Commodities

Commodities: Daily

Focus: Warehouse queues . . . what next?

26 January 2012

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Focus: With the global economy under pressure and commodities demand likely to remain subdued the issue of queues at LME warehouses isn't particularly relevant at the moment. Looking forward however, there will be a recovery in metals demand at some point. When this occurs, and when the LME warehouse system finally fulfils its role as location of last resort, how available LME warrants are, both in terms of financing deals and ease of access, will be absolutely key in terms of price behaviour and the nearby spreads.

- The FOMC statement initially saw the base metals complex rally during Wednesday evening, with the triggering of stops, in thin volume conditions, giving the metals an additional boost this morning. A subsequent recovery in the euro has also helped underpin metal prices ahead of US trade.
- Fed policy remained unchanged, however the Fed stated that current conditions “are likely to warrant exceptionally low levels for the federal funds rate at least through to late 2014”. All this is good news for precious metals, as evidenced by the marked price reaction. However, we would expect prices to ease off as the euphoria subsides and profit-taking increases.
- The oil market was boosted by a buoyant product market and the Fed’s pledge on its ultra-loose monetary policy over an extended period of time. WTI strengthened by 45c/bbl, while Brent weakened slightly, by 22c/bbl. Term structures in Brent, in particular at the front-end of the curve, rebounded strongly this morning after a recent slide, signalling strong interest in physical buying.

Commodity price data (25 January 2012)

Base metals LME 3-month

		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,245	2,252	2,269	2,223	7	0.31%	2,186.00	-5	-34.25
Copper	8,417	8,384	8,475	8,276	-33	-0.39%	8,271.00	4	-13.00
Lead	2,250	2,282	2,285	2,216	32	1.42%	2,196.00	-20	-25.75
Nickel	20,625	20,925	21,220	20,533	300	1.45%	20,510.00	215	-49.00
Tin	22,275	22,450	22,650	21,900	175	0.79%	22,005.00	145	-53.00
Zinc	2,150	2,175	2,184	2,105	25	1.16%	2,095.50	43	-16.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	110.45	110.69	110.69	110.45	0.88	0.80%
NYMEX WTI	99.96	100.15	100.19	99.67	0.75	0.75%
ICE Gasoil	944.00	946.50	946.50	944.00	4.25	0.45%
API2 Q1'12	105.30	105.75	-	-	0.45	0.43%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,659.00	1,650.00	1,702.90	1,654.00	1,700.70	36.10	-0.1/0.3
Silver	-	33.14	33.32	31.57	33.07	1.06	-4.0/-2.0
Platinum	1,550.00	1,546.00	1,580.00	1,549.00	1,575.00	27.00	1.5/3.5
Palladium	677.00	675.00	693.00	677.00	690.00	10.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Warehouse queues . . . what next?

With the global economy under pressure and commodities demand likely to remain subdued - the IMF the latest body to issue doom and gloom warnings regarding demand for base metals - the issue of queues at LME warehouses isn't particularly relevant at the moment.

Looking forward however, and assuming the Mayans just got bored of writing calendar dates and that the world doesn't end this year, there will be a recovery in metals demand at some point. When this occurs, and when the LME warehouse system finally fulfils its role as location of last resort, how available LME warrants are, both in terms of financing deals and ease of access, will be absolutely key in terms of price behaviour and the nearby spreads.

With a benign interest rate environment and plentiful supply of dollars likely to be a feature of the market until at least late 2014 - following on from last night's FOMC statement and assuming no credit crunch - healthy nearby contango's look set to remain a feature of many of the base metals. Warehousing deals therefore look likely to remain popular for the foreseeable future. Indeed the recent large-scale warrant cancellations at various warehouses around the world look like chess board pieces being readied and moved into position in the hunt for cheaper rent deals.

Obviously there are exceptions to the rule, with the potential permanent closure of the Portovesme aluminium smelter perhaps seeing participants look farther afield to secure aluminium units. In general however, particularly given the weak economic outlook, it appears to be finance related activity driving the bulk of the recent large warrant cancellations.

An interesting development recently has been the activity in LME warehouses usually considered out of the way. Those warehouses in geographically unfavourable locations, but without queues, are being raided. Arguably, intermittent spot demand may end up destocking the warehouses without queues, while those warehouses with long queues continue to bid for packets of material, backed by a steady revenue stream.

Once broad based demand for metals does finally re-emerge, as the global economy starts to turn around, the impact of warehouse queues and a lack of readily available metal units may well see a very rapid tightening in the spot market. It will therefore be interesting to see what impact that has on forward curves, and whether consumers, merchants and producers take any pre-emptive action to ensure adequate supply to customers, i.e. building up off-warrant inventories outside of, albeit perhaps close to, the existing LME warehouse system.

