Commodities

Commodities: Daily

Focus: Copper Open Interest - selling the rallies

26 January 2011

Focus: Copper prices have stalled on the upside, failing to break above $9,800 and, more significantly, failing to close above $9,700. Over the past week or so, each successive recovery in prices has stalled at lower and lower levels. At the same time, open interest has been in a sharp decline since January 14th, suggesting the overwhelming theme in the market over the past couple of weeks has been to sell into rallies.

- With the exception of tin and nickel, the base metals came under heavy selling pressure on Tuesday, with lead and zinc being particularly hard-hit. The metals have bounced back heading into Wednesday afternoon, however the recovery has come on the back of relatively thin volumes.

- Oil drifted down further yesterday, in line with our expectations. Front-month WTI lost $1.68/bbl, to close at $86.19/bbl, while front-month Brent lost 1.36c/bbl, to close at $95.25/bbl. The front-month WTI/Brent spread weakened further, to -$9.12/bbl. Product cracks continued to trade lower; and the term structures for WTI, Brent and ICE GO also weakened further.

- Despite a report that gold holdings of exchange-traded products had fallen precipitously, the gold price has have managed to gain some ground. Gold holdings fell by 31mt, the largest fall in two years, to a level last seen in August. More confidence in the global economic recovery is being cited as a factor in this sell-off. Nevertheless, over the long term, we maintain that accommodative monetary conditions will continue to favour gold.

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Commodity price data (25 January 2011)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,380	2,361	2,389	2,375	-52	-0.80%	2,360.00	-35	-25.00
Copper	9,300	9,250	9,350	9,263	-279	-0.54%	9,330.00	-179	11.00
Lead	2,455	2,337	2,365	2,335	50	-4.81%	2,535.00	45	24.00
Nickel	25,650	25,950	26,000	25,750	-250	1.17%	25,755.00	-515	-28.00
Tin	27,900	28,195	28,100	28,000	100	1.06%	28,200.00	495	80.00
Zinc	2,245	2,222	2,260	2,225	-81	-1.02%	2,228.00	-52	-17.25
Energy	**Open**	**Close**	**High**	**Low**	**day/day**	**Change (%)**			
ICE Brent	95.39	95.67	95.82	95.29	0.42	0.44%			
NYMEX WTI	86.23	86.45	86.60	86.19	0.26	0.30%			
ICE Gasoil	801.50	803.25	804.50	800.75	4.25	0.53%			
API2 Q1'11	116.75	115.25	-	-	-1.50	-1.30%			
ICE EUA Dec'11	14.58	14.86	-	-	0.28	1.92%			
Precious metals	**AM Fix**	**PM Fix**	**High bid**	**Low offer**	**Closing bid**	**Change (d/d)**	**EFP's**		
Gold	1,326.00	1,324.00	1,338.25	1,324.30	1,332.50	1,332.50	-0.7/-0.4		
Silver	-	26.99	27.03	26.65	26.82	26.82	-0.4/-0.2		
Platinum	1,787.00	1,787.00	1,814.00	1,785.00	1,782.00	1,782.00	0.0/2.0		
Palladium	786.00	786.00	808.00	780.00	783.00	783.00	-1.0/1.0		

Sources: Standard Bank; LME; BBG

Focus: Copper Open Interest - selling the rallies

Copper prices have stalled on the upside, failing to break above $9,800 and, more significantly, failing to close above $9,700. Over the past week or so, each successive recovery in prices has stalled at lower and lower levels.

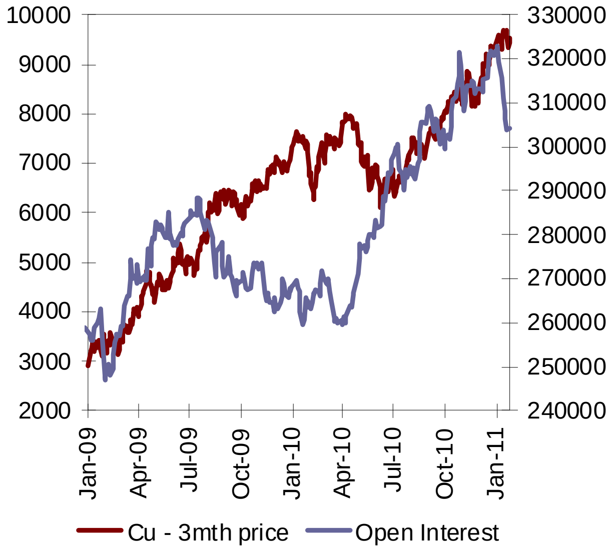
At the same time, open interest has been in a sharp decline since January 14th. Copper's open interest levels are now back to pre-December levels. While this leaves room for prices to stage a significant recovery, when looked at in conjunction with recent price movements, it also suggests the overwhelming theme in the market over the past couple of weeks has actually been to sell into rallies.

