

Commodities

Commodities: Daily



Focus: Physical copper market looking weak

18 January 2011

Focus: Physical copper market likely to weigh on prices near-term While 3-month copper prices continue to hold up well, the underlying physical market is looking much weaker, denting sentiment and keeping a lid on prices. Physical premiums in Asia have come under consistent pressure over recent weeks, suggesting the physical market in Asia is either very well stocked, that demand has dropped off significantly, or more worryingly, a combination of both.

- Stronger Chinese equity markets and a weaker dollar have helped the base metals to bounce back from yesterday's lackluster start to the week, with copper once again trading above \$9,700 ahead of US trade and nickel trading above \$26,500. Volumes have also picked up nicely heading into the afternoon.
- The oil market had a quiet day yesterday as NYMEX was closed for the Martin Luther King Day. Both WTI and Brent traded lower amid the news that the Trans-Alaska Pipeline System (TAPS) had restarted in the early morning local time yesterday. Front-month WTI lost 52c/bbl, to close at \$91.02/bbl, while front-month Brent was \$1.25/bbl lower, to settle at \$97.43/bbl.
- Shaking off concerns over Chinese inflation and possible further monetary tightening, precious metals made tentative gains overnight. The recent prices piqued the interest of physical buyers, although with no trading in the US this was largely confined to Asian markets. Volumes were low, hence the relatively narrow trading range.

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Commodity price data (17 January 2011)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,462	2,435	2,453	2,431	-37	-1.10%	2,439.00	-14	-19.75
Copper	9,630	9,630	9,684	9,563	-20	0.00%	9,690.00	99	18.00
Lead	2,665	2,641	2,651	2,621	-33	-0.90%	2,720.00	68	31.50
Nickel	26,000	25,840	26,025	25,627	-40	-0.62%	25,990.00	525	-24.00
Tin	26,950	26,950	26,950	26,850	100	0.00%	27,005.00	250	65.00
Zinc	2,459	2,455	2,450	2,402	-2	-0.16%	2,446.50	16	-15.25

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	97.40	97.68	97.75	97.37	0.25	0.26%
NYMEX WTI	91.51	91.04	91.80	90.71	-0.50	-0.55%
ICE Gasoil	809.75	810.50	811.75	808.75	0.50	0.06%
API2 Q1'11	123.30	122.25	-	-	-1.05	-0.86%
ICE EUA Spot	14.12	14.23	-	-	0.11	0.78%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,357.50	1,360.50	1,365.35	1,361.50	1,362.50	2.00	-0.6/-0.2
Silver	-	28.40	28.65	28.33	28.32	0.04	-1.0/1.0
Platinum	1,806.00	1,803.00	1,817.00	1,815.00	1,813.00	3.00	0.0/2.0
Palladium	786.00	790.00	798.00	795.00	791.00	-3.00	-1.0/1.0

Sources: Standard Bank; LME; BBG

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Physical copper market likely to weigh on prices near-term

While 3-month copper prices continue to hold up well, the underlying physical market is looking much weaker, denting sentiment and keeping a lid on prices.

Physical premiums in Asia have come under consistent pressure over recent weeks, suggesting the physical market in Asia is either very well stocked, that demand has dropped off significantly, or more worryingly, a combination of both.

The weakness in Asian physical premiums is occurring against a backdrop of a SHFE market that remains in a healthy contango, SHFE stocks still edging higher and a negative SHFE-LME arbitrage currently yielding a loss on imports of around \$400-500/mt.

Although copper import figures into China have been very good over recent months, anecdotal reports of high levels of bonded material, and the lack of end-user demand suggest that the short term demand outlook has deteriorated. Further Chinese destocking activity, perhaps continuing into the Chinese New Year, is a risk, potentially impacting on the level of refined imports over the coming months.

In addition, running in parallel to a well stocked SHFE market, is an LME market that continues to remain in a sizeable backwardation. This combination of factors may start to see material being diverted into LME warehouses in the region, either Singapore or the South Korean ports. This pattern has occurred in the past, and while not bearish for prices in isolation, it does underscore the lack of Chinese activity.

