

FICC Research

Commodities: Daily

Focus: Oil supply and demand: Nicely balanced?



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Focus: It is the monthly reporting time again in the oil market. OPEC published their Monthly Oil Market Report on Tuesday, the IEA released their Oil Market Report on Wednesday morning, shortly followed by the EIA's monthly Short-Term Energy Outlook in the afternoon. The distinctive feature of the forecasts is that the market is, and will be, nicely balanced for many months to come.

- After appearing to have lost some momentum on Wednesday, the base metals complex has been re-energised during Thursday morning. Stronger equity markets and a burst of dollar weakness helped to give the metals a boost heading into the afternoon, though prices are again drifting lower ahead of US trade.
- Expectations of further quantitative easing by the Fed, continues to dominate precious metals markets. Gold and silver have extended Wednesday's rallies, with gold achieving yet another record price and silver reaching a 30-year high.
- Oil rallied strongly on Wednesday, supported both by monetary policies, in the shape of the Fed's September FOMC meeting minutes, and the fundamentals in the form of China's September crude oil import volumes. Chinese Customs data show that China imported 23.29 million tonnes of crude in September. This represents an increase of 35.4% y-o-y and 11.4% m-o-m.

Commodity price data (13 October 2010)

Base metals LME 3-month									
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,440	2,417	2,459	2,421	-20	-0.94%	2,390.00	5	-36.25
Copper	8,410	8,363	8,490	8,406	12	-0.56%	8,400.00	134	-9.00
Lead	2,433	2,440	2,473	2,430	60	0.29%	2,408.00	133	-27.00
Nickel	24,325	24,400	24,700	24,500	350	0.31%	24,110.00	-40	-45.00
Tin	26,850	26,800	27,150	26,900	275	-0.19%	26,800.00	200	23.00
Zinc	2,410	2,410	2,436	2,395	40	0.00%	2,381.00	72	-28.75

Energy						
	Open	Close	High	Low	day/day	Change (%)
ICE Brent	84.75	85.26	85.44	84.75	0.62	0.73%
NYMEX WTI	83.23	83.95	84.10	83.22	0.94	1.12%
ICE Gasoil	725.75	728.25	729.25	723.75	2.75	0.38%
API2 Q3'10	97.40	98.70	-	-	1.30	1.32%
EUA Dec10	15.72	15.69	-	-	-0.03	-0.19%

Precious metals							
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,358.50	1,365.50	1,374.60	1,349.75	1,369.20	23.00	0.6/1.0
Silver	-	24.72	23.95	23.29	23.92	0.79	0.0/2.0
Platinum	1,698.00	1,696.00	1,694.00	1,688.00	1,692.00	12.00	1.0/3.0
Palladium	593.00	587.00	591.00	587.00	591.00	11.00	1.0/3.0

Sources: Standard Bank; LME; BBG

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Focus: Oil supply and demand: Nicely balanced?

It is the monthly reporting time again in the oil market. OPEC published their Monthly Oil Market Report on Tuesday, the IEA released their Oil Market Report on Wednesday morning, shortly followed by the EIA's monthly Short-Term Energy Outlook in the afternoon. **Table 1** summarises the three organisation's views on the oil supply and demand balance for this year and next year.

The distinctive feature of the forecasts is that the market is, and will be, nicely balanced for many months to come. The IEA forecasts suggest that the current high inventory level worldwide will not be drawn down in the next 15 months, as they see a slightly over-supplied market this year, and a balanced one next year. In comparison, EIA predicts inventory will continue to build this year before being slowly drawn down in 2011.

Both the IEA and OPEC forecast an increase of Non-OPEC supply - around 0.5mbd - while the IEA is more bearish with a decline of 0.24mbd. In terms of OPEC production, the EIA is looking for a much bigger increase of 1.24mbd in 2011 yoy, while the IEA appears to be more optimistic on OPEC compliance with a 0.7mbd increase.

In terms of a demand increase (see **Table 2**), the IEA and EIA are broadly aligned, while, as is the norm, OPEC comes with the most bearish demand picture.

In summary, the major agencies are in agreement that the oil market is nicely balanced. If the market is to tighten up, the agencies believe it will be a gradual process.

