

Commodities

Commodities: Daily



Focus: China's electricity production growth continues to slow

8 December 2011

Focus: China's electricity production growth continues to slow — Electricity production in China continues to edge up y/y, consistent with an economy that is growing. However, as with other economic variables in China, the rate of growth is slowing. The lower growth rate in electricity generation is consistent with slower economic activity.

- As with precious metals, volumes remain thin in base metals trading. All interest remains on the Eurozone. Copper, aluminium, lead and zinc have barely moved from yesterday. Copper is finding support around \$7,800 and aluminium just below \$2,100
- Gold is pushing towards \$1,740 amid very thin volumes in the gold market. The market remains reluctant to sell gold aggressively ahead of the European Summit on Friday.
- Oil closed lower yesterday, following a bearish set of US oil inventory numbers. WTI and Brent lost 79c/bbl and \$1.28/bbl respectively. Gasoline fell sharply and distillates also declined as product inventories grew sharply w/w, which resulted in much lower refining margins.

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Commodity price data (7 December 2011)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,107	2,078	2,548	2,515	-35	-1.66%	2,530.00	-11	-28.75
Copper	7,840	7,821	9,608	9,542	-15	-0.19%	9,549.50	-81	-25.75
Lead	2,118	2,148	2,551	2,525	23	1.08%	2,522.50	-17	-16.50
Nickel	18,160	18,055	24,050	23,750	-395	-2.14%	23,880.00	-635	-40.00
Tin	20,437	20,510	26,800	26,495	225	1.11%	26,705.00	-1,090	-77.00
Zinc	2,032	2,027	2,413	2,385	-18	-0.88%	2,362.00	-46	-26.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	109.60	110.29	110.37	109.33	0.76	0.69%
NYMEX WTI	100.84	100.98	101.08	100.26	0.49	0.49%
ICE Gasoil	954.75	962.50	963.25	954.75	5.25	0.55%
API2 Q1'12	112.10	112.10	-	-	0.05	0.04%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	-	-	1,742.70	1,721.70	1,740.70	13.40	3.5/4
Silver	-	-	32.80	32.29	32.58	-0.10	4.5/5.5
Platinum	-	-	1,533.00	1,524.00	0.00	-1,515.00	1.5/3.5
Palladium	-	-	684.00	673.00	0.00	-669.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: China's electricity production growth continues to slow

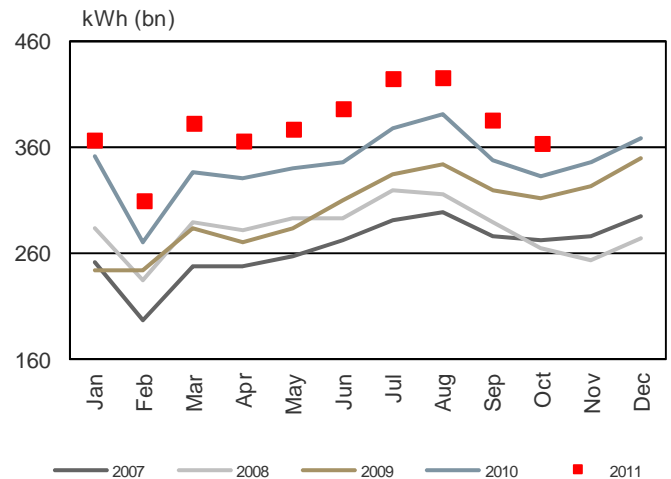
Electricity production in China continues to edge up y/y, consistent with an economy that is growing. However, as with other economic variables in China, the rate of growth is slowing.

There are many variables used to track the pace of economic growth. Amongst others, we monitor electricity generation to indicate real economic growth trends. After a strong end to 2009, electricity generation in China continues to signal economic expansion — but growth is nevertheless slower y/y.

Since mid-2009, electricity generation in China has risen substantially — well above levels seen in 2008. Electricity production ended 2009 at an all-time high. This pattern is consistent with China's strong GDP data in 2009. The growth rate of electricity generation continued into 2010, with the monthly growth rate in electricity generation averaging 15% y/y in 2010. This data, we believe, is consistent with economic growth of above 10% seen in China over the same period.

