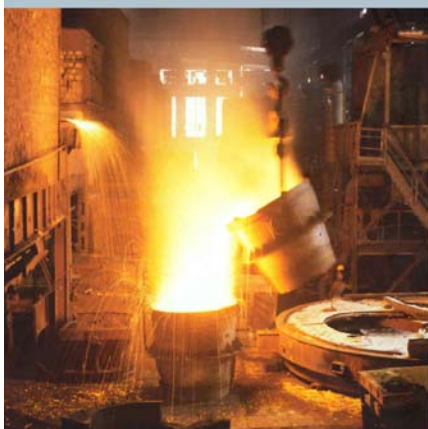


19 November 2009



**Focus: Is it the Dollar or Copper pulling the strings?** The strength of the dollar undoubtedly has an impact on dollar denominated base metals prices. On closer inspection however, the impact of the dollar varies markedly within the base metals complex. Of particular interest is that copper, and to a lesser extent aluminium, actually emerge as having a greater influence on the other metals than the dollar itself.

- Precious metals are encountering resistance. After rallying this week, the risk of adding longs outstrips the upside. However, we doubt the market would want to get to short. We expect precious metals support to remain in place.
- WTI attempted to break above \$80/bbl yesterday but failed. The sell-off in crude oil is continuing this morning, as commodities are experiencing some long liquidation.
- The base metals ran out of momentum during Wednesday afternoon, while another round of disappointing US economic data seeing profit taking emerge. This morning has seen the base metals come under further pressure heading into the afternoon with a stronger euro weighing on prices.

**Walter de Wet\* CFA**

+44 (20) 3145 6821

Walter.DeWet@standardbank.com

**Leon Westgate\***

+44 (20) 7626 6004

Leon.Westgate@standardbank.com

**Manqoba Madinane\***

+27 (11) 378 7220

Manqoba.Madinane@standardbank.co.za

**Commodity price data (18 November 2009)****Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,083	2,067	2,073	2,044	29	1.42	2,035.50	33	-34.00
Copper	6,955	6,880	6,930	6,809	54	0.79	6,926.00	165	-24.50
Lead	2,418	2,404	2,399	2,350	18	0.75	2,405.00	74	-21.50
Nickel	17,350	17,150	17,235	16,850	300	1.78	17,300.00	640	-59.00
Tin	15,224	15,195	15,250	15,000	245	1.64	15,255.00	455	42.00
Zinc	2,275	2,248	2,276	2,238	-15	-0.66	2,252.00	17	-27.50

**Energy**

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	79.40	79.02	79.79	78.95	-0.45	-0.57%
NYMEX WTI	79.63	79.01	79.87	79.00	-0.57	-0.72%
ICE Gasoil	634.75	632.50	637.75	631.25	-10.50	-1.66%
API2 Q1'10	67.80	66.90	-	-	-0.90	-1.35%
ICE EUA Dec09	12.61	12.58	-	-	-25.19	-0.24%

**Precious metals**

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,146.00	1,149.00	1,153.00	1,136.75	1,141.50	2.50	-0.2/0.2
Silver	-	18.23	18.82	18.35	18.37	0.00	-1.0/1.0
Platinum	1,459.00	1,449.00	1,460.00	1,443.00	1,445.00	-10.00	3/5
Palladium	375.00	372.00	372.00	369.00	370.00	0.00	0/2

Sources: Standard Bank; LME; BBG



### Focus: Is it the Dollar or Copper pulling the strings?

The strength of the dollar undoubtedly has an impact on dollar denominated base metals prices, particularly the current and very real concerns over its future performance given the low interest rate environment and quantitative easing measures.

On closer inspection however, the impact of the dollar varies markedly within the base metals complex. Of particular interest is that copper, and to a lesser extent aluminium, actually emerge as having a greater influence on the other metals than the dollar itself. For example, since the beginning of January, the correlation between zinc and the dollar/euro rate is 0.93. The correlation between zinc and copper however has been a near perfect 0.97. Similar jumps in correlation are seen in all of the metals except Tin.

The reason why the base metals complex is following copper appears to be a function of metal's greater relative liquidity, the lack of fundamental impact in determining prices generally, but also due to the investment community viewing the industrial metals as one entity. Tin's lack of liquidity and small overall market size (~400 kt compared to ~18-19 Mt for copper) has shielded it from the investment community.

With the base metals essentially moving as a unit, following copper wherever it goes, the result has been to render intra-complex relative value trades as irrelevant for the time being. Instead it's been a case of picking a time horizon and being either long or short.

## Base metals

The base metals ran out of momentum during Wednesday afternoon, while another round of disappointing US economic data seeing profit taking emerge. This morning has seen the base metals come under further pressure heading into the afternoon with a stronger euro weighing on prices.

