Commodities

Commodities: Daily

Standard Bank

Focus: Primary Aluminium and the Alloys

14 December 2011

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- The market appeared to get its hopes up ahead of the FOMC meeting yesterday. However, with no change to policy or hint of QE3, the markets have since resigned themselves to the fact that the Eurozone crisis is as bad as its ever been, the real global economy is slowing and the cavalry, be they the Chinese or the Fed, are still preoccupied with their own problems. Against that backdrop, the base metals have come under heavy selling pressure this morning with most of the complex trading around 2% lower ahead of US trade.

- Gold remains under pressure. The metal is closing in on its 200day MA. We believe that this downward pressure is likely to remain in place. Physical market demand from India and South East Asia continues to pick up, with gold below $1,650 providing support at this key technical level.

- The API reported US weekly oil inventory changes for crude/gasoline/distillates at +0.5/-0/+1.2mb w/w. Both total crude imports and refinery run rates dropped sharply as poor refining margins deterred refiners to ramp up runs.

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Commodity price data (13 December 2011)

Base metals LME 3-month		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,023	2,002	2,040	1,995	-15	-0.74%	2,530.00	-11	-28.75
Copper	7,630	7,605	7,686	7,605	-6	-0.08%	9,549.50	-81	-25.75
Lead	2,095	2,086	2,112	2,068	-21	-0.97%	2,522.50	-17	-16.50
Nickel	18,400	18,310	18,511	18,100	-40	-0.22%	23,880.00	-635	-40.00
Tin	19,600	19,550	-	-	-150	-0.75%	26,705.00	-1,090	-77.00
Zinc	1,937	1,912	1,959	1,905	-20	-1.04%	2,362.00	-46	-26.50

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	109.47	108.60	109.50	108.56	-0.90	-0.83%
NYMEX WTI	100.33	99.49	100.33	99.45	-0.65	-0.65%
ICE Gasoil	929.25	925.25	930.75	924.50	-7.25	-0.78%
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	-	-	1,677.50	1,623.00	1,659.00	-5.00	3.5/4
Silver	-	-	31.98	30.47	31.23	0.26	4.5/5.5
Platinum	-	-	1,498.00	1,475.00	1,484.00	2.00	1.5/3.5
Palladium	-	-	669.00	642.00	660.00	4.00	0.0/1.0

Sources: Standard Bank; LME; BBG

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Focus: Primary Aluminium and Alloy heading south while NASAAC treads water

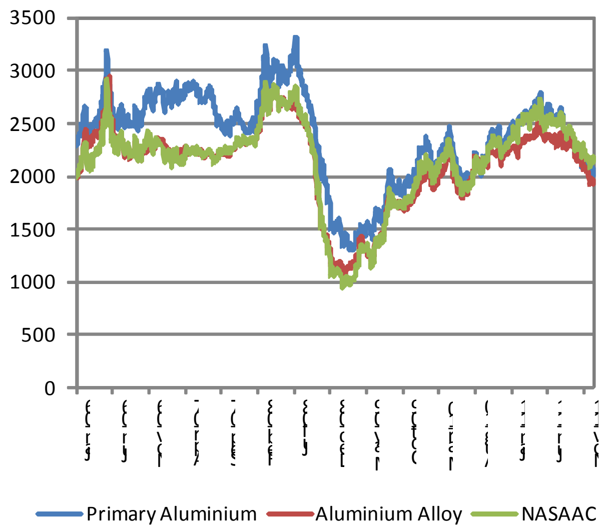
The relationship between primary aluminium and its alloy and NASAAC cousins is often a rather inconsistent one. Nevertheless in general the aluminium price reflects the health of the global economy, with additional influences from the investment community, while the alloy contracts reflect a subset of the "real" economy (mainly autos).

Looking at how the three contracts have traded over the past few years, its interesting to note that for the majority of the time the primary contract trades at a premium to the alloys, particularly during times of economic growth. Even during the 2008 crash primary aluminium held up significantly better as the real economy and auto manufacturers struggled with a violent contraction in economic activity and a liquidity crunch.

