FICC Research

Commodities: Daily

Focus: US crude inventory rise as imports pick up

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Focus: US crude inventory rise as imports pick up—US DOE reported a large build of crude inventory (5mbbls) yesterday echoing the API's crude build (of 6.4mbls) the day before for the week ending 22nd of October.

- Base metals remain largely range-bound looking towards the dollar for intra-day movements. Overall the softness that set into the base metals physical market, most notably copper since the start of the month, remains.
- The market still focuses on QEII. For our commodity interpretation of QEII we still look at gold. Our conclusion remains unchanged (refer to Commodities Daily 12Oct'10) - we believe the gold market is pricing $500bn of QEII already
- December WTI closed at $81.94/bbl, after touched intra-day low of $80.52/bbl. Although Cushing stock continued to draw, PADD2 added 2.6mbbl crude stock. As a result, the WTI contango got slightly steeper, M1-M12 spread widened by 36c/bbl.

Commodity price data (27 October 2010)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,357	2,324	2,342	2,315	-67	-1.40%	2,322.00	-10	-29.50
Copper	8,355	8,300	8,357	8,305	-211	-0.66%	8,332.00	-134	-5.50
Lead	2,553	2,545	2,553	2,506	-51	-0.31%	2,532.00	-9	-26.25
Nickel	22,950	22,810	23,090	22,777	-495	-0.61%	22,950.00	-235	-71.00
Tin	26,225	26,050	26,250	26,000	-650	-0.67%	26,340.00	-210	-34.00
Zinc	2,541	2,511	2,542	2,500	-105	-1.18%	2,515.50	-41	-27.00

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	83.35	83.41	83.58	83.01	0.18	0.22%
NYMEX WTI	81.99	82.08	82.30	81.82	0.14	0.17%
ICE Gasoil	706.00	705.75	707.25	703.50	9.75	1.38%
API2 Q4'10	101.50	101.15	-	-	-0.35	-0.35%
EUA Dec10	14.99	15.07	-	-	0.08	0.53%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,326.50	1,324.50	1,343.50	1,319.50	1,322.30	-15.90	-20.0/0.2
Silver	-	23.61	24.28	23.36	23.41	-0.40	-1.0/1.0
Platinum	1,684.00	1,695.00	1,712.00	1,703.00	1,699.00	1.00	3.5/5.5
Palladium	625.00	622.00	638.00	626.00	625.00	13.00	1.0/3.0

Sources: Standard Bank; LME; BBG

Focus: US crude inventory rise as imports pick up

US DOE reported a large build of crude inventory (5mbbls) yesterday echoing the API's crude build (of 6.4mbls) the day before for the week ending 22nd of October. For crude oil product, the DOE data showed a big draw in gasoline (4.4mbbl) and a sizable draw in distillates (1.6mbbl). The sum of all three groups of oil in the DOE data showed a net draw of 1mbbl (vs that of API's 5.5mbbl build).

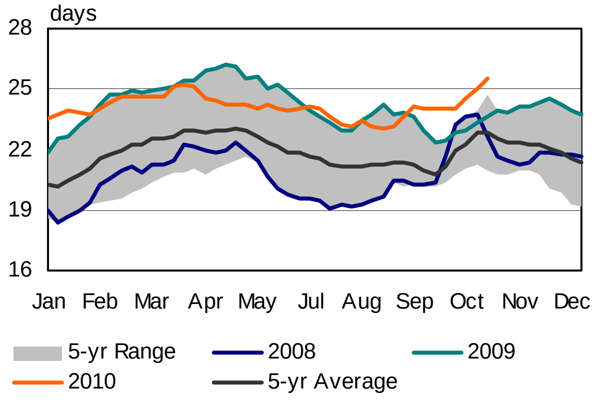
As we suggested yesterday, its very likely that crude import numbers have been under reported by API. More crude might have been diverted to the US in anticipation of the end of maintenance season. It turns out that DOE had a rise in w/w imports of crude equal to 863kbd — this is equivalent to an 6mbbl increase during the preceding 7days which is also largely in line with the 5mbbls rise in DOE crude inventory (in contrast, API only reported a 137kbd import). Therefore, the increase in crude imports make up most of the inventory increase in the DOE data. We note that the increase in imports are also part of a seasonal trend (refer Figure 1.)

