Commodities

Commodities: Daily

Focus: Copper prices and stocks

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Focus: The key factor for copper prices will therefore be whether the current pick up in activity is sustainable, or merely opportunistic in nature.

- As short covering began to taper off yesterday, gold and other precious metals prices began to sink. However, strong support from physical gold buying re-emerged at around $1,650 preventing prices from falling beyond this point. This has been a recurring theme over the past few weeks, and looking forward, we remain confident that gold's downside is limited by this physical buying at the $1,650 level.

- A stronger euro has helped the base metals to rally during Wednesday morning, with the complex recovering from yesterday afternoon's selling pressure. The base metals, in general, remain rather subdued with the complex looking to exogenous factors for direction. Stronger Chinese equity markets overnight and better than expected European Industrial Production numbers this morning have however helped boost sentiment and prices.

- Oil strengthened further yesterday with WTI and Brent settling higher by 40c/bbl and $1.78/bbl respectively. However, product cracks and refining margins weakened substantially. The term structure of Brent rallied again and the backwardation at the front-end of the curve has become steeper than at the beginning of 2008. In contrast, the WTI structure weakened slightly.

Commodity price data (11 October 2011)

Base metals LME 3-month									
		Close	**High**	**Low**	**Daily change**	**Change (%)**	**Cash Settle**	**Change in cash settle**	**Cash - 3m**
Aluminium	2,249	2,231	2,262	2,200	-18	-0.80%	2,185.00	-1	-35.50
Copper	7,470	7,290	7,504	7,160	-180	-2.41%	7,215.50	-99	-18.75
Lead	2,004	1,985	2,022	1,946	-19	-0.95%	1,956.50	-20	-6.50
Nickel	19,300	18,875	19,401	18,656	-425	-2.20%	18,845.00	10	-39.00
Tin	23,100	22,400	23,200	22,180	-700	-3.03%	22,250.00	-750	-25.68
Zinc	1,952	1,910	1,970	1,880	-42	-2.14%	1,880.50	-23	-20.75
Energy									
	Open	**Close**	**High**	**Low**	**day/day**	**Change (%)**			
ICE Brent	110.31	110.90	110.90	109.89	0.17	0.15%			
NYMEX WTI	85.20	85.53	85.61	84.52	-0.28	-0.33%			
ICE Gasoil	915.00	915.00	915.00	915.00	3.00	0.33%			
API2 Q4'11	119.25	119.10	-	-	-0.15	-0.13%			
ICE EUA Dec'11	10.71	10.63	-	-	-0.08	-0.75%			
Precious metals									
	AM Fix	**PM Fix**	**High bid**	**Low offer**	**Closing bid**	**Change (d/d)**	**EFP's**		
Gold	1,662.00	1,663.00	1,684.00	1,657.20	1,659.50	-9.50	1.3/1.7		
Silver	-	32.13	32.55	31.38	31.97	-0.03	0.0/2.0		
Platinum	1,518.00	1,514.00	1,541.00	1,510.00	1,515.00	-5.00	1.5/3.5		
Palladium	605.00	602.00	615.50	602.00	603.00	-9.00	0.0/1.0		

Sources: Standard Bank; LME; BBG

Focus: Copper prices and stocks

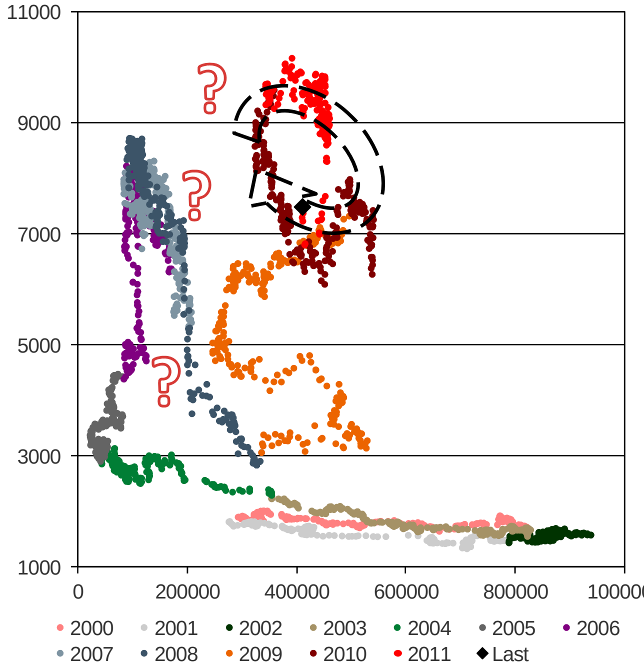
The copper stock to price chart looks like going full circle at the moment, with falling inventories and a rebound in prices, seeing the current stock to price relationship move back into early 2010's pattern. It will be interesting to see what trajectory the relationship takes from here.