What is of greater concern however, is any changes to financing costs. While financing does not appear to be an issue at the moment, any significant tightening measures by the Chinese government could potentially see participants holding bonded material

Base metals

Stronger Chinese equity markets and a weaker dollar have helped the base metals to bounce back from yesterday's lackluster start to the week, with copper once again trading above \$9,700 ahead of US trade and nickel trading above \$26,500. Volumes have also picked up nicely heading into the afternoon.

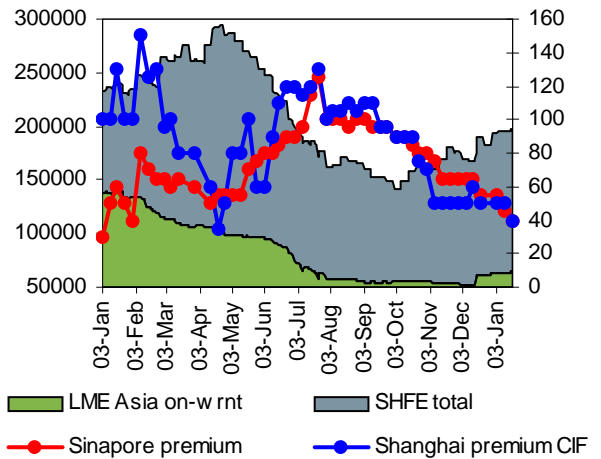
Nickel has climbed strongly during Tuesday morning, with a 2,394 mt fall in on warrant stocks giving the metal an extra boost. The main reason for the decline was a 2,010 mt jump in cancelled warrants in Singapore. Short covering activity and the triggering of stops have also exacerbated some of the metal's gains.

Copper continues to be well supported, with a recovery in Chinese equities overnight, after coming under pressure initially, combining with a weaker dollar to kick start a recovery in the price. On-warrant stocks were unchanged this morning, lending the market a bit of confidence, however prices have stalled around \$9,730 on the approach of US trade.

Lead came under pressure initially during Asian trade, with yesterday afternoon's sell-off continuing into Tuesday morning. The metal has managed to recover strongly this morning however, supported by a weaker dollar and gains elsewhere in the base metals complex. A large 30,400 mt increase in on-warrant LME stocks has had little lasting impact, with the inflow - split Singapore and Johor - apparently interpreted but the market as a financing deal.

Data-wise, the main focus of the market is the raft of Chinese economic data, due to be released on Thursday, and the potential for additional statements and directives from the government in response to the figures.

Copper in Asian warehouses vs. physical premiums



Sources: Standard Bank, LME

reappraise the situation and start to deliver that metal onto LME warrant. If this pattern does start to occur, and a trickle of copper becomes a flood, it would likely impact negatively on outright LME copper prices.

Overall, we remain bullish towards copper longer term. Even with a fall in Chinese refined consumption growth, to around 8.5% this year from 11% in 2010, we are still forecasting a refined deficit this year of nearly 385 kt, with a greater deficit of 562 kt expected in 2012.

However, although we would be very wary about aggressively shorting copper, given the deterioration in the physical market, the bias to prices for the moment appears to be to the downside.

By Leon Westgate

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Energy

The oil market had a quiet day yesterday as NYMEX was closed for the Martin Luther King Day. Both WTI and Brent traded lower amid the news that the Trans-Alaska Pipeline System (TAPS) had restarted in the early morning local time yesterday. Front-month WTI lost 52c/bbl, to close at \$91.02/bbl, while front-month Brent was \$1.25/bbl lower, to settle at \$97.43/bbl.

The operator of TAPS announced yesterday that the pipeline was pumping oil at a rate around 500 kbd at 4pm local time. The flow rate is likely to be ramped up to its normal level around 640 kbd in the next few days. The news has weighed on the market, more so on Brent than WTI, as replacement crude for the West Coast US tends to be priced off Brent, rather than WTI.

OPEC published its first monthly oil report for 2011. The organisation forecasts that the world oil demand is to increase by 1.2mbd y/y to 87.3mbd in 2011, and OPEC production in 2011 will need to be increased by 400kbd y/y in 2010 to 29.4mbd on average. For comparison, December OPEC production reached 29.23mbd, a slight increase from November's 29.06mbd. The report emphasises the high oil inventories in the US, and expects demand for OPEC crude will be lower than its December production level for H1:11.

