

FICC Research

Commodities: Daily

Focus: Gasoline inventories ever more important



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Focus: The US still has a large crude and product stock overhang; it is particularly acute in distillate inventory. However, the market's focus has shifted to gasoline. We expect NYMEX front-month prices to average \$84/bbl in Q2:10. Any price higher than \$84 would have to be accompanied by substantial dollar weakness, which we do not foresee in Q2:10.

- The S&P downgrade of the Greek sovereign credit rating to junk status triggered a wave of panic selling and risk aversion across the markets on Tuesday afternoon, with the base metals coming under heavy and sustained selling pressure. The base metals have continued to come under pressure this morning, however, prices have stabilised heading into the afternoon.
- Risk aversion has increased, and commodities — except gold — remain on the back foot.
- Overall, crude oil prices remain rangebound with the sell off in energy far less dramatic than the sell -off in the base metals. Front month WTI opened at \$81.84 this morning, however, with crude oil still tracking the dollar very closely, a recovery in the euro has helped prices recover with WTI trading back above \$82/bbl heading into the afternoon.

Commodity price data (27 April 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,289	2,150	2,314	2,135	-165	-6.07%	2,262.50	-31	-32.75
Copper	7,695	7,491	7,802	7,425	-320	-2.65%	7,645.00	-115	-37.75
Lead	2,320	2,300	2,358	2,241	-50	-0.86%	2,291.00	-20	-27.50
Nickel	26,775	25,925	27,200	25,425	-1,230	-3.17%	26,850.00	-475	-60.00
Tin	18,825	18,550	19,150	17,898	-595	-1.46%	18,805.00	-245	-70.00
Zinc	2,401	2,361	2,452	2,344	-80	-1.67%	2,375.00	-27	-34.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	85.29	85.57	85.75	85.21	-0.21	-0.25%
NYMEX WTI	81.83	82.28	82.38	81.66	-0.16	-0.19%
ICE Gasoil	712.00	715.50	716.25	712.00	-3.50	-0.49%
API2 Q2'10	85.00	85.55	-	-	0.55	0.64%
EUA Dec10	15.57	15.44	-	-	-0.13	-0.83%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,152.25	1,149.50	1,164.50	1,147.10	1,161.50	8.50	0.2/0.6
Silver	-	18.19	18.40	18.08	18.10	-0.21	-1.0/1.0
Platinum	1,747.00	1,722.00	1,752.00	1,717.00	1,718.00	-25.00	2.0/5.0
Palladium	562.00	550.00	569.00	546.00	548.00	-15.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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Focus: Gasoline inventories ever more important

The US still has a large crude and product stock overhang. This overhang has been particularly acute in distillate inventory. However, the market's focus has shifted to gasoline.

For gasoline, days-forward cover has declined steadily since January. Current days-forward cover for gasoline inventories stands at 24.6 days. The 5-year average cover is 22.7 days. The inventory levels are closing in on levels observed in 2009 and 2008 (see Figure) but still well off levels seen in 2007. However, gasoline inventories are normalizing slowly but surely. Gasoline is also what the market will be focused on in coming weeks, given that we are heading towards a seasonal increase in gasoline demand.

On a days-forward cover, we have seen a steady decrease in distillate inventory. Days forward cover peaked at 50.5 days in October 2009 and declined to 41.6 days last week. However, at 41.6 days, this remains very high *despite* the recent decline. But with the market focusing on gasoline rather than distillates, we expect that any build in distillate stocks will be ignored.

Although the market now focuses on gasoline, the overall product overhang persists. Furthermore, refineries have increased their capacity utilisation to 85.93% 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 substantially. Also, refinery utilisation rates should keep US crude oil inventories from declining. On a days-forward basis, crude oil inventory is at 24.4 days; the 5-year average is 22.3 days. Today, the DOE figures should show a sizable build in crude, gasoline

Base metals

The S&P downgrade of the Greek sovereign credit rating to junk status triggered a wave of panic selling and risk aversion across the markets on Tuesday afternoon, with the base metals coming under heavy and sustained selling pressure. The base metals have continued to come under pressure this morning, however, prices have stabilised heading into the afternoon.