As for gasoline, we believe the very low level of imports in the past few weeks is finally reflected in the DOE inventory report (see Figure 2.). The draw is not a result of any significant changes in domestic production or demand.

Overall, DOE data gave the market a small boost after the extremely bearish API numbers. The rally in crude oil following the DOE data release may give the market opportunity to reduce risk ahead of the Fed meeting next week. Although the inventory changes should support product cracks, the upside may be limited by the slow return of French refineries and the end of US maintenance season.

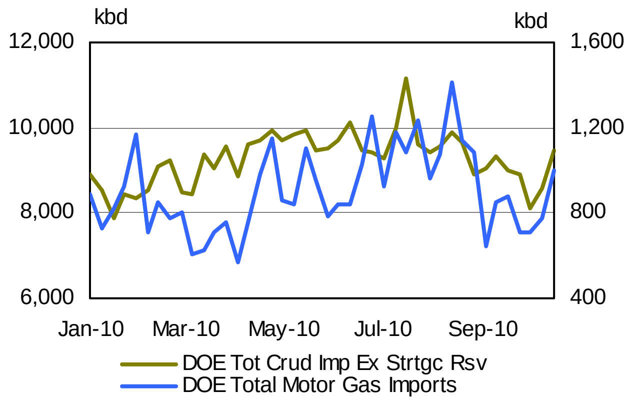
By Walter de Wet

Figure 1: DOE crude inventory days supply



Sources: Standard Bank; DOE

Figure 2: DOE crude and gasoline imports



Sources: Standard Bank; DOE

Base metals

As pointed out in the precious metals section, for our commodity interpretation of QEII we look at gold. Our conclusion remains the gold market, and to some extent other metals (given the way prices moved in tandem lately) is pricing around $500bn of QEII already (refer to Precious Metals section for more detail). However, we do note that while there exists a positive relationship between base metals and liquidity, causality between base metals and liquidity is weaker than the causality between liquidity and gold.

Base metals remain largely range-bound looking towards the dollar for intra-day movements. Overall the softness that set into the base metals physical market, most notably copper since the start of the month, remains. This softness is not substantial yet but it's an indication that physical buying appetite is not as strong as it was a few weeks ago. Given that the next few days are data heavy, combined with the softness in the physical market, we expect rallies to be sold into until the FOMC meeting.

For base metals we look towards Monday's release of PMI manufacturing indices. Our eyes will be on China's PMI manufacturing index. The performance of manufacturing globally looks to slow into December. That said we do not expect the slowdown to be pronounced enough to warrant any sharp fall in demand. We still see support for base metals and copper specifically into year-end. We find that aluminium, followed by copper, has the strongest (positive) relationship with the current the PMI manufacturing index (or rather with the underlying market conditions represented by the PMI index). Zinc, nickel and lead also have a positive relationship with the Chinese PMI manufacturing index, but much less than aluminium and copper.

By Walter de Wet

Precious metals

The market still focuses on QEII. For our commodity interpretation of QEII we still look at gold. Our conclusion remains unchanged (refer to Commodities Daily 12Oct'10) - we believe the gold market is pricing $500bn of QEII already. Our estimates are based on gold's close relationship since 2004 with global liquidity of which the Fed's balance sheet makes up an important component. We find a gold price closer to $1,280 would be consistent with no additional QE. This is roughly 4% lower than current price level.

We are confident the Fed will announce more QE. Therefore, until 3 Feb we see $1,280 as a floor for gold and any price dips in gold should be bought.

We believe the Fed is unlikely to do $500bn in one go. As our G10 macro economist points out, the Fed should prefer smaller amounts every month, with the time frame largely dependent on the underlying US economy. This should focus market attention away from monetary easing towards the macro economy.

With gold falling below $1,330 physical demand for gold has picked up markedly since the start of the week. Buyers in Asia and India in particular should continue to buy these dips ahead of the end of Diwali on 5 Nov.

Gold support is at $1,315 and $1,305, while resistance is at $1,329 and $1,339.

Our targets for platinum and palladium remain at $1,800 and $650 respectively (Commodities Daily 27Oct'10). We believe that these targets may be reached towards year-end or early in 2011. We believe that palladium will reach its target first, and possibly aim for $700 in Q1:11. We see support for palladium at $595. Support for platinum is at $1,665.