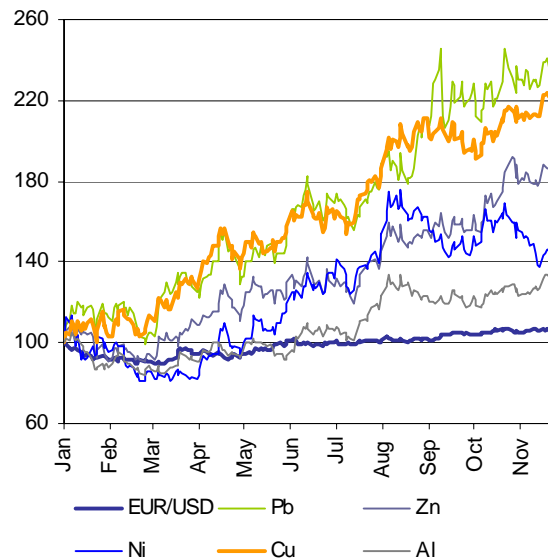
This afternoon sees the release of the latest US Initial Jobless Claims and Continuing Claims numbers (expected 504K and 5,598K respectively), the US Leading Indicators for October (expected +0.4%) and the November Philadelphia Fed (expected at 12.2). The impact of the jobless data has diminished over the past few months, suggesting that the numbers will have to be way out of line with expectations, to have any lasting impact.

Copper traded to within a whisker (\$8) of the \$7,000 mark yesterday, before stalling. As momentum faded, profit taking kicked in with the metal closing over \$100 off its intraday highs. Volumes were very good once again however with well over 10,000 lots trading on LME Select. Prices have since continued to fall heading into Thursday afternoon, with prices retreating to around \$6,800. In the inventory front, on-warrant copper stocks climbed 6,800 mt this morning, the main locations being Busan, Hamburg and Rotterdam.

In other news, workers at BHP Billiton's Spence mine have invaded the site, leading to the halt of all operations. The strike at the 200 ktpy capacity operation has now entered its 38th day.

Aluminium had a very busy day on Wednesday, with over 11,000 lots trading on LME Select. As with copper however, a strong start gave way to a poor finish as profit taking kicked in. Inventories also posted a large increase this morning, with on-warrant stocks climbing 36,775 mt. Interestingly, the main location for the increase was Rotterdam (+21,725), with Detroit (+9,350) and Singapore (+4,275 mt) accounting for the bulk of the remaining tonnage.

### Index of Base Metals and Spot USD/EUR



Source: Standard Bank

Correlations invariably break down. The break-down for the base metals will emerge when the fundamentals start to re-assert themselves, most likely when supply becomes the constraining factor again. At that point, for example being long-copper / short-aluminium would start to make sense. However, with a correlation between aluminium and copper prices currently running at 0.94 we need to wait a little longer yet.

By Leon Westgate

By Leon Westgate

## Precious metals

Precious metals are encountering resistance. After rallying this week, **the risk of adding longs outstrips the upside. However, we doubt the market would want to get to short.**

**We expect precious metals support to remain in place.** For a while, especially in October, the market has increasingly priced in a hike in the Fed funds rate by June 2010. But these expectations have retreated in recent days. A month ago, the futures market assigned only a 30% probability to the Fed keeping rates at 0-25% until June next year (and an equal probability of a rate hike to 0.5% in Jun 2010). As of yesterday, the futures market assigns a 65% probability to flat rates between 0 - 25% until Jun 2010 (and a 27% probability to a hike). **The market right now is clearly convinces that rates will stay low for longer.** We still see no rate hike in 2010 (unless it's in Q4). Low rates should continue to support precious metals.

**Gold failed to break above \$1,150 yesterday.** The dollar is also not falling below \$1.50 against the euro, and therefore gold's momentum is fading. We advise buying into dips. A decline in the gold price below \$1,137 may open the door to \$1,128. We still see strong resistance at \$1,150.

**PGMs are finding resistance.** The metals have rallied strongly, and a correction is expected. However, our target for platinum at ZAR11,200 remains (or \$1,500 with a ZAR/USD exchange rate at \$7.50). Platinum support is at \$1,400. Palladium is likely to struggle to break above the \$375 — \$380 level, and we view this as the ceiling for now. Rhodium continues its march north, and our price target is \$3,000.

By Walter de Wet

## Energy

**WTI attempted to break above \$80/bbl yesterday but failed.** The sell-off in crude oil is continuing this morning, as commodities are experiencing some long liquidation.

A **bullish** DOE inventory reading **did not materialize** yesterday and, as a result, crude failed to break above \$80. DOE crude inventories were down 887K barrels, gasoline inventories down 1,755K barrels and distillate inventories were 328K lower. These figures are **less bullish** than they appear. Crude inventories at Cushing, where WTI crude is delivered, rose 1,350K barrels, which signals crude supplies remain plenty. Also, refinery utilization continues to edge lower as crack spreads remain low, which could put upward pressure on inventories. The latest API figures show utilization rates in the US at 79.6% — down from 80.6% a week earlier.

