

Commodities

Commodities: Daily



Focus: Platinum's Eskom rally should fade

11 January 2012

Focus: Platinum's Eskom rally should fade — Although we believe that platinum at \$1,400 is \$100 to low from a cost-of-production perspective, we believe the risk of Eskom cutting electricity supply to mines should fade and so should any rally that found support in that risk.

- Copper saw a big jump in cancelled warrants this morning, with New Orleans seeing a 9,900 mt jump in cancellations. The location and size of the activity suggest that it is unlikely to be due to a significant improvement in US demand, but it will be interesting to see where the metal turns up.
- Precious metals benefited from yesterday's renewed optimism off the back of (a) hopes that China would soon engage in monetary easing after the latest trade figures showed slowing foreign demand, (b) allayed fears over the Eurozone debt crisis as talks between German and French leaders appeared to be moving along, and (c) generally dovish sentiments expressed by Fed members addressing various forums despite the continued improvement in US data. Momentum, however, failed to carry over into overnight trade, with Asian investors not expressing much interest in the higher prices.
- Today, the euro is setting a new record low (since September 2010) following weak economic data out of Germany and Spain. The ECB will meet tomorrow for its policy announcement; it might cut the euro's benchmark rate further. A weaker euro would pressurise the oil price despite the tight market and the risk of supply disruptions.

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Commodity price data (10 January 2012)

Base metals LME 3-month

	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m	
Aluminium	2,095	2,164	2,165	2,087	69	3.29%	2,138.00	77	-26.50
Copper	7,545	7,740	7,739	7,496	196	2.59%	7,641.00	138	-7.00
Lead	1,970	1,989	2,033	1,965	19	0.96%	1,999.00	57	-22.25
Nickel	19,001	19,505	19,540	18,900	504	2.65%	19,425.00	570	-20.00
Tin	19,875	20,275	20,350	19,850	400	2.01%	20,075.00	-25	-60.00
Zinc	1,879	1,930	1,932	1,864	51	2.71%	1,912.50	58	-8.75

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	113.12	112.96	113.12	112.78	-0.32	-0.28%
NYMEX WTI	102.20	101.82	102.35	101.60	-0.42	-0.41%
ICE Gasoil	971.00	971.25	971.25	970.50	-2.75	-0.28%
API2 Q1'12	109.35	108.45	-	-	-0.90	-0.83%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,627.00	1,637.00	1,640.30	1,609.00	1,630.60	22.00	0.5/0.8
Silver	-	29.89	30.33	28.98	29.84	1.02	-4.0/-2.0
Platinum	1,459.00	1,462.00	1,462.00	1,427.00	1,460.00	37.00	1.5/3.5
Palladium	633.00	643.00	638.00	619.00	635.00	20.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Platinum's Eskom rally should fade

South Africa's power utility, Eskom, has issued an alert that the country's electricity network is under severe pressure. Most of the risk for potential power shutdowns lies between the hours of 8:00 and 20:00. These warnings come on the back of seasonal power station maintenance which has reduced generating capacity. At the same time there are indications that some mines in South Africa has received request from Eskom to have a look at their electricity consumption for possible savings.

Arguably the strong rally platinum received over the past few days was on the back of the above news.

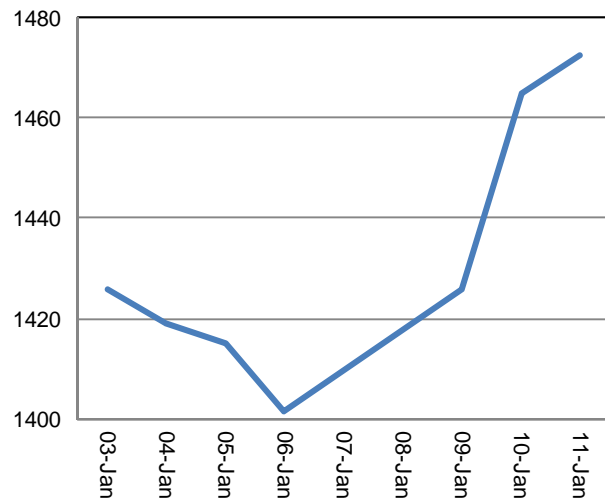
It has been our view that Eskom might cut electricity to major mines, but we have believed, at least since 2009, that this is only a small chance. We continue to hold this view despite the latest warnings. Eskom's reserve margins have improved relative to 2008 and coal stockpiles are higher.

