

# FICC Research

## Commodities: Daily

### Focus: US oil demand still weak



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**Focus:** The headline numbers of the US commercial oil inventories released by the DOE yesterday was welcomed by market bulls. It helped push oil more than 3% higher yesterday, after a 4% fall on Tuesday. However, looking past the headline inventory figures and delving deeper into the data, reveals weak crude oil product demand in the US.

- Reports of a production suspension at Zhongjin Lingnan's Shaoguan lead and zinc smelter in Guangdong province have seen lead and zinc rally strongly during the morning, leading the rest of the complex higher. Details are still sketchy, but appear to relate to excessive levels of thallium - a highly toxic metal - in the Beijing River. The smelter has a capacity of around 270 ktpy of zinc and 115 ktpy of lead, accounting for around 5.5% and 3% of Chinese production respectively
- Precious metals continue to benefit from market expectations of quantitative easing. A US consultancy yesterday stated that they thought the Fed would be releasing \$500bn over the next 6 months. This fuelled dollar weakness and brought gold within reach of the \$1,350 mark.
- Oil moved higher yesterday morning as the dollar lost ground. The market appeared to take the dip in crude oil as a buying opportunity rather than the start of a downward correction.

#### Commodity price data (20 October 2010)

Base metals LME 3-month									
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,360	2,363	2,370	2,345	5	0.13%	2,325.00	-32	-32.50
Copper	8,271	8,340	8,359	8,273	80	0.83%	8,250.00	-45	-20.00
Lead	2,410	2,450	2,465	2,436	50	1.66%	2,381.00	4	-28.00
Nickel	23,800	23,950	24,002	23,700	485	0.63%	23,475.00	-30	-66.00
Tin	26,500	26,750	26,652	26,480	226	0.94%	26,405.00	-140	0.00
Zinc	2,412	2,440	2,468	2,426	48	1.16%	2,383.50	7	-32.50

Energy						
	Open	Close	High	Low	day/day	Change (%)
ICE Brent	83.69	83.11	83.72	83.00	-0.49	-0.59%
NYMEX WTI	82.55	81.90	82.70	81.85	-0.64	-0.78%
ICE Gasoil	709.50	706.00	710.00	705.00	0.00	0.00%
API2 Q4'10	99.70	100.40	-	-	0.70	0.70%
EUA Dec10	15.07	15.09	-	-	0.02	0.13%

Precious metals							
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,340.50	1,339.00	1,347.50	1,331.00	1,344.00	8.50	0.2/0.6
Silver	-	23.75	23.90	23.32	23.84	0.07	-1.0/1.0
Platinum	1,674.00	1,670.00	1,672.00	1,662.00	1,669.00	-18.00	3.5/5.5
Palladium	576.00	581.00	575.00	572.00	574.00	-9.00	1.0/3.0

Sources: Standard Bank; LME; BBG

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**Focus: US oil demand still weak**

The headline numbers of the US commercial oil inventories released by the DOE yesterday was welcomed by market bulls. It helped push oil more than 3% higher yesterday, after a 4% fall on Tuesday. However, looking past the headline inventory figures and delving deeper into the data, reveals weak crude oil product demand in the US. The 4-week total US product demand fell below 2009's level for the first time since February (Figure 1).

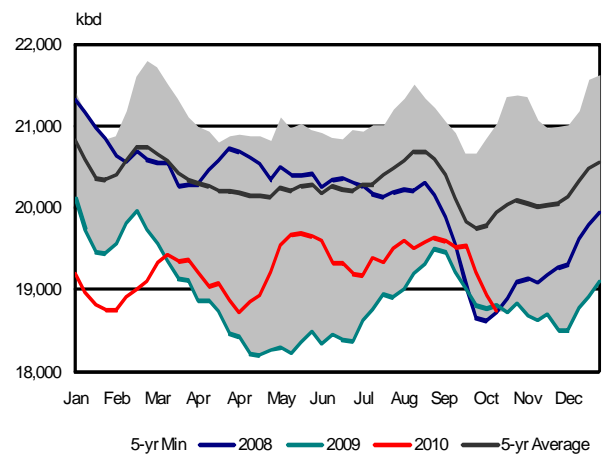
However, the picture differs depending on the crude oil product group. Based on the latest weekly data, demand of the top three product groups represent 85% of the total product demand. They are gasoline demand at 48.2%, distillate fuel demand at 20.4%, and other oils 16.4%. US gasoline demand fell below last year's level for the second week in a row. The distillate demand provides a bright spot as it was 9.3% compared to the same period last year. Demand for other oil products had been tracking the rapid descending pattern exhibited in 2008 and 2009 (Figure 2).

