Commodities

Commodities: Daily

We look to specs for silver support

18 January 2012

Focus: Resistance for the silver is around the $30.70 level. Should it break above this level, we believe that it may test $33/oz. We expect silver to average $34.50 in 2012, but silver should only trade above this level once industrial demand improves and provides real demand support to prices — speculative interest on its own is unlikely to see the metal moving above $34.50.

- With tomorrow the last working day for the Chinese before the New Year holidays, the chatter surrounding a possible cut in the Chinese bank RRR is increasing in volume. This morning however has seen the metals again look to Europe for direction.

- Precious metals came under pressure yesterday as new highs prompted some profit-taking. The selling gained momentum as Asian participants questioned the sustainability of the recent renewal of confidence in financial markets. However, there was good support evident at the $1,645 level for gold, which limited the losses among the other precious metals. This support seemed to stem largely from Chinese buyers stocking up ahead of the New Year holidays.

- The oil price strengthened further yesterday on a positive German ZEW survey and better-than-expected Chinese data. Brent rose slightly, by 33c/bbl, while WTI was up $2.01/bbl (the moves of the past two days included). We expect that WTI outperformed Brent after the annual rebalance of commodity indices. In contrast to moves in flat prices, term structures continue to weaken, warning of the strength of the physical market.

Strategists

Walter de Wet, CFA*
Walter.DeWet@standardbank.com
+44-20-31456821

Leon Westgate*
Leon.Westgate@standardbank.com
+44-20-31456822

James Zhang*
Jinzhong.Zhang@standardbank.com
+44-20-31456824

Marc Ground, CFA*
Marc.Ground@standardbank.com
+27-11-3787215

Commodity price data (17 January 2012)

Base metals LME 3-month

		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,163	2,228	2,230	2,163	65	3.01%	2,171.50	51	-36.75
Copper	8,057	8,200	8,262	8,045	143	1.77%	8,185.00	164	-12.00
Lead	2,020	2,108	2,110	2,020	88	4.36%	2,046.00	57	-27.75
Nickel	19,450	19,525	19,665	19,420	75	0.39%	19,480.00	210	-57.00
Tin	20,975	21,725	21,740	20,975	750	3.58%	21,600.00	700	-55.00
Zinc	1,955	2,001	2,016	1,951	46	2.35%	2,000.00	52	-9.25

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	111.46	112.02	112.13	111.46	0.49	0.44%
NYMEX WTI	100.91	101.35	101.43	100.90	0.64	0.63%
ICE Gasoil	952.75	954.50	955.50	952.25	1.75	0.18%
API2 Q1'12	103.50	103.75	-	-	0.25	0.24%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,662.00	1,656.00	1,667.00	1,642.50	1,655.20	14.20	0.0/0.4
Silver	-	30.20	30.57	29.85	30.15	0.25	-4.0/-2.0
Platinum	1,526.00	1,523.00	1,532.00	1,502.00	1,525.00	30.00	1.5/3.5
Palladium	653.00	656.00	657.00	644.00	651.00	11.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: We look to specs for silver support

Silver has been lagging behind the other precious metals and underperformed gold, platinum and palladium on a 1m, 3m and 6m horizon.

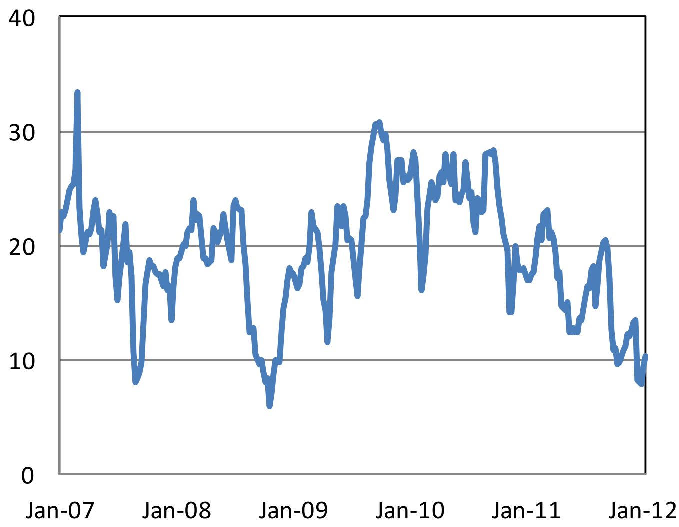
Silver has been suffering from massive liquidation of speculative length over the past few months. At the same time, industrial demand has slowed.

