Commodities

Commodities: Daily

Focus: Lead tightness here to stay?

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Focus: Tightness in lead's nearby forward structure continues to be a feature of the market, echoing the last pronounced period of tightness in the Cash-3m spread that emerged in September and October last year. The current tightness comes is in spite of a 32% increase in headline inventory (around 79 kt) since mid October.

- The base metals complex has been fairly uninspired, with an initial rally, helped by firmer Chinese equities, quickly petering out ahead of US trade following weak European data. Volumes have been similarly subdued with the market treading water. The market is now focused on the fiscal cliff in the US and the on-going crisis in the Eurozone, neither of which look likely to be resolved quickly. Against that sort of background, currencies and equity markets continue to hold sway over price direction.
- There has been price action in PGMs since yesterday. Palladium rallied from below $610 to $650 this morning, breaking through strong resistance around $635. Platinum rallied from $1,555 to $1,600 this morning.
- Crude oil markets continued their downward trend started on Monday, although this time it was Brent which was harder hit. Brent ended the day 81c/bbl lower to close at $108.26/bbl yesterday. WTI closed at $85.38/bbl, a loss for the day of 19c/bbl. The difference in moves of the two benchmarks saw the spread between them narrow from the previous day's 12-month closing price high of $23.50/bbl to $22.88/bbl.

Commodity price data (13 November 2012)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	1,968	1,985	1,989	1,947	18	0.89%	1,944.00	15	-17.75
Copper	7,620	7,680	7,715	7,548	60	0.79%	7,606.50	-20	-6.00
Lead	2,159	2,151	2,162	2,118	-8	-0.37%	2,163.50	-17	17.00
Nickel	16,030	16,050	16,250	15,850	20	0.12%	15,910.00	-20	-39.00
Tin	20,450	20,400	20,450	20,090	-50	-0.24%	20,380.00	-95	40.00
Zinc	1,923	1,935	1,939	1,891	12	0.62%	1,892.50	20	-24.75

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	108.12	108.13	108.15	107.80	-0.13	-0.12%
NYMEX WTI	85.37	85.45	85.47	85.14	0.07	0.08%
ICE Gasoil	920.00	920.75	921.00	918.50	-2.50	-0.27%
API2 Q1'13	92.20	92.20	-	-	0.00	0.00%

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,724.75	1,726.25	1,733.20	1,718.70	1,724.00	-6.80	-0.4/+0.0
Silver	-	32.61	32.58	32.18	32.58	0.04	-2.0/+0.0
Platinum	1,578.00	1,585.00	1,585.00	1,561.00	1,585.00	18.00	1.5/3.5
Palladium	613.00	617.00	617.00	604.00	617.00	6.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Lead tightness here to stay?

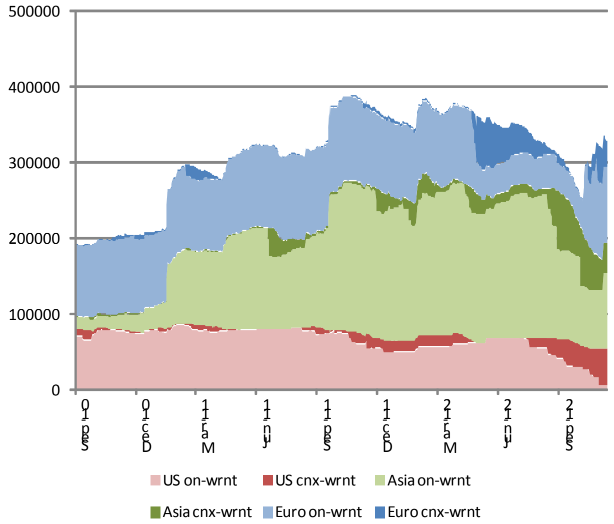
Tightness in lead's nearby forward structure continues to be a feature of the market, echoing the last pronounced period of tightness in the Cash-3m spread that emerged in September and October last year. The current tightness comes is in spite of a 32% increase in headline inventory (around 79 kt) since mid October.

Looking at LME inventory, headline stocks are more or less around the same level during that August-September period in 2011, as the last episode of significant tightness emerged. Headline stocks are some 57 kt lower than the recent highs seen in February this year, though historically speaking they still remain abundant. What is different is that the regional split of lead inventory has changed markedly (see fig. 1). North America and Asia have both seen declining inventories, while headline stocks in Europe have increased substantially. Looking at on-warrant stocks, the declines in Asia and the US in particular have been even more dramatic after a spate of warrant cancellation activity.