The divergence between the demand for gasoline and that of distillate is supported by a growing economy, as demand for distillate fuel is affected much more by economic activity than demand for gasoline. However, the decline in other oil product demand is a cause for concern. Other oil products include mainly intermediate products (which will be converted into finished oil products like gasoline or distillate fuel) and industrial feedstocks and fuel like naphtha and coke. It could be pointing to a further slowdown in final demand of both fuel and industrial products.

Overall, the US oil demand is still subdued, with the demand for distillate fuel the only cause for some optimism. This weak demand make the market prone to high volatility brought in by the general financial market, as we have seen during the last few days.

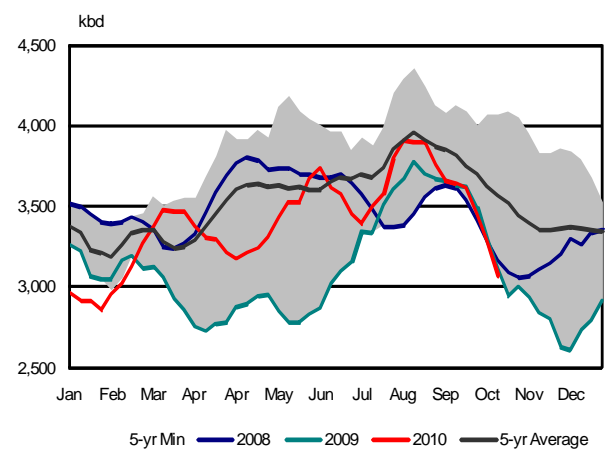
**By Walter de Wet**

**Figure 1. US DOE Total Product Demand 4-week avg.**



Sources: DOE; Standard Bank

**Figure 2. US DOE Other Oil Product Demand 4-week avg.**



Sources: DOE; Standard Bank

**Base metals**

The base metals closed strongly on Wednesday afternoon, helped by a weaker dollar and much stronger US equity markets. The complex made an uncertain start to Thursday, absorbing rather mixed Chinese macroeconomic data, however, reports of a pollution related smelter shutdown in China, and further dollar weakness have given prices another boost heading into the afternoon, with zinc and lead leading the way

Reports of a production suspension at Zhongjin Lingnan's Shaoguan lead and zinc smelter in Guangdong province have seen lead and zinc rally strongly during the morning, leading the rest of the complex higher. Details are still sketchy, but appear to relate to excessive levels of thallium - a highly toxic metal - in the Beijing River. The smelter has a capacity of around 270 ktpy of zinc and 115 ktpy of lead, accounting for around 5.5% and 3% of Chinese production respectively. At this stage, it is worth pointing out that the 2010 Asian Games is being held in Guangzhou, the capital of Guangdong province, from November 12th to November 27th, so Chinese authorities may be more sensitive to pollution problems in this area than usual.

Arguably lead and zinc have also lagged behind the other metals of late, so there is perhaps an element of catch up taking place price-wise. While await further details regarding the extent and duration of the suspension, its also worth noting that China's lead and zinc outputs both jumped in September to record highs, as smelters returned to full capacity from maintenance shutdowns and to benefit from higher metal prices.

According to the National Statistics Bureau, daily refined zinc output surged 20.5% m-o-m to 16,833 tonnes in September, up 24.1% y-o-y, while refined lead output climbed 7.7% m-o-m to a daily rate of 14,033 tonnes in September, up 19.3 y-o-y. China produced a total of 505,000 mt of refined zinc in September, with production during the first nine months of the year coming in at 3.83 million mt, up 23.8% year-on-year. Lead output was 421,000 tonnes in September, bringing ytd output to 3.06 million tonnes, up 4.5% year-on-year.

**By Leon Westgate**

## Precious metals

Precious metals continue to benefit from market expectations of quantitative easing. A US consultancy yesterday stated that they thought the Fed would be releasing \$500bn over the next 6 months. This fuelled dollar weakness and brought gold within reach of the \$1,350 mark. As highlighted yesterday, we believe that a gold price of \$1,350 is consistent with \$500bn of quantitative easing. Adding further impetus to the dollar's fall were comments by German Chancellor Merkel that it was time to consider exit strategies.

Comments by US Treasury Secretary Geithner that the world's major currencies are "roughly in alignment" saw the dollar surge briefly, prompting a slight pullback in precious metals in early trade. Soon, however, investors returned to precious metals as expectations over increased liquidity (Fed monetary easing) once again took hold.

Gold support is at \$1,333 and \$1,324. Resistance is at \$1,351 and \$1,359. Silver support is at \$23.35 and \$23.04, resistance is at \$24.05 and \$24.42.

With eyes focused on the US economy, today's data flow could have a significant impact across the precious metals complex, with gold and silver particularly vulnerable. Should US jobless claims, leading indicator and Philadelphia Fed data shows signs of an improving US economy this might dampen expectations of the quantity of further monetary accommodation, and consequently see precious metals pull back.

Platinum support is at \$1,659 and \$1,645, resistance at \$1,690 and \$1,705. Palladium support is at \$576 and resistance at \$597.