With the Chinese market largely dormant ahead of the Chinese New Year Holidays early next month, the market is short of direction. With Chinese physical demand the main fundamental driver in the copper market at the moment, the next few weeks will likely see copper continue to look to exogenous factors and technical signals for direction.

Looking further ahead, the key to firmer prices will be the timing of the Chinese return to the market. Given the very poor physical picture in Asia at the moment, as evidenced by low physical premiums and rising inventories in the region, that return may take longer than is widely anticipated.

The key will likely be the SHFE-LME arbitrage. Rather than fall back on the arbitrage ratio, which has shifted in line with a stronger Yuan, it is the absolute levels that matter. For example, the current loss on importing copper into China, basis March 2011, is $269/mt. This has fallen significantly from the $400+/mt losses seen a few week's ago, however it is still deep in negative territory.

LME 3m Copper (LH axis) vs Open Interest (RH axis)



Sources: LME; Bloomberg; Standard Bank

Further forward, importing copper to China, basis Dec-11, actually yields a $136 gain, though SHFE liquidity that far forward is incredibly poor. Consequently, until domestic Chinese prices rise to a point where the arbitrage re-opens in the more liquid nearby months, copper remains at the mercy of the wider global markets, with buying on dips and selling into rallies likely to remain the order of the day for some time yet.

By Leon Westgate

Base metals

With the exception of tin and nickel, the base metals came under heavy selling pressure on Tuesday, with lead and zinc being particularly hard-hit. The metals have bounced back heading into Wednesday afternoon, however the recovery has come on the back of relatively thin volumes.

The base metals ignored yesterday's better than expected US consumer confidence figures, however, the reaction to President Obama's State of the Union address last night was fairly positive. As such it will likely give the US equity markets a boost this afternoon ahead of the FOMC rate decision this evening, with any strength in equities likely supporting the metals too.

While the 3-month zinc price took an absolute battering during Tuesday afternoon, what was more interesting is that the backwardation in place between Dec-11 and July-13 tightened up dramatically, with the farther-forward contracts coming under even heavier pressure than the nearby contracts. Quite why this occurred is a little uncertain, however, perhaps fearing they had missed the boat given the recent down-trend in prices, it is maybe indicative of some flustered producer selling activity.

Copper was similarly hard hit on Tuesday, with the breathing space, facilitated the temporary shutdown of LME Select, providing only a brief respite. Prices have recovered back above $9,300 heading into Wednesday afternoon, though the recovery has come on the back of relatively thin volumes and looks rather half-hearted so far.

In other news, Konkola Copper Mines has reported that output from its Nchanga facility has been temporarily suspended, following an issue with the smelter. The incident involved "foaming" in the flash furnace, with the occurrence leading to a shutdown and investigation.

Inventory-wise, on-warrant copper stocks climbed 6,525mt this morning, with Busan accounting for most of the inflow with on-warrant stocks at that location gaining 5,900 mt. As mentioned in previous reports, the increase in copper stocks in the Asian region tends to be indicative of poor demand in China, with the metal reflecting either the re-direction of metal bound for China, or even metal being re-exported due to poor domestic physical demand.

By Leon Westgate

Energy

Oil drifted down further yesterday, in line with our expectations. Front-month WTI lost $1.68/bbl, to close at $86.19/bbl, while front-month Brent lost 1.36c/bbl, to close at $95.25/bbl. The front-month WTI/Brent spread weakened further, to -$9.12/bbl. Product cracks continued to trade lower; and the term structures for WTI, Brent and ICE GO also weakened further.

The latest API report shows inventory changes in crude/gasoline/distillates of +2.1/+1.7/-5.0 mbbls respectively, with the seasonal trend of rising US crude inventory starting to form. However, we are cautious about API's report on crude. As in the previous week, the API sees no changes in US domestic crude output, despite the material reduction in Alaskan production as a knock-on effect of the Trans-Alaska Pipeline outage. This production decrease has been well documented by the Alaska Department of Revenue, and was reported by DOE last week. The API also reports the utilisation rate of US refineries dropped below 80% last week, the lowest level since February 2010, and that crude imports increased by 1.4mbd w/w.

Most surprisingly, the API reports a massive 5mbbl draw in distillate inventories. The draw is mainly attributed to a sharp increase in the implied demand for distillates at 855kbd w/w. This spike in implied demand is, to some extent, due to customer re-stocking after the cold spell at end December / beginning January. The market was boosted by this large draw this morning.

Cushing crude stocks meanwhile increased by 0.9mb, which will put continuous pressure the WTI/Brent spread.

In the financial markets, the UK has revealed a shocking half a percent drop in GDP for Q4:10. The pound took a hit but the equity market held up well. Although global markets took little notice, the GDP figure did highlight the fragile state of the economic recovery in developed countries. Per our most recent *Energy Weekly,* over the long term, jumps in the oil price could jeopardise the global economic recovery.