In that regard, it is important to note that the entire trading range of copper has taken place while on-warrant copper stocks were around the 400kt mark (see figure). While falling LME inventories do generally go hand in hand with higher prices, sentiment and demand also need to be aligned if prices are to push upwards again.

Copper inventories have started to decline rapidly, both in LME warehouses in Asia, but also in bonded warehouses in Shanghai, where anecdotal reports suggest bonded stocks are now less than 200kt. With some reports suggesting physical premiums in Shanghai are now being quoted up around the $150/mt mark, the signs are that, in spite of the rather lacklustre SHFE-LME arbitrage, there has been decent restocking activity.

Given that Chinese consumers are still suffering form tight credit conditions and a lack of confidence regarding the state of both the domestic Chinese and wider global economy, it is more likely that the restocking has been undertaken by merchants, perhaps looking to a brighter and better 2012. How sustained the current buying will be is therefore open for debate, particularly if the Eurozone debt situation continues to cast a shadow over the wider global markets.

LME On-warrant Copper stocks vs. 3mth price



Source; Standard Bank, LME

The key factor for copper prices will therefore be whether the current pick up in activity is sustainable, or merely opportunistic in nature.

By Leon Westgate

Precious metals

As short covering began to taper off yesterday, gold and other precious metals prices began to sink. However, strong support from physical gold buying re-emerged at around $1,650 preventing prices from falling beyond this point. This has been a recurring theme over the past few weeks, and looking forward, we remain confident that gold's downside is limited by this physical buying at the $1,650 level.

This morning, precious metals are on the up again boosted by the usual Eurozone worries and a disappointing start to Q3 US corporate earning season. In a vote yesterday, the Slovakian parliament failed to ratify the terms of the European Financial Stability Fund (EFSF). A second vote on the issue is scheduled for today. While this has reignited concerns over the debt situation in the Eurozone to the benefit of precious metals, we don't foresee this as a real threat to the eventual implementation of the EFSF, but just another delay.

In the US, Q3 earnings season was off to a disappointing start with Alcoa Inc. announcing worse-than-expected results. This has refuelled concerns over the strength of the US economy, that had been somewhat allayed by last Friday's better-than-expected non-farm payrolls numbers.

Encouraging data on Japanese and Eurozone industrial activity has helped maintain upward momentum in PGM. For the month of August, Japanese machine orders rose 2.1% y/y (analysts had expected a 3.6% y/y fall) and Eurozone industrial production expanded by 5.3% y/y (consensus: 2.1%). Given the importance of the auto sector to both these economies, the numbers do bode well for PGM demand.

Gold support is at $1,665 and $1,644. Resistance is $1,697 and $1,706. Silver support is at $32.06 and $31.13, resistance is at $33.25 and $33.50.

Platinum support is at $1,527 and $1,500, resistance is at $1,564 and $1,573. Palladium support is at $603 and resistance at $623.

By Marc Ground

Base metals

A stronger euro has helped the base metals to rally during Wednesday morning, with the complex recovering from yesterday afternoon's selling pressure. The base metals, in general, remain rather subdued with the complex looking to exogenous factors for direction. Stronger Chinese equity markets overnight and better than expected European Industrial Production numbers this morning have however helped boost sentiment and prices.

Copper has rallied back above $7,400 heading into the afternoon, due primarily to short covering and a weaker dollar. Headline LME inventories continue to fall in Asia however as cancelled material continues to move out of warehouse.