**By Marc Ground**

## Energy

Oil moved higher yesterday morning as the dollar lost ground. The market appeared to take the dip in crude oil as a buying opportunity rather than the start of a downward correction. In the afternoon, the DOE numbers gave a lift to the market. The brightest spot was the distillate inventory draw of 2.2mbbl. Crude inventories added 0.7mbbl, and gasoline inventories were 1.2mbbl higher. What is hidden behind the headline number is the four week average total oil demand which has fallen below 2009 level for the first time since Feb'10. To us, this is cause for concern.

The Fed's beige book, more formally called the Summary of Commentary on Current Economic Conditions, published last night suggested the US economy is improving. The Fed appeared to have upgraded their economic outlook. The report suggests that, on balance, national economic activity continued to rise, albeit at a modest pace, during the reporting period from September to early October. This is important because the Beige book is normally published ahead of the Fed meeting as one of the basis for policy decision on the meeting. The dollar appeared to have responded to the Beige book with a bounce-back this morning, then reversed mid-morning. The bottom line is that there is many mixed messages out the US at the moment. Cautions are needed prior to the next FOMC meeting.

November WTI gained \$2.28/bbl yesterday to trade at \$82.22. Technically, front-month WTI broke the initial resistance of its 5-day moving average. The next resistance is at \$83.45. Support is at \$80.80.

Coal gained marginally yesterday, with API2 for delivery in Q4:10 up \$0.70/mt, to close at \$100.40. API4 for delivery in Q4:10 also gained \$0.70 to close at \$93.40.

**By Walter de Wet**

## 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	4,329,825	4,316,325	18,075	4,575	13,500	-299,075	205,025	4.74	198,138
Copper	370,750	369,950	1,350	550	800	-131,575	25,350	6.84	180,296
Lead	198,225	198,300	200	275	-75	51,725	5,000	2.52	43,875
Nickel	124,572	124,104	780	312	468	-33,438	3,816	3.06	41,056
Tin	12,690	12,470	225	5	220	-14,075	455	3.59	6,895
Zinc	606,425	607,300	-	875	-875	118,375	38,625	6.37	109,353

### Shanghai 3-month forward prices

### COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	16,360	16,380	85	Ali Dec'10	-	-	-	-
Copper	62,870	62,720	310	Cu Dec'10	379	377.30	-2.05	-0.54%
Zinc	19,550	19,560	360					

### ZAR metal prices (20 October 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,147	57,296	16,536	163,034	183,383	16,553	6.9450
3-month	16,649	58,763	17,262	168,749	188,478	17,192	7.0459

## 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)	92.78	0.06	93.14	0.60	93.68	0.59	95.00	0.41	-	-
Gasoil 0.1% Rdam (\$/mt)	706.00	0.00	708.50	0.25	713.00	1.25	719.25	0.50		
NWE CIF jet (\$/mt)	758.45	0.38	754.43	1.23	758.18	1.92	768.72	2.25		
Singapore Kero (\$/bbl)	94.37	-0.02	94.49	0.55	94.93	0.54	96.15	0.36		
3.5% Rdam barges (\$/mt)	453.52	0.38	453.00	3.75	455.25	3.50	464.82	3.51		
1% Fuel Oil FOB (\$/mt)	471.23	2.67	474.50	4.25	479.50	4.25	491.82	3.26		
Sing FO 380 Cargo (\$/mt)	100.15	-	100.15	-	100.15	-	100.15	-		
Sing FO180 Cargo (\$/mt)	473.06	-0.38	477.50	4.25	480.75	4.00	488.82	3.26		
Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	100.40	0.70	101.50	0.90	102.20	0.90	102.80	0.95	108.40	0.85
API4 (FOB RBCT)	93.40	0.70	97.40	1.30	98.00	1.10	98.60	1.20	103.10	1.45

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.34667	0.35667	0.38333	0.44500	0.49000		
Silver	0.47667	0.48500	0.49333	0.52333	0.55333		
USD Libor	0.25625	0.27109	0.28844	0.45375	0.76550		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	61.50	1,356.32	1,336.92	1,247.43	1,193.85	1,333.00	1,351.00
Silver	65.68	23.82	22.95	19.55	18.49	23.35	24.05
Platinum	57.41	1,691.32	1,679.53	1,575.37	1,593.31	1,659.00	1,690.00
Palladium	60.73	588.20	579.09	502.84	488.45	576.00	597.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'10	Dec'10	Jan'11	Jan'11	Dec'10	Aug'11	Dec'10
Settlement	1,342.90	23.6950	589.05	1,687.30	1,342.60	3,507.00	1,342.40
Open Interest	630,626	151,104	24,585	38,488	1,873	99,758	2,256
Change in Open Interest	7,746	362	148	477	166	-282	32

Date: 20 October 2010

Sources: Standard Bank; LME; Bloomberg

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