As far as the European stock inflows are concerned, of the net 92 kt increase in European LME warehouse inventories seen since the middle of October, almost all of that has occurred in Antwerp, where stocks have increased 96.3 kt (peaking at 105.2 kt) since October 9th. Given the jump in cancelled warrants at that location, however (both lead and zinc), it is debateable how readily available those units are, owing to warehouse deals and exit queues.

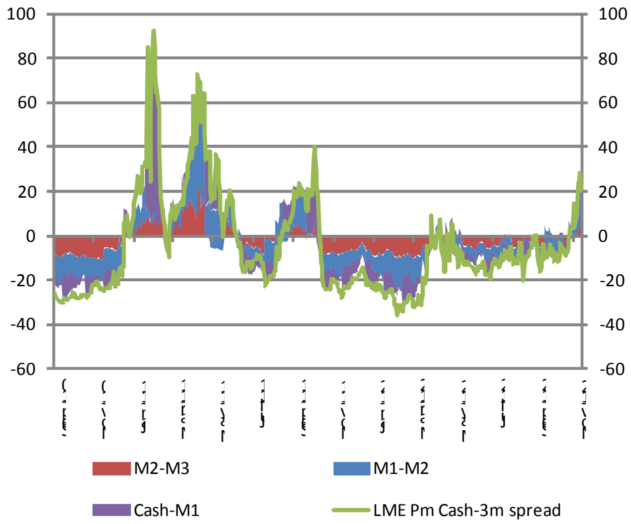
Looking at how the lead forward structure has behaved in the past, previous episodes of tightness have been fairly protracted. Using generic monthly breakdowns, fig. 2 attempts to show visually where the current tightness resides (currently Nov-Dec which in this chart is captured by M1-M2). Given healthy levels of inventory, in the past participants seem to have waited for tightness to ease, before getting caught out as the tightness persisted and moved closer to cash. It would be easy to assume the tightness will again dissipate this time, owing to increased LME stocks, and perhaps also due the hope that year-end lending activity might re-emerge. That said however, physical premia suggest that the market is indeed tighter than on-warrant inventories would suggest. Consequently lead may well be heading for a repeat of the extended tightness seen during late last year.

LME Regional Lead Inventory



Sources: LME; Standard Bank;

LME Lead Cash-3m spread (including generic month split)



Sources: LME; Standard Bank;

By Leon Westgate

Base metals

The base metals complex has been fairly uninspired, with an initial rally, helped by firmer Chinese equities, quickly petering out ahead of US trade following weak European data. Volumes have been similarly subdued with the market treading water. The market is now focused on the fiscal cliff in the US and the on-going crisis in the Eurozone, neither of which look likely to be resolved quickly. Against that sort of background, currencies and equity markets continue to hold sway over price direction.

Weaker than expected Eurozone industrial production helped to blunt the initial rally in base metals with output falling 2.5% from August, the worst result in over 3 years. Expectations had been for a 2% fall. The recent run of poor data suggests that the economic prospects for the Euro countries continues to look rather bleak.

Copper rallied strongly yesterday afternoon, helped by a recovery in the US equity markets and a rebound in the Euro. Copper briefly traded back towards $7,700 this morning, before drifting off again heading into the afternoon. Aluminium has also come back under pressure after an initial surge, though the metal has continued to hold up well and is in the process of consolidating after breaking back above its 100-day MA on Monday.

By Leon Westgate

Precious metals

There has been price action in PGMs since yesterday. Palladium rallied from below $610 to $650 this morning, breaking through strong resistance around $635. Platinum rallied from $1,555 to $1,600 this morning.

The rally started after Johnson Matthey released their interim review for 2012 yesterday. They forecast a deficit of 400Koz for platinum, 915Koz for palladium and 43Koz for rhodium in 2012. This compares to our deficit forecasts of 355Koz for platinum, 940Koz for palladium and 34Koz for rhodium (see our *Commodities Quarterly* dated 2 October 2012).