Also, the mining sector had had to reduce electricity usage by 5% in 2008 and has kept it at these lower levels, which might imply that it won't be first in line to have to reduce consumption this time round.

Furthermore, with the mining sector having shed jobs over the two years leading up to 2011, renewed power cuts could mean that even more jobs will have to be shed — possibly a politically unpalatable outcome.

Lastly there has been no indication yet that Eskom has started

Spot platinum price (\$/oz)



Source: Bloomberg

power cuts in suburban areas (which is where they may look to cut first). If rolling blackouts in suburbs are already in place and Eskom's margins remain under pressure, we would get more concerned.

As a result, although we believe that platinum at \$1,400 is \$100 to low from a cost-of-production perspective, we believe the risk of Eskom cutting electricity supply to mines should fade and so should any rally that found support in that risk.

By Walter de Wet

Base Metals

The base metals initially rallied strongly after a weak start, helped by stable European equity markets, before a sharp fall in the euro dragged metal prices lower. Europe remains in focus, particularly ahead of tomorrow's Spanish and Italian bond auctions, with the base metals reacting to headlines as they appear. In that regard, headlines on the newswires reporting comments from Fitch about the ECB having to do more to prevent a "cataclysmic Euro collapse" remain unhelpful. Macroeconomic concerns continue to override metal specific fundamental drivers.

Copper saw a big jump in cancelled warrants this morning, with New Orleans seeing a 9,900 mt jump in cancellations. The location and size of the activity suggest that it is unlikely to be due to a significant improvement in US demand, but it will be interesting to see where the metal turns up. In other news, the shutdown of the Saganoseki smelter, following a fire at its power unit on January 7th, is unlikely to have an immediate impact on refined output given levels of inventory. Nevertheless, there is still no news regarding the timing of a possible restart. Instead, the main impact may well be felt by the concentrates market, with spot TC/RCs likely to ease.

The SHFE-LME copper arbitrage meanwhile remains deeply negative, with cash imports at current levels estimated to yield a loss of around \$300/mt compared to \$215 or so yesterday. With the arbitrage figure remaining negative, bonded stocks are likely to continue increasing ahead of the Chinese New Year. Bonded warehouse stocks in Shanghai are thought to be around 300kt, with several market participants quoting this figure. Given the lack of arbitrage, stocks may well edge even higher over the course of this month and into early February as the Chinese New Year holidays approach.

Tin saw a large jump in cancelled warrants this morning with a 1,250 mt jump in Johor. The data helped prices climb above \$20,400 however with the rest of the complex coming under pressure ahead of US trade, tin prices followed suit. While most of the of the base metals have seen on-warrant stocks fall, or at least stabilise, nickel has continued to see on-warrant stocks climb, up 300 mt this morning to 90,198 mt.

By Leon Westgate

Precious metals

Precious metals benefited from yesterday's renewed optimism off the back of (a) hopes that China would soon engage in monetary easing after the latest trade figures showed slowing foreign demand, (b) allayed fears over the Eurozone debt crisis as talks between German and French leaders appeared to be moving along, and (c) generally dovish sentiments expressed by Fed members addressing various forums despite the continued improvement in US data. Momentum, however, failed to carry over into overnight trade, with Asian investors not expressing much interest in the higher prices.

As European markets opened this morning, prices once again rallied, initially prompted by short-covering which appeared to make way for some fresh buying. However, this buying is dissipating as yesterday's optimism is fading. Currently, European stocks are mostly trading in the red and US equity futures signal further losses later today. Consequently, we've already seen precious metals come off quite sharply, with palladium the hardest hit. Perhaps markets might take heart again from today's scheduled Fed speakers or the release of the Fed's Beige Book, but for now it seems as if precious metals will continue to lose ground.

Yesterday we mentioned that Eskom, South Africa's major power provider, had warned that it was struggling to meet current electricity demand. While PGM prices seem to have reacted to this news, we believe that this reaction was overdone, which would open up both platinum and palladium up to an even stronger correction as the aforementioned investor sentiment fades. As yet, no planned residential blackouts (load-shedding) have been announced, an action Eskom is most likely to take should power supply come under serious stress.

Gold support is at \$1,617 and \$1,597. Resistance is \$1,650 and \$1,661. Silver support is at \$29.06 and \$28.32, resistance is at \$30.44 and \$31.07.

Platinum support is at \$1,442 and \$1,406, resistance is at \$1,493 and \$1,508. Palladium support is at \$616 and resistance at \$647.