In the interim however, it may well be a case of poachers vs. elephants, with metals the subject of large financing deals and queues, such as zinc, lead and aluminium remaining vulnerable to periods of nearby tightness, as they have done for much of the past couple years or so. Careful managing of these large tonnages of financed metal, and the early identification of tightness emerging along the forward curve may well be the most exciting element of the metal market this year, as we wait for the macroeconomic situation to stabilise and for the fundamentals to finally re-assert themselves.

By Leon Westgate

Base Metals

The low interest rate environment of the past 3 years in the US looks set to continue until at least 2014, with Fed Chairman Ben Bernanke also indicating last night that another round of QE measures remained an option. The FOMC statement initially saw the base metals complex rally during Wednesday evening, with the triggering of stops, in thin volume conditions, giving the metals an additional boost this morning. A subsequent recovery in the euro has also helped underpin metal prices ahead of US trade.

An alternative assessment of last night's FOMC statement, however, is that the US economy remains stalled, a situation that 3 years of low interest rates and 2 rounds of QE measures have failed to resolve. In that regard, another 2 years of low interest rates and QE3 also seems likely to have little additional impact on the metals, though arguably, the plentiful availability of dollars will result in benign contango's becoming a common feature across of many of the base metal forward curves, fuelling the trend in warehousing deals for metals (see Focus section).

The knee jerk reaction to the FOMC and the subsequent triggering of stops this morning has seen copper trade above its 200-day MA for the first time since August 2011. If copper closes above this level (~$8,480) the technical picture looks supportive, with enough uncertainly about what the Chinese do when they return from their New Year holiday perhaps seeing further short covering and a short term continuation of the current risk-on rally. Likewise however, a failure to dig in above ~$8480 may signal the end of the past 3-week's rally. Again, the key factors continue to is market sentiment towards the Eurozone situation and the state of China's economy.

Inventory-wise, St Louis, one of the few warehouses without a queue, has seen a 9,500mt jump in copper cancelled warrants, accounting for the bulk of copper's 9,575 mt fall in on-warrant stocks this morning. It will be interesting to see where the metal eventually ends up.

By Leon Westgate

Precious metals

Unsurprisingly, precious metals benefited from yesterday's more-dovish-than-expected announcement from the Fed. Policy remained unchanged, however the Fed stated that current conditions "are likely to warrant exceptionally low levels for the federal funds rate at least through to late 2014". Previously, the Fed had assured markets that the fed funds rate would remain low at least until mid-2013. No concerns over inflation were expressed and the FOMC remained committed to maintaining a "highly accommodative stance for monetary policy". All this is good news for precious metals, as evidenced by the marked price reaction. However, we would expect prices to ease off as the euphoria subsides and profit-taking increases.

Overnight already, in Asia, we saw some profit-taking emerge which kept precious metals from rallying further—remaining steady for most of the session. While physical demand for gold is largely absent in the Far East (due to New Year celebrations), current prices have scared away any potential interest from Indian buyers. For the first time since mid-November 2011, Standard Bank's Physical Gold Flow Index (available on SBHF <Go>) has dipped into negative territory, indicative of net selling.

In addition to the lift from the Fed's statement, concerns over global supply are keeping PGM prices buoyant. Although industrial action at Impala Platinum Holding's Rustenburg mine appears to be drawing to a close, it is feared that lost production will be greater than originally thought. Concerns have also recently been raised that Russian inventory sales of palladium will slow significantly in 2012.

Gold support is at $1,672 and $1,629. Resistance is $1,737 and $1,757. Silver support is at $32.13 and $30.89, resistance is at $34.02 and $34.67.

Platinum support is at $1,573 and $1,535, resistance is at $1,618 and $1,623. Palladium support is at $679 and resistance at $704.

By Marc Ground

Energy

The oil market was boosted by a buoyant product market and the Fed's pledge on its ultra-loose monetary policy over an extended period of time. WTI strengthened by 45c/bbl, while Brent weakened slightly, by 22c/bbl. Oil products outperformed crude oil for another day, resulting in firmer product cracks and refining margins, including margins for simple refineries due to very strong fuel oil crack. Term structures in Brent, in particular at the front-end of the curve, rebounded strongly this morning after a recent slide, signalling strong interest in physical buying.

