

Commodities

Commodities: Daily



Focus: Copper Tom-Next spread tightening up again

18 October 2011

Focus: Copper Tom-Next spread tightening up again - more tightness to come at the end of the month? The approach of the October 3rd Wednesday has seen the copper Tom-Next spread tighten up and move into backwardation, similar to how the spread behaved back in September.

- With the inability of Eurozone politicians to agree on a course of action for resolving the sovereign debt crisis, a disappointing set of Chinese Q3-GDP figures, the lowest since 2009, were all the market needed to reach for the sell-button again. The rest of the Chinese data was fairly solid, however they were not enough to distract the market from either the headline GDP figure, or the ongoing mess in Europe.
- Precious metals have succumbed to the general negativity in markets, prompted by fading optimism regarding the Eurozone, and deepened by disappointing Q3:11 Chinese GDP growth. Starting in New York yesterday, liquidations across assets have continued into the European open this morning, with sell-offs in precious metals particularly acute in Asian markets during overnight trade.
- After an initial surge, oil prices retreated yesterday as hopes of a resolution to the Eurozone's woes soon faded — the close saw WTI and Brent down 42c/bbl and \$4.52/bbl, respectively. This morning it appears as though the weakness will persist on news of a slowing Chinese economy, and the expectations of growing US oil inventories.

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Commodity price data (17 October 2011)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,221	2,216	2,257	2,200	-5	-0.23%	2,210.00	39	-24.25
Copper	7,556	7,495	7,660	7,456	-61	-0.80%	7,566.00	66	-14.00
Lead	2,044	1,986	2,053	1,961	-59	-2.86%	1,990.50	-18	-22.50
Nickel	18,900	18,975	19,150	18,651	75	0.40%	18,755.00	-145	-31.00
Tin	22,200	21,495	22,350	20,900	-705	-3.18%	22,000.00	-50	-39.00
Zinc	1,930	1,905	1,956	1,894	-25	-1.30%	1,900.00	-2	-19.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	110.16	110.10	110.48	109.71	-0.06	-0.05%
NYMEX WTI	86.20	86.14	86.67	85.98	-0.24	-0.28%
ICE Gasoil	940.75	940.50	943.00	937.75	-7.25	-0.77%
API2 Q4'11	117.75	117.55	-	-	-0.20	-0.17%
ICE EUA Dec'11	10.45	10.38	-	-	-0.07	-0.67%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,689.00	1,682.00	1,687.50	1,666.80	1,685.00	3.50	1.2/1.6
Silver	-	31.52	32.42	31.57	31.73	-0.44	-1.0/1.0
Platinum	1,574.00	1,570.00	1,575.00	1,547.00	1,555.00	4.00	1.5/3.5
Palladium	642.00	635.00	636.00	614.00	615.00	-3.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Copper Tom-Next spread tightening up again - more tightness to come at the end of the month?

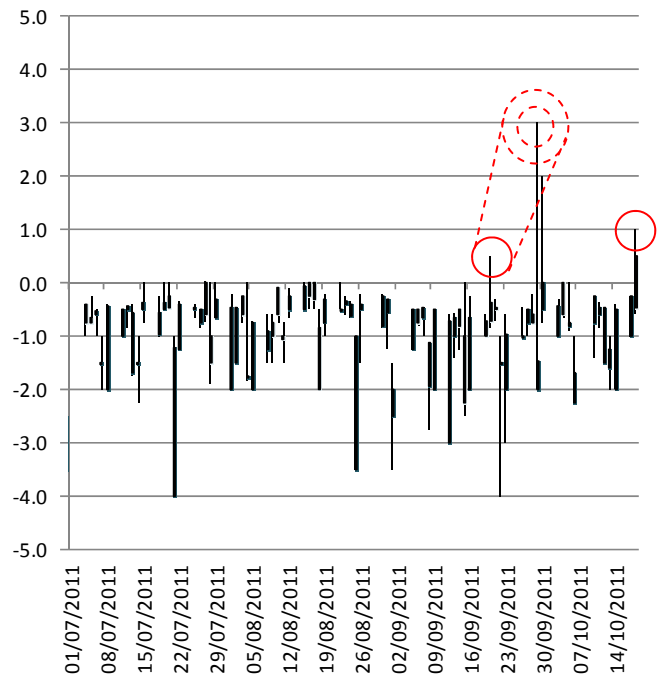
The approach of the October 3rd Wednesday has seen the copper Tom-Next spread tighten up and move into backwardation, similar to how the spread behaved back in September. This appears to be due to usual position housekeeping activity, albeit potentially exacerbated by a greater number of short position holders at the moment.

