

Commodities

Commodities: Daily



Focus: Double whammy for European Crude

24 January 2012

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- The base metals have continued to see very thin turnover, and as such have continued to look to developments in the Eurozone for direction. A solid start has given way to some selling pressure ahead of US trade with fresh uncertainty over the Greek debt restructuring negotiations impacting on the Euro and on sentiment.
- Given the strong positive relationship between gold and low real interest rates, the release of the Fed's view on its key lending rate tomorrow will be of interest. Currently, the Fed has assured markets that rates will remain low through to mid-2013, at least. If the view appears more hawkish, we could see gold, as well as the other precious metals, lose some ground.
- The oil market strengthened yesterday on a stronger euro and optimism in the equity markets. The news that the EU is pressing ahead with an oil embargo over Iran also added to the bullish sentiment, but to a lesser degree due to the planned delay in implementation. WTI and Brent gained \$1.12/bbl and 72c/bbl respectively. The oil product market was mixed, with gasoline weakening and distillates tracking crude.

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Commodity price data (23 January 2012)

Base metals LME 3-month

	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m	
Aluminium	2,218	2,239	2,244	2,203	21	0.92%	2,193.50	10	-35.25
Copper	8,211	8,365	8,389	8,183	154	1.88%	8,333.00	103	-11.75
Lead	2,176	2,245	2,251	2,170	69	3.17%	2,178.00	48	-25.50
Nickel	20,440	20,305	20,755	20,275	-135	-0.66%	20,620.00	465	-44.00
Tin	21,800	22,150	22,200	21,800	350	1.61%	21,935.00	85	-51.00
Zinc	2,014	2,060	2,060	2,003	46	2.30%	2,015.50	20	-18.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	110.84	110.78	110.84	110.59	0.20	0.18%
NYMEX WTI	99.88	99.72	99.98	99.46	0.14	0.14%
ICE Gasoil	940.25	938.75	940.25	938.50	1.75	0.19%
API2 Q1'12	105.20	105.00	-	-	-0.20	-0.19%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,675.00	1,675.50	1,681.30	1,663.50	1,677.70	13.90	0.0/0.4
Silver	-	32.30	32.71	31.87	32.30	0.57	-4.0/-2.0
Platinum	1,540.00	1,545.00	1,565.00	1,530.00	1,555.00	25.00	1.5/3.5
Palladium	679.00	678.00	685.00	676.00	685.00	11.00	0.0/1.0

Sources: Standard Bank; LME; BBG

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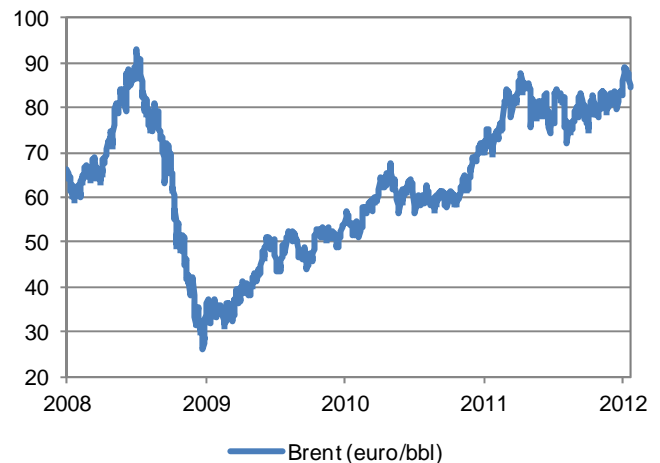
Focus: Double whammy for European Crude

The European crude oil market has been under substantial pressure since the beginning of this year, even though benchmark crude oil prices appeared to be rather strong. The pressure on the European market comes from two major sources: a weakening euro and a struggling European refining sector. In turn, this results in a softening European oil market, which we expect will weigh on the global oil market and oil prices in general.

The euro started a downward trend versus the US dollar in November. The euro/dollar exchange rate fell from above 1.40 at the beginning of November to as low as 1.2626 last week. Consequently, the front-month Brent futures contracts priced in euro hit a level (87.77 euro/bbl) fairly close to the all-time record high (93.07euro/bbl) reached back in June 2008. Over the last few days, technically, the euro has broken out of the downward channel and rebounded to the 1.30 level. Nevertheless, the euro is unlikely to recover to the 1.40 level any time soon. Consequently, a vicious circle that high oil prices could damage economic growth and therefore dampen oil demand, could hit the European crude market quite hard.

