Commodities

Commodities: Daily

Focus: Our Q4:11 commodities view

6 October 2011

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Focus: As we head into Q4:11, our view on commodities remains largely unchanged from three months ago (refer to *Quarterly Preview: Cyclical slowdown and policy risk cap upside in Q3:11* published on 14 June 2011). We still believe that upside for base metals and energy is capped, and that gold will push higher in Q4:11.

- Better than expected US ISM and ADP employment figures helped the metals to rally on Wednesday afternoon, with stronger US equity markets also helping to give the complex a boost. The metals have continued to gain during Thursday morning, exacerbated by some sporadic short covering activity and by thin, LME week conditions.
- After today's central bank announcements, focus will shift to tomorrow's non-farm payrolls data. Yesterday's better-than-expected ADP employment numbers (91k vs. an expected 75k) did see sentiment improve slightly, the outlook for the US economy remains bleak. We feel that Friday's numbers will confirm the continued weakening of US economic activity. As already highlighted yesterday, we expect heightened volatility across markets as we draw closer to the release of the payrolls data.
- Oil halted the recent decline seen in the previous three trading sessions aided by the anticipation of the European bank recapitalisation and a larger-than-expected inventory draw in the US. WTI and Brent rallied by $4.01/bbl and $2.94/bbl respectively. he WTI structure strengthened further after the DOE confirmed another week of stock draw at Cushing, while the Brent structure remained firm.

Commodity price data (5 October 2011)

Base metals LME 3-month									
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,185	2,189	2,213	2,136	4	0.18%	2,132.00	-1	-34.75
Copper	6,925	6,917	7,010	6,700	-9	-0.12%	6,860.50	76	-19.25
Lead	1,915	1,915	1,933	1,864	0	0.00%	1,947.00	-14	27.25
Nickel	18,800	18,633	19,100	18,300	-167	-0.89%	18,425.00	40	-32.00
Tin	20,700	20,900	21,350	20,700	200	0.97%	21,250.00	900	1.00
Zinc	1,875	1,865	1,897	1,820	-10	-0.53%	1,831.00	-5	-22.25
Energy									
	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	102.65	102.60	102.80	102.24	-0.13	-0.13%			
NYMEX WTI	79.71	79.66	79.80	79.42	-0.02	-0.03%			
ICE Gasoil	868.00	867.00	868.25	867.00	-1.00	-0.12%			
API2 Q4'11	118.00	118.40	-	-	0.40	0.34%			
ICE EUA Dec'11	10.08	10.27	-	-	0.19	1.88%			
Precious metals									
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's		
Gold	1,600.00	1,617.00	1,647.00	1,608.80	1,639.60	26.60	1.5/1.9		
Silver	-	30.58	30.62	29.26	30.32	0.51	1.0/3.0		
Platinum	1,442.00	1,444.00	1,484.00	1,437.00	1,480.00	20.00	1.5/3.5		
Palladium	561.00	549.00	575.00	545.00	570.00	10.00	0.0/1.0		

Sources: Standard Bank; LME; BBG

Focus: Our Q4:11 commodities view

This morning we released our *Commodities Quarterly: Upside capped in Q4 but value emerges over a 12-month horizon.* Below, the highlights from our views, but if you wish to receive a copy please email us.

As we head into Q4:11, our view on commodities remains largely unchanged from three months ago (refer to *Quarterly Preview: Cyclical slowdown and policy risk cap upside in Q3:11* published on 14 June 2011). We still believe that upside for base metals and energy is capped, and that gold will push higher in Q4:11.

Over the past few weeks, we have often been asked whether commodities are pricing in a recession already. Six weeks ago, we didn't think so. However, after the violent moves in commodity prices over the past three weeks, we believe that certain commodities have fallen too far, while others could fall more (for the relative exposure of commodities during a recession, refer to *Commodities Insight — A Commodities Recession Chart Book* published on 12 August 2011).

We believe that policy risk, especially in Europe, remains elevated, and the current cyclical slowdown is much more pronounced. We therefore do not expect much upside yet for most commodities. However, our forecasts reflect an expectation of higher commodity prices in 2012.

In Q4:11, we would remain cautious, and in general would look to sell base metals into rallies rather than worry, just yet, about missing a potential dip/entry point for metals such as copper for which, despite a slowdown in demand, we still expect a deficit in 2012 and 2013.

We maintain our long gold position and believe that conditions favour gold for a push higher in Q4:11. This would be driven not only by low real global interest rates, but also by growth in global liquidity. Also, physical demand is still strong.

We believe that palladium supply and demand will incur a large, ever growing deficit over the next five years, while platinum should enter a deficit market only in 2014. In the current economic environment, we maintain that demand will remain a constraint, unable to push prices higher on a sustainable basis in Q4:11. We therefore still prefer to view platinum and palladium from a cost-push perspective rather than a demand-pull perspective.