The ensuing recovery over 2009 and early 2010 saw the alloy contracts close the gap, though the unfolding Eurozone sovereign debt crisis has seen the complex trade quite differently over the past 18 months or so. The alloy contract (European) has been left behind by both the primary and NASAAC contracts, reflecting the shaky stare of various European economies, compared to a sluggish, albeit still improving US economy. The difference was particularly marked during the first half of 2011 as the Eurozone sank into the mire, dragging the rest of Europe with it.

The past three months has seen the gap between the three contracts narrow, amid a worsening economic outlook. In particular the primary aluminium contract is now much closer to the alloy contract, reflecting the worsening situation in Europe and the impact of the debt crisis on broader market sentiment.

LME Aluminium, Alloy and NASAAC 3m price



Source: LME, Bloomberg

Instead, since September, NASAAC has been the highest value per tonne contract of the triumvirate, with solid demand for vehicles in the US helping support the contract.

Given the differing compositions of the alloy contracts, alloy producers/stockholders cannot deliver into or benefit from the NASAAC arbitrage. On that basis, NASAAC should continue to trade at a premium its alloy sibling, at least while the US economy outperforms Europe. How long NASAAC continues to trade at a premium to the primary contract is another matter however. So far its 2½ months and counting.

By Leon Westgate

Base Metals

The market appeared to get its hopes up ahead of the FOMC meeting yesterday. However, with no change to policy or hint of QE3, the markets have since resigned themselves to the fact that the Eurozone crisis is as bad as its ever been, the real global economy is slowing and the cavalry, be they the Chinese or the Fed, are still preoccupied with their own problems. Against that backdrop, the base metals have come under heavy selling pressure this morning with most of the complex trading around 2% lower ahead of US trade.

Chinese money supply was lower than expected, though New Yuan Loans were higher than consensus estimates, albeit still lower than the previous month, coming in at 562.2 Billion vs. 586.8 Billion in October. Very disappointing Eurozone IP figures for October, -0.1% m/m has served to underscore the problems in the Eurozone and the fact that the economy there is struggling very badly amid austerity measures, tighter credit, and very low consumer confidence.

Aluminium has fallen below $2,000 ahead of US trade. The past couple of day's big inflows of metal have rendered this morning's 18,900 mt inflow of metal into Vlissingen rather irrelevant. Given the smaller size of the inflow today, it looks rather like fine tuning next to the initial 126 kt increase in stocks earlier this week, perhaps signalling an end to deliveries at that location for the moment. Whether further aluminium deliveries are seen over the coming days remains to be seen, however, with the 5Mt mark only 174 kt away, and given end of year liquidity factors, aluminium inventories may well breach that historic level by year-end.

While 5Mt of aluminium inventories on LME warrant may seem very bearish, its also worth remembering that the global aluminium market has increased by 20Mt or ~75% in the past decade. Looking at total exchange inventory, and including IAI inventory numbers, total stocks (not including rumoured hidden stocks) are currently around 20% of the global market, not far off where they were a decade ago, in percentage terms at least.

By Leon Westgate

Precious metals

Gold remains under pressure. The metal is closing in on its 200day MA. We believe that this downward pressure is likely to remain in place. Physical market demand from India and South East Asia continues to pick up, with gold below $1,650 providing support at this key technical level. However, as pointed out yesterday, the pick-up in demand is from relatively low levels, and overall demand remains well below levels seen in October.

The euro continues to weaken across currencies ahead of the Italian auction today. While gold in dollar-terms is under huge pressure, gold in euro-terms only shed €20.

Market sentiment and momentum has also turned bearish on gold, reflected in the short-dated gold skew where puts are in high demand relative to calls.

Key support for the metal lies at its 200d MA at $1,619. Since early 2009, gold has consistently bounced off its 200d MA. Unless funding issues in Europe deteriorate substantially (from current levels), we expect this support to hold.

Apart from the 200d MA, support is at $1,619 and $1,610. Resistance is $1,665 and $1,700. Silver support is at $30.15 and $29.50, resistance is at $31.70 and $32.65.