Meanwhile, the European refining sector is struggling, which is manifested in the latest woe of Petroplus, Europe's largest independent refiner. Petroplus has shutdown three of its five refineries already, with only the Coryton refinery in the UK and the Ingolstadt refinery in Germany still running. However, it has been reported that oil products delivered from Coryton have been stopped, which means that the refinery probably has to be shut down even though tanks are at full capacity. If Petroplus has to shut down all of its refining operations, it means

Brent price in euro



Sources: ICE; Bloomberg; Standard Bank Research

that the equivalent of 600kb/d crude demand from Petroplus's refiners will be lost. This will weigh heavily on the term structure of Brent.

As a result of the double whammy of a weaker euro and a reduced refining capacity in Europe, the European crude oil market is likely to struggle in the short term, which appears to be reflected in a softening Brent structure at the front-end. This is likely to further drag down the flat price in crude and trigger a somewhat overdue short-term downside correction in oil prices, as we have noted during the past week. That said, it is worth noting that European crude oil inventories stand at multi-year lows and the EU's embargo over Iranian imports will also provide some support to the market when the embargo starts in a few months time.

By James Zhang

Base Metals

The base metals have continued to see very thin turnover, and as such have continued to look to developments in the Eurozone for direction. A solid start has given way to some selling pressure ahead of US trade with fresh uncertainty over the Greek debt restructuring negotiations impacting on the Euro and on sentiment.

The EC PMI figures were better than expected in January, the Manufacturing index coming in at 48.7 vs. expectations of 47.3 while the Services Index came in at 50.5 vs. expectations of 49.0. The figures were helped by solid numbers out of Germany, however the overall effect has been short lived, with concerns over the Greek debt talks offsetting any positive impact on the Euro from the data.

Aluminium has again seen large warrant cancellations, with Johor seeing cancelled warrants jump 86,425 mt this morning. Rather than suggest a sudden pickup in demand, the activity in Europe, the US and now Asia appears to be more like chess pieces being moved about. The same could be said for nickel, which after yesterday's 1,164 mt inflow of metal into Rotterdam (a mixture of cut and full plate cathodes), has seen cancelled warrants at that location increase 1,926 mt this morning.

Copper finished Monday on its intraday highs, with a weak start giving way to a string finish. A lack of follow-through buying this morning has combined with participants looking to fade the rally, owing to concerns over the state of the macro economy. Consequently copper has given up all of yesterday's gains and is again trading below \$8,300 ahead of US trade. Inventory-wise, copper has seen further cancelled warrant activity in US locations, with fresh cancellations in Mobile and New Orleans totalling 5,075 mt and accounting for the bulk of today's 7,300 mt drop in LME on-warrant stocks. New Orleans also saw 1,550mt head for the exit. Interestingly, various European locations (Hamburg, Livorno, Trieste, Rotterdam & Vlissingen) have also seen stock draws, totalling 2,000 mt.

By Leon Westgate

Precious metals

After reaching a six-week high, gold succumbed to profit-taking yesterday. The trend has continued into this morning, with the absence of Far East physical demand (due to Lunar New Year holidays) opening up the metal to further downside. The rest of the precious metals complex has followed gold lower, although platinum came under particular pressure from liquidation overnight on TOCOM. It did however rebound quickly, thereafter resuming a more sedate downward trend.

Better-than-expected PMI readings out of the Eurozone have also dampened investors enthusiasm for safe-haven assets. The figures showed that the services sectors in both Germany and the Eurozone expanded. German manufacturing grew (analysts expected a contraction), while Eurozone manufacturing did contract, although at a slower pace than expected.

Today is the start of the FOMC's two-day meeting. This will be the first meeting where the Fed will release its projections on the Fed funds rate. Given the strong positive relationship between gold and low real interest rates, the release of the Fed's view on its key lending rate tomorrow will be of interest. Currently, the Fed has assured markets that rates will remain low through to mid-2013, at least. If the view appears more hawkish, we could see gold, as well as the other precious metals, lose some ground.

Gold support is at \$1,661 and \$1,652. Resistance is \$1,681 and \$1,691. Silver support is at \$31.73 and \$31.28, resistance is at \$32.72 and \$33.24.

Platinum support is at \$1,529 and \$1,507, resistance is at \$1,570 and \$1,588. Palladium support is at \$673 and resistance at \$690.