We expect iron ore prices to come under downward pressure in Q4:11 but nevertheless remain at fairly healthy levels relative to the cost-of-production. We maintain our positive but slowing steel growth profile over the next few years, reaching a level of c.800mt by 2014 (compared to 750mt previously).

We expect oil to remain under pressure in Q4:11, while the spread between WTI and Brent should remain wide, driven by hedging and investment money flows. **For the long term, we believe that the oil price will be anchored at around $95/bbl** (in real terms) for two reasons: (a) major oil producers have hiked their CAPEX spending, and (b) we expect cost pressures for oil production, especially from non-conventional sources, to ramp up again as a result of broad commodity-led price increases.

By Walter de Wet

Base metals

Better than expected US ISM and ADP employment figures helped the metals to rally on Wednesday afternoon, with stronger US equity markets also helping to give the complex a boost. The metals have continued to gain during Thursday morning, exacerbated by some sporadic short covering activity and by thin, LME week conditions.

Just two days after announcing a suspension to exports, the Zambian government has lifted the temporary export ban on metals. According to reports, the Zambian permanent secretary has said that "the job has been done". The Ministry has revised the procedure for obtaining minerals, ore and products. The key change as far as new procedures are concerned go appears to be the inclusion of reference prices for the commodity being exported, either from international markets such as the LME or other independent market price providers such as Metal Bulletin and the Cobalt Development Institute. This appears to put an end to the practice of transfer pricing.

Copper has continued to rally on Thursday, with short covering activity this morning, and again during the early afternoon seeing prices rally back above $7,200. Elsewhere, there were further warrant cancellations in Asian warehouses, this morning seeing a 4,000 mt cancellation in Port Klang, Malaysia. Headline stocks have also started to fall as previously cancelled material has started heading for the exit. There does appear to be a subtle change in market sentiment towards copper, however macro themes still continue to dominate.

In that regard, tomorrow's US NFP figures will be closely watched indeed. Beyond Friday's data, the return of the Chinese to the market next week will also be eagerly anticipated as Q4 finally starts to get underway.

By Leon Westgate

Precious metals

Precious metals seem to be benefiting from the current air of uncertainty in markets, although volumes appear thin, as investors await policy decisions from the ECB and BoE later today. Despite the current consensus view of no change in policy, given the current optimism around equities it appears as if markets might be anticipating some chance of further easing. Our G10 analyst concurs that there is “a decent chance of easing from both”.

Further easing would be bullish for precious metals, especially gold, given their close relationship with global liquidity. In the absence of an announcement of further easing, we could see commodities come off, including precious metals, especially if these should spark another bout of cross-asset liquidations and loss covering.

Physical demand continues to play an important role in supporting gold below $1,650. As we move above $1,650, we might see physical buying lose some momentum, especially with reduced demand from Asia (owing to Chinese Golden Week celebrations).

After today’s central bank announcements, focus will shift to tomorrow’s non-farm payrolls data. Yesterday’s better-than-expected ADP employment numbers (91k vs. an expected 75k) did see sentiment improve slightly, the outlook for the US economy remains bleak. We feel that Friday’s numbers will confirm the continued weakening of US economic activity. As already highlighted yesterday, we expect heightened volatility across markets as we draw closer to the release of the payrolls data.

Gold support is at $1,616 and $1,582. Resistance is $1,666 and $1,681. Silver support is at $29.52 and $27.88, resistance is at $31.71 and $32.25.

Platinum support is at $1,459 and $1,414, resistance is at $1,523 and $1,541. Palladium support is at $563 and resistance at $604.

By Marc Ground

Energy

Oil halted the recent decline seen in the previous three trading sessions aided by the anticipation of the European bank recapitalisation and a larger-than-expected inventory draw in the US. WTI and Brent rallied by $4.01/bbl and $2.94/bbl respectively. Gasoline cracks strengthened, while distillate cracks lagged crude gains, both of which were largely driven by the weekly US inventory report. The WTI structure strengthened further after the DOE confirmed another week of stock draw at Cushing, while the Brent structure remained firm.

The DOE reported US weekly oil inventory changes for crude/gasoline/distillates at -4.7/-1.1/-0.7MB w/w. The total US crude inventories have fallen below last year’s seasonal level by 24MB, and the total US commercial oil inventories including both crude and crude products are now 64MB below last year’s seasonal level. Crude inventories at Cushing fell by 0.8MB, to 30.1MB, which is now the lowest level since March 2010. The build in crude inventories was driven predominantly by a sharp fall in crude imports, which dropped by 1MBD on average w/w, and a slight decline in the total US refinery utilisation rate. The implied demand for gasoline showed a marginal decline, while distillate demand appeared to be robust. US distillate inventories seem to have started its seasonal decline pattern.

