Commodities

Commodities: Daily

Standard Bank

Focus: What to expect from the Chinese copper market?

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Focus: With China embarking on their New Year holiday, the question becomes one of what to expect from the Chinese copper market when they return? The short answer is not a lot, in our opinion.

- The base metals rallied strongly overnight, perhaps in hope of a pre-holiday Chinese RRR cut, which has so far yet to materialise. Better than expected European bond auctions have also helped sentiment generally, with a stronger Euro also giving the metals a boost.
- Precious metals enjoyed a relatively good US session, although momentum did slow in overnight Asia trade. For the most part, the upside was attributable to bolstered investor confidence, owing in part to the IMF announcement that it is planning to extend its lending capacity by $500bn. This renewed confidence has seen markets adopt a cautious risk-on stance, pulling the dollar down and consequently easing downward pressure on precious metals and commodities in general.
- The oil market suffered some selling pressure yesterday, in particular the Brent market. WTI and Brent fell 12c/bbl and 87c/bbl respectively. The gasoline market was supported by the news that Hess Energy was to shut its St Croix Refinery on the US Virgin Islands and turn it into an oil terminal. However, the gasoline market was weighed down by a large inventory build reported by the API late yesterday. Term structures were also softer yesterday due to lacklustre demand.

Commodity price data (18 January 2012)

Base metals LME 3-month

		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,217	2,205	2,226	2,190	-12	-0.54%	2,175.00	4	-37.00
Copper	8,200	8,239	8,263	8,121	39	0.48%	8,156.00	-29	-12.25
Lead	2,092	2,139	2,144	2,088	47	2.25%	2,092.00	46	-27.75
Nickel	19,475	19,495	19,630	19,255	20	0.10%	19,460.00	-20	-55.00
Tin	21,600	21,780	21,900	21,401	180	0.83%	21,600.00	0	-54.00
Zinc	1,992	2,002	2,025	1,982	10	0.50%	1,997.50	-3	-12.75

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	111.10	111.39	111.51	111.08	0.73	0.66%
NYMEX WTI	101.14	101.38	101.62	101.10	0.79	0.78%
ICE Gasoil	942.00	947.25	948.25	942.00	4.00	0.42%
API2 Q1'12	103.75	104.40	-	-	0.65	0.62%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,657.00	1,647.00	1,662.30	1,643.00	1,659.50	4.30	0.0/0.4
Silver	-	30.58	30.61	29.88	30.56	0.41	-4.0/-2.0
Platinum	1,512.00	1,507.00	1,525.00	1,505.00	1,520.00	-5.00	1.5/3.5
Palladium	649.00	646.00	668.00	648.00	665.00	14.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: What to expect from the Chinese copper market after the New Year?

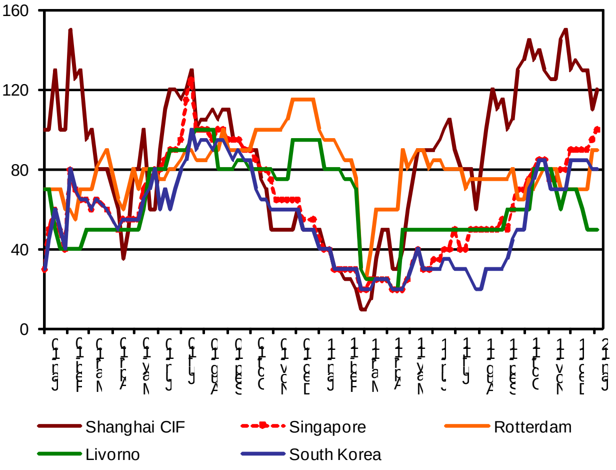
With China embarking on their New Year holiday, the question becomes one of what to expect from the Chinese copper market when they return? The short answer is not a lot, in our opinion. Prices for both the LME and SHFE have rallied over the past week, driven on the LME side at least by short covering and the addition of fresh long positions. The underlying physical market has however been left far behind, with the chasm between futures prices and physical activity growing ever wider.

Looking at the Chinese copper market, and the Asian region in general, the more bullish elements of the market have cited falling LME inventory in the region, as supportive signs for copper. If you only look at the visible inventory data - LME Asian stocks down 132.4kt since October 1st, SHFE inventory up 22.5kt - the picture does indeed look bullish, something reinforced by firmer premiums in places like Singapore (though higher premiums for those LME locations that have been destocked is a normal occurrence).

Looking a bit deeper, stocks of copper in bonded warehouses in Shanghai are reportedly around 300kt, up from sub-200kt earlier in Q4-11. The increase in bonded inventory more than swallows up the net change in LME and SHFE warehouse inventories, suggesting that rather than being consumed, there has essentially just been a stock transfer taking place.

