Commodities

Commodities: Daily

Focus: This time it is different for the oil market

20 January 2011

Focus: The recent oil price rally to \$100/bbl presents a strong sense of *déjà vu*. However, we believe that today is a very different situation to that at the beginning of 2008. Today we have high OPEC spare capacity, an absence of refining bottlenecks and high inventories.

- The base metals came under heavy pressure during Wednesday afternoon, with a weaker S&P500 appearing to be the trigger for the sell-off. The weakness has spilled over into Thursday morning, with the metals continuing to come under pressure, in spite of a weaker dollar.

- Oil is still trading sideways. Front-month WTI ended the day 52c/bbl lower, to close at \$90.86/bbl, while front-month Brent was 36c/bbl higher, to settle at \$98.16/bbl. As a result, WTI/Brent spread widened by 62c/bbl, to -\$7.04/bbl. Cracks for Nymex RBOB, Heating Oil and ICE GO all gained yesterday. The term structure for WTI weakened with M1/M6 spread off by 32c/bbl.

- As anticipated US housing data had a significant effect on precious metals. Housing starts during December fell by 4.3% m/m, to 529k, marking a one-year low. This has reignited fears over the strength of the US recovery prompting increased safe-haven buying as investors fled from risky assets. The attendant dollar weakness further enhanced the attractiveness of group.

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Commodity price data (19 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	2,431	2,440	2,428	-13	-1.46%	2,445.00	1	-24.00
Copper	9,756	9,575	9,628	9,550	-120	-1.85%	9,788.00	48	17.00
Lead	2,616	2,532	2,550	2,513	-93	-3.21%	2,650.00	-43	31.00
Nickel	26,175	25,675	25,950	25,610	-445	-1.91%	26,200.00	-160	-27.00
Tin	27,055	26,875	26,900	26,830	-25	-0.67%	27,225.00	205	30.00
Zinc	2,443	2,390	2,406	2,375	-46	-2.15%	2,427.00	-17	-16.00

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	97.88	97.95	98.14	97.79	-0.21	-0.21%
NYMEX WTI	90.70	90.76	90.86	90.40	-0.10	-0.11%
ICE Gasoil	819.00	816.75	819.25	816.75	-4.50	-0.55%
API2 Q1'11	121.70	121.45	-	-	-0.25	-0.21%
ICE EUA Spot	14.23	14.14	-	-	-0.09	-0.63%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,373.75	1,372.00	1,379.20	1,366.50	1,370.70	2.50	-0.6/-0.2
Silver	-	28.74	29.47	28.76	28.80	-0.12	-0.3/-1.0
Platinum	1,846.00	1,845.00	1,845.00	1,825.00	1,835.00	13.00	0.0/2.0
Palladium	823.00	824.00	827.00	814.00	821.00	13.00	-1.0/1.0

Sources: Standard Bank; LME; BBG

Focus: This time it is different for the oil market

The recent oil price rally to $100/bbl presents a strong sense of *déjà vu*. However, we believe that today is a very different situation to that at the beginning of 2008. Today we have high OPEC spare capacity, an absence of refining bottlenecks and high inventories.

Firstly, on OPEC's spare capacity, the IEA estimates that it was running just below 5mbd on average during December 2010, as published in its latest January 2011 monthly oil market reports. In comparison, OPEC's own estimate was around 6mbd according to its January 2011 monthly oil market report. Both numbers look comfortable, especially compared to a 0.4mbd OPEC production increase, called for by both the IEA and OPEC itself. Our less optimistic forecast for OPEC spare capacity in 2011 is around 4.8mbd, significantly higher than that in 2008 at just below 1.5mbd (refer to Fig 1).

Secondly, another reason behind the spike in the oil price during 2008 was the bottleneck in global refining capacity, which has since disappeared with the addition of significant new capacity in the Asia-Pacific region.

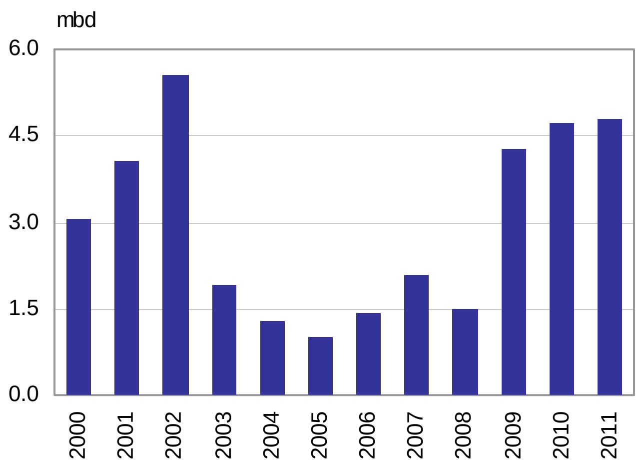
Thirdly, we have much higher inventories today. The US total commercial oil inventories started 2011 at a historically high level; while the inventory level at the beginning of 2008 was at the lowest level for the past 5 years (refer to Fig 2).