The market sentiment was boosted to some extent by the ADP private employment survey and the US ISM non-manufacturing survey. Both were soft, but slightly ahead of market expectations, and the ISM survey came in at 53, ahead of the 50-expansion threshold. However, it’s difficult to be upbeat about the non-farm payrolls number due on Friday, as the public sector continued to cut jobs and the employment index within the ISM survey declined from 50 to 48.7. Nevertheless, the US economy appears to be less gloomy than that of the Eurozone.

The ECB and the Bank of England are due to meet for their monthly policy meeting. The market is looking for further monetary easing in terms of a rate cut in Europe and QE2 from BoE. That said, the market will remain focused on the next policy move by the Eurozone policymakers on the sovereign debt crisis.

We continue to see the oil market torn between a very tight physical market and uncertainties in the financial market. For now, the oil market remains vulnerable from risk aversion in the financial market. As noted in our Commodity Quarterly Preview published today, we have revised our 2012 forecast for WTI and Brent from $110/bbl and $120/bbl to $95/bbl and $110/bbl respectively.

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	4,556,600	4,558,250	1,950	3,600	-1,650	279,550	243,650	5.35	166,871
Copper	474,925	475,025	1,600	1,700	-100	97,375	58,950	12.41	107,334
Lead	379,700	374,550	5,725	575	5,150	171,425	7,375	1.94	35,081
Nickel	95,382	96,462	0	1,080	-1,080	-40,290	7,332	7.69	25,701
Tin	20,525	20,585	0	60	-60	4,250	4,400	21.44	4,076
Zinc	814,525	815,700	1,700	2,875	-1,175	113,100	84,125	10.33	75,898

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	-	-	-
Copper	-	-	-
Zinc	-	-	-

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Dec'11	-	-	-	-
Cu Dec'11	311	313.55	2.95	0.95%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,281	55,608	15,781	149,344	172,242	14,841	8.1055
3-month	17,968	56,774	15,719	152,949	171,558	15,309	8.2085

Energy

Energy futures pricing	Price 1 month	Change	Price 2 month	Change	Price 3 month	Change	Price 6 month	Change	Price 1 year	Change
Sing Gasoil ($/bbbl)	116.80	0.38	114.38	0.65	113.50	0.93	111.77	0.82	-	-
Gasoil 0.1% Rdam ($/mt)	867.00	-1.00	867.00	3.00	859.00	1.75	843.25	1.75	836.25	10.25
NWE CIF jet ($/mt)	952.72	1.36	950.15	2.77	946.75	4.91	932.77	7.42	930.09	8.58
Singapore Kero ($/bbl)	118.27	0.45	116.88	0.35	116.55	0.78	114.82	0.52	114.43	0.69
3.5% Rdam barges ($/mt)	587.58	3.58	577.25	2.25	570.25	2.75	559.25	3.25	542.75	3.50
1% Fuel Oil FOB ($/mt)	601.52	1.02	598.25	1.75	596.50	2.25	589.50	3.50		
Sing FO180 Cargo ($/mt)	617.82	2.82	608.00	2.00	601.50	2.50	590.00	3.25		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	118.40	0.40	118.90	0.40	118.80	0.40	119.15	0.40	122.40	0.40
API4 (FOB RBCT)	114.00	0.40	115.50	0.40	115.35	0.40	115.65	0.40	117.85	0.40

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.52500	0.52667	0.52833	0.53000	0.53000
Silver	0.35500	0.35500	0.36333	0.32500	0.23333
USD Libor	0.24067	0.30489	0.38361	0.57161	0.88250

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	46.25	1,635.24	1,719.09	1,650.33	1,537.62	1,616.00	1,666.00
Silver	37.74	30.57	35.24	37.70	36.33	29.52	31.71
Platinum	31.55	1,528.31	1,657.68	1,760.28	1,777.17	1,459.00	1,523.00
Palladium	33.63	607.95	659.94	749.01	763.63	563.00	604.00

Active Month Future	COMEX GLD Dec'11	COMEX SLV Dec'11	NYMEX PAL Jan'12	NYMEX PLAT Jan'12	DGCX GLD Dec'11	TOCOM GLD Aug'12	CBOT GLD Dec'11
Settlement	1,647.80	30.4500	588.35	1,482.90	1,655.00	4,071.00	1,646.60
Open Interest	436,920	101,102	19,516	38,401	9,196	122,974	1,872
Change in Open Interest	-881	81	377	471	63	-659	6

Sources: Standard Bank; LME; Bloomberg

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