By Marc Ground

Energy

Oil strengthened yesterday on improved market sentiment. WTI and Brent gained 93/bbl and 83/bbl respectively. Oil products moved at a similar pace as crude, although the API reports on US inventories put some pressure on products. As we had expected, the Brent structure rallied strongly on supply glitches in Sudan and the risk of production disruptions in Nigeria.

The API reported US weekly oil inventory changes for crude/gasoline/distillates at +0.4/+1.9/+0.8mb w/w. Crude inventories at Cushing fell slightly by 0.2mb. The build in crude inventories was largely driven by a sharp increase in total crude imports, by 0.7mb/d. The total US refinery utilisation rate also rose, by 1.2%. However, this did not translate into higher product production, according to the report. Implied demand for gasoline fell w/w, while distillate demand grew strongly.

A nationwide strike in Nigeria over fuel subsidiary ran into its third day. The two unions for the oil and gas sector workers warning that their members might also have to withdraw from work, which would result in severe supply disruptions to the oil production in the country. As a member of OPEC, Nigeria produces around 2.2mb/d crude oil, mainly high-quality low-sulphur grades.

Today, the euro is setting a new record low (since September 2010) following weak economic data out of Germany and Spain. The ECB will meet tomorrow for its policy announcement; it might cut the euro's benchmark rate further. A weaker euro would pressurise the oil price despite the tight market and the risk of supply disruptions. That said, the strength in the term structure in Brent clearly reflects market fundamentals. Better demand from refineries on firm refining margins also supports the market — for now.

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	4,966,475	4,971,075	0	4,600	-4,600	-3,925	740,450	14.91	225,879
Copper	365,375	366,900	0	1,525	-1,525	-5,525	40,375	11.05	134,231
Lead	353,975	350,875	3,200	100	3,100	900	23,250	6.57	67,341
Nickel	92,538	89,838	2,760	60	2,700	2,490	2,640	2.85	37,542
Tin	11,270	11,330	65	125	-60	-920	1,270	11.27	6,020
Zinc	820,275	819,200	2,100	1,025	1,075	-1,425	11,100	1.35	128,130

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,160	16,165	120
Copper	56,220	56,380	780
Zinc	15,065	15,030	190

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'12	-	-	-
Copper	Cu Mar'12	351	349.40	-1.90
Zinc				

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,271	61,724	16,148	156,915	162,166	15,449	8.0780
3-month	17,723	63,391	16,290	159,746	166,052	15,807	8.1900

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)	129.70	1.10	129.45	1.62	128.92	1.49	127.77	1.21	-	-
Gasoil 0.1% Rdam (\$/mt)	971.25	-2.75	971.25	-2.75	967.50	-2.75	956.00	-2.75	952.50	8.00
NWE CIF jet (\$/mt)	1,038.19	10.65	1,045.75	14.29	1,048.56	12.94	1,044.50	10.33	1,040.10	8.59
Singapore Kero (\$/bbl)	129.00	1.25	129.85	1.77	129.90	1.63	128.70	1.37	127.88	1.19
3.5% Rdam barges (\$/mt)	670.31	6.81	655.25	7.75	646.25	5.75	630.50	3.25	607.25	2.25
1% Fuel Oil FOB (\$/mt)	691.40	7.65	681.50	6.00	676.00	5.25	663.00	3.75		
Sing FO180 Cargo (\$/mt)	715.50	9.75	700.25	9.75	687.00	7.75	665.00	4.75		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	108.45	-0.90	108.80	-0.95	110.80
API4 (FOB RBCT)	105.45	-0.50	105.75	-0.55	107.60

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.53967	0.55833	0.59083	0.62950	0.67500
Silver	0.04500	0.02833	0.03333	0.10833	0.17333
USD Libor	0.29580	0.42820	0.57950	0.80850	1.12605

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	48.09	1,601.29	1,598.76	1,703.50	1,636.29	1,617.00	1,650.00
Silver	46.34	28.93	28.95	33.46	36.08	29.06	30.44
Platinum	47.44	1,418.95	1,423.22	1,593.36	1,687.64	1,442.00	1,469.00
Palladium	49.54	637.27	636.34	655.31	710.78	616.00	647.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'12	Mar'12	Apr'12	Apr'12	Feb'12	Dec'12	Feb'12
Settlement	1,638.70	29,9250	641.70	1,464.60	1,635.90	4,060.00	1,631.80
Open Interest	414,044	104,745	17,658	43,855	5,924	122,165	1,711
Change in Open Interest	-3,820	-1,781	302	921	9	0	-2

Sources: Standard Bank; LME; Bloomberg

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