

# Commodities

## Commodities: Daily



### Focus: China's electricity production slows

14 January 2011

**Focus:** While China's electricity consumption continues to hit all-time highs at an absolute level, the recent m/m decline in electricity production in that country indicates slower growth.

- For energy, it is likely to have a quiet trading day due to the public holiday in the US. Also, the US DOE inventory report will be released on Thursday instead of Wednesday. For the rest of this week, it is likely the oil market will be dominated by two sets of macroeconomic data releases on Thursday.
- Precious metals plunged on Friday after Chinese authorities announced an increase in reserve requirements. The central bank raised reserve requirements by 50 bps, to 19% (effective 20 January), in order to curb rising inflation and forestall an imminent property market bubble. Gold and silver suffered the most, with platinum managing to trade in a fairly tight range.
- With the exception of aluminium, the base metals ended last week strongly. Worse than expected US Advance retail sales and a disappointing Michigan confidence index were partially offset by better than expected IP data, while a weaker dollar also helped the metals to rally.

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#### Commodity price data (14 January 2011)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,467	2,472	2,485	2,474	-10	0.20%	2,453.00	-27	-19.25
Copper	9,570	9,654	9,687	9,613	30	0.88%	9,591.00	-31	11.75
Lead	2,632	2,680	2,687	2,664	43	1.81%	2,652.00	-47	31.00
Nickel	25,425	25,900	26,100	25,840	325	1.87%	25,465.00	-260	-24.25
Tin	26,600	26,855	26,950	26,850	0	0.96%	26,755.00	-170	39.00
Zinc	2,440	2,458	2,470	2,439	-5	0.72%	2,431.00	-18	-12.25

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	98.33	98.40	98.75	98.32	0.02	0.02%
NYMEX WTI	91.51	91.26	91.80	91.22	-0.28	-0.31%
ICE Gasoil	815.25	815.50	817.00	814.50	4.50	0.55%
API2 Q1'11	125.00	123.30	-	-	-1.70	-1.38%
ICE EUA Spot	13.97	14.12	-	-	0.15	1.07%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,369.25	1,367.00	1,378.80	1,355.70	1,360.50	-26.50	-0.6/-0.2
Silver	-	28.36	28.94	28.10	28.28	-0.98	-1.0/1.0
Platinum	1,810.00	1,811.00	1,820.00	1,806.00	1,810.00	0.00	0.0/2.0
Palladium	802.00	795.00	809.00	790.00	794.00	-16.00	-1.0/1.0

Sources: Standard Bank; LME; BBG

Please refer to the disclaimer at the end of the document.

### Focus: China's electricity production slows m/m

While China's electricity consumption continues to hit all-time highs at an absolute level, the recent y/y decline in electricity production growth in this country indicates slower growth.

There are many variables used to track the pace of economic growth. Amongst others, we monitor electricity generation figures to indicate real economic growth trends. After a strong end to 2009, electricity generation in China continues to signal economic expansion. However, there are signs that the growth rate is slowing.

Since July last year, 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 growth rate in electricity generation at 13.5% y/y for the first 9 months of 2010. This data would be 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 Q4:10. In October, electricity generation grew 6.6% y/y and in November the growth rate was 6.7% y/y. We estimate that the y/y growth rate would have been around 8% in November and December. The lower growth rate in electricity generation, relative to growth rates seen earlier this year, is consistent with general economic activity which is also lower than earlier this year. This we believe is consistent with the PBOC tighter monetary policy stance. We look with interest to the release of China's GDP figures for Q4:10 later this week. Electricity data signals that

### Base metals

With the exception of aluminium, the base metals ended last week strongly. Worse than expected US Advance retail sales and a disappointing Michigan confidence index were partially offset by better than expected IP data, while a weaker dollar also helped the metals to rally.

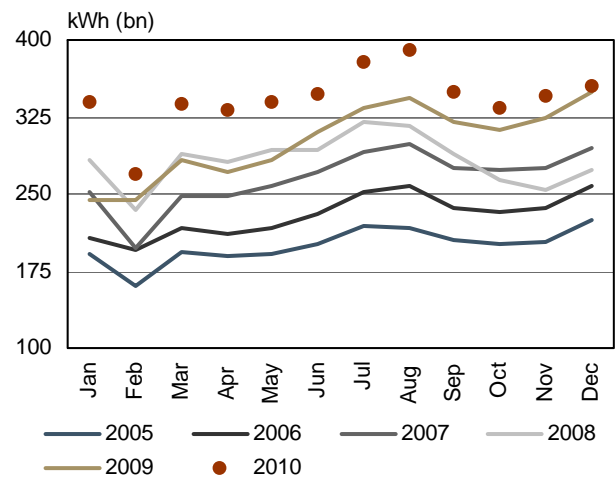
Much weaker Chinese equities this morning, amid fears over further tightening measures, have seen the metals give back most of Friday's gains however. With the US on holiday this afternoon, and the market short of direction, the dollar and equity markets look likely to govern direction heading into the afternoon.