The oil price has responded positively to the API numbers so far. However, the market will probably wait for the DOE report later today for further direction. We will also have the Fed's policy statement tonight but we expect a flat policy stance. As this stage, we do not expect an oil price rally.

By James Zhang

Precious metals

Despite a report that gold holdings of exchange-traded products had fallen precipitously, the gold price has have managed to gain some ground. Gold holdings fell by 31mt, the largest fall in two years, to a level last seen in August. More confidence in the global economic recovery is being cited as a factor in this sell-off. Nevertheless, over the long term, we maintain that accommodative monetary conditions will continue to favour gold. We forecast an average price of $1,430 for 2011.

Already we are seeing a rebound in precious metals as investors expect the Fed to reiterate its commitment to quantitative easing (in FOMC comments out later today). A slightly weaker dollar is helping this recovery in prices. We expect a more positive tone from the Fed concerning the health of the US economy. However, because of persistent unemployment, we expect no changes to policy. Such reassurance should push gold and silver higher.

Gold support is at $1,328 and $1,323. Resistance is at $1,338 and $1,342. Silver support is at $26.85 and $26.73, resistance is at $27.08 and $27.18.

PGMs should also benefit from a commitment by the Fed to monetary accommodation. In addition, further signs of a strengthening US economy should provide support for platinum and palladium.

Platinum support is at $1,772 and $1,764, resistance is at $1,793 and $1,807. Palladium support is at $781 and resistance at $793.

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	4,541,175	4,545,950	75	4,850	-4,775	264,125	167,100	3.68	121,172
Copper	389,075	381,500	8,950	1,375	7,575	11,525	29,550	7.59	118,240
Lead	271,300	266,775	4,850	325	4,525	63,025	4,275	1.58	45,219
Nickel	134,958	135,174	672	888	-216	-714	6,300	4.67	19,783
Tin	17,550	17,405	145	0	145	1,275	665	3.79	8,692
Zinc	711,400	711,450	0	50	-50	9,975	2,975	0.42	63,702

Shanghai 3-month forward prices			
Metal	Open	Last	1d Chnge
Aluminium	16,710	16,770	-45
Copper	70,300	70,270	-970
Zinc	17,895	18,115	-255

COMEX active month future prices				
	Open	Close	Change	Change (%)
Ali Mar'11	-	-	-	-
Cu Mar'11	423	426.05	3.45	0.82%

ZAR metal prices	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,685	65,963	17,922	182,088	199,374	15,752	7.0700
3-month	16,909	66,249	16,738	185,854	201,933	15,914	7.1620

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 ($/bbbl)	107.82	-0.62	107.36	-2.42	107.79	-2.48	109.12	-2.30	110.79	-1.97
Gasoil 0.1% Rdam ($/mt)	803.25	4.25	808.50	4.00	812.00	4.25	820.75	4.50	835.00	3.00
NWE CIF jet ($/mt)	879.56	-4.38	883.08	-17.76	886.26	-17.98	895.47	-15.83	910.89	-13.91
Singapore Kero ($/bbl)	109.45	-0.55	109.56	-2.72	109.59	-2.73	110.77	-2.40	112.99	-1.92
3.5% Rdam barges ($/mt)	504.98	-1.98	501.00	-8.50	500.00	-10.08	500.00	-8.63	505.25	-7.21
1% Fuel Oil FOB ($/mt)	512.59	-2.17	512.25	-6.25	513.50	-8.08	520.00	-7.13		
Sing FO180 Cargo ($/mt)	533.72	-1.93	528.38	-9.12	527.00	-10.83	526.75	-8.88		

Thermal coal	Q1-11		Q2-11		Q3-11		Cal 11		Cal 12	
API2 (CIF ARA)	115.25	-1.50	111.25	-2.00	112.00	-1.45	113.10	-1.40	114.60	-0.55
API4 (FOB RBCT)	116.75	-0.60	113.50	-0.85	112.75	-0.10	113.95	-0.55	111.20	-0.25

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.31750	0.32750	0.34250	0.41250	0.59250
Silver	-0.08500	-0.08500	-0.09750	-0.05000	-0.01250
USD Libor	0.26000	0.28313	0.30438	0.45469	0.78094

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	43.81	1,352.58	1,370.57	1,355.24	1,283.42	1,328.00	1,338.00
Silver	46.88	27.89	28.80	26.04	22.22	26.85	27.09
Platinum	55.42	1,809.92	1,782.54	1,702.22	1,637.38	1,772.00	1,793.00
Palladium	57.17	804.26	792.19	679.41	581.19	781.00	793.00

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	1,333.40	26.9600	791.05	1,787.30	1,330.40	3,531.00	1,332.30
Open Interest	498,998	128,228	21,922	42,186	2,460	135,064	2,352
Change in Open Interest	81,752	5,368	128	10	51	-1,839	43

Sources: Standard Bank; LME; Bloomberg

Standard Bank

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 Richards 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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