Due to the public holiday yesterday in the US, the weekly DOE inventory report will be postponed to Thursday. It coincides with the release of US weekly jobless claim numbers and Chinese inflation report on the same day. We expect the market to move sideways till then and take direction from the three sets of reports on inventories, US Jobs and China inflation.

WTI crude continues to struggle despite more dollar weakness against the euro. We remain cautious on crude and believe that even marginal strength in the dollar may see WTI prices come under pressure.

By James Zhang

Precious metals

Shaking off concerns over Chinese inflation and possible further monetary tightening, precious metals made tentative gains overnight. The recent prices piqued the interest of physical buyers, although with no trading in the US this was largely confined to Asian markets. Volumes were low, hence the relatively narrow trading range.

The lack of resolution after yesterday's meeting of Eurozone finance ministers has seen investor concerns over a Eurozone debt crisis resurface. Officials met to discuss ways to improve the current rescue measures available to member states facing fiscal problems. No final decisions or commitments to bolster the €750bn rescue fund were made. These concerns should continue to lend support to precious metals in the future, as investors are drawn to the group's safe-haven appeal. For now though it seems as though risk appetite is unhindered, given the interest in European equities.

Appetite for risk is bolstering the euro, lending support across the commodities complex. The weakness in the dollar is broad-based hinting that this might also be attributable to unease over forthcoming US data flow. Today we have Empire Manufacturing, but more closely watched will be tomorrow's release of housing start data, which is expected to show a deterioration in the US property market.

Gold support is at \$1,359 and \$1,354. Resistance is at \$1,369 and \$1,372. Silver support is at \$28.05 and \$27.72, resistance is at \$28.69 and \$29.00.

Platinum support is at \$1,800 and \$1,787, resistance is at \$1,824 and \$1,835. Palladium support is at \$784 and resistance at \$804.

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	4,431,350	4,435,000	1,600	5,250	-3,650	154,300	159,300	3.59	164,038
Copper	379,000	376,225	3,800	1,025	2,775	1,450	31,875	8.41	119,070
Lead	214,125	210,975	3,650	500	3,150	5,850	6,500	3.04	19,168
Nickel	137,766	136,302	1,746	282	1,464	2,094	5,700	4.14	19,906
Tin	17,420	17,250	170	0	170	1,145	300	1.72	2,782
Zinc	709,675	709,725	0	50	-50	8,250	1,800	0.25	39,960

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,750	16,860	-65
Copper	71,300	72,010	410
Zinc	19,270	19,185	-220

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'11	-	-	-
Copper	Cu Mar'11	441	442.20	1.00
Zinc				

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,878	67,055	18,822	179,851	186,875	16,930	6.9200
3-month	17,073	67,521	18,517	181,177	188,960	17,213	7.0115

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	0.19
Gasoil 0.1% Rdam (\$/mt)	810.50	0.50	815.25	0.75	816.50	-0.50	825.00	-1.75	837.50	-2.25
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)	122.25	-1.05	117.25	-1.05	116.75
API4 (FOB RBCT)	123.25	-1.35	118.35	-1.55	116.75

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.36200	0.37600	0.39800	0.50200	0.65600
Silver	0.51250	0.52750	0.54000	0.56250	0.59000
USD Libor	0.26125	0.28250	0.30313	0.45469	0.77969

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	49.18	1,372.82	1,384.88	1,349.64	1,277.48	1,359.00	1,369.00
Silver	52.76	28.92	29.44	25.57	21.93	28.05	28.69
Platinum	63.11	1,774.13	1,760.69	1,686.69	1,634.48	1,800.00	1,824.00
Palladium	61.19	783.25	780.66	662.36	573.33	784.00	804.00

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	1,364.60	28.3950	794.50	1,816.00	1,364.50	3,636.00	1,365.00
Open Interest	602,876	139,833	22,752	41,347	2,735	123,734	2,575
Change in Open Interest	-12,059	-3,952	-94	-1,638	0	-2,606	0

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	92	100
Brent (\$/bbl)	92	91	94	96	93.50	100
ICE Gasoil (\$/mt)	760	775	790	790	780	830
Nymex RBOB Gasoline (c/gal)	240	245	245	240	245	260
API2 Coal Cif ARA (\$/mt)	120	115	110	115	115	120
API4 Coal Fob Ricahrds Bay (\$/mt)	120	115	110	115	115	115

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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