Commodities

Commodities: Daily

Focus: Spec activity push metal prices higher

27 October 2011

Focus. Much of the price activity we are witnessing is speculative in nature, rather than a rise in real demand due to the lower copper prices. Furthermore, there has been no change to China's monetary policy stance which has slowed economic activity in China so far this year. We also believe we are unlikely to witness any monetary easing this year. As a result we continue to believe rallies for the copper should fade.

- Base metals are enjoying broad-based support as risk-on sentiment returns amid headlines of the agreement reached at yesterday's EU summit. The two points grabbing most of the attention are that *the EFSF will be leveraged up to €1tr* and that *the public and private sector have agreed to take a 50% haircut on Greek debt*.
- After making solid gains yesterday, gold has lost some ground this morning as optimism over the Eurozone's plan to rein in ongoing crisis in the region has reduced gold's safe-haven appeal. Silver has tracked gold down, while platinum and palladium have reacted more in line with industrial metals, making some modest gains.
- The eagerly anticipated EU summit last night concluded with a solution broadly aligned with market expectations. However, the crisis is bound to drag on. Consequently, a significant downside risk to the oil market remains, although we remain fairly positive in the near term because of the rather tight physical oil market.

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Commodity price data (26 October 2011)

Base metals LME 3-month		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,210	2,215	2,251	2,207	5	0.23%	2,195.50	1	-20.00
Copper	7,522	7,680	7,920	7,513	158	2.10%	7,720.50	130	-5.00
Lead	1,960	1,924	2,001	1,912	-36	-1.84%	1,937.50	-24	-24.00
Nickel	19,720	19,125	20,200	19,125	-595	-3.02%	19,635.00	-190	-20.00
Tin	22,160	21,375	22,300	21,400	-785	-3.54%	21,810.00	-480	-42.00
Zinc	1,850	1,855	1,900	1,850	5	0.27%	1,843.00	6	-20.50

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	109.50	110.53	110.54	109.50	1.62	1.47%
NYMEX WTI	90.98	92.17	92.17	90.74	1.97	2.14%
ICE Gasoil	952.25	957.75	958.00	951.75	3.75	0.39%
API2 Q4'11	117.70	116.90	-	-	-0.80	-0.68%
ICE EUA Dec'11	10.39	10.16	-	-	-0.23	-2.21%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,713.00	1,715.00	1,726.50	1,696.00	1,722.00	22.50	0.8/1.2
Silver	-	33.69	33.77	32.95	33.28	0.18	-1.5/0.5
Platinum	1,566.00	1,580.00	1,595.00	1,565.00	1,590.00	25.00	1.5/3.5
Palladium	648.00	649.50	650.00	647.00	645.00	-5.00	0.0/1.0

Sources: Standard Bank; LME; BBG

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Focus: Spec activity push metal prices higher

With risk appetite improving in financial markets, base metals, and copper in particular, have rallied strongly. Copper is up 16% in the past 5 days, rising from $6,750 to $7,900 currently.

Our tactical view on base metals since Q2:11 has been cautious, and in general we look to sell base metals into rallies. We continue to hold this view (see our Commodities Quarterly reports dated 14 Jun’11 and 6 Oct’11, respectively).

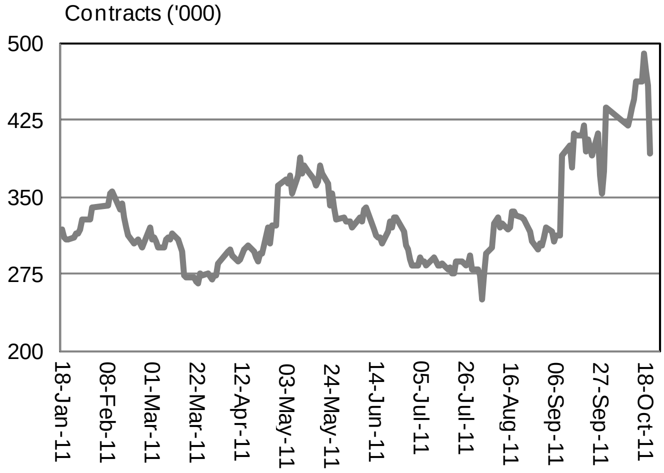
We look at the price developments in copper since the start of last week. Open interest in LME copper has been rising steadily. Combined with rising prices this would suggest new long positions are being added. In contrast, open interest in copper on the Shanghai Futures Exchange has declined steadily since the start of last week, suggesting short-covering rather than new long positions in Shanghai.

COMEX copper, that as of last week still had a net short speculative position, may also see short covering as new longs on LME drag the price higher. This possible short covering on COMEX may further assist prices in pushing higher.