Of perhaps greater interest, however, is what happens at the end of the month? In September, the tom-next tightness around 3rd Wednesday appeared to flag the more pronounced tightness seen at the end of the month.

Ordinarily, the rolling of long-only index funds are easily absorbed by short position holders, in particular those looking to finance physical inventory. With headline prices falling during August, and then dropping even more sharply during September, it is likely the passive index length was not as abundant as is generally assumed to be the case. Given the ongoing problems in the Eurozone, money has been sat on the sidelines, with participants reluctant to dip their toe in the water.

This time round however, the issue is further compounded by the recent jump in copper cancelled warrants and subsequent exodus of metal from LME warehouses. Consequently copper in LME warehouses is now much less readily available than was the case in mid-September, with on-warrant stocks currently some 10% lower than this time last month.

LME Copper Tom-Next Candle Chart - Jul 2011 to current



Sources: Bloomberg

In that regard, if the end-September commodity index rolls again prove to be rather anaemic, the copper nearby spreads may well be headed for another bout of fairly significant tightness as we head towards month end, particularly if participants have taken those fund rolls for granted.

By Leon Westgate

Base metals

With the inability of Eurozone politicians to agree on a course of action for resolving the sovereign debt crisis, a disappointing set of Chinese Q3-GDP figures, the lowest since 2009, were all the market needed to reach for the sell-button again. The rest of the Chinese data was fairly solid, however they were not enough to distract the market from either the headline GDP figure, or the ongoing mess in Europe. As such, the base metals have continued to come under pressure, with Monday afternoon's sell-off spilling over into Tuesday morning.

Exogenous factors will continue to dominate the base metals this week as the market watches and hopes for some agreement on Europe. Key to market confidence will be when European ministers finally learn to start speaking with one voice, rather than contradicting each other.

Data-wise the main figures were the Chinese Q3 GDP numbers which came in at 9.1%, compared to expectations of 9.3%. Of note however, September IP (+14.2%), Urban FAI (+24.9%) and Retail Sales (+17.7%) all came in above expectations. In Europe, the German ZEW economic sentiment index was worse than expected at -48.3, with concern that the wider European debt situation will impact on German economic growth. Poor Q3 results from the likes of Goldman Sachs are also likely to put pressure on the wider markets.

In spite of further disruption at Grasberg, copper prices have continued to slide, with 3-month prices dropping below \$7,300 ahead of US trade. Interestingly, copper on-warrant stocks in Asia increased by a net 4,150 mt this morning, with Singapore the main location for the increase. Elsewhere, the Zambian government has said it will intervene to help resolve the strike at the Chambishi copper smelter. Workers, demanding a 40% increase in pay, downed tools last week. The strike is now entering its 6th day.

As far as the other metals are concerned, aluminium is the only metal that is really managing to hold its head above water, with decent buying interest again helping to support prices. The rest of the base metals complex remains under pressure, taking cues from copper and the wider global markets.

By Leon Westgate

Precious metals

Precious metals have succumbed to the general negativity in markets, prompted by fading optimism regarding the Eurozone, and deepened by disappointing Q3:11 Chinese GDP growth. Starting in New York yesterday, liquidations across assets have continued into the European open this morning, with sell-offs in precious metals particularly acute in Asian markets during overnight trade.

Of concern, is that precious metals are failing to garner much interest from safe-haven demand, which reminds us of several weeks ago, when cross-asset liquidations saw gold and silver lose considerable ground. Once again it appears that regardless of the general risk-off sentiment, precious metals look set to suffer the same fate as equities and other risky assets. In addition, as highlighted yesterday, we can expect a period of heightened volatility in the build-up to this weekend's EU summit.

Physical demand for gold remains strong, and as we've seen in the past few weeks, we foresee significant interest emerging below \$1,650. Therefore, we remain confident that a sustained fall below this level is unlikely, although a temporary dip towards \$1,600 could be on the cards if the speculative market continues to shun gold.

Gold support is at \$1,651 and \$1,643. Resistance is \$1,682 and \$1,704. Silver support is at \$30.79 and \$30.55, resistance is at \$31.97 and \$32.90.

For PGM, we advocate added caution. Given these metals exposure to industrial activity, the current pessimism regarding the global economy, and China and Europe in particular, opens up the way for further downside. In addition, given that current market positioning (see our note *Futures market and ETF positioning* dated 17 October 2011) points to an expectation of further weakness, we would be wary of taking any new long positions in platinum or palladium at the moment.

Platinum support is at \$1,522 and \$1,514, resistance is at \$1,560 and \$1,590. Palladium support is at \$598 and resistance at \$632.

