Commodities

Commodities: Daily

Standard Bank

Focus: What really controls Chinese copper flows?

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Focus: Ultimately, China remains a net importer of refined copper, with the last three years seeing the country consume on average around 2.8 Mtpy more refined copper than it produces domestically. This figure is likely to remain at 2.8 Mt this year before crossing over the 3.0 Mtpy mark next year. What is interesting however is what drives China's imports and exports of copper, particularly given the often quite significant short to medium term dislocations that build up.

- Rumours of a good Chinese GDP print circulated the market yesterday afternoon, which, combined with firmer US equities helped give base metal prices a boost on Thursday. Consequently, a weaker than expected Chinese Q1-12 GDP figure of 8.1%, vs. expectations of 8.4% and rumours of 9% have seen base metal prices come back under pressure ahead of US trade, as have weaker European equities.

- Gold was buoyed by the perceived dovish talk from Fed and ECM members yesterday, pushing beyond the $1,670 level. The rest of the complex, in particular silver, was taken along for the ride.

- We maintain our bearish bias on oil market fundamentals, as supply has outpaced demand in recent weeks on the back of increased Saudi crude production and the continuous decline in OECD demand. As for options, we view the current level of volatility as cheap. It has been pushed down by the unwinding of long vol positions built at the height of Iranian nuclear tensions at the beginning of this year.

Commodity price data (12 April 2012)

Base metals LME 3-month		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,097	2,104	2,126	2,095	7	0.32%	2,070.00	34	-38.75
Copper	8,051	8,220	8,238	8,050	169	2.10%	8,185.00	70	45.75
Lead	2,055	2,099	2,105	2,043	45	2.17%	2,081.00	62	-1.50
Nickel	18,150	18,700	18,670	18,050	550	3.03%	18,200.00	275	-65.50
Tin	22,400	22,655	22,850	22,400	255	1.14%	22,625.00	-25	-67.25
Zinc	2,000	2,040	2,048	1,995	40	2.00%	2,021.00	36	5.00

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	121.88	121.12	121.88	121.03	-0.59	-0.49%
NYMEX WTI	103.66	103.17	103.90	103.09	-0.47	-0.46%
ICE Gasoil	1,013.25	1,006.75	1,015.00	1,005.50	2.50	0.25%
API2 Q2'12	98.80	99.20	-	-	0.40	0.40%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,655.50	1,668.50	1,680.10	1,652.20	1,679.60	20.80	0.8/1.2
Silver	-	32.27	32.58	31.53	32.54	1.02	-2.5/-0.5
Platinum	1,594.00	1,585.00	1,592.00	1,587.00	1,585.00	0.00	1.5/3.5
Palladium	643.00	641.00	642.00	637.00	641.00	5.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: What really controls Chinese copper flows?

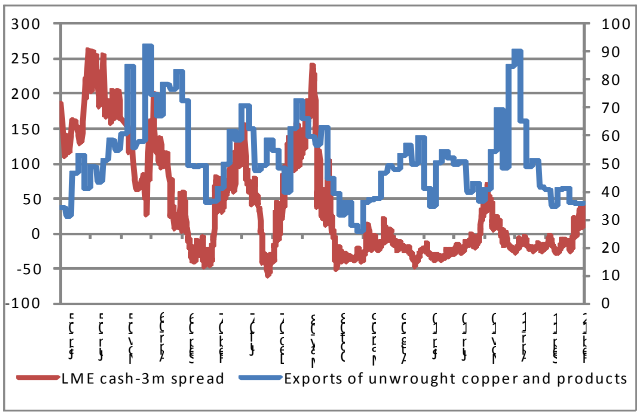
Ultimately, China remains a net importer of refined copper, with the last three years seeing the country consume on average around 2.8 Mtpy more refined copper than it produces domestically. This figure is likely to remain at 2.8 Mt this year before crossing over the 3.0 Mtpy mark next year. What is interesting however is what drives China's imports and exports of copper, particularly given the often quite significant short to medium term dislocations that build up.

