	1,692.61	1,607.00	1,644.00
Silver	45.55	32.27	32.50	32.03	34.43	30.63	32.31
Platinum	46.87	1,632.35	1,651.01	1,574.40	1,640.50	1,580.00	1,633.00
Palladium	42.49	651.52	673.83	664.41	688.57	627.0	652.0
Active Month Future	**COMEX GLD**	**COMEX SLV**	**NYMEX PAL**	**NYMEX PLAT**	**DGCX GLD**	**TOCOM GLD**	**CBOT GLD**
	Jun'12	**May'12**	**Jul'12**	**Jul'12**	**Apr'12**	**Feb'13**	**Jun'12**
Settlement	1,624.90	31.4550	635.15	1,598.60	-	4,307.00	1,625.00
Open Interest	407,761	116,434	21,003	40,490	1,685	125,447	1,504
Change in Open Interest	-1,572	3,399	379	-282	176	1,052	-13

Sources: Standard Bank; LME; Bloomberg

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