The slower industrial demand for silver is evident in the steady decline in China's net imports of the metal, which declined from 400 tonnes in July 2010, to 200 tonnes in July 2011, to only 61 tonnes in November 2011. In fact, we would not be surprised to see December figures for China indicate that the country imported even less silver than November. We don't expect silver imports into China to improve substantially over the course of Q1, but we do expect the slowdown in demand to stabilise. This in itself should lend some support to silver prices.

However, with silver speculative interest in silver at very low levels, we do expect good price support from this source of demand. Speculative length, as a percent of open interest (OI) currently stands at 10.4%, up from 8% in the last week in December. The current level of speculative length relative to OI compares well with levels seen in 2008 when it reached 6% of OI (in Oct'08). The average level of spec length relative to OI since 2007 is 19.4%.

Lack of liquidity may escalate. Therefore, we see room for some length to be added. We believe that this does provide upside potential for the metal. Resistance for the metal is around the $30.70 level. Should it break above this level, we believe that it may test $33/oz. We expect silver to average $34.50 in 2012, but silver should only trade above this level once industrial demand improves and provides real demand support to prices — speculative interest on its own is unlikely to see the metal moving above $34.50. After all, industrial demand constitutes 55% of total silver demand.

Silver speculative length as % of OI



Sources: Standard Bank; CFTC

By Walter de Wet

Base metals

With tomorrow the last working day for the Chinese before the New Year holidays, the chatter surrounding a possible cut in the Chinese bank RRR is increasing in volume. This morning however has seen the metals again look to Europe for direction. While markets continue to digest the recent S&P downgrades, fears over a potential Greek default and contagion risks for Portugal, and newswire headlines suggesting Fitch is looking at the option of a 2-notch downgrade for Italy, reports that the IMF is proposing a $1 trillion expansion of its lending facilities has given the markets a lift. It is not new news, but it has nevertheless helped boost sentiment.

According to reports, China's central bank will let the country's five biggest banks increase new loans in Q1-12 by 5% from the same period last year. While this sounds bullish initially, when taking into account Chinese inflation (CPI) of around 5.4% in 2011, lending is effectively unchanged.

Since January 9th, the copper market has seen both higher prices and higher open interest, suggesting that the addition of new long positions has been the main theme during this time. Interestingly, while prices have continued climb higher over the past few days, copper open interest has fallen, suggesting short covering has since taken over now that the commodity index reweighting period has finished. Turnover has remained fairly good so far, but is likely to tail off from tomorrow as Chinese participants step away. With the physical copper market still looking rather moribund, and with China effectively closed until the end of January, technical signals and macroeconomic factors will dictate price direction over the next couple of weeks.

Aluminium has traded sideways this morning, more or less around yesterday's closing levels with solid but unspectacular 2-way interest building up. The main driver for the other base metals in the complex has however been the Euro.

Looking ahead, reporting season continues this afternoon with Goldman Sachs and BNY Mellon announcing Q4 earnings, while on the economic front there is the announcement of US December PPI (expected at 5.1%) TIC data and Industrial Production (expected at 0.5%).

By Leon Westgate

Precious metals

Precious metals came under pressure yesterday as new highs prompted some profit-taking. The selling gained momentum as Asian participants questioned the sustainability of the recent renewal of confidence in financial markets. However, there was good support evident at the $1,645 level for gold, which limited the losses among the other precious metals. This support seemed to stem largely from Chinese buyers stocking up ahead of the New Year holidays (with tomorrow being the last day of work for many Chinese).

Sticking with China, many are anticipating the PBoC to lower reserve requirements by tomorrow. This is also adding to support for precious metals, and metals in general. However, as outlined yesterday, we find that historically, changes in the reserve requirement have little bearing on commodity prices over the long term. Therefore, any positive reaction to a lowering of reserve requirements we would deem as knee-jerk, with a downward correction following soon afterwards.

This morning we've seen gold see-saw, with upward momentum quickly stymied by profit-taking and physical interest preventing prices from falling too far. The rest of the precious metals complex continues to take gold's lead on the up, although PGM have come under more downward pressure. The weight on PGM is most likely due to markets finally moving on from the Eskom story in South Africa. Dollar movements, in particular against the euro, once again appear as a major driver of precious metal prices. To this end, the dollar's reaction to this afternoon's US industrial production data could have a significant bearing on precious metals.

Gold support is at $1,642 and $1,629. Resistance is $1,669 and $1,682. Silver support is at $29.85 and $29.46, resistance is at $30.63 and $30.99.

Platinum support is at $1,495 and $1,477, resistance is at $1,535 and $1,555. Palladium support is at $663 and resistance at $639.