As far as imports go, monthly contracted tonnages are the main driver under normal conditions. These are supplemented from time to time by the opening of the SHFE-LME arbitrage window, the physical buying this attracts and the longer term effect this has on sentiment, while merchants also top up bonded stocks based on their sense of market conditions. Over the past couple years however, demand for copper as collateral for financing purposes has emerged as an additional driver behind demand for copper units. This is again a major factor behind surging Chinese imports so far this year, which, helped by a closed arbitrage and lack of physical demand, have resulted in bonded warehouse stocks of copper again heading north of 600kt.

While the impact of Chinese copper financing activity, and its affects, has been a topic we have talked about for well over a year now, it remains this financing aspect that is responsible for much of the current dislocation between real and apparent Chinese copper demand.

Arguably under these conditions, the SHFE-LME arbitrage is more akin to a safety valve, or even nightclub bouncer, rather than a driver of metal imports per se, with the arbitrage controlling the flow of copper from bonded warehouse into the mainland China rather than anything else at the moment. The arbitrage is also one-way, with a negative arbitrage not necessarily going hand in hand with higher exports. As such, the main effect of a closed or negative arbitrage tends to be bonded stockpiles building up as participants look, somewhat hopefully towards the net ~2.8Mtpy of copper that China needs, and an eventual drawdown of that inventory.

LME C-3m spread (LH axis) vs. Chinese Cu exports (kt)



Source: China Customs, LME, Bloomberg, Standard Bank

As far as Chinese exports are concerned, the main driver is not a negative arbitrage, but is instead appears to be the presence of a backwardation in the nearby LME copper forward structure (see chart), and the impact this has on the cost of holding inventory. A tightening in the nearby copper spreads tends to see Chinese exports of metal increase sharply during periods of lacklustre domestic demand, albeit after a 1-2 month lag once the pain threshold cranks up a bit (although the country remains a net importer). Given the current backwardation in the copper cash-3m forward structure, we should again see Chinese exports pick up significantly over the coming months, and will likely see overall Chinese imports fall.

The current dislocation between apparent Chinese demand and real physical activity will ultimately only be resolved by a normalisation of Chinese monetary policy and increased economic activity, something that seems highly unlikely given a 7.5% GDP target and ongoing concerns over inflation. The LME copper backwardation may help limit any further bonded stock build, at least until it is sated, however, higher Chinese exports, lower Chinese imports and weaker apparent demand will likely disappoint the market well into H2-12 as the overhang of inventory in China continues to weigh on prices and sentiment.

By Leon Westgate

Base Metals

Rumours of a good Chinese GDP print circulated the market yesterday afternoon, which, combined with firmer US equities helped give base metal prices a boost on Thursday. Consequently, a weaker than expected Chinese Q1-12 GDP figure of 8.1%, vs. expectations of 8.4% and rumours of 9% have seen base metal prices come back under pressure ahead of US trade, as have weaker European equity markets. Interestingly, Asian equity markets, including the Shanghai Composite Index rallied overnight, with expectations of Chinese monetary easing combining with a failed North Korean missile test to help to calm recent fears and boost sentiment.

While the Chinese GDP figures were disappointing, the other numbers, including IP and FAI were more or less in line with expectations. China has since moved to cut the RRR for some county-level banks however, as its economic fine tuning efforts continue.

Copper prices have fallen back towards $8,100 in the wake of the Chinese economic data, though prices have stabilised ahead of US trade. LME on-warrant copper stocks are unchanged this morning, while SHFE stocks have fallen 265 mt to 221,827 mt. Meanwhile, Chinese copper output surged 16.7% m/m and 8.5% y/y in March to 510,000 mt as smelters ramped up output. Given the higher scrap import figures last month, production should continue to remain robust, in spite of a poor start to the year for many of the Chilean copper mines. The monthly output figure was the second highest on record, coming in only just behind the 518,000 mt produced in August 2011.