We believe that market has widely been discounting a deficit market for platinum, palladium and rhodium well before the JM release yesterday and, as a result, we would expect the price rally to fade. We note that the speculative market remains very long platinum (less so for palladium). The latest CFTC data indicates that speculative length as a percentage of open interest is currently at 56.5% (61.0% previously) compared to a 5-year average of 50.8%. Palladium's speculative length is at 38.9%, compared to a 5-year average of 47.5%. The latest rally would have added even more speculative length to a market where strong real demand remains absent.

Our view on platinum remains unchanged — we would look for value below $1,550. Palladium provides value on approach of $600.

Gold support is at $1,720 and $1,715. Resistance is $1,730 and $1,739. Silver support is at $32.24 and $31.80, resistance is at $32.96 and $33.23.

Platinum support is at $1,550 and $1,531, resistance is at $1,590 and $1,600. Palladium support is at $635 and resistance at $650.

By Walter de Wet

Energy

Crude oil markets continued their downward trend started on Monday, although this time it was Brent which was harder hit. Brent ended the day 81c/bbl lower to close at $108.26/bbl yesterday. WTI closed at $85.38/bbl, a loss for the day of 19c/bbl. The difference in moves of the two benchmarks saw the spread between them narrow from the previous day's 12-month closing price high of $23.50/bbl to $22.88/bbl.

The downward bias to the oil price is largely due to continued re-emphasis of a market that is well-supplied amid an uncertain demand outlook. This has been the thesis of the recent releases of the annual EIA, IEA and OPEC energy outlook reports. As usual, the market will be looking to indications of US supply and demand in this week's API and DOE inventory numbers. Both releases have been delayed by a day due to the Federal Holiday on Monday.

We are also keen to see the DOE numbers, as we highlighted last week (see *Commodities Daily* dated 8 November) because they should give a clearer indication of the impact Hurricane Sandy and the aftermath of the storm has had on product and crude oil demand. This could exacerbate an already weak demand side picture, with implied crude oil demand already showing signs of weakness and crude oil inventories also unusually high — placing a continued drag on WTI prices.

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	5,101,625	5,105,800	3,000	7,175	-4,175	131,225	1,840,025	36.07	181,846
Copper	254,350	245,500	9,300	450	8,850	-116,550	39,200	15.41	119,679
Lead	327,950	331,025	0	3,075	-3,075	-25,125	121,825	37.15	73,523
Nickel	133,104	129,792	3,408	96	3,312	43,056	13,728	10.31	39,581
Tin	11,485	11,680	0	195	-195	-705	4,605	40.10	5,461
Zinc	1,155,350	1,158,350	0	3,000	-3,000	333,650	559,600	48.44	97,878

Shanghai 3-month forward prices

Metal	Open	Last	1d Chnge
Aluminium	15,315	15,310	0
Copper	55,850	55,900	270
Zinc	14,995	14,980	35

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Dec'12	-	-	-	-
Cu Dec'12	347	347.75	0.65	0.19%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,088	66,861	19,017	139,849	179,140	16,635	8.7900
3-month	17,689	68,440	19,169	143,030	181,795	17,244	8.9115

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 ($/bbbl)	122.64	-0.89	122.09	-1.50	123.78	-1.57	123.08	-1.30	120.92	-0.86
Gasoil 0.1% Rdam ($/mt)	920.75	-2.50	923.50	-2.50	923.00	-2.50	918.50	-9.25	907.00	-6.00
NWE CIF jet ($/mt)	1,000.79	-5.26	996.62	-12.10	997.97	-11.47	997.35	-9.11	985.51	-6.02
Singapore Kero ($/bbl)	124.49	-0.84	123.79	-1.50	123.58	-1.54	122.79	-1.30	121.51	-0.89
3.5% Rdam barges ($/mt)	579.25	-4.25	578.75	-4.25	582.00	-4.50	586.50	-5.00	584.25	-5.00
1% Fuel Oil FOB ($/mt)	602.75	-5.25	604.75	-4.50	609.50	-5.50	616.00	-5.50		
Sing FO180 Cargo ($/mt)	610.25	-5.25	613.75	-5.25	616.50	-5.25	621.25	-5.00		
Thermal coal	**Q1-12**		**Q2-13**		**Q3-13**		**Cal 13**		**Cal 14**	
API2 (CIF ARA)	92.20	0.00	94.45	0.25	96.80	0.25	95.75	0.25	104.15	0.30
API4 (FOB RBCT)	89.25	0.65	91.75	0.65	94.20	0.35	92.95	0.55	100.85	0.35

