Commodities

Commodities: Daily

Focus: oil inventories to start seasonal shift

26 April 2012

Focus: US crude oil inventories continued with their seasonal upwards trajectory. The build kept US crude stocks above last year's level and also set a new record for the past five years. Looking ahead, we are more constructive on crude market fundamentals, while we have a bearish bias on oil product, in particular the middle-distillate market in Q2. We expect product crack and refinery margins to fall in Q2.

- The initial reaction to the Fed's policy statement was a **base metals** sell-off, as markets viewed the tone to be leaning towards hawkish. Bernanke's press conference soothed some of these concerns by stating that the Fed stood ready to assist the economy if needed, which somewhat supported base metals.
- Despite concerns over industrial demand, PGM were also well supported by the general enthusiasm for **precious metals** overnight. But some dollar strength this morning is seeing some weakness creep into the precious metals complex.
- The **oil market** was boosted by the Fed's reiteration of its ultra-loose monetary policy yesterday. WTI and Brent gained 57c/bbl and 96c/bbl respectively. Gasoline fell further despite of a hefty inventory draw reported by the DOE, as the market expects the inventory decline in gasoline to halt in the next few weeks. In contrast, heating oil was boosted by the inventory report, as the market continues to unwind the very crowded long-gasoline/short-heat trade. Time spreads in Brent improved further amid signs of improved demand for crude from refineries.

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Commodity price data (25 April 2012)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,061	2,082	2,092	2,060	21	1.02%	2,040.00	10	-41.75
Copper	8,033	8,150	8,162	8,026	118	1.46%	1.00	-8,285	110.00
Lead	2,070	2,072	2,098	2,068	2	0.08%	2,113.00	30	-2.00
Nickel	17,600	17,410	17,780	17,388	-190	-1.08%	17,485.00	-115	-83.00
Tin	21,375	21,675	21,699	21,300	300	1.40%	22,495.00	795	-69.00
Zinc	1,994	2,001	2,008	1,992	7	0.35%	1,991.00	3	-13.30

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	119.05	119.05	119.16	118.89	-0.07	-0.06%
NYMEX WTI	103.96	104.15	104.18	103.94	0.03	0.03%
ICE Gasoil	1,005.50	1,004.25	1,006.00	1,004.00	8.25	0.82%
API2 Q2'12	96.10	95.55	-	-	-0.55	-0.58%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,648.25	1,637.75	1,644.70	1,625.50	1,641.10	-1.70	0.2/0.6
Silver	-	30.84	30.98	30.00	30.40	-0.38	-4.0/-2.0
Platinum	1,559.00	1,551.00	1,551.00	1,550.00	1,551.00	6.00	1.5/3.5
Palladium	666.00	665.00	667.00	666.00	665.00	0.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Oil inventories to start seasonal shift

US crude oil inventories continued with their seasonal upwards trajectory, as confirmed by the weekly US DOE oil inventory report (published yesterday). The build kept US crude stocks above last year's level and also set a new record for the past five years (Figure 1).

The build in US crude inventories were driven by: (1) increased supply in the Midwest (PADD2) on increased domestic shale oil production and Canadian imports; and (2) stock-building by refineries in the Gulf Coast (PADD3) ahead of the ending of the spring turnaround season.

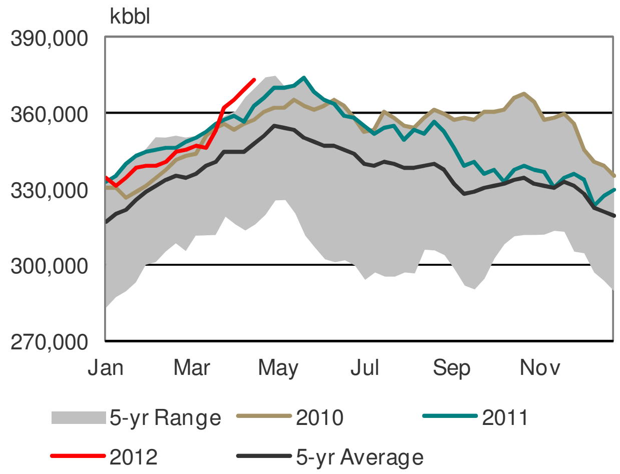
We expect US crude inventories to peak in the next few weeks, aligned with the seasonal pattern (Figure 1). In turn, we expect US product inventories to start to build in the next few weeks; gasoline inventories should stop declining, while distillate inventories should climb. The net result is mostly likely to be a net build in total US commercial inventories in Q2 (Figure 2).

Seasonal inventory builds have put pressure on time spreads and price differentials for physical cargoes. Since then, front-month Brent has fallen by about $5/bbl. There are tentative signs of improvement for the crude market as refineries start to bid for incremental cargoes.

Looking ahead, we are more constructive on crude market fundamentals, while we have a bearish bias on oil product, in particular the middle-distillate market in Q2. We expect product crack and refinery margins to fall in Q2.