However, the y/y growth rate in electricity generation has slowed since the start of this year. In February, electricity generation grew 15% y/y. This declined to 9% y/y in August, 10% y/y in September and 9% y/y in October. In fact, the first 10 months of 2011 saw the average monthly electricity production increase by 11%, compared to the same period last year. Bar 2009 (following the credit crisis in late-2008), the

Figure 1: China's electricity production



Source: Standard Bank Research

average monthly growth rate for the first 10 months of 2011 is the slowest growth in electricity production over this period since at least 2004.

The lower growth rate in electricity generation is consistent with slower economic activity. This, we believe, is consistent with the PBOC's tighter monetary policy stance. The data is also consistent with China's PMI which declined below 50 in October. We remain cautious on growth and don't expect strong real commodity demand from China yet.

By Walter de Wet

Base metals

As with precious metals, volumes remain thin in base metals trading. All interest remains on the Eurozone. Copper, aluminium, lead and zinc have barely moved from yesterday. Copper is finding support around \$7,800 and aluminium just below \$2,100.

Nickel is the star performer today. As pointed out yesterday, the past two weeks have seen nickel open interest climb by 15%, while prices have rallied by just under 8%. The obvious conclusion is that new long positions have been added, however, the interesting element is that the bulk of the increase has been for the February prompt-date. Fundamentally speaking, nickel remains in a pretty sorry state, with a weak demand outlook and increased production likely to leave the metal in a significant surplus next year, of around 32 kt, according to our estimates. Comments from Eramet support this view, with the company looking for a surplus next year of just under 49 kt.

While the economics of NPI production are cited as providing a floor to prices, there seems little fundamental reason to become overly positive on nickel's prospects in the near future, particularly with the industry winding down for the holidays and hunkering down ahead of an expected deterioration in economic activity in Europe and elsewhere.

On that basis, and looking ahead to early next year and expectations of index reweighting activity, the current surge in open interest could potentially be the first signs of participants pre-empting the index activity in early January. It will be interesting to see therefore, how the open interest activity evolves over the next couple of weeks, and whether the tightness in the nearby spreads becomes more acute.

We remain cautious on growth globally and China specifically. As pointed out in the Focus above, a slowdown in electricity production is consistent with slower manufacturing data and slower economic growth in China.

By Walter de Wet

Precious metals

Gold is pushing towards \$1,740 amid very thin volumes in the gold market. The market remains reluctant to sell gold aggressively ahead of the European Summit on Friday.

As far as investment demand is concerned, funding stress, especially for European banks continues to elevate, as is evident from the Euribor/OIS spread which has moved higher again in recent days.

Gold support is at \$1,709 and \$1,690. Resistance is \$1,740 and \$1,752. Silver support is at \$31.97 and \$31.20, resistance is at \$33.20 and \$33.70.

Our view on platinum and palladium remains unchanged. We see value in platinum below \$1,550 and on approach of \$1,500. For palladium, we believe that there is value below \$600. Levels for both metals depend on a ZAR around 8.00 against the dollar.

Given the current macroeconomic environment, where industrial demand is weak, we believe that for the next six months, platinum above \$1,750 and palladium above \$750 offer little upside (once again at ZAR8.00 to the dollar).

Platinum support is at \$1,520 and \$1,500, resistance is at \$1,588 and \$1,614. Palladium support is at \$640 and resistance at \$685.

By Walter de Wet

Energy

Oil closed lower yesterday, following a bearish set of US oil inventory numbers. WTI and Brent lost 79c/bbl and \$1.28/bbl respectively. Gasoline fell sharply and distillates also declined as product inventories grew sharply w/w, which resulted in much lower refining margins. Consequently, the term structures of crude and physical crude differentials weakened in anticipation of softening demand for physical crude oil. Volatility has coming off over the past week, but remained elevated compared to historical levels.