Base metals

After appearing to have lost some momentum on Wednesday, with copper trading water and aluminium drifting lower, the base metals complex has been re-energised during Thursday morning. Stronger equity markets and a burst of dollar weakness helped to give the metals a boost heading into the afternoon, though prices are again drifting lower ahead of US trade.

While the metals have continued to rally, the base metals markets are also feeling a little nervy. While participants seem wary about aggressively selling into the rally, they also seem reticent about buying aggressively too. With the next Fed meeting, and more clarity on the potential for QE2 and other measures, still some 3 weeks away the market looks set for a choppy and volatile period. In that regard, technical indicators will become increasingly important, albeit viewed against a bullish fundamental backdrop for many of the base metals.

The potential impact of base metals ETF's is still a central talking point of the market. While much of the discussion is purely speculative at the moment, the key issues appear to revolve around the physically backed element of the ETF's, and how they will integrate with the LME's warranting and warehousing system. We will investigate the impact more closely, as full details of the new products emerge.

So far, the best analogy we have for how the physically backed ETFs will impact on the market is similar to material held in financing deals i.e. material that is visible and ultimately available to the market, but only under certain conditions. Given human nature however, when markets are looking scarce demand for ETFs will increase, and vice versa, therefore exacerbating volatility around those turning points in the market balance as it shifts from deficit to surplus and back again.

In other news, a study by Europe Economics, looking into the LME's rules on withdrawing metal from warehouses should be completed by the beginning of 2011.

Table 1: World Oil Demand/Supply Balance (mbd)

	Demand		Supply		Balance	
	2010	2011	2010	2011	2010	2011
IEA	86.9	88.2	87	88.2	0.1	0
EIA	86.06	87.44	86.21	87.21	0.15	-0.23
OPEC	85.6	86.6	N/A	N/A	N/A	N/A

Source: IEA, EIA, OPEC

Table 2: World Oil Demand (mbd)

	2010	2011	YoY change
IEA	86.9	88.2	1.3
EIA	86.06	87.44	1.38
OPEC	85.6	86.6	1

Source: IEA, EIA, OPEC

From our point of view however, this appears to be rather an optimistic outlook. In a cyclical sector like oil, equilibrium between supply and demand usually doesn't tend to last very long.

With oil increasingly being seen as part financial instrument however, we expect the price volatility of the oil market in the next 15 months to remain very high, with that impacting on supply and demand dynamics.

By Leon Westgate

Precious metals

Expectations of further quantitative easing by the Fed, continues to dominate precious metals markets. Gold and silver have extended Wednesday's rallies, with gold achieving yet another record price and silver reaching a 30-year high.

Aggressive investor buying is pushing gold towards the next major resistance level of \$1,400. In contrast, the physical market remains weak, with gold scrap availability remaining high. Nevertheless, we anticipate some seasonal jewellery demand (Diwali ends 5 Nov) to prompt some buying into dips.

Gold support is at \$1,363 and \$1,343. Resistance is at \$1,389 and \$1,395.

The rise in silver prices, boosted by ETF and trade buying, continues to outpace gold. Silver support is at \$23.94 and \$23.19, resistance is at \$24.77 and \$24.84.

Given the preoccupation with US monetary policy, today's US producer inflation and tomorrow's consumer inflation figures could have a significant impact on precious metals. Weaker readings (supportive of monetary easing) should lend further support to prices.

Ben Bernanke is also set to speak on monetary policy tomorrow. The main risk is that he might use this opportunity to reign in expectations of quantitative easing, i.e. perhaps hinting at a more conservative approach than markets' are currently anticipating. This could prompt a pull back in precious metals, possibly amplified by profit taking ahead of the weekend.

Platinum support is at \$1,694 and \$1,672, resistance at \$1,726 and \$1,735. Palladium support is at \$589 and resistance at \$605.

By Walter de Wet

Energy

Oil rallied strongly on Wednesday, supported both by monetary policies, in the shape of the Fed's September FOMC meeting minutes, and the fundamentals in the form of China's September crude oil import volumes. Chinese Customs data show that China imported 23.29 million tonnes of crude in September. This represents an increase of 35.4% y-o-y and 11.4% m-o-m.

