

Commodities

Commodities: Daily



Focus: Copper exchange inventories levelling out

20 December 2011

- Focus:** The general trend for LME copper inventories over the past couple of months has been downwards, particularly in the Asian region as the lure of higher physical premiums in Shanghai, and sporadic opening in the SHFE-LME arbitrage window attracted packets of metal. Since the beginning of December, however, available exchange inventories in Asia have actually increased. SHFE inventories have increased by just under 22,000 mt while the pace of cancellations at LME locations in the region dropped away, falling by 6,450 mt over the same period.
- A stronger Euro - spurred by a better than expected Spanish bond auction and improved German business confidence - has helped the base metals complex rally during the market. Volumes remain very thin however, and with little conviction in the market at the moment, the rally is running out of steam ahead of US trade.
- Liquidity in the precious metals space remains light. A much better-than-expected government bond auction in Spain this morning provided strength to the Euro, aiding precious metals marginally higher.
- As pointed out yesterday, physical demand remains healthy especially from Thailand and India with the gold price below \$1,600. This should support gold on approach \$1,560. We maintain that gold below its 200day MA at \$1,621, should continue to struggle. Gold support is at \$1,565 and \$1,550. Resistance is \$1,606 and \$1,609.

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Commodity price data (19 December 2011)

Base metals LME 3-month

	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m	
Aluminium	1,964	1,962	2,019	1,958	-43	-2.14%	2,530.00	-11	-28.75
Copper	7,288	7,260	7,553	7,190	-85	-1.16%	9,549.50	-81	-25.75
Lead	1,954	1,937	2,085	1,990	-23	-1.17%	2,522.50	-17	-16.50
Nickel	18,400	18,385	18,239	17,400	-170	-0.92%	23,880.00	-635	-40.00
Tin	18,700	18,700	-	-	-105	-0.56%	26,705.00	-1,090	-77.00
Zinc	1,856	1,839	1,928	1,838	-30	-1.61%	2,362.00	-46	-26.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	104.30	105.03	105.08	103.91	1.39	1.32%
NYMEX WTI	94.14	94.81	94.89	94.14	0.93	0.98%
ICE Gasoil	885.00	895.00	895.00	884.00	7.00	0.78%
API2 Q1'12	125.45	125.50	-	-	0.05	0.04%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	-	-	1,606.90	1,584.00	1,594.50	-0.50	1.45/1.85
Silver	-	-	29.77	28.77	28.90	-0.69	-2/0
Platinum	-	-	1,424.00	1,406.00	1,410.00	5.00	1.5/3.5
Palladium	-	-	628.00	610.00	610.00	-10.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Copper exchange inventories levelling out

The general trend for LME copper inventories over the past couple of months has been downwards, particularly in the Asian region as the lure of higher physical premiums in Shanghai, and sporadic opening in the SHFE-LME arbitrage window attracted packets of metal.

Since the beginning of December, however, available exchange inventories in Asia have actually increased. SHFE inventories have increased by just under 22,000 mt while the pace of cancellations at LME locations in the region dropped away, falling by 6,450 mt over the same period.

Interestingly, the most recent warrant cancellations on the LME have happened in US locations where cancelled warrants have jumped 17,400 mt since the middle of December. Whether the recent cancellations of US material are ultimately also Asia-bound remains to be seen however.

As far headline inventories go, total LME stocks have continued to decline as previously cancelled material heads out the door, bound most likely for China. Headline inventories in LME Asian warehouses are now at 37,025 mt, the lowest level since September 2009, perhaps seeing those participants looking for units start to cast their net a little wider.

As far as the SHFE inventory goes, the backwardation in the nearby portion of the curve is doing an effective job of attracting metal into warehouse. It does however also suggest that real demand has tailed off ahead of year-end, with participants happy to deliver spare physical metal rather than hang onto it.

With the SHFE-LME arbitrage also closed, and given the steady declines in headline LME warehouse stocks, it again seems likely that Shanghai bonded warehouse stocks are re-

Base Metals

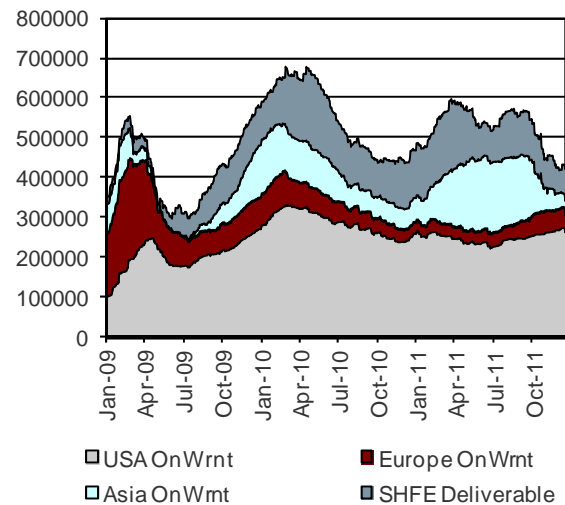
A stronger Euro - spurred by a better than expected Spanish bond auction and improved German business confidence - has helped the base metals complex rally during the market. Volumes remain very thin however, and with little conviction in the market at the moment, the rally is running out of steam ahead of US trade.