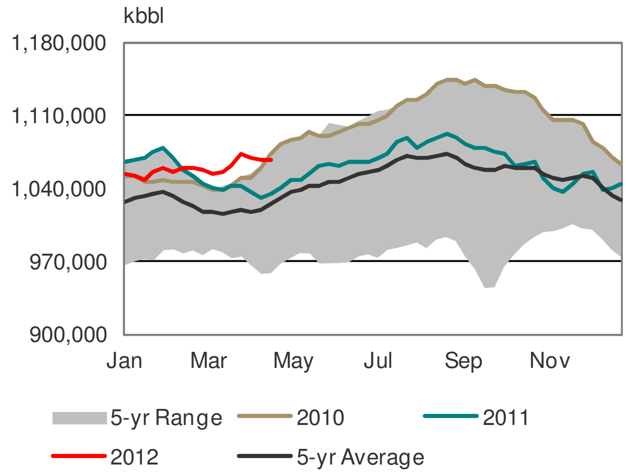
By James Zhang

Figure 1: Total US commercial crude oil stocks



Sources: DOE; Standard Bank Research

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



Sources: DOE; Standard Bank Research

Base metals

Base metals were steady for early part of yesterday. Before the FOMC statement, disappointing US durable/capital goods data introduced the first bout of weakness, sparking a sell-off across the complex. Durable goods orders were down 4.4% m/m in March, below expectations (-1.7% m/m), and much worse than the previous month's revised 1.9% m/m increase. Capital goods orders also disappointed, perhaps even more so, falling 0.8% m/m while analysts expected a 1.0% m/m increase. However, this weakness soon faded as markets perhaps began to view the data as supportive of further quantitative easing.

The initial reaction to the Fed's policy statement was a sell-off, as markets viewed the tone to be leaning towards hawkish, with inflation expectations slightly raised and some member's interest rate hike expectations brought forward. Bernanke's press conference, soon afterwards, soothed some of these concerns by stating that the Fed stood ready to assist the economy if needed — which provided some support for base metals. However, the relief was not complete as he did emphasise that to ease further, given the current state of the economy, would be reckless.

This morning, we've seen copper lead most of the complex higher (with aluminium the notable exception). Expectations of a tightening in the market have been fuelled by reports that China will be phasing out some of its outdated smelting capacity. Adding to interest in the red metal today, is also a report that large commodity hedge funds are still very bullish on the metal as they are more optimistic about China being able to engineer a soft landing. Our long-term view remains that higher Chinese exports, lower Chinese imports and weaker apparent copper demand will likely disappoint the market well into H2:12 as the overhang of copper inventory in China continues to weigh on prices and sentiment (see *Commodities Daily* dated 13 April 2012).

By Marc Ground

Precious metals

As for most commodities and other asset classes, precious metals were largely steady as investors bided their time ahead of the FOMC announcement yesterday. Some volatility was introduced as disappointing US data flow sparked some optimism over further quantitative easing from the Fed. As the FOMC announcement came closer, investors once again began to second guess whether this would actually happen, and volatility increased. This lack of confidence in further quantitative easing was heightened by the perceived hawkish tone of the FOMC's policy statement, and the precious metals complex sold off. However, even *before* Bernanke's statement, prices had snapped back on a short-covering rally.

Volatility continued as markets reacted to Bernanke's every word. His comments, taken together with the FOMC policy statement, were in line with our long-held view, and supportive of gold. Further quantitative easing has not been ruled out although, at this stage, given the conditions in the US economy, QE3 remains unlikely. Interest rates are most likely to kept low well into 2014. A low long-term interest rate environment and supportive global liquidity growth (due mainly to reserve accumulation in the absence of further central bank easing) underpins our long-term bullish view on gold.

Despite concerns over industrial demand, PGM were also well supported by the general enthusiasm for precious metals overnight. Some dollar strength (after disappointing consumer and economic confidence figures for the Eurozone) this morning is seeing some weakness creep into the precious metals complex. Given the general feeling of risk aversion (as evidenced by weaker European equity markets), the dollar could continue to benefit, to the detriment of precious metals. This trend could persist, as indicated by US equity futures currently in the red.

Gold support is at $1,634 and $1,619. Resistance is $1,656 and $1,662. Silver support is at $30.16 and $29.56, resistance is at $31.18 and $31.60.

Platinum support is at $1,547 and $1,535, resistance is at $1,566 and $1,572. Palladium support is at $651 and resistance at $672.

By Marc Ground

Energy

The oil market was boosted by the Fed's reiteration of its ultra-loose monetary policy yesterday. WTI and Brent gained 57c/bbl and 96c/bbl respectively. Gasoline fell further despite of a hefty inventory draw reported by the DOE, as the market expects the inventory decline in gasoline to halt in the next few weeks (see Focus section). In contrast, heating oil was boosted by the inventory report, as the market continues to unwind the very crowded long-gasoline/short-heat trade. Time spreads in Brent improved further amid signs of improved demand for crude from refineries.

