Commodities

Commodities: Daily

Focus: Trade and stocks highlight monetary policy — 13 October 2011

Focus: China's latest trade data released this morning indicates a marked slowdown in export growth, especially to Europe. We believe that the slowdown is the result of weak global demand and a strong yuan.

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- Enthusiasm for precious metals began to ebb after the New York open yesterday, as interest turned again to riskier assets. Perhaps investors were emboldened by the apparent realisation of European leaders that aggressive action needs to be taken to address this region's debt. However, the situation remains far from resolved, and markets may be getting a bit ahead of themselves in hoping that decisive action is imminent.
- Oil climbed further on a weaker US dollar yesterday, but failed to hold on to the gains into market close, despite a bullish set of API inventory reports. WTI fell slightly by 24c/bbl, while Brent strengthened by 63c/bbl. The backwardation in Brent remains very steep amid low inventories.

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Commodity price data (12 October 2011)

Base metals LME 3-month		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,227	2,248	2,270	2,215	21	0.95%	2,202.50	18	-34.00
Copper	7,244	7,525	7,545	7,163	281	3.88%	7,419.00	204	-17.25
Lead	1,995	2,070	2,068	1,974	75	3.76%	2,009.50	53	-9.00
Nickel	18,701	19,080	19,312	18,650	379	2.03%	18,925.00	80	-39.00
Tin	22,495	23,000	22,850	22,351	505	2.24%	22,400.00	150	-35.00
Zinc	1,915	1,945	1,978	1,905	30	1.57%	1,930.00	50	-19.75

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	111.10	111.17	111.36	110.98	-0.19	-0.17%
NYMEX WTI	84.93	84.92	85.19	84.64	-0.65	-0.77%
ICE Gasoil	917.25	916.75	918.00	914.25	-1.75	-0.19%
API2 Q4'11	119.10	119.15	-	-	0.05	0.04%
ICE EUA Dec'11	10.63	10.73	-	-	0.10	0.94%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,687.00	1,682.00	1,692.00	1,661.25	1,681.00	21.50	1.3/1.7
Silver	-	32.36	33.08	31.90	32.77	0.80	0.0/2.0
Platinum	1,543.00	1,546.00	1,550.00	1,523.00	1,545.00	30.00	1.5/3.5
Palladium	614.00	612.00	613.00	605.00	610.00	7.00	0.0/1.0

Sources: Standard Bank; LME; BBG

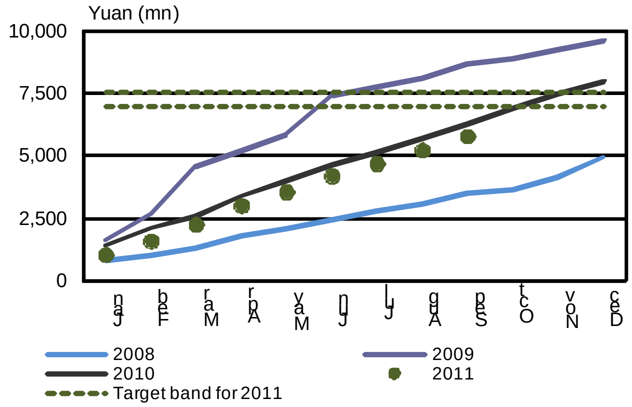
Focus: Trade and stocks highlight monetary policy

China's latest trade data released this morning indicates a marked slowdown in export growth, especially to Europe. We believe that the slowdown is the result of weak global demand and a strong yuan. At the same time, China's import growth slowed too despite its appreciating currency. This is consistent with a slowdown in domestic demand in China. The apparent slowdown in China's domestic economic activity, combined with a build in metal inventory in the country despite low stock levels generally at fabricator level, should highlight monetary policy in China (see our Base Metals section for more detail and comments on metal stocks in China).

As a result, we focus on next week's release of September's new yuan loans data for China. It is expected to show an additional CNY550bn of credit extension (CNY50bn less than September last year). Furthermore, YTD the new loans extended in the country would be a marked 16% less, compared to the first nine months of 2010. The loans data remains consistent with access to credit that is much more restrictive than in 2010 and substantially more so than in 2009 (see graph). The slower growth in new loans is a culmination of higher interest rates and higher reserve requirement ratios for banks.

Of all the tightening measures used by the PBOC, we find that interest rates have the smallest impact on commodity prices. Furthermore, given the monetary transmission mechanism, we also find interest rates impact commodity prices with a substantial lag relative to other measures. Rationing of the credit extended by financial institutions (new yuan loans) was revealed by our analysis as the most threatening of inflation combating measures. This, we believe makes next week's numbers particularly important.