Copper has struggled to hang on to Friday afternoon's gains, with the metal coming back under pressure overnight and into Monday morning. Concerns over potential Chinese tightening measures, a weak physical picture and the impact of a stronger dollar have all robbed the metal of its momentum.

Copper physical premiums have come under further pressure over recent weeks, with the weakness, centered so far on Asia also spilling over into Europe. Of particular concern is this morning's 2,775 mt inflow of metal into the LME warehouse at Busan. With CIF Shanghai premiums around \$20-40, the SHFE market well supplied and in a contango, a negative arbitrage of around \$500/mt and with the LME market remaining in a sizeable backwardation, there is the potential for further inflows of metal into LME warehouses in Asia.

While copper bound for China may be diverted into nearby LME locations, as has been the case in the past, perhaps more worryingly is if a further clampdown on liquidity in China emerges and material held in bonded warehouse also starts to migrate out, albeit temporarily. If this happens, sentiment towards copper could be impacted badly. Either way, further LME stock increases, particularly in Asian locations will likely keep a lid on prices over the short term.

### China electricity production



Sources: CEIN; Standard Bank

growth may be slowing from high levels. The growth data would be confirmation of slower real economic activity.

We believe commodity prices are reflecting slightly lower growth in China already as it is well known China look to temper growth marginally. As a result, we would read any data indicating that monetary tightening might be ending as positive for commodities and for base metals and oil specifically.

By Walter de Wet

By Leon Westgate

## Energy

Oil traded lower during the earlier session on Friday on the back of bearish sentiments carried over from Thursday's US job numbers and another 50 bps increase in the bank reserve ratio in China. However, the oil market recouped the loss in the afternoon and ended the day slightly higher amid better-than-expected US Industrial Production numbers. Front-month WTI gained 14c/bbl, to close at \$91.54/bbl, while front-month Brent was 62c/bbl higher, to settle at \$98.68/bbl., the highest level since September 2008.

Net for the week, front-month WTI jumped \$3.51/bbl on the back of the outage of the Trans-Alaska Pipeline System. Front-month Brent increased by \$5.35/bbl for the week, giving a widest WTI/Brent spread since February 2009.

The latest CFTC report showed Money Managers increased their net long positions in crude by 5.9% w/w (futures and options combined). Commercial hedger's net short positions were cut back by 0.9% as the increase of long hedges outstripped that of short hedges. Swap Dealers reduced their net short positions by 13.1% w/w. The net long positions held by non-commercial market participants stood at 7.3% last week, 1% lower than the all-time high reached during the last week of 2010.

It emerged over the weekend that the restart of the Trans-Alaska Pipeline System has been delayed from Sunday to today. It is unlikely to have much impact to the physical market, but it might add to the bullish sentiments nevertheless.

It is likely to have a quiet trading day due to the public holiday in the US. Also, the US DOE inventory report will be released on Thursday instead of Wednesday. It will reveal the impact of the pipeline outage to some extent.

For the rest of the week, it is likely the oil market will be dominated by two sets of macroeconomic data releases on Thursday. One is the US weekly jobless number as the market is eager to assess whether the sharp increase in initial jobless claim last week was just a blip or not. Another is the China December inflation number, which will give some indication of Chinese monetary policy directions.

**By James Zhang**

## Precious metals

Precious metals plunged on Friday after Chinese authorities announced an increase in reserve requirements. The central bank raised reserve requirements by 50 bps, to 19% (effective 20 January), in order to curb rising inflation and forestall an imminent property market bubble. Gold and silver suffered the most, with platinum managing to trade in a fairly tight range. Adding to the fall in prices was a return to risk, initiated by a strong earnings result from JP Morgan (\$1.12/share versus an expected 0.99c/share).

Investors remain preoccupied by the threat of further monetary tightening in China. The release of Chinese property price data, showing the 19th straight month of increases, has further fueled the belief that authorities will have to step in to avoid an asset bubble in the housing market. This is weighing on precious metal prices, encouraged further by a stronger dollar off the back of lingering Eurozone debt concerns as Greece's credit rating is reduced to junk by Fitch (confirming similar moves by Moody's and S&P).

Gold support is at \$1,353 and \$1,342. Resistance is at \$1,377 and \$1,389. Silver support is at \$27.98 and \$27.59, resistance is at \$28.86 and \$29.35.

The pace of decline in Eurozone vehicle sales continues to slow, with new passenger car registrations (seasonally adjusted) falling by only 2.7% y/y in December, compared to a fall of 9.2% y/y in the previous month. This has lent some support to platinum, given its significant exposure to European vehicle production.

Platinum support is at \$1,804 and \$1,790, resistance is at \$1,828 and \$1,837. Palladium support is at \$784 and resistance at \$810.