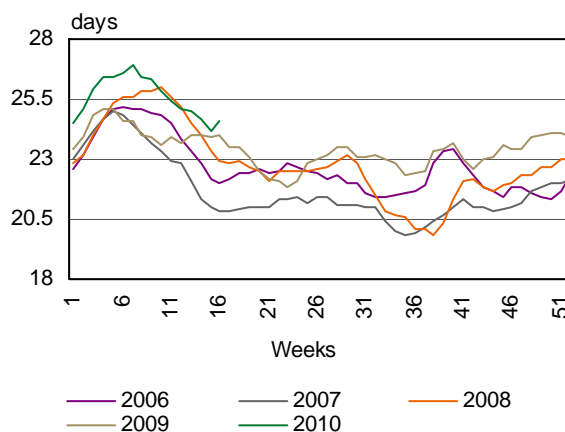
Whereas Tuesday afternoon saw long liquidation kick in across the complex, with the triggering of stops exacerbating the fall, this morning has seen solid two-way interest emerge. Volumes have been very strong, particularly in aluminium, copper and zinc, with the metals climbing off their lows. The euro is also having a little bounce back which is helping shore up the metals and lend support generally.

Arguably this pullback in prices represents a good buying opportunity, for some metals at least, given that the longer term global economic recovery remains on track. However, the wider market is still very cautious with prices likely to remain volatile over the next couple of days as the metals try to build a base. Exogenous factors will remain key today, particularly how the stock markets behave and whether there is further bad news out of southern Europe. Data-wise, the main focus this afternoon sees the latest US FOMC rate decision.

Copper broke below key technical support on Tuesday afternoon, closing the day at \$7,490. Copper rallied overnight as small scale Asian-based buying emerged, before coming under pressure again as London got going. Volumes have been very good however which, combined with a bit of price stability, points to good 2-way interest rather than a complete cave-in. While its easy to get caught up in daily price moves, in spite of the sell-off, copper prices are back where they were this time last month.

Nickel has also stabilised this morning, with prices picking up after a further sharp sell-off this morning. Meanwhile, the ramp-up of Vale's much anticipated Goro nickel mine looks set to be delayed following an acid spill. Prior to the latest setback at the mine, Goro was expected to produce 20kt of nickel this year, as the operation's ramp up got underway.

DOE gasoline inventory days forward cover



Source: DOE, Standard Bank

and distillate inventories. However, we believe the general trend in inventory days cover should be lower, slowly but surely.

We expect NYMEX front-month prices to average \$84/bbl in Q2:10. Supply is not low enough for higher prices, nor is demand strong enough. Any price level higher than \$84 would have to be accompanied by substantial dollar weakness (which we do not foresee in Q2:10). In fact, we expect the dollar to strengthen to below \$1.30 against the euro.

By Walter de Wet

By Leon Westgate

Precious metals

Risk aversion has increased, and commodities — except gold — remain on the back foot. Investment demand for gold via ETFs has been good. As long as sovereign risk in Europe is called into question, we expect investment demand for gold to keep increasing. There has been sporadic physical selling into gold rallies above \$1,160. However, this is being outpaced by investment demand. We believe that gold will remain well supported. Support is at \$1,152 and \$1,136, resistance at \$1,167 and \$1,185.

The FOMC's rate decision, and the tone of the statement, is important today. We believe that rates will still stay low for an extended period of time. The futures market sees a flat Fed funds rate as the most probable path in 2010. If rates are indeed kept flat, US markets could end today on a positive note. Such accommodative monetary policy should also support gold.

We expect the euro to weaken further against the dollar. This could hamper sharp rallies in precious metals, especially PGM. PGM have a large net speculative long position, which makes palladium and platinum susceptible to deep pull-backs. However, should risk ease, we expect these dips to be bought.

Palladium support is at \$535 and \$525. Platinum support is at \$1,700 and \$16,80.

By Walter de Wet

Energy

Crude oil was also hard hit by the S&P downgrades to Greece and Portuguese sovereign credit ratings. That said, with crude under pressure for the first part of April, prices for front month WTI are back where they were during the middle of last week, closing on Tuesday at \$82.44/bbl. Overall, crude oil prices remain rangebound with the sell off in energy far less dramatic than the sell -off in the base metals.