In other news, the Korean Public Procurement Service (PPS) is looking to increase its base metal buffer stockpiles, with a 30,000 m² bonded warehouse zone in Busan being created for that purpose. The country is looking for private investment rather than government funds to build up its stocks, with the Korean bonded warehouse offering rents of 7¢/day rather than LME rents up around the 40¢/day mark. Additional rental discounts may also be offered. The PPS is also looking to launch a physical copper ETF which will store metal in the Korean bonded warehouse, with the service looking at a target of $100 million invested within 3 years.

Elsewhere, the steep price falls in recent weeks has seen focus turn to marginal costs, with the cost of production viewed as a supportive factor for many of the base metals. While we agree that marginal costs do provide a reference point, and some degree of price support, they only really become relevant if those metals are in short supply already, or if metals currently in surplus start to see production levels being cut dramatically. The rebound in metal prices during 2009, plus significantly more cash sat on producer balance sheets this time round, across the base metals complex, may well see production levels continue longer than might be ordinarily expected, in spite of weaker prices. The focus for producers instead looks like being on controlling costs and their relative placing on the cost curve, while they position themselves for an anticipated recovery. In that regard marginal costs are, in general, a very poor guide in our view in terms of determining an ultimate floor for prices.

Looking at aluminium, already under water as far as marginal costs go, the very high hurdle cost for shutting down and then restarting an aluminium smelter immediately blunts the marginal cost argument, particularly if cash reserves remain healthy. Meanwhile, readily available finance and a conducive forward structure continues to allow any surpluses to be stored profitably. An additional risk to aluminium therefore is perhaps a return of much tighter credit conditions. This may see fresh surplus metal head straight out into the market rather than into storage and see existing financing agreements come to an end, potentially impacting on both premiums and prices as more metal becomes available. Also worth factoring in for the cost argument is energy, with lower energy prices serving to erode cost support for aluminium, albeit with a significant time lag in some cases.

Zinc is much more vulnerable to cost-related producer closures than aluminium. Co-product prices (Pb and Ag) have however been incredibly strong, while abundant cash means the zinc industry is much calmer than it was during the last crisis. The pressure to close capacity is not as strong as it was in 2008 and 2009, though it will nevertheless be interesting to see whether some of the large mine closures expected in the next couple of years are brought forward. Like aluminium, zinc has also seen large consecutive annual surpluses over the past few years head into warehouse financing agreements, with tighter credit potentially a risk factor for zinc too.

Copper remains well above marginal costs, even without taking by-product credits like gold and molybdenum fully into account. Prices could therefore fall significantly without seeing major capacity closures. While copper remains tighter from an underlying fundamental basis than its peers, thereby meaning significant capacity closures are not needed, cost support remains several thousand dollars below current prices.

Taking into account marginal costs, by product prices and strength of balance sheets, the only metals that really look to benefit from cost-related support over the short term are tin and nickel. Tin has already seen producer closures and export bans, helping prices to rally back towards $23,000, while the grey area that is nickel pig iron production costs, also appear to have put a floor under the metal for the time being with focus switching back towards the relative affordability of refined units.

By Leon Westgate

Energy

Oil strengthened further yesterday with WTI and Brent settling higher by 40c/bbl and $1.78/bbl respectively. However, product cracks and refining margins weakened substantially. The term structure of Brent rallied again and the backwardation at the front-end of the curve has become steeper than at the beginning of 2008. In contrast, the WTI structure weakened slightly.

OPEC published its monthly oil market report, which keeps its projection on global economic growth for 2011 at 3.6%, but revised down the projection for 2012 to 3.7%. In parallel, OPEC revised down its 2011 global oil demand growth by 0.18mb/d to 0.9mb/d, with growth forecast for 2012 at 1.2mb/d. Meanwhile, the IEA also downwardly revised its demand for 2011 and 2012 by 50kb/d and 210kb/d respectively. According to the IEA's latest oil market report, the agency's estimates for global oil demand is at 89.2 mb/d in 2011 (+1.0 mb/d y-o-y) and 90.5 mb/d in 2012 (+1.3 mb/d).

Despite the downward revision for demand forecast, the physical oil market remains extremely tight, signified by the very steep backwardated structures in Brent and many oil products. In fact, the IEA has found that OECD industry oil stocks fell counter-seasonally in August by 3.4 mb to 2 692 mb, or 58.4 days of forward cover. Preliminary September data, also from the IEA, suggests a further 12.7 mb decline in OECD industry stocks and a drop in short-term floating storage. Since July, OECD stocks fell below the five-year average for the first time since June 2008.