The DOE reported US weekly oil inventory changes for crude/gasoline/distillates at +1.3/+5.1/+2.5mb w/w. Crude inventories at Cushing fell by 0.2mb, smaller than the 1.7mb reported by the API the day before, which has caused the WTI structure to weaken slightly. The refining run rate increased sharply by 3.7% w/w, as the autumn maintenance season comes to an end. Crude imports also grew as refineries prepared for a run increase post maintenance. But we expect imports to tail off as refineries reduce inventories for year-end accounting purposes. One of the key data points is that US distillate demand jumped sharply by 0.7mb/d w/w. As we noted in the *Focus* section on Tuesday, the recent demand weakness was driven by the US Thanksgiving Holiday, and would therefore be temporary.

Today the market will be focusing on central bank actions, with the expectation that the ECB will cut rates by 25 bps, or even a deeper 50 bps cut. The Bank of England is set to stay on its track with the second round of QE gilt purchase. As the EU summit kicks off, the market is likely to become increasingly sensitive to comments from various EU leaders, which will induce more volatility in the market.

We expect the summit to reach an agreement on the Franco/German plan, and we don't expect S&P to carry out its threat to downgrade the Eurozone's sovereign debt. This could tempt some modest risk-on moves. As we approach year-end, activity in the markets is tailing off, but with a bias for a positive close for December. In addition, if the EU Summit decides on an EU-wide embargo on Iranian crude, the oil price and term structures will strengthen, putting further pressure on European refining margins. Otherwise, the recent price action in the Brent spread has shown some softness in the market, which could be either due to inventory run down towards year-end or a response to improved supply from Libya.

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	4,549,000	4,549,800	2,900	3,700	-800	271,950	160,225	3.52	424,723
Copper	389,450	390,100	1,150	1,800	-650	11,900	24,425	6.27	156,598
Lead	364,400	365,225	800	1,625	-825	156,125	44,975	12.34	66,731
Nickel	90,510	91,056	12	558	-546	-45,162	3,306	3.65	41,999
Tin	11,925	12,395	20	490	-470	-4,350	1,090	9.14	9,421
Zinc	737,975	736,150	3,725	1,900	1,825	36,550	29,625	4.01	121,696

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,115	16,135	-50
Copper	57,830	57,810	-240
Zinc	15,730	15,735	-25

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'12	-	-	-
Copper	Cu Mar'12	356	356.30	0.70
Zinc				

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	20,442	77,160	20,382	192,950	215,776	19,085	8.0800
3-month	17,015	64,038	17,588	147,834	167,936	16,597	8.1880

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 (\$/bbl)	125.81	0.05	125.30	0.04	125.06	0.07	124.67	0.00		
Gasoil 0.1% Rdam (\$/mt)	962.50	5.25	952.50	4.75	948.50	4.25	935.50	0.00		
NWE CIF jet (\$/mt)	1,013.66	-2.47	1,014.42	-3.24	1,017.67	-1.16	1,019.80	-0.50		
Singapore Kero (\$/bbl)	126.01	-0.30	126.30	-0.36	126.41	-0.08	125.72	0.03		
3.5% Rdam barges (\$/mt)	616.75	-6.75	613.75	-6.50	611.25	-6.00	603.50	-5.50		
1% Fuel Oil FOB (\$/mt)	653.25	-8.50	652.00	-9.25	650.00	-8.50	643.00	-7.75		
Sing FO180 Cargo (\$/mt)	669.75	-6.25	653.25	-6.75	645.25	-6.75	635.25	-6.25		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	115.10	-0.20	111.90	-0.65	112.75
API4 (FOB RBCT)	106.95	-0.30	104.90	-1.35	107.50

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.79760	0.79800	0.79900	0.80340	0.81000
Silver	0.76000	0.69000	0.64800	0.57600	0.54400
USD Libor	0.27630	0.39640	0.54000	0.76000	1.08115

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	67.87	1,629.47	1,605.39	1,520.35	1,450.74	1,722.00	1,749.00
Silver	58.45	40.46	39.40	38.36	33.99	32.37	32.95
Platinum	48.99	1,788.92	1,772.60	1,776.48	1,766.70	1,527.00	1,552.00
Palladium	50.79	817.51	800.76	767.33	764.76	642.00	651.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'11	Mar'12	Jan'12	Jan'12	Dec'11	Oct'12	Dec'11

Settlement

Open Interest

Change in Open Interest

Sources: Standard Bank; LME; Bloomberg

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