

# Commodities

## Commodities: Daily



Focus: China's electricity production growth rate slows

5 October 2011

**Focus:** Electricity production in China continues to edge up y/y, consistent with an economy that is growing. However, as with other economic variables in China, the *rate of growth* is slowing. This lower growth rate in electricity generation is consistent with the slower economic activity. This, we believe, is consistent with the PBOC's tighter monetary policy stance. The data is also consistent with China's PMI which declined to 50.9 in August.

- The base metals rallied initially overnight, in thin post-LME dinner conditions, before drifting lower again following Italy's debt downgrade last night, a poor suite of European Service PMI's and concerns over the health of some European banks.
- As we cautioned yesterday, gold came under pressure as a dismal day on equity markets forced investors to liquidate positions in gold to cover their losses. Of course, the negative effect of concerns over tightening liquidity in the Eurozone cannot be completely discounted. As the debt crisis in the region drags on, the threat to Eurozone banks and the economy's funding becomes increasingly worrisome.
- Oil weakened further on concerns over European banks as Dexia, a large Belgium-French bank, now seems to need rescuing. Although the market rallied after the pledge by the Fed Chairman to act, possibly with QE3, WTI and Brent fell \$1.94/bbl and \$1.92/bbl respectively net for the day.

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### Commodity price data (4 October 2011)

#### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,190	2,174	2,216	2,168	-16	-0.73%	2,133.00	13	-35.00
Copper	6,785	6,805	6,972	6,712	20	0.29%	6,785.00	-10	-20.75
Lead	1,955	1,890	1,980	1,885	-65	-3.32%	1,961.00	-39	37.00
Nickel	18,550	18,606	19,432	18,101	56	0.30%	18,385.00	280	-31.00
Tin	20,200	20,800	20,900	20,105	600	2.97%	20,350.00	290	-1.00
Zinc	1,875	1,865	1,908	1,848	-10	-0.55%	1,835.50	-12	-23.00

#### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	101.81	101.65	102.10	101.25	1.86	1.83%
NYMEX WTI	78.25	78.14	78.46	77.37	2.47	3.16%
ICE Gasoil	869.50	866.75	869.50	864.50	1.50	0.17%
API2 Q4'11	119.90	118.00	-	-	-1.90	-1.61%
ICE EUA Dec'11	10.17	10.08	-	-	-0.09	-0.88%

#### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,672.00	1,638.00	1,674.50	1,612.50	1,613.00	-43.50	1.5/1.9
Silver	-	29.74	31.25	29.41	29.81	-1.04	1.0/3.0
Platinum	1,484.00	1,481.00	1,510.00	1,460.00	1,460.00	-50.00	1.5/3.5
Palladium	592.00	588.00	589.00	557.00	560.00	-30.00	0.0/1.0

Sources: Standard Bank; LME; BBG

### Focus: Electricity production growth rate slows in China

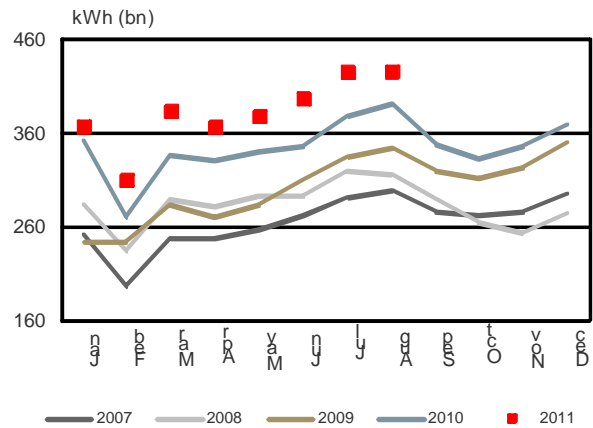
Electricity production in China continues to edge up y/y, consistent with an economy that is growing. However, as with other economic variables in China, the *rate of growth* is slowing.

There are many variables used to track the pace of economic growth. Amongst others, we monitor electricity generation to indicate real economic growth trends. After a strong end to 2009, electricity generation in China continues to signal economic expansion — but growth is nevertheless slower y/y.

Since mid-2009, electricity generation in China has risen substantially — well above levels seen in 2008. Electricity production ended 2009 at an all-time high. This pattern is consistent with China's strong GDP data in 2009. The growth rate of electricity generation continued into 2010, with the monthly growth rate in electricity generation averaging 15% y/y in 2010. This data, we believe, is consistent with economic growth of above 10% seen in China over the same period.