The DOE reported US weekly oil inventory changes for crude/gasoline/distillates at +4.0/-2.2/-3.1mb w/w. Crude inventories at Cushing rose by 0.6mbbl, at a much slower pace than that in Q1:12. According to the DOE report, both US crude imports and refinery runs were largely flat w/w. The majority of crude build took place in the Gulf Coast (PADD3), ahead of the end of refinery maintenance season. While the report showed a sizable draw in product inventories, implied demand for gasoline and distillates fell by 279kb/d and 220kb/d, suggesting that US oil demand is not picking up materially amid high prices and the fragile economic recovery.

Once again, the Fed delivered what the market wants by reaffirming that the central bank stood ready for further QE if the economy weakened again. Although the Fed is adopting a wait-and-sea approach, because it see the US economy expanding, investors feel more comfortable to take on risky assets, including oil, with QE assurance from the Fed. Meanwhile, latest data shows that the UK economy had fallen into a (double-dip) recession in Q4:11 and Q1:12, and South Korea's growth during Q1:12 was the slowest for more than two years. Downbeat Q1:12 earning results from Vale and Caterpillar (both rely heavily on China) confirm the slowdown in China.

The stance taken by the Fed on its monetary policy highlights the biggest peril in being bearish on oil flat prices. Hence, we prefer expressing our bearish view through time spreads instead of flat prices. That said, the current environment doesn't make it easy for either producers or consumers to make hedging decisions. Commercial hedgers do get help from a rather depressed level of implied volatility, which may not last forever, given the many uncertainties in the market.

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	5,055,675	5,046,350	19,325	10,000	9,325	85,275	1,661,875	32.87	165,507
Copper	256,400	256,875	2,425	2,900	-475	-114,500	108,175	42.19	181,399
Lead	366,725	367,375	300	950	-650	13,650	55,525	15.14	51,495
Nickel	100,830	99,798	1,110	78	1,032	10,782	3,822	3.79	31,421
Tin	13,875	13,875	0	0	0	1,685	1,280	9.23	6,461
Zinc	910,775	910,825	0	50	-50	89,075	30,775	3.38	92,156

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,155	16,155	40
Copper	57,700	57,620	90
Zinc	15,490	15,500	25

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali May'12	-	-	-	-
Cu May'12	371	371.20	0.45	0.12%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,847	8	16,414	135,823	174,741	15,466	7.7680
3-month	16,392	64,167	16,313	137,072	170,652	15,754	7.8732

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 ($/bbbl)	132.84	-0.01	131.80	0.00	131.90	0.03	131.37	0.02	-	-
Gasoil 0.1% Rdam ($/mt)	1,004.25	8.25	1,000.00	7.75	998.00	7.25	989.00	0.25	973.00	0.50
NWE CIF jet ($/mt)	1,074.39	0.12	1,065.81	0.17	1,064.67	0.51	1,065.23	0.12	1,056.49	0.41
Singapore Kero ($/bbl)	132.84	-0.01	132.14	-0.07	132.31	0.01	132.40	-0.01	131.16	0.01
3.5% Rdam barges ($/mt)	685.28	0.11	682.00	1.50	678.25	1.00	666.75	0.00	645.50	-0.25
1% Fuel Oil FOB ($/mt)	741.25	-0.16	725.25	-2.50	723.25	-2.25	714.50	-1.00		
Sing FO180 Cargo ($/mt)	729.89	0.32	723.00	1.00	718.50	1.25	705.50	1.25		

Thermal coal	Q2-12		Q3-12		Q4-12		Cal 13		Cal 14	
API2 (CIF ARA)	95.55	-0.55	99.25	-0.95	103.45	-0.95	109.25	-1.20	115.45	-1.00
API4 (FOB RBCT)	99.75	-0.50	100.15	-0.80	102.45	-0.85	107.60	-1.15	111.95	-0.70

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.34333	0.35833	0.38167	0.47167	0.55167
Silver	0.51833	0.52000	0.52000	0.51333	0.48500
USD Libor	0.23875	0.34675	0.46585	0.72940	1.04720

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	47.28	1,646.41	1,648.99	1,668.87	1,699.45	1,634.00	1,656.00
Silver	44.16	31.31	31.66	31.93	34.00	30.16	31.18
Platinum	43.94	1,570.24	1,592.41	1,578.30	1,628.60	1,547.00	1,566.00
Palladium	48.50	662.45	654.67	671.54	679.88	651.0	672.0

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'12	Jul'12	Jul'12	Jul'12	Jun'12	Feb'13	Jun'12
Settlement	1,650.70	30.8500	663.10	1,547.30	1,650.20	4,303.00	1,642.20
Open Interest	395,389	122,325	21,513	40,823	1,611	124,130	1,529
Change in Open Interest	-3,902	-402	21	169	0	-56	-6

Sources: Standard Bank; LME; Bloomberg

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