Commodities

Commodities: Daily

Focus: WTI/Brent spread overblown?

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Focus: WTI/Brent spread overblown? The front month WTI/Brent spread settled at $6.50/bbl on Tuesday, the lowest level since February 2009 and amid the height of financial crisis. For the most part of 2010, WTI traded at a discount to Brent (see Figure 1), with the average of the spread for 2010 as a whole, coming in at negative $0.76/bbl.

- A late dollar-related wobble during Tuesday afternoon knocked the base metals complex of its stride, aluminium in particular, however the metals managed to stabilize and recover again towards the close. Another very quiet overnight session was a notable a feature of the market on Wednesday, however, stronger Chinese equities have again set the tone for the metals during Wednesday morning with the complex picking up ahead of US trade.

- Oil gave back all gains from the day before. Front-month WTI lost $1.92/bbl to settle at $88.38/bbl, while front-month Brent was only $0.98/bbl lower to close at $94.52/bbl. The WTI/Brent spread further widened to $6.14/bbl on yesterday's close. RBOB and Heating Oil cracks strengthened further.

Commodity price data (11 January 2011)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,503	2,497	2,501	2,487	9	-0.24%	2,489.00	23	-14.50
Copper	9,470	9,511	9,594	9,508	189	0.43%	9,484.00	100	11.50
Lead	2,605	2,596	2,615	2,609	9	-0.35%	2,630.00	-12	19.00
Nickel	24,625	24,700	24,900	24,719	725	0.30%	24,595.00	545	-35.00
Tin	26,450	26,600	26,600	26,450	350	0.57%	26,650.00	525	11.00
Zinc	2,409	2,406	2,419	2,405	27	-0.10%	2,400.00	33	-11.75

Energy	Open	Close	High	Low	day/day	Change (%)	ATM 1m vol	ATM 6m vol	ATM 1y vol
ICE Brent	97.64	97.69	97.71	97.49	0.08	0.08%	-	-	-
NYMEX WTI	91.18	91.28	91.36	91.08	0.17	0.19%	-	-	-
ICE Gasoil	798.50	798.50	798.50	798.50	4.00	0.50%	-	-	-
API2 Q1'11	127.80	127.50	-	-	-0.30	-0.24%	-	-	-
ICE EUA Spot	14.08	14.00	-	-	-0.08	-0.57%	-	-	-

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,381.00	1,374.00	1,386.80	1,373.50	1,384.40	10.40	-0.4/0.0
Silver	-	29.72	29.69	29.08	29.50	0.66	1.0/3.0
Platinum	1,748.00	1,758.00	1,769.00	1,741.00	1,765.00	25.00	0.0/2.0
Palladium	762.00	778.00	783.00	754.00	780.00	30.00	-1.0/1.0

Sources: Standard Bank; LME; BBG

Focus: WTI/Brent spread overblown?

The front month WTI/Brent spread settled at $6.50/bbl on Tuesday, the lowest level since February 2009 and amid the height of financial crisis. For the most part of 2010, WTI traded at a discount to Brent (see Figure 1), with the average of the spread for 2010 as a whole, coming in at negative $0.76/bbl.

There have been three main reasons that have put pressure on the spread. Firstly, US demand had been lagging behind the emerging markets, whose imports are more likely to be priced on a Brent basis. Secondly, Cushing continues to be constrained by its landlocked location. Thirdly, the flow of investment money is shifting from WTI to Brent.

Since April 2010, Cushing crude inventories have remained at historically high levels (see Figure 2). Our storage model suggests the build in Cushing inventory is also set to continue, given the positive return on storage for WTI. In addition, the Phase Two of the Keystone project is expected to come into operation during Q1 this year. It will increase the crude pipeline capacity from Canada to Cushing. According to the DOE, Cushing has a storage capacity of 45.8mb as of 30th September 2010, versus the current 36.6mb current inventory level. However, it has been reported that Cushing capacity should be as high as 56mb.

With the increasing liquidity in Brent, many major commodity indices increased their exposure to Brent at the expense of WTI. The on-going annual re-balancing of the S&P GSCI is set to raise the contract production weighting in Brent by 6.3%, from 5,889 to 6,263, while reducing that of WTI by 3% from 14,756 to 14,314. The much stronger term structure in Brent is also another attraction to passive investors, in terms of avoiding roll yield losses.

The latest outage of Trans-Alaska pipeline predominantly affects refineries around the West Coast of the US, whose alternative crude imports are priced mostly on a Brent and Oman related basis. This is yet another factor reinforcing the relative weakness of WTI versus Brent.