China new yuan loans



Sources: Standard Bank; CEIN

China's September's inflation number is likely to print lower m/m tomorrow. However, maintain that there will be little monetary policy easing in Q4:11 in China. As a result, new yaun loans should continue to edge towards the target band set for 2011. But access to, and cost of, finance should remain more restrictive than in 2010 and, as a result, provide little additional support for metal demand (especially in the form of inventory restocking) in Q4.

By Walter de Wet

Base metals

A rather disappointing set of Chinese trade data, plus ongoing Eurozone concerns have seen the base metal come under pressure during Thursday morning. Chinese exports were particularly hard hit, with export growth dropping to a 7-month low, likely reflecting weaker conditions in Europe. Turnover across the base metals complex remains rather disappointing, with exogenous factors remaining in charge of price direction.

Chinese imports of copper and copper products increased 12% m/m in September at 380.5kt. The figure was also up 3.3% in y/y terms. Given seasonal factors and the trend of Chinese destocking of copper, the figure was solid rather than spectacular but nevertheless suggests that Chinese appetite for the metal remains ok. Elsewhere, there were further significant warrant cancellations in South Korea, with on-warrant LME inventories declining by 10,075 mt this morning. It is likely that this metal is earmarked for China.

The Financial Times has reported that total Chinese copper stocks, not including SHFE inventory, were 1.78 million tonnes as of the end of 2010 - citing ICSG and China Non-Ferrous Metal Industry Assn. figures. With 600kt or so of that material being metal privately held in bond at the time, and assuming a modest 3-weeks worth of consumer working stocks, that leaves the Chinese State Reserve (SRB) holding the remaining 800 kt or so, well within consensus expectations. In 2009, the SRB held around 600kt and were looking to increase their stockpile in line with higher Chinese consumption of the metal. With China having de-stocked significantly during 2011, and with bonded stocks now heard below 200 kt, arguably those stock levels are fairly bullish, particularly with the SRB material classified as strategic and not freely available to the market.

An interesting question perhaps for the next couple of months, is how low can Chinese consumer working stocks go? We have argued that bonded warehouse stocks are, in effect, a proxy for much of Chinese consumer working stocks of copper. Certainly for fabricators close to Shanghai that is the case, however, China is a big place with relatively poor infrastructure, meaning that just-in-time levels of stock further in-land need to be higher. With winter and potential travel disruptions on the way it will be interesting to see if some more sustained restocking activity occurs. So far however, much of the copper activity appears to be opportunistic, while the very high physical premiums being offered at the moment in Shanghai are not necessarily indicative of where real business is being done. Given the ongoing problems in Europe, and a subdued assessment of the domestic Chinese economy, we would expect consumers to remain cautious, though, imports may well continue to be solid over the coming months, in spite of the relatively poor arbitrage opportunities seen so far, perhaps allowing bonded stockpiles to be recharged.

By Leon Westgate

Precious metals

Enthusiasm for precious metals began to ebb after the New York open yesterday, as interest turned again to riskier assets. Perhaps investors were emboldened by the apparent realisation of European leaders that aggressive action needs to be taken to address this region's debt. However, the situation remains far from resolved, and markets may be getting a bit ahead of themselves in hoping that decisive action is imminent.

Disappointing trade figures out of China further dampened interest in commodities in general. The September surplus shrank to $14.5bn (consensus: $16.3bn) after the previous month's $17.8bn. Of particular concern was the marked slowdown in imports (most likely in reaction to slowing exports of the previous months), which only rose 20.9% y/y (after a 30.2% y/y in August). With many already questioning the ability of China to come to the rescue of an ailing global economy again, as it did in 2008, this data only adds to these doubts.

In other overnight developments, the Fed's minutes revealed that some members were keen for the Fed to engage in further easing. Given the close co-movement between gold and liquidity, this is encouraging, as it implies that QE3 is still a possibility. However, we do not expect any decisive steps to be taken soon.

Not much on the data front today. As usual, US jobless claims data will probably be watched with interest, perhaps even more so today after last Friday's non-farm payrolls.

Gold support is at $1,659 and $1,644. Resistance is $1,691 and $1,708. Silver support is at $31.75 and $31.20, resistance is at $32.96 and $33.61.

By Marc Ground

Energy

Oil climbed further on a weaker US dollar yesterday, but failed to hold on to the gains into market close, despite a bullish set of API inventory reports. WTI fell slightly by 24c/bbl, while Brent strengthened by 63c/bbl. European and USGC refining margins fell sharply, while the Singapore margin held up relatively well even though Shell's refinery in Singapore is now partially back in operation. The backwardation in Brent remains very steep amid low inventories. The WTI structure weakened slightly as API reported an increase in Cushing crude inventories for the first time in seven weeks.