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.32000	0.35000	0.38600	0.44200	0.48800
Silver	0.62000	0.61600	0.61800	0.61200	0.56800
USD Libor	0.20800	0.25900	0.31000	0.52400	0.86150

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	52.52	1,715.48	1,715.95	1,679.01	1,662.78	1,720.00	1,730.00
Silver	52.28	32.06	32.07	30.83	30.93	32.24	32.96
Platinum	52.15	1,559.65	1,568.34	1,534.86	1,548.93	1,550.00	1,590.00
Palladium	52.99	616.33	612.31	617.06	635.32	635.00	650.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'12	Dec'12	Jan'13	Jan'13	Dec'12	Oct'13	Dec'12
Settlement	1,727.80	32.5800	640.15	1,586.40	1,727.60	4,430.00	1,724.80
Open Interest	458,383	142,396	21,803	60,443	1,416	150,529	775
Change in Open Interest	-3,650	-215	-105	-308	-53	-582	0

Sources: Standard Bank; LME; Bloomberg

Bulks

Steel—Physical	Latest Price	1-day	1-week	1-month	3-month	6-month	1-year
		Percentage change					
Turkish Scrap 80:20 (Iskinderun CFR) $/t	402.77	0.00%	1.80%	12.10%	-3.16%	-9.88%	-
China Tangshan Steel Billet $/t	515.00	0.00%	0.78%	0.00%	0.78%	-11.82%	-17.34%
China HRC export (Shanghai FOB) $/t	532.50	0.00%	0.00%	3.40%	-6.17%	-17.12%	-18.70%
North Europe HRC domestic (ex-works) $/t	450.00	0.00%	-1.10%	-6.74%	-10.00%	-15.89%	-
North America HRC domestic (Midwest FOB) $/t	640.00	0.00%	4.92%	7.79%	-3.03%	-5.54%	0.00%
Steel—Futures							
LME Billet Cash $/t	315.00	0.00%	1.61%	-8.30%	-15.72%	-29.73%	-40.00%
LME Billet Futures (1-mth) $/t	315.00	0.00%	1.61%	-8.30%	-15.72%	-29.73%	-40.00%
LME Steel Billet Stocks—change	-	-	-	-	-	-	-
Shanghai Rebar Futures (1-mth) $/t	612.29	0.40%	1.73%	2.44%	6.40%	-8.07%	-14.65%
Shanghai Rebar Futures On-Warrant Stocks—change	2,952	-	-	-	-	-	-
Iron ore							
China Iron Ore Fines (62% Fe; CFR Tianjin) $/t	122.30	0.00%	0.58%	8.23%	7.94%	-10.53%	-11.57%
China Iron Ore Fines (58% Fe; CFR Tianjin) $/t	111.70	0.00%	0.00%	7.40%	7.61%	-14.60%	-6.13%
SGX AsiaClear IO Swaps 62% Fe $/t (1-mth)	120.75	0.00%	1.62%	9.85%	7.26%	-12.11%	-9.94%
China Iron Ore Inventory (10,000 tonnes)	85.11	0.00%	-1.37%	-3.59%	-11.01%	-10.66%	-11.52%
Coking coal							
Premium Hard Coking Coal (Qld FOB) $/t	153.00	0.00%	0.00%	-1.29%	-21.54%	-28.50%	-
Capesize freight							
Tubarao Brazil-Beilun China (C3)	20.44	0.00%	0.00%	0.00%	0.00%	0.00%	-21.69%
Pilbara Australia-Qingdao China (C5)	9.50	0.00%	-4.52%	5.56%	39.71%	25.83%	-15.56%
Saldanha South Africa-Beilun China	16.00	0.00%	-4.48%	2.89%	26.98%	9.22%	-18.16%
Tubarao Brazil to Rotterdam Europe	10.15	0.00%	-2.87%	6.28%	38.10%	10.93%	-32.33%
Saldanha South Africa-Rotterdam Europe	9.80	0.00%	-0.51%	20.99%	59.35%	36.11%	-22.22%

Sources: Standard Bank; LME; Bloomberg

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