By Marc Ground

Energy

The oil market strengthened yesterday on a stronger euro and optimism in the equity markets. The news that the EU is pressing ahead with an oil embargo over Iran also added to the bullish sentiment, but to a lesser degree due to the planned delay in implementation. WTI and Brent gained \$1.12/bbl and 72c/bbl respectively. The oil product market was mixed, with gasoline weakening and distillates tracking crude. Petroplus's apparently failed attempt at keeping the company afloat has given some lift to product cracks and refining margins this morning. However, it has also kept the term structure for Brent under pressure amid weak demand.

As expected by the market, the EU announced an oil embargo over Iran on both crude oil and oil products. However, the twist is that the implementation of the embargo will not start until 1 July. We expect Iran is likely to reopen negotiation over its nuclear work before then, which could mean that the embargo might not be implemented as all. That said, it should be no surprise that existing importers for Iranian crude have been looking for other sources instead.

Meanwhile, Petroplus Holdings is reportedly planning to file for insolvency. The company has already shut down three of its five refineries. Although its largest refinery at Coryton in the UK continues to operate, all product lifting has been stopped at the site, which means the site would probably have to be shutdown irrespective of whether product stocks are running at full capacity or crude stocks are running empty. Despite the new development, we expect the impact from Petroplus' struggle to be limited as product demand is weak in Europe due to high prices and warm weather. There is also plenty of spare capacity in the European refining system at a current utilisation rate of around 82%.

Looking ahead, we expect a further downward correction in oil prices in the short term. This should be prompted by an easing geopolitical situation in the Middle East, a soft physical oil market and an upcoming spring refinery maintenance season in the northern hemisphere. That said, fundamentals remain fairly solid in the medium term for the oil market due to tight supply and low inventories.

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	5,010,750	5,005,050	10,100	4,400	5,700	40,350	892,225	17.81	176,360
Copper	345,775	348,750	0	2,975	-2,975	-25,125	71,850	20.78	134,687
Lead	346,025	347,525	0	1,500	-1,500	-7,050	46,250	13.37	41,842
Nickel	92,772	91,668	1,164	60	1,104	2,724	1,638	1.77	31,544
Tin	9,705	9,800	25	120	-95	-2,485	1,495	15.40	4,985
Zinc	848,075	843,325	5,000	250	4,750	26,375	22,300	2.63	78,230

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	-	16,390	-
Copper	-	60,770	-
Zinc	-	15,760	-

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Mar'12	-	-	-	-
Cu Mar'12	380	380.00	0.15	0.04%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,383	66,039	17,261	163,414	173,835	15,973	7.9250
3-month	17,986	67,213	18,039	163,151	177,975	16,552	8.0350

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)	127.77	0.27	125.82	0.63	125.53	0.72	124.74	0.83	-	-
Gasoil 0.1% Rdam (\$/mt)	938.75	1.75	941.25	1.75	940.00	1.00	936.50	0.75	931.75	5.75
NWE CIF jet (\$/mt)	1,018.00	1.64	1,012.42	4.96	1,015.91	5.80	1,017.75	6.75	1,017.05	5.70
Singapore Kero (\$/bbl)	126.00	0.32	125.52	0.63	125.95	0.72	125.48	0.83	124.99	0.79
3.5% Rdam barges (\$/mt)	668.06	-0.54	646.25	2.75	637.00	2.25	621.50	2.00	599.75	2.25
1% Fuel Oil FOB (\$/mt)	680.04	-0.41	674.25	6.00	668.75	5.25	658.50	3.50		
Sing FO180 Cargo (\$/mt)	723.26	0.22	699.75	2.75	683.75	2.25	658.50	2.25		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	105.00	-0.20	105.40	-0.35	107.15
API4 (FOB RBCT)	105.30	0.05	105.15	0.05	105.90

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.50300	0.52667	0.55583	0.57783	0.60833
Silver	0.26500	0.26500	0.27000	0.25833	0.26000
USD Libor	0.27630	0.40820	0.56010	0.79275	1.10995

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.99	1,656.24	1,624.67	1,687.39	1,644.62	1,661.00	1,681.00
Silver	53.59	30.80	29.72	32.49	35.60	31.73	32.72
Platinum	53.99	1,519.94	1,466.98	1,564.69	1,675.70	1,529.00	1,570.00
Palladium	55.41	660.34	649.98	646.01	705.62	673.0	690.0

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'12	Mar'12	Apr'12	Apr'12	Feb'12	Dec'12	Feb'12
Settlement	1,673.10	32.2500	685.25	1,561.10	1,678.10	4,149.00	1,671.30
Open Interest	438,487	104,406	17,740	43,959	5,272	120,910	1,683
Change in Open Interest	-2,833	2,351	111	440	-263	-1,254	0

Sources: Standard Bank; LME; Bloomberg

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