Of note, an increasingly common thread across many of the newswires, on-line journals and market-related blogs in recent days has been the worrying state of the Chinese housing market. Anecdotal reports about sharp price declines and outbreaks of public disorder from unhappy buyers who have seen the value of their properties fall, have started to gain more and more traction. While many of the anecdotes appear to be the same stories, merely being re-repeated, there is nevertheless mounting concern that a property price crash could prove very damaging to Chinese growth prospects and to metals demand. Currently, residential construction accounts for around 12% of Chinese GDP. With Premier Wen Jiabao stepping down next autumn, it seems unlikely that he will leave a mess for the new incumbent to clear up. Nevertheless, a wobble or worse in the Chinese housing market may make it much harder to engineer a soft landing over the coming months.

Further large inflows of metal to LME warehouses continues to be a feature of the aluminium market. This morning saw on-warrant stocks increase by 51,775 mt with Detroit and Johor the main locations for the metal. As far a headline inventories are concerned, LME aluminium stocks are now only 77,200 mt away from the 5Mt mark.

Zinc also saw a large increase in LME stocks this morning, with on-warrant stocks climbing 45,475 mt. New Orleans and Johor were the main locations, with year-end factors likely behind the flows. On a more worrying note for zinc is the continued fall in cancelled warrants. Cancelled warrants have fallen 83% since the mid-year peak and now stand at 19,425 mt, or 2.4% of total inventory.

Regional on-warrant Copper exchange inventory



Source: LME, SHFE

building once again. Anecdotal reports suggest they are back around the 220,000 mt mark, more or less considered average levels. Shanghai premiums have started to soften towards year-end, particularly for unclean material (already used as collateral), while anecdotal reports regarding the state of the Chinese property sector also appear to be casting a shadow.

With Chinese New Year holidays now only a month away, it seems likely that the Chinese physical copper market will continue to stay in hibernation mode until at least February, with perhaps a slow start after that, particularly as it seems likely that the European debt hangover spills over into 2012.

By Leon Westgate

Precious metals

Liquidity in the precious metals space remains light. A much better-than-expected government bond auction in Spain this morning provided strength to the Euro, aiding precious metals marginally higher.

As pointed out yesterday, physical demand remains healthy especially from Thailand and India with the gold price below \$1,600. This should support gold on approach \$1,560. We maintain that gold below its 200day MA at \$1,621, should continue to struggle. Gold support is at \$1,565 and \$1,550. Resistance is \$1,606 and \$1,609.

In the PGM space we believe the latest Swiss customs data for November, released this morning, overall indicates weak demand. What is interesting is the fact that both SA and Russia exported above-average amounts of metal to Switzerland. This may be a sign of weak industrial demand elsewhere (see our *Monthly customs data: platinum and palladium flow analysis* report dated 20Dec'2012). We continue to believe platinum and palladium should be viewed from a cost-push perspective rather than a demand pull-perspective.

After being under lots of selling pressure yesterday, silver is seeing some short covering, pushing the metal back above \$29.00. However, as with gold we believe the metal will struggle into year-end. Silver support is at \$28.40 and \$28.00. Resistance is \$29.50 and \$30.20.

By Walter de Wet

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	4,873,025	4,822,725	54,525	4,225	50,300	595,975	139,950	2.87	250,115
Copper	373,950	381,250	2,300	9,600	-7,300	-3,600	33,400	8.93	138,717
Lead	362,650	358,075	6,825	2,250	4,575	154,375	39,075	10.77	36,158
Nickel	88,338	88,710	300	672	-372	-47,334	4,308	4.88	32,118
Tin	12,200	12,200	0	0	0	-4,075	510	4.18	5,955
Zinc	765,625	758,900	7,675	950	6,725	64,200	21,200	2.77	88,266

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	15,740	15,710	-40
Copper	54,000	53,610	80
Zinc	14,800	14,770	20

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'12	-	-	-
Copper	Cu Mar'12	331	331.90	1.05
Zinc				

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	21,224	80,111	21,161	200,329	224,028	19,815	8.3890
3-month	16,690	61,757	16,477	156,392	159,072	15,643	8.5065

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)	122.23	-0.93	118.78	-0.61	118.00	-0.58	117.07	-0.77		
Gasoil 0.1% Rdam (\$/mt)	895.00	7.00	892.00	6.75	889.00	6.50	880.00	4.75		
NWE CIF jet (\$/mt)	977.55	-3.78	958.17	-7.16	961.84	-6.74	962.86	-6.77		
Singapore Kero (\$/bbl)	121.70	-0.81	119.23	-0.61	119.45	-0.58	118.65	-0.74		
3.5% Rdam barges (\$/mt)	604.55	1.60	591.25	4.75	587.00	4.75	578.00	4.25		
1% Fuel Oil FOB (\$/mt)	646.59	2.16	631.25	8.50	627.25	8.50	617.50	7.25		
Sing FO180 Cargo (\$/mt)	657.73	-1.84	633.75	5.75	623.75	5.50	611.00	4.25		

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	0.58467	0.59167	0.60750	0.63950	0.69667
Silver	0.48500	0.48167	0.48000	0.49333	0.51167
USD Libor	0.28735	0.41550	0.56695	0.79450	1.11435

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	1,594.00	1,610.00
Silver	58.45	40.46	39.40	38.36	33.99	28.85	29.36
Platinum	48.99	1,788.92	1,772.60	1,776.48	1,766.70	1,412.00	1,428.00
Palladium	50.79	817.51	800.76	767.33	764.76	611.00	621.00

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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