By Walter de Wet

Energy

Looking at the oil market in isolation, one might conclude that oil was sold off yesterday following the massive US oil inventory build reported by API the night before, then bounced back after a set of less bearish numbers reported by DOE later in the day. However, on close examination, especially the timing of the market moves, indicate oil was largely following the dollar.

The DOE data did give a small boost to oil in the afternoon but the most of the price movement came a couple of hours later after DOE release, when dollar made a turn and weakened again.

As pointed out in today's Focus section, we believe the huge build in crude inventory and the big draw in gasoline have been a result of changes in imports, rather than any significant underline demand change. As a result we expect crude oil to be sold into rallies.

December WTI closed at $81.94/bbl, after touched intra-day low of $80.52/bbl. Although Cushing stock continued to draw, PADD2 added 2.6mbbl crude stock. As a result, the WTI contango got slightly steeper, M1-M12 spread widened by 36c/bbl.

Looking ahead, we see oil continue to looking for directions from the dollar, and some slow risk unwinding take place prior to the Fed meeting next week.

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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	4,307,375	4,310,975	1,475	5,075	-3,600	-321,525	187,725	4.36	157,372
Copper	368,025	368,600	325	900	-575	-134,300	29,250	7.95	125,065
Lead	199,775	198,700	1,250	175	1,075	53,275	5,550	2.78	29,490
Nickel	128,262	126,972	1,452	162	1,290	-29,748	4,542	3.54	34,635
Tin	12,820	12,825	-	5	-5	-13,945	390	3.04	5,594
Zinc	616,850	611,525	5,450	125	5,325	128,800	39,700	6.44	76,578

Shanghai 3-month forward prices				COMEX active month future prices				
Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	16,390	16,440	-125	Ali Dec'10	-	-	-	-
Copper	63,830	63,760	-650	Cu Dec'10	378	380.05	2.50	0.66%
Zinc	20,505	20,305	-505					

ZAR metal prices (27 October 2010)	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,349	58,666	17,828	161,591	185,460	17,712	7.0410
3-month	16,601	59,289	18,179	162,936	186,080	17,937	7.1432

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 ($/bbbl)	92.73	-0.21	91.95	-1.89	92.43	-1.91	93.75	-1.82	-	-
Gasoil 0.1% Rdam ($/mt)	705.75	9.75	708.75	10.00	713.00	10.50	721.00	11.50		
NWE CIF jet ($/mt)	757.06	-1.60	744.25	-14.09	747.86	-14.00	758.97	-13.75		
Singapore Kero ($/bbl)	94.16	-0.24	92.95	-2.04	93.43	-2.01	94.75	-1.87		
3.5% Rdam barges ($/mt)	453.04	-0.70	450.50	-6.00	452.75	-5.75	461.80	-5.61		
1% Fuel Oil FOB ($/mt)	471.13	-0.42	470.50	-6.25	475.75	-6.25	486.80	-5.86		
Sing FO 380 Cargo ($/mt)	100.15	-	100.15	-	100.15	-	100.15	-		
Sing FO180 Cargo ($/mt)	475.49	-0.50	477.50	-5.50	479.25	-5.50	486.30	-5.36		

Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	101.15	-0.35	101.85	-0.55	101.75	-1.05	102.10	-1.00	106.00	-1.20
API4 (FOB RBCT)	94.85	0.05	97.45	-0.15	97.35	-0.95	97.70	-0.80	100.60	-1.20

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.32000	0.33750	0.37250	0.45000	0.50500
Silver	0.47000	0.48250	0.50750	0.54250	0.55750
USD Libor	0.25531	0.27078	0.28813	0.45031	0.76538

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	56.60	1,340.13	1,343.17	1,252.39	1,199.02	1,315.00	1,341.00
Silver	62.60	23.72	23.41	19.82	18.62	23.25	24.12
Platinum	56.89	1,685.50	1,690.55	1,583.58	1,595.07	1,666.00	1,708.00
Palladium	64.51	599.40	592.01	511.49	492.30	612.00	636.00

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	1,327.20	23.6800	623.30	1,678.10	1,327.00	3,480.00	1,327.10
Open Interest	607,582	152,980	24,702	37,906	2,149	100,990	2,360
Change in Open Interest	4,455	-2,590	-469	-36	-392	12	67

Date: 27 October 2010

Sources: Standard Bank; LME; Bloomberg

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