Thursday, April 6, 2017

MARKET NEWS

Coal News

The API2 Cal18 contract opened 50cents higher than Tuesday's close at $67.00 as the European coal market moved in line with the German Power Baseload Cal18 contract early in the session. The Power contract rose 15cents on the open to €29.95/MWh as bullish sentiment returned to the markets post yesterday's sell off across the back end of the global coal curves. Latest reports from Queensland Australia stated due to the damage to the Aurizon rail network BHP Billiton declared force majeure for all BMA and BMC coal products. Cyclone Debbie has led to strong support across the front of the global coal markets this week with API2 Q217 v Cal18 spread widening from $5.75 last Thursday to close yesterday at $9.50. The spread came under pressure today for the first time today closing 25cents lower at $9.25. The NEWC Q217 v Cal18 spread which closed at $13.50 yesterday having traded at $9.90 last Thursday also retraced a portion of the drive higher closing 65cents lower at $12.85. Analysts have forecast that 3mnt of thermal coal will not reach Queensland ports over the next five weeks removing the produce from the seaborne market. Closure to the Goonyella railway system will cut access to the Dalrymple Bay and Hay Point ports for five weeks however the reopening of the Newlands railways which runs north to Abbot Point is predicted to be reopened in between two to three weeks allowing the rerouting of stranded coal. The spread between Q217 API2 v NEWC contracts tightened 50cents today to close at -$11.50.

API 2/API 4			
Bid $	Offer $	Mid $	Chg
-4.25	-3.75	-4.00	1.10
-4.10	-3.60	-3.85	1.75
-4.40	-3.90	-4.15	1.95
-4.25	-3.75	-4.00	1.95
-4.25	-3.75	-4.00	1.60
-5.15	-4.65	-4.90	1.05
-4.85	-4.35	-4.60	0.70
-5.05	-4.55	-4.80	0.70
-5.75	-5.25	-5.50	0.30
-5.75	-5.25	-5.50	0.25
-5.75	-5.25	-5.50	0.25

API 4			
Bid $	Offer $	Mid $	Chg
80.75	81.25	81.00	-0.95
80.05	80.55	80.30	-1.25
79.80	80.30	80.05	-1.25
79.10	79.60	79.35	-0.95
80.20	80.70	80.45	-1.15
78.65	79.15	78.90	-0.60
76.70	77.20	76.95	-0.20
74.80	75.30	75.05	-0.20
72.45	72.95	72.70	0.40
69.55	70.05	69.80	0.50
68.35	68.85	68.60	0.50

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Iron Ore News

The DCE closed at 568, after trading at the range of 560.50-574 with a small uptick during the night session as the Chinese participants returned to the market. Banks were seen to be trading Qs and c18 with each other, while US fund was buying at the front from physical seller. The most active DCE iron ore futures contract went up 0.72%, while SHFE rebar futures rose 1.77%.

Port Inventory

According to Umetal's survey of 42 ports in China , the total iron ore inventory stood at 134.5 million tonnes on Thursday , 6 Apr 2017, up 300,000 tonnes as compared to last Friday, while daily cargoes evacuation decreased 105,000 tonnes on-week to 2.52 million tonnes.

Technical Reports

Base Metals and Non Ferrous Intraday Support and Resistance – DCE is range bound between CNY 581.5 and CNY 541, closing at 560 is about as neutral as you can get. Prob best to wait for a breakout at these levels

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Oil News

Equities: Equities: Global markets slid as the release of FOMC minutes suggested that Fed officials favour shrinking the US central bank's balance sheet through the course of the year. US Banking stocks, which start reporting Q1 results next week, led wall street gains in early trade after solid private employment data underscored the strength of the US economy, boosting financial stocks and helping calm investor jitters over Trump's ability to deliver on policy. However, gains were short lived following the minutes of the latest FOMC. The implications of shrinking the balance sheet for the US economy is that it further drains USD liquidity out of the system and a time when the Fed is already hiking. The perceived danger being priced in by financial markets is that the Fed is being too cavalier in their quest to "normalise" monetary policy and that the added headwinds being layered over the US economy could very well backfire in terms of detracting from the kind of growth that would help justify current valuations. Similarly, stocks slid in Asia following the release of the FOMC minutes. Japanese equities led the losses, falling the most in two weeks to sit at their lowest in four months. Losses were followed by Chinese stocks, despite a previous rally on potential benefits stemming from the development of an economic zone in Hebei province. European stocks were little changed with miners and energy stocks leading small gains in the region. For the rest of week, markets will be looking out for the meeting between Trump and Xi Jinping today, Mario Draghi speaking about policy today, and US jobs data due Friday, to guide sentiment and expectations.