However, the y/y growth rate in electricity generation has slowed since the start of this year. In February, electricity generation grew 15% y/y. This declined to 9% y/y in August. In fact, the first 8 months of 2011 saw the average monthly electricity production increase by 11%, compared to the average m/m growth in the same period last year. Bar

### China electricity production



Sources: CEIN; Standard Bank Research

2009 (following the credit crisis in late-2008), the average monthly growth rate for the first 8 months of 2011 is the slowest growth in electricity production over this period since at least 2004.

The lower growth rate in electricity generation is consistent with the slower economic activity. This, we believe, is consistent with the PBOC's tighter monetary policy stance. The data is also consistent with China's PMI which declined to 50.9 in August.

By Walter de Wet

### Base metals

The base metals rallied initially overnight, in thin post-LME dinner conditions, before drifting lower again following Italy's debt downgrade last night, a poor suite of European Service PMI's and concerns over the health of some European banks. Macro themes continue to dominate the base metals, with this afternoon's ADP employment figures likely to be closely scrutinised ahead of Friday's US Nonfarm payroll numbers.

Meanwhile the Zambian Ministry of Mines has suspended all current metal export permits, effective immediately, pending new guidelines issued by the government. Any new metal export procedures will now involve the Bank of Zambia. New guidelines are being issued and will be in place on October 16th. Effectively, the changes will result in a temporary export ban, and likely congestion to the flow of metal out of the country while new procedures come into place. It appears that the move likely forms part of an audit of the industry by the new Zambian President, Michael Sata, possibly with the intention of reviewing the current tax regime.

Copper prices traded sideways during Tuesday amid thin LME week conditions. Copper prices have rallied overnight stabilising around \$6,900 ahead of US trade, though turnover remains fairly thin.

Elsewhere other metals remain range-bound too, taking its cue largely from copper. With markets waiting for macro economic data later this week combined with LME week, we continue to expect quiet conditions in the base metals markets today and tomorrow.

By Leon Westgate

## Precious metals

As we cautioned yesterday, gold came under pressure as a dismal day on equity markets forced investors to liquidate positions in gold to cover their losses. Of course, the negative effect of concerns over tightening liquidity in the Eurozone cannot be completely discounted. As the debt crisis in the region drags on, the threat to Eurozone banks and the economy's funding becomes increasingly worrisome.

As stated before, should we be faced with another drying up of liquidity (due this time to Eurozone debt contagion), this would be bearish for all commodities, including gold. However, we believe that central banks are better prepared, and more willing, to avoid a repeat of 2008. As a result, the risk remains, but it is not as acute as it was in 2008.

Physical demand continues to support gold below \$1,650 (as has been evident for the past two weeks). Most demand continues to come out of Asia (specifically the Far East and India) although, with Chinese Golden Week celebrations, this demand is not as robust as in previous weeks. Nevertheless, we see increasing value in gold as we approach \$1,600. Our strategic view remains unchanged: we continue to believe that gold will push higher in 2012.

Across the precious metals markets, there is a general lack of liquidity. This is partly explained by China's holidays. However, we believe that investors might also be acting cautiously ahead of this week's non-farm payrolls data. Today, perhaps some attention will be given to the ADP employment report, although given that it is generally a poor predictor of payrolls, we would not be too concerned by this reading. Nevertheless, as we approach Friday's payrolls release, we foresee markets becoming increasingly volatile, with data releases like today's contributing to this volatility.

Gold support is at \$1,577 and \$1,545. Resistance is \$1,660 and \$1,710. Silver support is at \$28.05 and \$27.02, resistance is at \$30.74 and \$32.38.

Platinum support is at \$1,422 and \$1,404, resistance is at \$1,486 and \$1,530. Palladium support is at \$541 and resistance at \$592.

**By Marc Ground**

## Energy

Oil weakened further on concerns over European banks as Dexia, a large Belgium-French bank, now seems to need rescuing. Although the market rallied after the pledge by the Fed Chairman to act, possibly with QE3, WTI and Brent fell \$1.94/bbl and \$1.92/bbl respectively net for the day. Product cracks and refining margins improved further, helped by US inventory draw reported by the API. The WTI structure strengthened slightly on further inventory declines at Cushing, and the Brent structure remains firm due to tight crude supply.

The API reported US weekly oil inventory changes for crude/gasoline/distillates at -3.1/-5.0/-2.0MB w/w. Crude inventories at Cushing fell by 0.9MB, to 30.1MB — a new YTD low — which should help to strengthen the WTI structure. The total US refinery utilisation rate rebounded by 1.0%, to 84.9%, due to increased maintenance activity. As we had expected, the API reported that crude imports have fallen by 290kbd (from their recent high reported last week). The API reported a sharp increase in the implied demand for both gasoline and distillates, of 468kbd and 343kbd w/w respectively. Overall, the sharp drop in inventories reported by API appears to be playing catch-up with the DOE numbers.