However, there are also two key similarities: Firstly, many parts of the world are facing the challenge of inflation, driven by high commodity prices. Secondly, the share of the global economy spent on oil, at current price levels, is approaching that in 2008.

On balance, given the slack in the system, we are unlikely to see the extreme level of volatility experienced in 2008. Nevertheless, significant upside and downside risks remain,

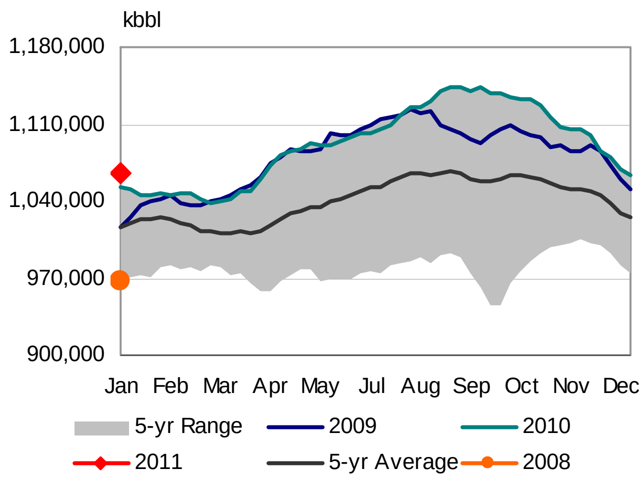
By James Zhang

Figure 1: OPEC spare capacity



Sources: OPEC, DOE, IEA, Standard Bank

Figure 2: US total commercial inventories



Sources: DOE, Standard Bank

Base metals

The base metals came under heavy pressure during Wednesday afternoon, with a weaker S&P500 appearing to be the trigger for the sell-off. The weakness has spilled over into Thursday morning, with the metals continuing to come under pressure, in spite of a weaker dollar. The Chinese economic data released overnight was generally solid, and also in line with the leaked reports yesterday. The figures have however reinvigorated fears of a rate hike, with a sharp fall in the Shanghai composite index again impacting on the metals during overnight trade.

More importantly in our view are new measures from the Chinese banking regulator asking for banks to bring off-balance sheet loans onto their balance sheets. The regulator first stated its intention to recognize off balance sheet loans, within 2 years, back in August 2010. This process has been accelerated however, with the directive pushing for this to be done by year-end. Plans for how the banks are going to comply with the rules also have to be submitted by the end of January. In addition, JV's that the banks have with partners, will be forced to maintain a reserve of 2.5%. This is admittedly a small figure, however it may also represent the thin end of the wedge.

Copper fell heavily on Wednesday afternoon, as a equity-related sell off snowballed. Copper has continued to fall during Thursday morning, trading below $9,500. Good turnover has built up, with the weakness attracting dip-buying, however the metal has continued to decline heading into the afternoon. Elsewhere, the pace of lead inflows into LME warehouses has dropped off, with on-warrant stocks climbing 2,925 mt on Thursday. Prices have nevertheless continued to fall, with the metal tracking the declines in copper. The other metals also remain under pressure, though nickel and tin have both found their feet and are holding up pretty well.

By Leon Westgate

Energy

Oil is still trading sideways. Front-month WTI ended the day 52c/bbl lower, to close at $90.86/bbl, while front-month Brent was 36c/bbl higher, to settle at $98.16/bbl. As a result, WTI/Brent spread widened by 62c/bbl, to -$7.04/bbl. Cracks for Nymex RBOB, Heating Oil and ICE GO all gained yesterday. The term structure for WTI weakened with M1/M6 spread off by 32c/bbl.

The latest API report shows that inventory built across the barrel in the US during the last week, with inventory increases for crude/gasoline/distillate of 3.5/1.9/0.9 mbbls. It is also reported that Cushing crude stock decreased by 0.6mb. API sees no changes in US domestic crude output, despite Alaska product shut-in as a knock-on impact from the Trans-Alaska Pipeline outage. The market will be looking for confirmation from the DOE inventory reports due for release later today.

The weekly Singapore oil inventory report shows that inventory changes for light distillates/middle distillate/residues of -0.1/+1.2/+0.1mbbls.

China released its December GDP, industrial production and retail sales numbers this morning. All of them come ahead of expectations, showing continuous strong growth. China's December CPI eased back to 4.6% y/y from 5.1% in November. The strong growth numbers increase pressure for further tightening measures from the government, with those concerns seeing the Shanghai Composite Index drop more than 2.9% overnight.

The US housing start number yesterday came in worse than expected, which the oil market largely brushed aside. However, the US weekly jobless claims number will be closely watched today after a sharp increase in number of claimants last week. The market has been trading sideways for over a week, and in a very narrow range following the jump on the back of Alaska pipeline outage. The market is looking heavy and may be due for a correction. As such, today's US job numbers and DOE inventory report should be watched carefully.