Chinese aluminium output also increased in March, climbing 2% m/m to 1.568 Mt. The Chinese figure was the second highest since June 2011 and underscored the 2-stage nature of the aluminium industry at the moment between China and the rest of the world. LME aluminium prices remain under pressure and are again below $2,100.

By Leon Westgate

Precious metals

Gold was buoyed by the perceived dovish talk from Fed and ECM members yesterday, pushing beyond the $1,670 level. The rest of the complex, in particular silver, was taken along for the ride. Improved sentiment (especially concerning Europe) and a weakening dollar also helped broaden the appeal of precious metals. However, the initial rally soon ran out of steam, with gold remaining in the $1,670-$1,680 range overnight.

This morning, the worse-than-expected Chinese GDP numbers are weighing on sentiment, although the effect on gold and silver has been rather muted. This lack of direction is understandable, since a weaker Chinese economy could see jewellery demand fall, but it may also prompt a greater monetary policy response from the PBoC which would be to the benefit of precious metals. We feel the latter outcome is not likely (although easing will continue at a moderate pace), and even if the PBoC were to step up monetary accommodation, it would take 12-18 months before the effect would be felt in the economy.

Taking their cue from base metals, PGM have suffered more than the other precious metals off the back of the disappointing Chinese GDP data. Oddly though, it is platinum which is being the hardest hit, while Chinese autocatalytic demand is tilted towards palladium. Perhaps this is a better reflection of the tighter fundamentals in the palladium market, which underscores our continued preference for this metal over platinum.

Gold support is at $1,656 and $1,639. Resistance is $1,685 and $1,697. Silver support is at $31.63 and $30.97, resistance is at $32.77 and $33.24. Platinum support is at $1,581 and $1,565, resistance is at $1,611 and $1,624. Palladium support is at $639 and resistance at $658.

By Marc Ground

Energy

The oil market recovered further yesterday, to a large extent driven by a rebound in the equity market. WTI and Brent gained 94c/bbl and $1.65/bbl respectively. RBOB gasoline remained the leader across the complex, and middle-distillates were also strong, following a hefty fall in products reported by the DOE on Wednesday. Despite the rally in flat price, the very front end of Brent time spread fell further, with the May/June Brent spread trading below 20c/bbl after hit $1/bbl at the end of February. In contrast, the front-end of WTI spread rallied during the last few sessions as the pace of stock build at Cushing has slowed down sharply. The back end of the time spread, however, rallied sharply, and implied volatility for long-dated contracts also rose. Both suggest that substantial producer hedging volume might have gone through during the day.

Total product stocks in the ARA (Amsterdam-Rotterdam-Antwerp) region and Singapore both fell as the Spring maintenance season for refineries in the northern hemisphere continues. Total product inventory as the ARA region fell by 105kt, which took place mainly in middle-distillates. Clearly, refineries in Europe has responded to the very strong gasoline crack by scarifying middle distillate yield. In Singapore, total product stocks fell by 0.4mbbl w/w as the fall in fuel oil stock outpaced a rise in middle-distillate stock. Broadly speaking, product inventories are fairly comfortable in both regions as inventories of most product groups remain above their previous 5-year average levels.

China's Q1:12 GDP number came in at 8.1%, a sizable decline from the previous 9.2%, which suggests that demand growth for commodities in general from China is also likely to slow down. That said, oil is less vulnerable as it more exposed to personal consumption rather than industrial production. Meanwhile, the Eurozone economy has almost certain shrank during Q1:12, as Italy reported a sharp drop in industrial production today. Amid the growing divergence between the US and Eurozone economies, the market has appeared to be trying hard to push dollar higher, but it is being held back by the US's very loose monetary policy.