By Walter de Wet

Energy

Oil jumped by more than $2/bbl yesterday amid speculation of increased tension in the Middle East region. WTI and Brent gained $2.37/bbl and $2.24/bbl respectively. Oil outperformed most of other commodities which were instead dragged down by a stronger dollar. Gasoline cracks managed to catch the rally, while distillates were lagging again. The term structure for Brent rallied yesterday and continued to follow a rather volatile pattern.

The API reported US weekly oil inventory changes for crude/gasoline/distillates at +0.5/-0/+1.2mb w/w. Both total crude imports and refinery run rates dropped sharply as poor refining margins deterred refiners to ramp up runs. In addition, year-end tax optimisation also discourages refineries to import crude. Implied demand for gasoline and distillates fell w/w, which appeared to be a lagging effect after the sharp rise the week before.

The OPEC meeting will be the focus of the market today. As we noted in the Focus section yesterday, we expect OPEC to take a more pragmatic approach to bring the quotas up to the current production level, i.e. close to 30mb/d, with a condition to account for production recovery from Libya. If this should materialise, we would not take it as a bearish sign for the oil market, as the actual production levels would not be affected by such quotas. Instead, we would be watching the production levels from Saudi and Brent structures for any shifts in the oil market's supply and demand balance.

The Fed left policy unchanged yesterday and there was little change in the tone of the Fed's statement. This is no surprise, given the US economy has performed slightly better than what the market feared back in the summer. The Eurozone remains the main source of concern for the oil market. The renewed weakness in the euro will inevitably dampen the oil market. We maintain our outlook for the oil market to trade in relatively narrow range till year-end.

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	4,826,275	4,811,550	18,900	4,175	14,725	549,225	148,975	3.09	275,703
Copper	382,150	383,025	500	1,375	-875	4,600	21,025	5.50	126,734
Lead	360,325	358,900	4,150	2,725	1,425	152,050	43,075	11.95	37,088
Nickel	89,820	89,994	24	198	-174	-45,852	5,952	6.63	45,470
Tin	12,015	11,580	505	70	435	-4,260	485	4.04	4,166
Zinc	758,800	758,600	1,150	950	200	57,375	24,600	3.24	99,805

Shanghai 3-month forward prices				COMEX active month future prices				
Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	15,925	15,920	-105	Ali Mar'12	-	-	-	-
Copper	55,750	55,720	-430	Cu Mar'12	344	339.25	-4.90	-1.42%
Zinc	15,210	15,120	-265					

ZAR metal prices							
	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	20,827	78,611	20,765	196,580	219,836	19,444	8.2320
3-month	16,704	63,468	17,409	152,806	163,155	15,957	8.3455

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 ($/bbbl)	125.53	0.99	124.17	1.37	123.68	1.33	123.25	1.35		
Gasoil 0.1% Rdam ($/mt)	925.25	-7.25	922.50	-7.00	921.25	-5.75	919.50	-4.50		
NWE CIF jet ($/mt)	999.62	5.70	999.46	9.09	1,003.33	9.91	1,009.33	10.33		
Singapore Kero ($/bbl)	125.28	0.99	125.02	1.42	125.13	1.38	124.76	1.34		
3.5% Rdam barges ($/mt)	615.17	5.34	610.00	8.25	608.00	8.00	602.50	7.75		
1% Fuel Oil FOB ($/mt)	656.83	4.99	653.25	6.00	650.25	5.25	644.00	5.25		
Sing FO180 Cargo ($/mt)	670.37	2.58	649.00	8.75	641.50	8.25	634.00	8.25		

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	-0.75	114.20	-0.55	120.20	-0.55
API4 (FOB RBCT)	106.95	-0.30	104.90	-1.35	107.50	-1.25	108.40	-1.10	114.50	-0.95

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.72967	0.73500	0.74583	0.76117	0.77333		
Silver	0.62333	0.61000	0.59667	0.60167	0.59333		
USD Libor	0.27830	0.40315	0.54625	0.77050	1.09340		
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	1,619.00	1,630.00
Silver	58.45	40.46	39.40	38.36	33.99	29.80	32.12
Platinum	48.99	1,788.92	1,772.60	1,776.48	1,766.70	1,450.00	1,516.00
Palladium	50.79	817.51	800.76	767.33	764.76	620.00	681.00
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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