Yesterday, there was a riot in Saudi Arabia. Eleven members of the security forces were attacked and injured in a Shiite Muslim town in the east. This underscores, again, the instability of this major oil-producing region. But we don't see this as a major risk — yet. Instead, what is important is how OPEC, in particular Saudi, will act when faced with lower oil prices. The new spending plan, announced earlier this year by King Abdullah, requires oil price above \$90/bbl to balance its budget, although the kingdom has built up significant reserves.

Moody's cut Italy's sovereign rating by three notches late yesterday, from A2 to Aa2, citing a material increase in funding risks for high-debt countries like Italy. The agency also warned that Italy's rating could be significantly cut further.

In the run-up to US non-farm payroll number on Friday, the market will focus on the ADP survey today. Looking at other date releases, we expect a smaller inventory draw in the DOE report today than those from API last night. The ISM non-manufacturing from the US is also important. Recent data shows that the Eurozone economy is in even worse shape than the US, which has further weighed on the euro and put oil under more pressure. We remain negative on flat prices for now.

**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	4,558,250	4,563,750	0	5,500	-5,500	281,200	246,650	5.41	245,660
Copper	475,025	474,950	575	500	75	97,475	59,900	12.61	128,383
Lead	374,550	374,125	1,125	700	425	166,275	7,850	2.10	46,557
Nickel	96,462	97,074	36	648	-612	-39,210	7,698	7.98	32,172
Tin	20,585	20,920	0	335	-335	4,310	4,095	19.89	5,276
Zinc	815,700	818,825	0	3,125	-3,125	114,275	87,000	10.67	90,045

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	-	-	-	Ali Dec'11	-	-	-	-
Copper	-	-	-	Cu Dec'11	310	316.00	5.65	1.82%
Zinc	-	-	-					

### ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,747	56,451	16,316	152,963	169,312	15,271	8.3200
3-month	18,324	57,359	15,931	156,828	175,321	15,718	8.4289

## 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 (\$/bbl)	116.42	-1.31	113.73	-2.73	112.57	-2.08	110.95	-1.75	-	-
Gasoil 0.1% Rdam (\$/mt)	866.75	1.50	862.25	2.25	854.25	2.25	834.50	2.00	826.00	-10.50
NWE CIF jet (\$/mt)	951.36	-11.64	947.38	-11.01	941.84	-12.83	925.35	-13.50	921.51	-12.17
Singapore Kero (\$/bbl)	117.82	-1.23	116.53	-2.73	115.77	-2.33	114.30	-1.80	113.74	-1.64
3.5% Rdam barges (\$/mt)	584.00	-7.50	575.00	-7.75	567.50	-8.00	556.00	-8.25	539.25	-8.50
1% Fuel Oil FOB (\$/mt)	600.50	-8.00	596.50	-9.50	594.25	-9.75	586.00	-10.25		
Sing FO180 Cargo (\$/mt)	615.00	-8.25	606.00	-8.50	599.00	-8.50	586.75	-8.50		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13					
API2 (CIF ARA)	118.00	-1.90	118.50	-1.85	118.40	-1.80	118.75	-1.85	122.00	-1.75
API4 (FOB RBCT)	113.60	-1.50	115.10	-1.25	114.95	-1.45	115.25	-1.45	117.45	-1.80

## Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.52800	0.52800	0.52800	0.53200	0.54400		
Silver	0.36400	0.36400	0.34400	0.32400	0.24200		
USD Libor	0.24111	0.30411	0.38094	0.56700	0.87500		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	44.73	1,642.97	1,729.46	1,648.63	1,536.33	1,577.00	1,660.00
Silver	36.20	31.03	35.79	37.74	36.33	28.05	30.74
Platinum	28.04	1,542.47	1,673.42	1,762.47	1,778.18	1,422.00	1,486.00
Palladium	29.51	613.31	668.04	750.31	764.59	541.00	592.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'11	Dec'11	Jan'12	Jan'12	Oct'11	Aug'12	Dec'11
Settlement	1,628.30	29,7650	564.00	1,468.60	1,606.10	4,016.00	1,622.50
Open Interest	437,801	101,021	19,139	37,930	9,133	123,633	1,866
Change in Open Interest	-2,073	-149	422	768	114	552	0

Sources: Standard Bank; LME; Bloomberg

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