The key change appears to have been a recovery in Chinese smelter production in December, taking the pressure off refined stockpiles and allowing them to rebuild. This is best highlighted by the fall in CIF Shanghai premiums over the November-December period. Shanghai bonded premiums have meanwhile been heard at sub-$100, compared to $150/mt or so at the beginning of Q4-11.

Copper Physical Premiums ($/mt)



Source: Standard Bank; Fast Markets

The SHFE-LME arbitrage remains well and truly shut, while the SHFE market has flipped back into contango, further highlighting the well-stocked nature of the market at the moment. With Chinese smelter production seemingly recovering, and assuming the arbitrage window remains closed, those stockpiles may well increase further.

Consequently, the year of the Dragon will start with over 420 kt of refined copper in Shanghai (bonded and exchange), in addition to any other privately owned stockpiles of the metal. With a weaker construction sector, a build up in unsold property, an uncertain outlook in Europe and so far only limited moves by the government to ease liquidity, it seems unlikely that China will come back all guns blazing.

Copper instead seems supported by investor hopes for the moment, with H1-2012 looking like an interesting tussle between the physical and futures markets.

By Leon Westgate

Base Metals

The base metals rallied strongly overnight, perhaps in hope of a pre-holiday Chinese RRR cut, which has so far yet to materialise. Better than expected European bond auctions have also helped sentiment generally, with a stronger Euro also giving the metals a boost.

Copper has rallied all the way up to $8,400 this morning, most of the action occurring during the first 30 minutes of trading. Prices have since drifted sideways ahead of US trade however with the market now waiting for the US markets to open up. There has been further warrant cancellations, though the activity has again been focused in the US (New Orleans cancelled warrants +3250 mt) and Livorno in Italy (cancelled warrants +1,225 mt).

The other base metals made a more subdued start to the day, with a stronger Euro and firmer European equity markets instead proving to be the main driver this morning. Lead and zinc both saw large jumps in cancelled warrants in Malaysia, up 16,375 mt and 15,725 mt respectively, which did provide an additional boost to prices. The figures do however look more like financing/stock movement activity rather than a sudden pick up in demand.

On the macro data front, US housing starts and US CPI should be the key data prints today. Over the past few weeks the housing data suggested that the US housing sector may stage a marginal recovery. A good data print this afternoon may well reinforce this view. Tomorrow we look at the flash China PMI number. We expect the data to suggest manufacturing growth is still struggling.

By Leon Westgate

Precious metals

Precious metals enjoyed a relatively good US session, although momentum did slow in overnight Asia trade. For the most part, the upside was attributable to bolstered investor confidence, owing in part to the IMF announcement that it is planning to extend its lending capacity by $500bn. Despite the US and UK saying that they would not commit to such a move, the market took heart that this would help ease the fiscal problems facing the Eurozone. This renewed confidence has seen markets adopt a cautious risk-on stance, pulling the dollar down and consequently easing downward pressure on precious metals and commodities in general.

Another leg of support for gold (and for the other precious metals as they follow) has been the consistently strong physical demand out of China as buyers gear up before the New Year holidays. However, with today the last day of work for many Chinese, this support cannot be relied on over the coming weeks. Unless Indian buying fills the gap, which is unlikely given the relatively lacklustre activity we've seen over the past few days, we could see gold tracking the dollar even more closely as we move into next week.

Once again the effect of US data flow (housing, jobless claims, inflation, Philadelphia Fed survey) on market confidence and consequently the dollar, will dictate most movements in precious metal prices this afternoon. It will be interesting to see how the complex holds up in Asia in the absence of Chinese participants.

Gold support is at $1,651 and $1,637. Resistance is $1,671 and $1,677. Silver support is at $30.20 and $29.57, resistance is at $31.04 and $31.24.

Platinum support is at $1,516 and $1,496, resistance is at $1,543and $1,549. Palladium support is at $658 and resistance at $684.

By Marc Ground

Energy

The oil market suffered some selling pressure yesterday, in particular the Brent market. WTI and Brent fell 12c/bbl and 87c/bbl respectively. The gasoline market was supported by the news that Hess Energy was to shut its St Croix Refinery on the US Virgin Islands and turn it into an oil terminal. However, the gasoline market was weighed down by a large inventory build reported by the API late yesterday. Distillates continue to weaken as the warm weather across the northern hemisphere so far this winter has substantially reduced demand for heating oil. Term structures were also softer yesterday due to lacklustre demand.

The API reported US weekly oil inventory changes for crude/gasoline/distillates at -4.8/+4.3/-0.9mb w/w. Crude inventories at Cushing fell sharply, by 0.8mbbl, which has pushed the WTI structure much firmer. The fall in crude inventories appeared to be driven by a sharp fall in imports, which again is most likely to be part of year-end fluctuation caused by accounting issues. The total US refinery utilisation rate fell by 1.7%, while demand for gasoline was largely flat w/w and distillate demand rose slightly.