Front month WTI opened at \$81.84 this morning, however, with crude oil still tracking the dollar very closely, a recovery in the euro has helped prices recover with WTI trading back above \$82/bbl heading into the afternoon.

This afternoon sees the latest run of DOE inventory data. Crude Oil stocks are expected to increase by 1.05 million bbl while Gasoline and Distillate stocks are expected to increase by 0.8 million bbl and 1.5 million bbl respectively. As noted in the focus section, the Gasoline numbers are likely to be closely watched in particular.

Coal had a strong start on Tuesday, however the general panic during the afternoon saw prices come under heavy pressure. API2 managed to hang onto some of its early gains, with Q2-10 finishing \$0.55/mt higher and Cal-11 closing up \$0.95/mt. API4 lost ground however, with Q2-10 closing \$1.65 lower at \$93.95/mt.

By Leon Westgate

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	4,551,825	4,558,000	200	6,375	-6,175	-77,075	266,325	5.85	157,343
Copper	505,350	506,125	0	775	-775	3,025	30,400	6.02	78,913
Lead	179,775	179,575	200	-	200	33,275	775	0.43	25,212
Nickel	145,458	145,722	204	468	-264	-12,552	4,158	2.86	18,284
Tin	21,100	21,615	20	535	-515	-5,665	600	2.84	4,286
Zinc	541,300	541,950	0	650	-650	53,250	10,200	1.88	53,272

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change	Open	Close	Change	Change (%)
Aluminium	15,740	16,140	-325	Ali Mar'10	-	-	-
Copper	58,370	58,520	-2,170	Cu Mar'10	338	338.80	0.55
Zinc	18,325	18,370	-560				

ZAR metal prices (27 April 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,735	56,546	16,945	198,596	139,091	17,567	7.3965
3-month	16,152	56,276	17,279	194,762	139,357	17,737	7.5125

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)	94.77	-0.08	96.04	-0.15	96.43	-0.16	98.42	-0.05	-	-
Gasoil 0.1% Rdam (\$/mt)	715.50	-3.50	718.75	-4.00	723.00	-4.75	739.75	-4.50	769.75	1.25
NWE CIF jet (\$/mt)	759.99	1.00	776.25	3.79	783.16	4.09	799.75	2.42	834.41	2.42
Singapore Kero (\$/bbl)	94.82	-0.05	96.24	0.05	96.83	-0.01	99.12	0.00	103.18	0.12
3.5% Rdam barges (\$/mt)	461.54	-0.95	469.25	-6.75	473.50	-6.50	483.50	-5.75	498.70	-5.20
1% Fuel Oil FOB (\$/mt)	490.90	-1.00	497.00	-6.25	504.25	-4.25	517.00	-4.75		
Sing FO 380 Cargo (\$/mt)	494.25	-6.00	497.25	-6.25	500.25	-6.50	500.25	-6.50		
Sing FO180 Cargo (\$/mt)	491.38	-0.21	499.75	-5.25	503.00	-5.50	512.00	-6.00		
Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	85.55	0.55	91.20	0.40	95.50	1.20	102.50	0.95	111.50	0.95
API4 (FOB RBCT)	93.95	-1.65	98.00	-1.60	99.50	-1.50	102.50	-1.05	106.75	-0.20

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.31000	0.31500	0.32833	0.38500	0.54500		
Silver	0.52667	0.52667	0.55000	0.57500	0.60833		
USD Libor	0.26672	0.29688	0.32781	0.50563	0.99875		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	57.47	1,150.58	1,147.14	1,117.11	1,075.86	1,142.00	1,160.00
Silver	55.88	18.08	18.11	17.21	16.84	18.00	18.50
Platinum	61.24	1,723.15	1,714.40	1,575.18	1,448.08	1,700	1,750.00
Palladium	64.97	552.40	531.95	449.08	380.94	525.00	550.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	May'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,166.20	18,1950	553.20	1,720.90	1,165.80	3,505.00	1,165.90
Open Interest	530,390	124,696	24,262	37,344	2,015	95,680	2,959
Change in Open Interest	-4,392	1,456	-394	-300	-129	2,856	-

Date: 27 April 2010

Sources: Standard Bank; LME; Bloomberg

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