Figure 1. front month WTI/Brent Spread

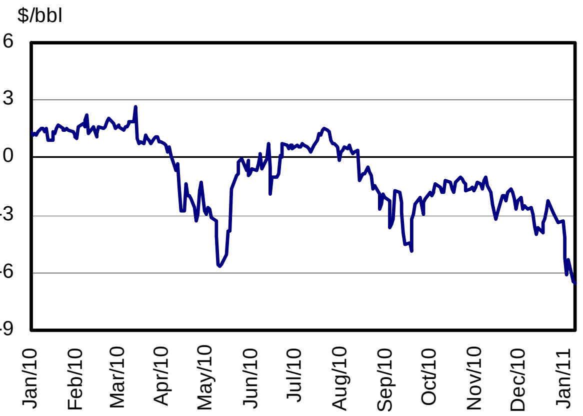
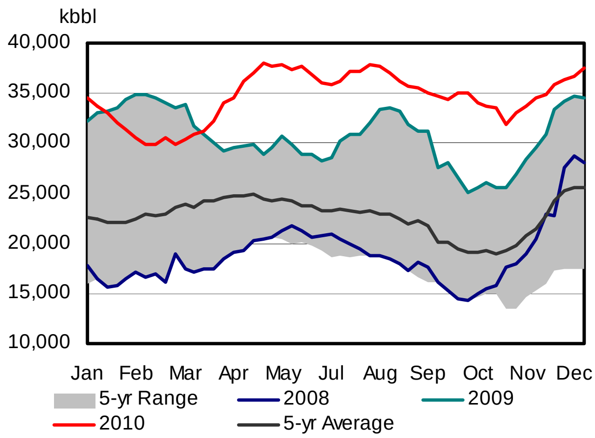


Figure 2. Crude Inventories at Cushing



Sources: Standard Bank, Bloomberg, DOE

The spread is likely to narrow when the Trans-Alaska pipeline returns to normal services. However, the spread will nevertheless remain under pressure for the coming months due to slow pick-up in US demand and Cushing storage constraints.

By James Zhang

Base metals

A late dollar-related wobble during Tuesday afternoon knocked the base metals complex of its stride, aluminium in particular, however the metals managed to stabilize and recover again towards the close. Another very quiet overnight session was a notable a feature of the market on Wednesday, however, stronger Chinese equities have again set the tone for the metals during Wednesday morning with the complex picking up ahead of US trade.

With little in the way of momentum at the moment, and with China seemingly happy to sit on the sidelines, the metals are struggling to hang onto their gains. As a result, prices have resorted to dollar-watching, while technical signals are also dominating short term price direction. Given the strong fundamental outlook for many of the base metals this year, dips will likely be viewed as buying opportunities. However, until buying activity starts to increase, participants seem unwilling to chase prices significantly higher. The resulting choppy and volatile intraday trading environment is likely to persist until after the Chinese New Year, at the earliest.

Copper made steady upwards progress on Tuesday, taking a late wobble in its stride to finish the day on its highs and back above $9,500. After a very slow start this morning, prices have climbed further heading into the afternoon, with the metal climbing back above $9,600. The key will be whether the metal can sustain its recent gains as we head towards the weekend.

By Leon Westgate

Precious metals

Safe-haven buying continues to provide the main impetus behind the gains seen across the precious metals complex. A short-lived strengthening of the dollar did however result in a strong pull back in gold during Tuesday afternoon, with the other metals largely unaffected. The dollar weakened again during NY trade however, helping gold to recover its earlier lost ground.

Enthusiastic physical buying continues to lend background support to gold, though the sharp intraday price movements also highlight how susceptible the metal is to the ebb and flow of market sentiment, particularly where Europe is concerned. Further confusing matters is the additional effect of the dollar, with dollar weakness - associated with improving European sentiment - offsetting the impact of any reduction in safe-haven demand.

Given the market's pre-occupation with the Eurozone debt situation and the strength of the US economy, Portugal's bond issuance and the release of the Fed's Beige Book today could prompt significant price action.

Gold support is at $1,377 and $1,368. Resistance is at $1,391 and $1,396. Silver support is at $29.31 and $28.85, resistance is at $29.97 and $30.16.

As expected, the PGM's have surged strongly, not only due to their safe-haven appeal but also on strong fundamentals and their being relatively undervalued. Palladium is again leading the charge, with the metal up nearly 2% ahead of US trade, compared to just under a 1% move in platinum.

Platinum support is at $1,750 and $1,725, resistance is at $1,787 and $1,797. Palladium support is at $769 and resistance at $805.

By Leon Westgate

Energy

Oil prices jumped higher yesterday on the back of continuing supply disruption from the Alaska pipeline, and due to a forecast of more cold weather in the US. Front month WTI gained $1.86/bbl to close at $91.11/bbl, while Brent moved up by $1.91/bbl to settle at $97.61/bbl. RBOB cracks dropped by more than $1/bbl due to a large inventory build reported by the API, while heating oil cracks remained largely unchanged after a jump of $2/bbl the day before. Term structures mostly strengthened, which was also attributable to the supply disruptions.