By James Zhang

Precious metals

As anticipated US housing data had a significant effect on precious metals. Housing starts during December fell by 4.3% m/m, to 529k, marking a one-year low. This has reignited fears over the strength of the US recovery prompting increased safe-haven buying as investors fled from risky assets. The attendant dollar weakness further enhanced the attractiveness of group.

However, this boost proved to be short-lived as precious metals came off overnight on speculation that Chinese growth results would presage further tightening of monetary policy. These concerns were confirmed by the subsequent release of surprisingly good growth figures for China. Real GDP growth for Q4:10 came in at 9.8% y/y (consensus: 9.4% y/y), higher than Q3:10 growth of 9.6% y/y. While consumer inflation looked to be moderating (4.6% y/y in December) an acceleration in Chinese economic expansion might signal a strengthening of inflationary pressures raising the likelihood that authorities will have to respond. This threat of Chinese monetary tightening is weighing heavily on all commodities.

Should US data flow out the afternoon disappoint this could provide the impetus to turn around this downward. Jobless claims, home sales and leading indicators data, are due for release today and will be closely watched for any signs of further weakness in the US economy.

Gold support is at $1,367 and $1,365. Resistance is at $1,371 and $1,374. Silver support is at $28.60 and $28.46, resistance is at $28.85 and $28.96.

Platinum support is at $1,824 and $1,820, resistance is at $1,838 and $1,847. Palladium support is at $808 and resistance at $815.

By Marc Ground

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	4,485,675	4,461,975	24,875	1,175	23,700	208,625	157,200	3.50	176,312
Copper	381,750	377,925	4,150	325	3,825	4,200	31,675	8.30	121,117
Lead	261,925	243,950	18,100	125	17,975	53,650	5,675	2.17	53,142
Nickel	137,238	137,352	0	114	-114	1,566	7,764	5.66	31,550
Tin	17,290	17,355	40	105	-65	1,015	300	1.74	10,386
Zinc	711,125	711,125	0	0	0	9,700	2,175	0.31	88,648

Shanghai 3-month forward prices			
Metal	Open	Last	1d Chnge
Aluminium	16,800	16,890	10
Copper	71,690	71,760	-610
Zinc	19,070	19,120	-185

COMEX active month future prices	Open	Close	Change	Change (%)
Ali Mar'11	-	-	-	-
Cu Mar'11	437	435.40	-1.60	-0.37%

ZAR metal prices	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,044	68,232	18,473	182,640	189,785	16,919	6.9710
3-month	17,165	67,609	17,878	181,291	189,764	16,876	7.0610

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 ($/bbbl)	108.69	0.17	110.74	0.34	110.92	0.33	111.80	0.44	112.67	0.29
Gasoil 0.1% Rdam ($/mt)	816.75	-4.50	821.75	-3.75	824.00	-3.50	832.00	-2.00	845.50	2.00
NWE CIF jet ($/mt)	886.91	1.48	905.51	4.75	907.89	4.75	914.63	4.75	926.13	3.43
Singapore Kero ($/bbl)	110.08	0.12	112.19	0.29	112.27	0.28	113.25	0.44	114.67	0.29
3.5% Rdam barges ($/mt)	508.32	2.07	512.56	2.90	512.72	2.49	511.21	1.13	515.77	0.49
1% Fuel Oil FOB ($/mt)	517.16	1.93	522.56	0.65	524.47	-0.26	529.21	-0.87		
Sing FO180 Cargo ($/mt)	536.63	2.94	541.31	3.65	540.72	2.99	537.96	1.13		

Thermal coal	Q1-11		Q2-11		Q3-11		Cal 11		Cal 12	
API2 (CIF ARA)	121.45	-0.25	117.65	0.15	117.45	0.15	118.80	0.20	118.85	0.35
API4 (FOB RBCT)	122.80	0.35	119.75	0.65	117.45	0.40	119.30	0.55	115.35	0.35

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.32667	0.34667	0.36833	0.46667	0.61167
Silver	-0.03333	-0.03333	-0.03333	0.03000	0.03000
USD Libor	0.26000	0.28313	0.30313	0.45469	0.78031

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	49.79	1,371.97	1,383.68	1,352.10	1,279.62	1,367.00	1,371.00
Silver	54.00	28.88	29.41	25.76	22.04	28.59	28.85
Platinum	64.12	1,795.70	1,772.33	1,692.60	1,635.61	1,824.00	1,838.00
Palladium	62.80	793.79	787.66	668.38	576.09	808.00	815.00

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	1,368.20	28.6700	812.75	1,838.10	1,368.00	3,626.00	1,368.10
Open Interest	587,832	135,675	22,597	41,604	2,668	130,449	2,575
Change in Open Interest	5,024	1,254	-58	-701	97	-2,856	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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