By Marc Ground

Energy

The oil price strengthened further yesterday on a positive German ZEW survey and better-than-expected Chinese data. Brent rose slightly, by 33c/bbl, while WTI was up $2.01/bbl (the moves of the past two days included). We expect that WTI outperformed Brent after the annual rebalance of commodity indices. Product markets were also generally stronger, with gasoline making more gains than distillates. In contrast to moves in flat prices, term structures continue to weaken, warning of the strength of the physical market.

The IEA today published its first monthly oil report for this year. The agency believes that global oil demand actually fell 0.3 mb/d y/y in Q4:11. Consequently, it revised down its projection on global oil demand growth to 1.1 mb/d for 2012 (from 1.3 mb/d previously). Aligned with OPEC's own publication, the IEA estimated December OPEC crude output rose by 30.89 mb/d, the highest in more than three years. The increase in OPEC supply is likely to have contributed to the recent weakness in the physical oil market.

Meanwhile, implied oil demand from China hit a record at 9.6mb/d in December, which takes 2011 demand growth to 590kb/d y/y. Our estimate shows, however, up to 200kb/d of crude oil might have gone into strategic reserves. The rate of reserve building has been significantly slower than the previous two years due to high oil prices.

Since the downgrade of the nine Eurozone countries and EFSF by S&P, various Eurozone bond auctions have been going relatively smoothly, which has provided some support to the euro, equities and commodities in general. That said, the euro has been firmly stuck in a downward trend since November. The trend is set to continue to run, which in turn will put pressure on the oil market. Furthermore, a softening term structure in oil is also a sign of weakness, which is likely to point to some short-term correction in oil prices.

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	5,006,525	4,967,450	42,250	3,175	39,075	36,125	764,450	15.27	334,333
Copper	353,425	354,575	750	1,900	-1,150	-17,475	66,075	18.70	127,502
Lead	351,075	352,200	0	1,125	-1,125	-2,000	30,075	8.57	33,334
Nickel	92,034	92,232	180	378	-198	1,986	1,806	1.96	56,750
Tin	10,935	11,160	0	225	-225	-1,255	2,100	19.20	5,202
Zinc	834,700	816,725	18,700	725	17,975	13,000	7,275	0.87	95,448

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,420	16,325	10
Copper	59,800	59,710	320
Zinc	15,530	15,505	35

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Mar'12	-	-	-	-
Cu Mar'12	373	374.65	1.70	0.46%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,448	65,766	16,440	156,522	173,556	16,070	8.0350
3-month	18,154	66,814	17,176	159,090	177,015	16,304	8.1480

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 ($/bbbl)	128.33	0.18	127.76	0.68	127.24	0.67	126.31	0.74	-	-
Gasoil 0.1% Rdam ($/mt)	954.50	1.75	955.25	2.00	953.00	1.75	950.50	3.25	942.75	-1.25
NWE CIF jet ($/mt)	1,022.68	1.02	1,022.91	0.91	1,026.31	0.55	1,028.17	2.08	1,028.10	6.55
Singapore Kero ($/bbl)	127.28	0.18	127.03	0.10	127.39	0.29	126.76	0.59	126.19	0.98
3.5% Rdam barges ($/mt)	670.36	7.61	654.25	12.50	644.25	11.25	626.50	9.00	603.50	10.25
1% Fuel Oil FOB ($/mt)	681.55	1.74	673.25	1.25	668.00	2.75	657.00	4.50		
Sing FO180 Cargo ($/mt)	722.31	8.93	705.25	15.25	690.25	14.00	663.25	11.50		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	103.75	0.25	103.90	0.60	105.95	0.55	105.60	0.50	111.80	0.60
API4 (FOB RBCT)	103.55	0.80	103.20	0.75	104.15	0.75	104.20	0.75	108.05	0.60

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.49133	0.50833	0.54083	0.59783	0.62167		
Silver	0.29500	0.29000	0.29000	0.27333	0.26333		
USD Libor	0.28100	0.40990	0.56230	0.79275	1.11015		
Technical Indicators	**30-day RSI**	**10-day MA**	**20-day MA**	**100-day MA**	**200-day MA**	**Support**	**Resistance**
Gold	50.12	1,636.75	1,611.30	1,695.44	1,640.99	1,642.00	1,669.00
Silver	47.47	29.73	29.14	32.91	35.83	29.85	30.63
Platinum	50.75	1,472.83	1,443.46	1,577.24	1,680.48	1,495.00	1,535.00
Palladium	51.56	636.49	641.72	649.77	707.27	639.0	663.00
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	1,656.00	30.1700	654.10	1,528.70	1,655.80	4,090.00	1,656.20
Open Interest	425,244	102,825	17,776	43,572	5,588	123,444	1,738
Change in Open Interest	-1,884	-44	-6	-69	-237	0	0

Sources: Standard Bank; LME; Bloomberg

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