Crude oil prices have continued to pick up this morning, with front month WTI climbing above \$84/bbl during the morning, helped by a weaker dollar and firmer equity markets. Prices have since drifted back heading into the afternoon, though prices remain well supported.

The weekly API stock figures showed a big draw in crude stocks of 4mbbl. We interpret this as API catching up with the recent DOE figures. Prior to last night's release, the API crude inventory was 5.1mbbl higher than DOE's, with the latest update closing the difference to just over 1.1mbbl.

By Leon Westgate

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	4,322,250	4,323,750	-	1,500	-1,500	-306,650	221,050	5.11	288,498
Copper	371,275	371,750	550	1,025	-475	-131,050	24,350	6.56	96,403
Lead	198,425	198,425	-	-	-	51,925	7,225	3.64	39,477
Nickel	124,140	123,714	498	72	426	-33,870	4,080	3.29	31,746
Tin	12,330	12,150	205	25	180	-14,435	285	2.31	5,475
Zinc	610,100	610,350	-	250	-250	122,050	42,125	6.90	63,398

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	16,510	16,440	-20	Ali Dec'10	-	-	-	-
Copper	63,230	63,540	710	Cu Dec'10	382	385.60	3.55	0.93%
Zinc	19,325	19,310	210					

ZAR metal prices (13 October 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,392	57,611	16,515	165,358	183,808	16,330	6.8585
3-month	16,822	58,206	16,982	169,824	186,528	16,774	6.9600

Energy

Energy futures pricing	Price Change		Price Change		Price Change		Price Change		Price Change	
	1-month forward		2-month forward		3-month forward		6-month forward		1-year forward	
Sing Gasoil (\$/bbl)	94.11	0.97	95.65	1.82	96.12	1.64	97.24	1.27	-	-
Gasoil 0.1% Rdam (\$/mt)	728.25	2.75	729.75	2.50	732.75	2.50	736.50	10.50		
NWE CIF jet (\$/mt)	768.91	9.30	776.61	13.09	780.34	12.48	788.72	10.75		
Singapore Kero (\$/bbl)	95.49	1.01	96.65	1.82	97.17	1.69	98.34	1.27		
3.5% Rdam barges (\$/mt)	459.02	3.76	462.25	6.25	465.25	6.75	475.05	7.35		
1% Fuel Oil FOB (\$/mt)	474.00	5.80	480.75	9.00	486.75	9.25	500.55	8.35		
Sing FO 380 Cargo (\$/mt)	100.15	-	100.15	-	100.15	-	100.15	-		
Sing FO180 Cargo (\$/mt)	479.70	3.96	486.25	6.75	490.00	6.75	498.80	6.10		
Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	98.70	1.30	99.50	1.70	100.40	1.60	101.10	1.50	107.70	1.40
API4 (FOB RBCT)	91.40	1.30	94.50	1.20	95.80	1.50	96.40	1.30	101.80	1.40

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.36833	0.38667	0.40833	0.45167	0.48167		
Silver	0.54167	0.55000	0.55833	0.58333	0.60500		
USD Libor	0.25625	0.27297	0.28906	0.45500	0.76681		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	74.19	1,346.46	1,320.29	1,240.73	1,188.57	1,363.00	1,389.00
Silver	76.61	23.12	22.21	19.27	18.36	23.94	24.77
Platinum	66.03	1,695.95	1,666.24	1,568.83	1,590.92	1,694.00	1,726.00
Palladium	66.76	584.73	568.52	496.54	484.61	589.00	605.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DG CX GLD	TOCOM GLD	CBOT GLD
	Dec'10	Dec'10	Jan'11	Jan'11	Dec'10	Aug'11	Dec'10
Settlement	1,384.00	24.7550	603.00	1,707.40	1,384.50	3,610.00	1,384.90
Open Interest	616,382	153,970	24,196	38,698	2,378	104,107	2,278
Change in Open Interest	1,499	-920	318	28	-205	-	26

Date: 13 October 2010

Sources: Standard Bank; LME; Bloomberg

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