But given that open interest suggests new longs are being added to LME copper rather than to Shanghai copper, is to us a sign that much of the price activity we are witnessing is speculative in nature, rather than a rise in real demand due to the lower copper prices.

This belief is consistent with developments in other commodity markets that indicate demand from China remain lacklustre. For example, Chinese spot iron ore prices continue to decline rapidly (falling to $127.40/mt today from $171.30.mt at the start of the month). Iron ore price activity is not subject to the speculative activity seen in copper.

Shanghai copper open interest



Source: SFE

Furthermore, there has been no change to China’s monetary policy stance which has slowed economic activity in China so far this year. We also believe we are unlikely to witness any monetary easing this year.

As a result we continue to believe rallies for the copper should fade.

By Walter de Wet

Base metals

Base metals are enjoying broad-based support as risk-on sentiment returns amid headlines of the agreement reached at yesterday’s EU summit. The two points grabbing most of the attention are that *the EFSF will be leveraged up to €1tr* and that *the public and private sector have agreed to take a 50% haircut on Greek debt* (which should rein in Greece’s debt/GDP to 120% by 2020). However, the details on the proposed plans are unclear, and whether or not these proposals can be successfully implemented remains doubtful.

For now, however, risk appetite has been whetted, and with the added boost of a weaker dollar, base metals are benefiting from short-covering and even some fresh buying. Consequently, we will be looking at the euro and equities for direction in base metals today. Should the euro and equities continue to gain ground (as early indications suggest), we could see base metals push higher. However, we would caution that this rally has an element of “irrational exuberance”, and we still advocate selling base metals in rallies.

In terms of data flow today, we have US Q3 GDP coming out. Expectations are for a 2.5% q/q expansion, a considerable improvement on the 1.3% q/q growth in Q2:11. We don’t feel that amid the current preoccupation with the Eurozone that much attention will be paid to these numbers today. However, it will be interesting to see if the vulnerability of the US economy that we’ve seen in higher-frequency data flow since August will be evident in the GDP data. Our G10 analysts thinks not, and that it will be only the Q4:11 that will be more revealing.

By Marc Ground

Precious metals

After making solid gains yesterday, gold has lost some ground this morning as optimism over the Eurozone's plan to rein in ongoing crisis in the region has reduced gold's safe-haven appeal. Silver has tracked gold down, while platinum and palladium have reacted more in line with industrial metals, managing to make some modest gains.

Continuing with the reaction to the news from yesterday's EU summit, amid a lack of details and scepticism over the actual implantation of the proposed plan, we are wary about the current euphoria. The optimism could soon fade, which could see participants once again adopt a risk-off stance. However, given gold's close co-movement with equities recently (the last few days excluded), it is uncertain whether the metal will benefit from a market returning to risk aversion.

For now though, there seems little that will derail appetite for risk, which should continue to see gold and silver trade on the backfoot today. A weaker dollar should at least limit any downside. In addition, physical demand should keep gold from slipping too far, although, as already mentioned, with India currently celebrating Diwali, this support is not what it usually is.

Of interest overnight for PGM, might be preliminary figures for Japanese industrial activity and vehicle production during September. Consensus is for a 2.1% m/m decline in industrial production (2.3% y/y decline).

Gold support is at $1,694 and $1,678. Resistance is $1,727 and $1,743. Silver support is at $32.84 and $32.36, resistance is at $33.88 and $34.44.

Platinum support is at $1,580 and $1,553, resistance is at $1,616 and $1,625. Palladium support is at $642 and resistance at $660.

By Marc Ground

Energy

Oil fell yesterday on a hefty US crude inventory build and the uncertainties ahead of the EU summit. WTI and Brent declined by $2.97/bbl and $2.01/bbl respectively, resulting in a wider WTI/Brent spread. However, the middle-distillate crack rallied strongly, driven by a large draw in US distillate inventories. Light products also gained over crude oil, which helped with a recovery in refining margins. The term structures for both WTI and Brent weakened as well on the back of the crude oil inventory build.

The DOE reported US weekly oil inventory changes for crude/gasoline/distillates at +4.7/-1.4/-4.3mb w/w. Crude inventories at Cushing rose by 0.4mb, less than the 1mb build reported by API the day before, which saw the WTI structure softened nevertheless. The total US refinery utilisation rate rose by 1.7%, as some refineries have come back from maintenance. The build in crude inventories have mainly driven by a sharp increase in imports of 1.5mb/d w/w. The implied demand for gasoline fell further to set a new seasonal low on a four week running average basis. In contrast, US distillate demand remained firmly above its previous 5-year average level. The total commercial inventories for both crude and oil production in the US is now the DOE data on total US crude inventories level have now fallen to its 5-year average level after running significantly above it for more than two years.