We maintain our bearish bias on oil market fundamentals, as supply has outpaced demand in recent weeks on the back of increased Saudi crude production and the continuous decline in OECD demand. Amid the geopolitical uncertainty ahead of the upcoming Iranian negotiations (the five permanent members of the UN Security Council are set to reopen negotiations with Iran on 17 April), we prefer expressing our bearish view via shorting time spreads and product cracks rather than aggressively short flat price. As for options, we view the current level of volatility as cheap. It has been pushed down by the unwinding of long vol positions built at the height of Iranian nuclear tensions at the beginning of this year.

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	5,059,875	5,050,925	14,800	5,850	8,950	89,475	1,613,000	31.88	319,927
Copper	266,075	267,150	1,600	2,675	-1,075	-104,825	69,900	26.27	185,537
Lead	373,550	374,525	0	975	-975	20,475	11,450	3.07	79,450
Nickel	98,442	99,330	6	894	-888	8,394	5,988	6.08	51,554
Tin	13,225	13,150	105	30	75	1,035	880	6.65	5,749
Zinc	900,325	900,750	0	425	-425	78,625	19,675	2.19	160,147

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,120	16,095	5
Copper	58,780	58,290	150
Zinc	15,585	15,515	85

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali May'12	-	-	-	-
Cu May'12	372	368.80	-3.25	-0.87%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,425	64,948	16,513	144,417	179,529	16,037	7.9350
3-month	16,919	66,099	16,879	150,372	182,176	16,404	8.0413

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 ($/bbbl)	133.96	0.35	133.62	0.73	133.46	0.77	132.76	0.91	-	-
Gasoil 0.1% Rdam ($/mt)	1,006.75	2.50	1,004.00	2.00	1,002.50	1.75	1,000.50	0.75	983.75	6.00
NWE CIF jet ($/mt)	1,080.90	3.94	1,075.47	6.04	1,074.59	5.75	1,076.14	6.17	1,070.24	5.91
Singapore Kero ($/bbl)	134.19	0.62	133.90	0.76	133.94	0.80	133.91	0.92	132.95	0.76
3.5% Rdam barges ($/mt)	690.97	1.23	690.00	1.25	688.00	1.00	677.75	1.00	657.50	1.00
1% Fuel Oil FOB ($/mt)	750.32	0.50	737.50	-0.75	734.50	-0.50	726.00	-0.75		
Sing FO180 Cargo ($/mt)	736.27	1.25	729.75	1.75	728.75	2.25	717.25	2.00		

Thermal coal	Q2-12		Q3-12		Q4-12		Cal 13		Cal 14	
API2 (CIF ARA)	99.20	0.40	104.15	0.25	108.15	0.25	113.80	0.40	119.50	0.30
API4 (FOB RBCT)	102.85	0.25	103.90	0.10	106.15	0.25	111.60	0.40	115.05	0.30

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.34400	0.36000	0.38800	0.46200	0.54400
Silver	0.49200	0.49600	0.48200	0.47400	0.43800
USD Libor	0.24025	0.34755	0.46665	0.73240	1.04920

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	49.35	1,652.09	1,657.94	1,676.64	1,696.84	1,656.00	1,685.00
Silver	48.70	32.01	32.16	32.03	34.33	31.63	32.77
Platinum	47.41	1,610.71	1,626.81	1,575.90	1,636.83	1,581.00	1,611.00
Palladium	45.88	646.37	657.02	666.83	685.12	639.0	658.0

Active Month Future	COMEX GLD Jun'12	COMEX SLV May'12	NYMEX PAL Jul'12	NYMEX PLAT Jul'12	DGCX GLD Jun'12	TOCOM GLD Feb'13	CBOT GLD Jun'12
Settlement	1,674.80	32.2650	651.05	1,606.00	1,675.50	4,373.00	1,681.00
Open Interest	400,276	114,948	20,634	39,486	1,383	126,090	1,506
Change in Open Interest	-3,713	479	-187	-328	-75	-139	-1

Sources: Standard Bank; LME; Bloomberg

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