On the geopolitical front, it appears that the Iranian situation continues to ease as Iran and the US seem to prepare themselves to re-open talks. The market has already discounted any risk of an imminent embargo over Iran's oil by the EU. The news so far indicates that an EU embargo will be lack of bit as existing import countries are pushing for waivers. We believe that there is a good chance that a risk premium of around $5/bbl over the Iran sanction could be wiped off over the coming days.

After much political bickering, the US government rejected the proposal for Transcanada's Keystone XL pipeline. However, this should have little impact on the market. Cushing crude oil stocks have been declining since Q3 last year and are now below their 5-year seasonal level. Clearly, the current level of spread between WTI and Brent is more than enough incentive for market participants to find the means to move oil away from Cushing. In fact, we expect the spread to narrow despite the Keystone pipeline news.

More Eurozone bond auctions went through smoothly today, exceeding the targeted amount at a lower yield than weeks ago, which has given some boost to the single currency. Technically, the euro is testing the upper bound resistance of the downward channel established since November. Albeit unlikely for now, a breakout on the upside of the channel for the euro would inevitably cause some price rally on short-covering. Otherwise, the oil market appears to be soft in the short term for Brent, while WTI is slightly better supported by a reversal of money flow after the annual index rebalance.

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	5,005,150	5,006,525	500	1,875	-1,375	34,750	763,300	15.25	382,041
Copper	352,500	353,425	200	1,125	-925	-18,400	65,650	18.62	141,754
Lead	349,300	351,075	0	1,775	-1,775	-3,775	28,300	8.10	55,289
Nickel	91,908	92,034	0	126	-126	1,860	1,902	2.07	42,570
Tin	10,885	10,935	70	120	-50	-1,305	2,005	18.42	6,214
Zinc	839,450	834,700	4,750	0	4,750	17,750	7,775	0.93	136,310

Shanghai 3-month forward prices			
Metal	Open	Last	1d Change
Aluminium	16,360	16,335	-40
Copper	59,970	60,170	480
Zinc	15,570	15,585	65

COMEX active month future prices	Open	Close	Change	Change (%)
Ali Mar'12	-	-	-	-
Cu Mar'12	375	378.45	3.20	0.85%

ZAR metal prices	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,470	65,509	16,803	156,303	173,491	16,044	8.0320
3-month	17,958	67,098	17,420	158,767	177,376	16,304	8.1440

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 ($/bbbl)	127.82	-0.51	126.85	-0.91	126.33	-0.91	125.28	-1.03	-	-
Gasoil 0.1% Rdam ($/mt)	947.25	4.00	948.25	3.50	947.75	4.00	940.00	-7.25	935.50	-7.25
NWE CIF jet ($/mt)	1,019.34	-3.34	1,016.00	-6.91	1,019.57	-6.74	1,021.34	-6.83	1,021.18	-6.92
Singapore Kero ($/bbl)	126.77	-0.51	126.30	-0.73	126.63	-0.76	126.08	-0.68	125.51	-0.68
3.5% Rdam barges ($/mt)	670.01	-0.35	651.50	-2.75	642.25	-2.00	625.50	-1.00	603.25	-0.25
1% Fuel Oil FOB ($/mt)	681.33	-0.22	674.75	1.50	670.00	2.00	659.25	2.25		
Sing FO180 Cargo ($/mt)	722.65	0.34	703.75	-1.50	688.25	-2.00	661.50	-1.75		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	104.40	0.65	104.80	0.90	106.70	0.75	106.40	0.80	112.50	0.70
API4 (FOB RBCT)	104.20	0.65	104.00	0.80	104.70	0.55	104.90	0.70	108.50	0.45

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.48560	0.50800	0.53900	0.59140	0.61600		
Silver	0.27600	0.27200	0.27200	0.26800	0.25600		
USD Libor	0.28090	0.40930	0.56120	0.79175	1.11005		
Technical Indicators	**30-day RSI**	**10-day MA**	**20-day MA**	**100-day MA**	**200-day MA**	**Support**	**Resistance**
Gold	50.97	1,641.25	1,614.41	1,693.85	1,641.95	1,651.00	1,671.00
Silver	48.62	29.89	29.23	32.80	35.77	30.20	31.04
Platinum	52.18	1,485.20	1,448.75	1,574.09	1,679.31	1,516.00	1,543.00
Palladium	53.81	641.16	644.56	648.88	706.87	658.0	684..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	1,664.50	30.5600	671.70	1,525.30	1,663.00	4,113.00	1,658.60
Open Interest	432,838	103,668	17,518	43,849	5,514	124,768	1,714
Change in Open Interest	7,594	843	-258	277	-74	1,324	-24

Sources: Standard Bank; LME; Bloomberg

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