Bonds: Range respect remained in play on Treasury yields with initial shorts getting pressured into covering late in the session as US equities went back into risk-off mode. The market still eyes bigger event risk from payrolls and the Trump-Xi meeting. Bull steepening is still entrenched as well, backed up by the details of the FOMC minutes. The likes of the 5v30 spread on the US curve widened for a fifth session, the longest streak since September according to Bloomberg, and new wides going back to February. With Fedspeakers signalling it's very unlikely to ramp up tightening beyond guidance the market is left eyeing macro figures and the fiscal front, albeit with positioning having corrected much more neutrally in the process so the well-worn ranges since December are still embedded. The bottom of these are notable on the 10yr at 2.30% and 1.80% on the 5yr. Meanwhile, Treasury announces details of next week's mini refunding expected to be $56bn in 3, 10 and 30yr bonds. The overriding fears at the moment however is that the steady selling of US Treasuries as a result of the Fed's balance sheet shrinking will only further raise borrowing costs for the government detracting from any stimulatory fiscal policy that could be implemented. For EGBs, it was a mixed affair yesterday albeit with yields remaining relatively rangebound. Gilts were relative underperformers as stronger than expected UK services PMI data weighed, but on balance some caution prevailed in the market ahead of the FOMC minutes release.

Currencies: Mixed and muted summed up trade among most of the major currencies with FX markets on the whole side-lined in the early days of this quarter. It was another Groundhog Day for DXY with bulls continuing being frustrated at the 50 DMA technical resistance area, but still managing to hold bid through 100.50. Consolidation into the more pertinent event risks this week is clearly underway, while the mild risk-off bias in broader markets continues weighing on the USD-JPY notable. Bears have been unable to return to the trend lows from last week, but downside probes continue and the market will be very wary should big barrier support at 110 get tested. In the EM space there are still some concerns in the likes of Turkey ahead of their referendum in two weeks' time, whilst in SA the ZAR remains on the defensive as the ruling ANC party decides to back its president and to ignore the mass calls for his resignation or recall. With equity markets dealt a blow on account of the Fed minutes and general risk premia rising as reflected in the likes of the VIX and others, the higher beta, riskier EM markets will struggle to gain a firmer footing.

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Credit Markets: News out from Asia this morning is that the International Finance Corp mandated HSBC, Nomura and RBC Capital Markets for a 10.5 year Kangaroo bond which is due to price tomorrow. The IFC printed the largest Kangaroo trade of the year thus far by placing a A$800m 5.5yr bond which was priced at 43bp and 61bp wide of asset swaps and the July 2022 ACGB according to IFR. The pre-earnings blackout wind down in the IG primary market is still on the way with yesterday seeing a fresh flurry of 4 issuers raising $7.2bn, taking the week's total through $18bn and on-track for the bottom of the expectations range. Swap spreads dipped as a result of a chunk being swappable prompting spec longs to run for cover in the 3-10yr bucket.

Energy: Oil prices rallied for much of yesterday's session after China returned from a market holiday, while expectations were primed for US stockpiles to show a net draw following API data that suggested as much. Front month Brent crude hit as high as $55.09/bbl. intraday in anticipation, but backed away when the data came in above expectations. The EIA data showed that US crude inventories in the week to 31 March, in fact, rose nearly 1.6mn barrels, while the drawdown on distillates and fuel was less than consensus estimates. Moreover, oil imports into the US have been falling with total crude oil imports down 374k barrels a day last week to 7.85mn. The 4-week moving average of this number came in at 7.95mn, down almost 1mn barrels since February's peak levels. With US production rising and prices still competitive, it is possible that US refiners could start to use home-grown blends. This seems to have taken the shine off of oil prices, with Brent backing down to the $54/bbl. region subsequently. There is also evidence of a battle for European market share taking place, with Saudi Arabia officially dropping its oil prices to European clients yesterday. Some have argued that such actions might be considered antagonistic by the likes of Russia, which could, in turn, jeopardise the deal that OPEC has made with Russia in terms of output restriction.

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