The DOE reported US weekly oil inventory changes for crude/gasoline/distillates at +3.6/-0.4/-2.5mb w/w. Crude inventories at Cushing rose by 0.4mbbl, which put some pressure on the WTI structure temporarily. The build in crude inventories had been driven by a large increase in imports and a fall in the refining utilisation rate, and mainly took place in the US Gulf region. The US total refining utilisation rate fell by 1.5% w/w, resulting in lower product supply and a fall in product stocks.

Product lifting at Petroplus' Coryton Refining has restarted and it has been reported that crude oil delivery to the site is also resuming. Coryton refinery is the most sophisticated and profitable refinery in Petroplus' portfolio, while holding a strategic location for UK's fuel supply. Therefore, we expect the refinery to continue its operation and is likely to attract buyers. Currently, Europe and US refining utilisation rates are both at around 82%, which leaves a fair amount of spare capacity. We expect the recent rally in product cracks to run out of steam soon.

We have seen good buying interest for crude from European refiners in recent weeks on much-improved refining margins. Consequently, price differentials for physical cargoes have been strengthening, which has now appeared to have translated into strength in the general oil market. In the short term, we expect a healthy physical market and an improved macro-environment to lead to a reversal of the recent downward trend. That said, we are cautious that the strength in products is unlikely to last as refineries ramp up throughput and warm weather continues to erode demand.

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	5,003,800	5,007,200	0	3,400	-3,400	33,400	974,675	19.48	198,129
Copper	339,750	342,250	350	2,850	-2,500	-31,150	73,750	21.71	134,010
Lead	345,850	345,925	0	75	-75	-7,225	47,600	13.76	47,793
Nickel	94,104	92,892	1,230	18	1,212	4,056	3,576	3.80	26,275
Tin	9,685	9,685	0	0	0	-2,505	2,230	23.03	3,405
Zinc	849,175	847,950	1,475	250	1,225	27,475	23,425	2.76	123,189

Shanghai 3-month forward prices				COMEX active month future prices				
Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	-	-	-	Ali Mar'12	-	-	-	-
Copper	-	-	-	Cu Mar'12	383	384.15	1.20	0.31%
Zinc	-	-	-					

ZAR metal prices	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,554	66,416	17,634	164,695	176,700	16,827	8.0300
3-month	18,341	68,283	18,586	170,424	182,844	17,714	8.1445

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 ($/bbbl)	127.89	-0.13	126.26	-0.13	125.82	-0.15	124.89	-0.03	-	-
Gasoil 0.1% Rdam ($/mt)	946.50	4.25	947.75	4.25	945.25	3.50	936.50	-0.50	932.50	-0.25
NWE CIF jet ($/mt)	1,019.44	-0.19	1,016.41	-0.93	1,017.85	-1.55	1,018.71	-1.67	1,018.92	-0.18
Singapore Kero ($/bbl)	126.22	-0.08	126.11	0.02	126.42	0.03	125.64	-0.02	125.11	0.00
3.5% Rdam barges ($/mt)	666.64	-0.96	655.75	7.50	644.75	6.50	626.75	4.75	604.50	3.75
1% Fuel Oil FOB ($/mt)	677.29	-2.14	672.00	1.00	668.75	0.50	658.75	1.25		
Sing FO180 Cargo ($/mt)	722.15	-1.34	710.25	8.00	693.50	7.50	666.50	6.25		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	105.75	0.45	107.40	0.45	109.50	0.65	108.75	0.55	115.50	1.00
API4 (FOB RBCT)	106.55	0.85	107.10	0.45	108.10	0.55	107.90	0.65	112.25	0.75

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.53467	0.56333	0.59250	0.60950	0.63167		
Silver	0.21000	0.20667	0.22333	0.23667	0.26500		
USD Libor	0.27280	0.40520	0.55660	0.79175	1.10795		
Technical Indicators	**30-day RSI**	**10-day MA**	**20-day MA**	**100-day MA**	**200-day MA**	**Support**	**Resistance**
Gold	55.89	1,668.47	1,640.33	1,684.65	1,646.65	1,672.00	1,737.00
Silver	55.70	31.38	30.29	32.31	35.47	32.13	34.02
Platinum	56.23	1,536.58	1,484.09	1,558.86	1,673.72	1,573.00	1,618.00
Palladium	56.51	670.99	654.21	644.67	705.19	679.0	704.0
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	1,714.80	33.1300	696.65	1,579.60	1,691.00	4,282.00	1,700.50
Open Interest	427,032	103,025	18,099	44,105	5,271	121,957	1,680
Change in Open Interest	-9,610	-5	322	-425	-158	170	-3

Sources: Standard Bank; LME; Bloomberg

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