The operator of the Trans-Alaska Pipelines System has been given approval to restart the pipeline. However, the pipeline needs to be shutdown again for the installation of a bypass. The operator has indicated that it will take at least five days to build and install a bypass on the line.

Last night, the API reported a hefty 7mbbl build in gasoline inventories for last week, a 1.6mbbl build in distillate stock and small increase in flat crude oil inventories. The API figures showed that crude imports went up by a massive 22% w-o-w, from 8.4mbd to 10.2mbd. Total product imports increased by 59% w-o-w, from 1.5mbd to 2.4mbd, while production of gasoline and distillate came down by 3% and 2% respectively, due to a 1.3% reduction in refinery runs. Gasoline implied demand was 0.2mbd lower w-o-w, while distillate implied demand was up by 0.2mbd.

The US Department of Energy also released its latest Short Term Energy Outlook yesterday. The department raised its outlook for global oil consumption this year to 88.02 million barrels a day from 87.78 million estimated last month. The report expected OPEC crude supply will increase by 0.5mbd in 2011. Meanwhile, the Kuwait oil minister was quoted yesterday that OPEC would not hold an emergency meeting if crude prices hit $100/bbl. The next OPEC meeting is scheduled for June 2011.

After a strong rally yesterday, the market is likely to have some sort of correction before the DOE inventory report later today. A confirmation of the API numbers could put some downside pressure to the market. However, the market is also likely to look beyond last week's inventory numbers due to the ongoing supply disruption from Alaska.

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	4,393,700	4,369,500	28,975	4,775	24,200	116,650	152,850	3.48	238,425
Copper	379,650	378,300	2,050	700	1,350	2,100	35,025	9.23	121,095
Lead	211,675	210,375	1,575	275	1,300	3,400	7,475	3.53	32,952
Nickel	135,864	136,806	0	942	-942	192	4,920	3.62	32,412
Tin	16,890	16,690	225	25	200	615	485	2.87	7,807
Zinc	710,150	700,950	9,250	50	9,200	8,725	1,700	0.24	82,275

Shanghai 3-month forward prices				COMEX active month future prices				
Metal	Open	Last	1d Chnge		Open	Close	Change	Change (%)
Aluminium	16,860	16,880	35	Ali Mar'11	-	-	-	-
Copper	70,860	71,020	830	Cu Mar'11	435	436.60	1.70	0.39%
Zinc	19,080	19,065	115					

ZAR metal prices							
	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,032	64,899	17,997	168,304	182,366	16,423	6.8430
3-month	17,312	65,942	17,999	171,250	184,423	16,681	6.9332

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 ($/bbbl)	107.20	1.17	108.18	1.41	108.32	1.52	109.49	1.46	111.43	1.34
Gasoil 0.1% Rdam ($/mt)	798.50	4.00	803.75	3.25	807.75	3.50	816.25	3.75	830.00	2.75
NWE CIF jet ($/mt)	875.63	7.40	881.44	9.50	884.99	10.83	894.22	10.91	908.63	9.50
Singapore Kero ($/bbl)	108.49	1.37	110.08	1.61	110.22	1.72	111.34	1.61	113.49	1.43
3.5% Rdam barges ($/mt)	504.61	2.86	506.63	4.58	506.42	4.11	509.30	5.24	516.48	6.46
1% Fuel Oil FOB ($/mt)	515.49	1.24	520.13	5.33	521.42	4.36	528.80	5.74		
Sing FO180 Cargo ($/mt)	531.03	2.53	535.13	5.58	533.67	4.36	535.80	4.74		

Thermal coal	Q1-11		Q2-11		Q3-11		Cal 11		Cal 12	
API2 (CIF ARA)	127.50	-0.30	123.00	-0.60	120.50	-0.70	123.00	-0.40	120.75	-0.10
API4 (FOB RBCT)	129.85	-0.05	125.90	0.00	121.90	-0.05	124.40	0.00	118.75	0.70

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.38667	0.40333	0.43167	0.51833	0.65833
Silver	0.58500	0.58833	0.59667	0.63333	0.70833
USD Libor	0.26125	0.28250	0.30313	0.45694	0.78388

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	52.79	1,388.28	1,387.38	1,344.58	1,273.25	1,377.00	1,391.00
Silver	58.83	29.72	29.58	25.20	21.73	29.32	29.97
Platinum	58.90	1,751.96	1,739.02	1,675.20	1,632.55	1,750.00	1,787.00
Palladium	62.39	778.53	768.84	650.30	567.60	769.00	805.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'11	Mar'11	Apr'11	Apr'11	Feb'11	Dec'11	Feb'11
Settlement	1,384.40	29.7350	793.75	1,770.30	1,384.60	3,712.00	1,384.60
Open Interest	584,989	135,683	22,363	38,552	2,445	118,281	2,603
Change in Open Interest	-3,790	1,396	241	115	-46	0	2

Sources: Standard Bank; LME; Bloomberg

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