The crude oil production in Libya has now risen to 400kb/d, with about 150kb/d from the Sarir field. However, so far, the recovery in Libya supply has yet to cool the physical market with Brent structure stays in very steep backwardation. On the demand side, cracks are starting to appear in the otherwise rather resilience picture, as poor refining margins have persisted since September. The rally in refining margins following the fire at Shell's refinery in Singapore has fizzled out over the past two weeks. As winter approaches, heating demand will have an increasing impact on the oil market, particularly with the low inventories in middle distillates.

US durable good orders and new home sales data releases have come in better than expected, excluding m/m fluctuation in aircraft orders. Today, the US Q3:11 GDP and US personal consumption data will be closely watched. The market is looking for a decent 2.5% q/q growth rate. If so, this should alleviate concerns of a double-dip recession in the US.

The eagerly anticipated EU summit last night concluded with a solution broadly aligned with market expectations on both Greek debt, the size of EFSF, and bank recapitalisation. Our G10 analyst's view is that the statement may offer some support for now, but the underlying economic dynamics of the deal imply a lot more economic misery, centred around pressure on banks and pressure on countries to deliver more austerity. For now, the delivery of the deal by the EU should help support the risk-on feel of the market. However, the crisis will drag on further in the absence of the critical details on implementing the deal and the more fundamental issue regarding fiscal federalism. Consequently, a significant downside risk to the oil market remains, although we remain fairly positive in the near term due to the rather tight physical oil market.

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	4,557,000	4,558,850	1,400	3,250	-1,850	279,950	218,200	4.79	239,700
Copper	437,425	439,150	800	2,525	-1,725	59,875	62,750	14.35	187,251
Lead	388,475	388,150	425	100	325	180,200	20,525	5.28	35,056
Nickel	87,588	87,828	834	1,074	-240	-48,084	6,252	7.14	30,646
Tin	16,590	16,525	665	600	65	315	1,845	11.12	5,893
Zinc	785,500	787,725	50	2,275	-2,225	84,075	80,550	10.25	104,760

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,400	16,435	55
Copper	57,680	57,750	920
Zinc	15,020	15,100	130

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Dec'11	-	-	-	-
Cu Dec'11	349	355.05	6.05	1.73%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,509	61,571	15,452	156,589	173,935	14,698	7.9750
3-month	17,904	62,077	15,552	154,587	172,774	14,994	8.0830

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 ($/bbbl)	122.00	-0.08	124.82	-0.40	123.74	-0.38	122.24	-0.21	-	-
Gasoil 0.1% Rdam ($/mt)	957.75	3.75	946.75	4.25	939.25	4.50	916.75	0.75	906.00	0.50
NWE CIF jet ($/mt)	1,003.61	-0.49	1,031.16	-1.92	1,027.21	-1.71	1,011.04	-1.08	1,001.96	0.58
Singapore Kero ($/bbl)	124.04	-0.10	126.87	-0.40	126.49	-0.38	125.14	-0.21	123.64	0.07
3.5% Rdam barges ($/mt)	624.96	-0.77	626.25	-8.00	617.25	-7.75	600.50	-6.25	578.75	-4.00
1% Fuel Oil FOB ($/mt)	641.55	-1.19	643.25	-8.50	639.75	-8.25	629.00	-6.50		
Sing FO180 Cargo ($/mt)	660.74	0.00	661.75	-7.75	652.25	-8.00	632.50	-6.00		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	116.90	-0.80	116.75	-1.00	116.75	-0.80	117.40	-0.90	121.50	-0.60
API4 (FOB RBCT)	111.15	-0.70	113.15	-0.90	113.55	-0.90	113.95	-0.90	117.15	-0.60

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.43300	0.44333	0.45750	0.47617	0.49833
Silver	0.25833	0.22333	0.20667	0.20000	0.11500
USD Libor	0.24583	0.32922	0.42472	0.61556	0.92717

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	52.53	1,672.19	1,662.08	1,670.83	1,559.53	1,694.00	1,727.00
Silver	46.88	32.13	31.70	36.99	36.56	32.84	33.88
Platinum	45.75	1,547.07	1,530.43	1,721.00	1,759.23	1,580.00	1,616.00
Palladium	46.39	625.14	610.45	726.31	750.80	642.00	660.00

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	1,723.70	33.5700	648.95	1,597.20	1,727.50	4,209.00	1,723.50
Open Interest	443,723	107,066	18,747	37,291	8,709	129,787	1,862
Change in Open Interest	7,426	223	-347	-327	-62	-686	21

Sources: Standard Bank; LME; Bloomberg

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