With a tight supply and rapid declining inventories, the IEA and OPEC appears to hang their supply and demand balance on a quick return of Libya crude. OPEC Secretary General commented yesterday that Libyan oil output could reach 1mb/d within six months, and a pre-war production level of 1.6-1.7mb/d in 12 months. The IEA thinks that Libya crude production could reach 0.6mb/d by year-end. We think that both projections are optimistic.

In the financial markets, in the last few days, fears of another recession appear to be receding, with the euro and the equity market soaring. In addition to the very tight physical market, the oil price has gained strong upward momentum over the last five trading sessions. A further rally in the oil price will hit technical resistance soon, and the oil market remains vulnerable to the development in tackling the Eurozone debt crisis. While we are about over the recent rally, we have to maintain a somewhat bullish bias for the physical market as we have yet to see material weakness on the demand side, despite the soft economic data in recent weeks.

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	4,558,675	4,544,725	18,750	4,800	13,950	281,625	234,175	5.14	241,797
Copper	458,525	462,525	425	4,425	-4,000	80,975	48,200	10.51	141,264
Lead	385,675	382,000	4,100	425	3,675	177,400	6,775	1.76	41,560
Nickel	92,502	93,366	0	864	-864	-43,170	6,294	6.80	30,940
Tin	19,230	19,795	135	700	-565	2,955	3,300	17.16	3,609
Zinc	803,700	806,475	0	2,775	-2,775	102,275	70,300	8.75	96,979

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,650	16,740	0
Copper	53,690	54,670	-330
Zinc	15,020	15,165	-90

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Dec'11	-	-	-	-
Cu Dec'11	329	332.00	2.95	0.90%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,395	57,443	15,576	150,025	177,132	14,971	7.9610
3-month	17,993	58,794	16,009	152,227	180,656	15,406	8.0650

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 ($/bbbl)	120.60	-0.89	118.42	-0.93	117.90	-0.71	117.06	-0.61	-	-
Gasoil 0.1% Rdam ($/mt)	915.00	3.00	910.00	4.75	902.75	4.50	882.00	-0.25	876.00	-0.50
NWE CIF jet ($/mt)	979.06	-6.95	981.98	-8.15	979.16	-5.59	968.52	-2.99	967.34	0.07
Singapore Kero ($/bbl)	122.21	-0.83	121.07	-0.83	120.95	-0.71	119.96	-0.66	119.44	-0.42
3.5% Rdam barges ($/mt)	617.12	6.93	615.75	8.75	608.25	8.50	596.25	7.75	577.25	5.75
1% Fuel Oil FOB ($/mt)	637.88	5.52	641.50	7.00	639.25	5.75	631.50	6.50		
Sing FO180 Cargo ($/mt)	646.88	5.93	645.75	8.75	638.75	8.00	626.00	6.75		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	119.10	-0.15	119.90	-0.15	119.90	-0.15	120.50	-0.15	124.00	0.05
API4 (FOB RBCT)	114.10	-0.25	116.40	-0.15	116.35	-0.15	116.90	-0.15	119.45	0.05

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.51560	0.51400	0.51500	0.52340	0.53000
Silver	0.32000	0.29000	0.29000	0.26000	0.14400
USD Libor	0.24311	0.31272	0.39750	0.58694	0.90133

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	47.73	1,645.66	1,685.20	1,655.98	1,542.88	1,665.00	1,697.00
Silver	41.67	31.09	33.51	37.54	36.37	32.06	33.25
Platinum	36.27	1,510.96	1,598.43	1,750.42	1,772.48	1,527.00	1,564.00
Palladium	38.58	598.31	637.41	743.85	760.07	602.00	623.00

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	1,668.30	32.1300	608.20	1,518.80	1,675.00	4,116.00	1,667.00
Open Interest	434,632	102,419	19,127	38,770	9,171	121,302	1,870
Change in Open Interest	-2,363	2,198	134	4	-42	0	2

Sources: Standard Bank; LME; Bloomberg

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