**By Marc Ground**

## Base metals

### Daily LME Stock Movement (mt)

Metal	Today	Yesterday	In	Out	One day change	YTD change (mt)	Cancelled		Contract turnover
							warrants (mt)	Cancelled warrants (%)	
Aluminium	4,435,000	4,434,950	4,775	4,725	50	157,950	164,350	3.71	249,475
Copper	376,225	377,350	0	1,125	-1,125	-1,325	32,650	8.68	160,422
Lead	210,975	211,425	0	450	-450	2,700	7,000	3.32	33,496
Nickel	136,302	136,662	0	360	-360	630	4,074	2.99	31,551
Tin	17,250	17,170	130	50	80	975	375	2.17	9,315
Zinc	709,725	709,825	0	100	-100	8,300	1,350	0.19	75,074

### Shanghai 3-month forward prices

### COMEX active month future prices

Metal	Open	Last	1d Chnge	Open	Close	Change	Change (%)
Aluminium	16,800	16,790	-15	Ali Mar'11	-	-	-
Copper	71,410	71,200	240	Cu Mar'11	441	440.40	-0.80
Zinc	19,205	19,230	85				

### ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,018	66,538	18,398	176,663	185,613	16,865	6.9375
3-month	17,376	67,858	18,838	182,051	188,764	17,274	7.0290

## 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)	108.08	0.02	109.51	0.52	109.72	0.12	110.81	0.17	112.58
Gasoil 0.1% Rdam (\$/mt)	815.50	4.50	820.00	4.25	823.25	4.75	831.00	4.25	839.75	1.75
NWE CIF jet (\$/mt)	881.94	1.60	894.09	2.83	897.16	2.67	905.55	3.25	918.45	2.67
Singapore Kero (\$/bbl)	109.58	0.03	111.11	0.42	111.27	-0.03	112.36	0.07	114.34	0.14
3.5% Rdam barges (\$/mt)	507.09	0.20	511.35	1.27	511.56	1.27	512.19	0.46	517.71	0.23
1% Fuel Oil FOB (\$/mt)	517.24	-0.10	523.10	1.02	526.31	1.27	531.19	1.46		
Sing FO180 Cargo (\$/mt)	534.66	0.91	541.35	2.27	539.56	1.52	538.44	0.21		

Thermal coal	Q1-11	Q2-11	Q3-11	Cal 11	Cal 12
API2 (CIF ARA)	123.30	-1.70	118.30	-2.40	117.80
API4 (FOB RBCT)	124.60	-2.65	119.90	-3.55	117.55

## Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.36750	0.37750	0.41250	0.50250	0.64250
Silver	0.46250	0.47500	0.51250	0.55000	0.60000
USD Libor	0.26125	0.28250	0.30313	0.45594	0.78219

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	48.76	1,374.41	1,385.91	1,348.47	1,276.41	1,353.00	1,377.00
Silver	52.64	29.06	29.49	25.48	21.88	27.98	28.86
Platinum	63.70	1,769.58	1,756.67	1,683.90	1,634.04	1,804.00	1,828.00
Palladium	61.33	781.69	778.64	659.44	572.00	785.00	810.00

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	1,363.60	28.3800	796.05	1,816.00	1,363.50	3,648.00	1,360.50
Open Interest	590,817	135,881	22,658	39,709	2,735	121,128	2,575
Change in Open Interest	-1,449	1,178	49	219	-173	297	11

Sources: Standard Bank; LME; Bloomberg

## Forecasts

### Base metals

#### Base metals LME cash prices (US\$/mt)

	Q1:11	Q2:11	Q3:11	Q4:11	Avg 2011	Avg. 2012
Aluminium	2,460	2,470	2,350	2,440	2,430	2,510
Copper	9,150	8,900	9,300	9,450	9,200	10,000
Lead	2,450	2,390	2,520	2,560	2,480	2,600
Nickel	24,500	23,800	22,000	22,500	23,200	22,000
Tin	26,200	27,000	29,000	29,800	28,000	29,500
Zinc	2,350	2,300	2,250	2,380	2,320	2,500

### Energy

#### Energy front-month prices

	Q1:11	Q2:11	Q3:11	Q4:11	Avg 2011	Avg. 2012
WTI (\$/bbl)	90	90	93	95	100	105
Brent (\$/bbl)	92	91	94	96	100	105
ICE Gasoil (\$/mt)	760	775	790	790	830	870
Nymex RBOB Gasoline (c/gal)	240	245	245	240	260	275
API2 Coal Cif ARA (\$/mt)	120	115	110	115	120	125
API4 Coal Fob Ricahrds Bay (\$/mt)	120	115	110	115	115	120

### Precious metals

#### Precious metals spot prices (US\$/oz)

	Q1:11	Q2:11	Q3:11	Q4:11	Avg 2011	Avg. 2012
Gold	1,370	1,440	1,500	1,435	1,430	1,450
Silver	27.00	28.35	28.20	27.35	27.70	27.80
Platinum	1,850	1,800	1,750	1,950	1,850	2,000
Palladium	780	740	700	880	775	850
Rhodium	2,400	2,300	2,400	2,700	2,500	3,000

Source: Standard Bank

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