By Marc Ground

Energy

After an initial surge, oil prices retreated yesterday as hopes of a resolution to the Eurozone's woes soon faded — the close saw WTI and Brent down 42c/bbl and \$4.52/bbl, respectively. This morning it appears as though the weakness will persist on news of a slowing Chinese economy, and the expectations of growing US oil inventories.

Chinese growth slipped to 9.1% y/y in Q3:11, and although only slightly lower than expectations (consensus: 9.3% y/y), markets seem to be preoccupied by the fact that this is the slowest growth rate for the last two years. Concerns that China will not be able to lend the support that it did to the global economy during the last recession have been re-ignited — to the detriment of commodities, as this brings into doubt the robustness of current demand. In addition, participants have once again switched to risk-off mode, with the consequent weakness in financial markets spilling over into commodities.

Adding to the general negativity in markets, was Moody's warning that France's AAA rating could be placed on a negative outlook within the next three months. Investors remain wary that this weekend's EU summit will result in any decisive steps to solve the region's crisis.

For oil markets specifically, weakness is also being encouraged by the expectation that tomorrow's DoE report will reveal that US crude stockpiles have climbed for a second week. According to consensus, inventories probably rose 2m bbls during the week ended 14 October.

Coal markets also fell yesterday, although most of the weakness was concentrated within the one-year part of the curve. API2 for Q3:11 fell 20c/mt to \$117.55/mt, while API4 lost 55c/mt to settle at \$113.00. Both Cal-12 API2 and API4 fell 45c/mt, ending the day at \$118.75/mt and \$115.30/mt, respectively.

By Marc Ground

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	4,557,400	4,548,575	11,725	2,900	8,825	280,350	228,300	5.01	385,267
Copper	451,650	450,200	5,275	3,825	1,450	74,100	47,050	10.42	131,175
Lead	388,500	388,500	275	275	0	180,225	6,550	1.69	61,970
Nickel	90,924	91,476	0	552	-552	-44,748	6,204	6.82	28,359
Tin	19,060	19,085	0	25	-25	2,785	3,720	19.52	5,297
Zinc	796,725	798,425	0	1,700	-1,700	95,300	68,475	8.59	110,818

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,475	16,375	-230	Ali Dec'11	-	-	-	-
Copper	55,170	54,320	-1,760	Cu Dec'11	338	331.60	-6.20	-1.84%
Zinc	15,035	14,660	-675					

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,432	59,681	15,701	147,939	173,536	14,987	7.8880
3-month	17,712	59,905	15,869	151,660	171,801	15,226	7.9926

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)	123.19	-0.45	122.80	-0.35	122.49	-0.08	121.44	0.47	-	-
Gasoil 0.1% Rdam (\$/mt)	940.50	-7.25	931.00	-6.25	923.75	-5.75	911.50	3.25	901.00	3.25
NWE CIF jet (\$/mt)	1,003.84	-2.03	1,024.92	-1.60	1,020.25	0.33	1,004.92	3.35	996.46	3.10
Singapore Kero (\$/bbl)	125.14	-0.27	125.80	0.40	125.59	0.37	124.45	0.68	122.89	0.73
3.5% Rdam barges (\$/mt)	625.45	-4.19	625.50	-11.50	617.25	-11.25	603.25	-10.75	584.50	-9.00
1% Fuel Oil FOB (\$/mt)	644.31	-3.67	650.75	-10.25	649.00	-9.50	638.75	-9.75		
Sing FO180 Cargo (\$/mt)	663.87	1.91	656.50	-11.00	648.25	-11.00	633.75	-10.50		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	117.55	-0.20	117.95	-0.45	118.10
API4 (FOB RBCT)	113.00	-0.45	114.65	-0.45	114.70

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.47360	0.47400	0.48100	0.50340	0.51000
Silver	0.37600	0.35000	0.33400	0.31000	0.21800
USD Libor	0.24444	0.31889	0.40583	0.59556	0.91094

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	47.74	1,663.08	1,660.80	1,661.64	1,548.86	1,651.00	1,682.00
Silver	41.15	31.78	31.90	37.30	36.43	30.79	31.97
Platinum	38.11	1,526.75	1,550.53	1,740.33	1,768.55	1,522.00	1,560.00
Palladium	40.27	604.96	615.49	737.79	757.06	598.00	632.00

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	Dec'11	Aug'12	Dec'11
Settlement	1,669.60	31.6050	610.55	1,551.80	1,680.40	4,119.00	1,669.60
Open Interest	439,978	101,637	19,289	37,775	9,079	125,837	1,879
Change in Open Interest	3,400	310	266	-52	0	3,526	-11

Sources: Standard Bank; LME; Bloomberg

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AG/CD/00111