While crude oil is failing to break above \$80, **technically the pressure is building for a push higher.** We would look for a push higher to be triggered by US dollar weakness. Currently there is strong resistance for the dollar to depreciate below \$1.5000 against the euro. **We see support for front-month crude at \$78.75 and \$78.00, and resistance at \$80.25 and \$81.20.**

Thermal coal prices continue to edge higher. API2 for delivery in Dec'10 closed at \$78.85 — up 85 cents. API4 coal for delivery in December closed at \$70.05, also 85 cents higher. With crude oil prices trending sideways, and the dollar failing to break above \$1.50 against the euro, coal is adrift.

**Watch out for the US mortgage delinquency rate data release for Q3.** In Q2, delinquencies were 9.24%. Pre-2009, the highest delinquency rate since 1979 has been 6% (in 1985). A further rise in rates would signal possibly more write-downs by banks and lower interest rates for longer in the US.

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	4,595,250	4,559,325	39,350	3,425	35,925	2,266,350	119,650	2.60	187,498
Copper	420,550	414,100	6,800	350	6,450	80,775	2,075	0.49	100,817
Lead	134,800	133,025	2,000	225	1,775	89,650	300	0.22	21,007
Nickel	132,912	132,930	120	138	-18	54,522	2,022	1.52	26,389
Tin	26,950	26,985	10	45	-35	19,160	205	0.76	53,076
Zinc	448,650	449,375		725	-725	195,150	8,075	1.80	60,915

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	15,480	15,560	75	Ali Nov'09	-	-	-	-
Copper	53,650	53,530	-60	Cu Nov'09	313	319.00	5.70	1.82%
Zinc	17,700	17,775	60					

### ZAR metal prices (18 November 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,114	51,426	17,857	128,453	113,268	16,721	7.4250
3-month	15,620	51,990	18,166	129,597	114,824	16,987	7.5567

## 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)	84.86	0.84	86.89	1.80	87.52	1.71	90.06	1.64	94.44	94.44
Gasoil 0.1% Rdam (\$/mt)	632.50	-10.50	643.50	-10.25	652.25	-9.75	672.25	-9.50	709.25	-8.75
NWE CIF jet (\$/mt)	684.15	4.81	698.83	11.41	712.03	11.25	738.96	11.25	778.67	11.50
Singapore Kero (\$/bbl)	85.95	1.04	88.84	2.31	89.52	2.08	91.81	1.84	97.14	1.80
3.5% Rdam barges (\$/mt)	453.19	3.32	459.73	4.22	462.54	4.81	466.66	4.94	472.62	5.27
1% Fuel Oil FOB (\$/mt)	476.64	5.03	478.23	5.97	488.79	6.06	500.66	6.44	519.12	5.27
Sing FO 380 Cargo (\$/mt)	479.73	3.72	481.79	3.81	483.07	4.01	486.49	3.95		
Sing FO180 Cargo (\$/mt)	472.53	3.23	483.23	3.97	485.79	3.81	490.41	4.44		

Thermal coal	Q1-10	Q2-10	Q3-1	Cal 11	Cal 12					
API2 (CIF ARA)	80.80	83.35	86.40	98.81	105.53					
API4 (FOB RBCT)	72.90	74.70	77.50	89.04	95.53					
Carbon	Spot	Dec-09	Dec-10	Dec-11	Dec-12					
ICE - ECX EUA (€/mt)	14.43	0.05	14.43	0.04	15.35	0.04	16.16	0.06		
ICE - ECX CER (€/mt)	13.60	0.00	13.44	-0.01	13.28	0.03	13.30	0.05	13.62	0.00

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.25400	0.28000	0.32400	0.40600	0.56800		
Silver	0.55600	0.55600	0.55600	0.56000	0.57000		
USD Libor	0.23656	0.24875	0.26906	0.50188	1.05500		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	67.98	1,120.68	1,089.38	1,000.59	964.31	1,110	1,150
Silver	58.63	17.82	17.37	15.72	14.67	17.50	18.20
Platinum	61.78	1,394.40	1,366.93	1,278.00	1,211.39	1,400	1,450
Palladium	67.44	353.10	340.10	294.88	260.36	350	370
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'09	Sep'09	Oct'09	Oct'09	Oct'09	Jun'10	Oct'09
Settlement	1,139.30	18,3650	366.85	1,452.00	1,137.70	3,269.00	1,137.90
Open Interest	526,619	141,146	22,639	34,727	2,035	105,664	4,740
Change in Open Interest	-4,287	-2,482	-294	-254	249	655	68

Date: 18 November 2009

Sources: Standard Bank; LME; Bloomberg

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