According to China Customs, China September crude oil imports grew marginally over August on a barrel per day basis. YTD China oil imports increased by 4%, or equivalent to approximately 150kb/d. Meanwhile, China's domestic crude production has grown by about 2.5% y/y so far this year, or equivalent to less than 100kbd. Even if a sharp seasonal demand increase materialises in Q4:11, it appears that China's oil demand growth might significantly undershoot projections of 500kbd y/y growth in 2011 made by the major agencies.

The API reported US weekly oil inventory changes for crude/gasoline/distillates at -3.8/-1.2/-3.1MB w/w. Crude inventories at Cushing rose by 0.5MB, to 30.1MB. The total US refinery utilisation rate dropped by 1.8%, to 83.1%, due to increased maintenance activity. The hefty draw in crude stocks appears to contradict a reported increase in crude imports and a fall in refinery intakes. Instead, the API crude draw looks more likely to catch to up the DOE number, which remains 4mb lower after the latest API draw.

The Fed released the minutes of its last FOMC meeting, which revealed that the Fed would keep QE3 available if the economy were to worsen substantially. Inside the Eurozone, EMU's industrial production (IP) for August increased by 1.2%, much higher than a contraction of 0.8% expected by the market, which helped with the recent, rather sharp, recovery in the euro as the IP of individual countries were released during the past few days.

For the oil market, the rather tight physical market since August has pushed the Brent curve into very steep backwardation. With the refining margins collapsing again in Europe, refineries are likely to cut runs and hold back from crude purchases. Although European refiners are running on very low inventories, the tight physical market is likely to curb any incentives to rebuild inventories.

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	4,555,700	4,558,675	225	3,200	-2,975	278,650	232,100	5.09	347,666
Copper	457,000	458,525	1,000	2,525	-1,525	79,450	45,675	9.99	146,547
Lead	386,850	385,675	1,250	75	1,175	178,575	6,700	1.73	58,063
Nickel	91,782	92,502	0	720	-720	-43,890	5,664	6.17	34,691
Tin	18,910	19,230	90	410	-320	2,635	3,285	17.37	5,715
Zinc	801,550	803,700	0	2,150	-2,150	100,125	68,150	8.50	102,654

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,705	16,705	-5
Copper	54,880	54,860	710
Zinc	15,155	15,185	85

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Dec'11	-	-	-	-
Cu Dec'11	339	333.95	-5.40	-1.59%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,180	57,868	15,674	147,615	174,720	15,054	7.8000
3-month	17,770	59,485	16,363	150,827	181,815	15,375	7.9050

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 ($/bbbl)	121.57	0.97	119.75	1.33	119.21	1.31	118.08	1.02	-	-
Gasoil 0.1% Rdam ($/mt)	916.75	-1.75	908.00	-2.25	901.75	-2.25	885.75	-3.00	885.25	10.00
NWE CIF jet ($/mt)	984.97	5.91	991.46	9.48	988.66	9.50	978.18	9.66	977.56	10.22
Singapore Kero ($/bbl)	123.25	1.04	122.15	1.08	122.01	1.06	120.88	0.92	120.26	0.82
3.5% Rdam barges ($/mt)	625.51	8.39	627.50	11.75	619.25	11.00	605.50	9.25	586.25	9.00
1% Fuel Oil FOB ($/mt)	645.42	7.54	653.25	11.75	650.75	11.50	640.25	8.75		
Sing FO180 Cargo ($/mt)	655.22	8.34	658.00	12.25	650.00	11.25	635.25	9.25		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	119.15	0.05	120.00	0.10	119.90	0.00	120.60	0.10	124.20	0.20
API4 (FOB RBCT)	114.10	0.00	116.50	0.10	116.35	0.00	117.00	0.10	119.65	0.20

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.51960	0.52000	0.52300	0.52940	0.53400
Silver	0.31400	0.29400	0.29400	0.25400	0.17400
USD Libor	0.24322	0.31394	0.40083	0.58806	0.90400

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	48.20	1,652.48	1,679.90	1,657.61	1,544.43	1,659.00	1,691.00
Silver	42.29	31.32	33.16	37.50	36.39	31.75	32.96
Platinum	37.77	1,515.05	1,587.27	1,748.34	1,771.64	1,522.00	1,558.00
Palladium	37.98	596.48	631.29	742.33	759.27	600.00	613.00

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	1,678.80	32.4300	604.00	1,554.40	1,683.00	4,154.00	1,678.70
Open Interest	438,090	99,698	19,067	38,519	9,117	121,302	1,870
Change in Open Interest	3,458	-2,721	-60	-251	-54	0	0

Sources: Standard Bank; LME; Bloomberg

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