

Commodities

Futures market and ETF positioning



Week ended 7 June 2011

13 June 2011

The latest CFTC (Commodity Futures Trading Commission) data, released on Friday 3 June 2011, reveals the following:

- ETF gold holdings increased by 10.7 tonnes over the week ended 10 June. Once again, investor interest in gold is growing, which, together with physical demand from Asia, should keep gold well supported.
- For silver, the data revealed growing investor disinterest, as ETF holdings declined 583.7 tonnes over the past week. Currently at 14,267 tonnes, ETF holdings of silver are at a w/w low for the year, a level last seen in November 2010.
- We believe that the current rally in platinum is likely to run into further resistance. We believe that much of the price rally over the past month was driven by investment demand and speculative interest, not real demand.
- Although our strategic view on palladium remains unchanged; we believe that it could pull back towards \$775 (and possibly \$760) — which would provide better entry levels for a long position.
- For NYMEX WTI, net speculative length as a percentage of open interest dropped slightly, decreasing from 9.2% two weeks ago, to 8.4% last week. While this is encouraging, net speculative length is still very high on a historic basis.
- Tactically, we see upside for copper compressed by *the cyclical slowdown* and *policy uncertainty*. We favour selling into rallies. Strategically, we see the copper market in a small deficit this year and a larger deficit in 2012. We therefore believe that the price will stay high into 2012.

Strategist

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Weekly change in speculative positions and ETF holdings

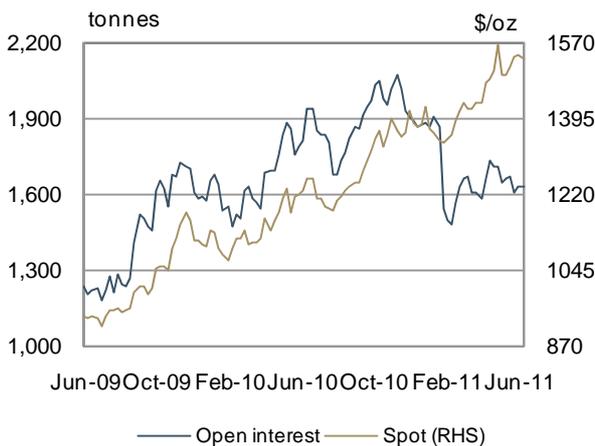
	Gold tonnes	Silver tonnes	Platinum k oz	Palladium k oz	Crude oil (WTI) m bbls	Crude oil (Brent) m bbls	Copper tonnes
Speculative longs	854.4	4,761.3	1,293.5	1,595.3	343.6	2.6	340.7
- Change	13.6	-110.4	43.1	230.9	-11.8	0.0	10.0
Speculative shorts	110.7	1,007.9	78.4	225.8	115.7	1.6	230.4
- Change	-13.1	0.6	-19.8	-68.4	9.0	0.0	12.8
Net speculative length	743.6	3,753.4	1,215.1	1,369.5	228.0	1.0	110.3
- Change	26.7	-111.1	62.8	299.3	-20.8	0.0	-2.9
Net speculative length as a % of open interest	31.7%	12.5%	60.0%	57.8%	8.4%	3.1%	7.9%
- Change	0.5%	-0.3%	1.1%	8.0%	-0.8%	-0.2%	-0.1%
EFT holdings	2,053.0	14,266.5	1,359.6	2,129.4			
- Change	10.7	-583.7	92.3	94.6			

Sources: Standard Bank; COMEX; NYMEX; LME; Various ETFs

Gold — COMEX

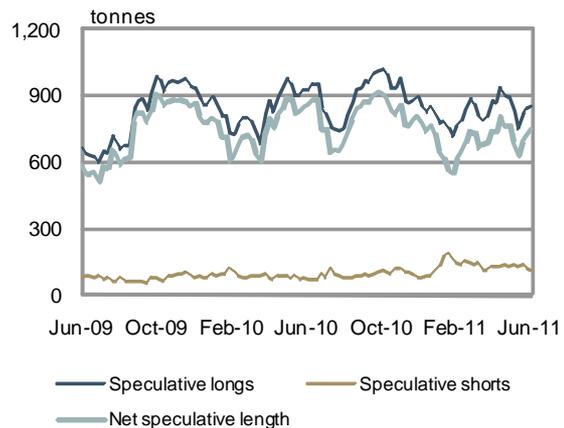
- After a strong increase the previous week, open interest has declined modestly, by 2.7 tonnes over the past week. As of last Friday, gold open interest stood at 1,532 tonnes on COMEX, well below last year's average of 1,787 tonnes. Accompanying the fall in open interest was a 0.7% w/w fall in prices.
- Nevertheless, net speculative length is still making steady gains, albeit at a slowing pace. Last week saw 26.7 tonnes added to net speculative length, after the previous two weeks had 59.6 tonnes and 30.4 tonnes added respectively. The net speculative position for gold now stands at 716.9 tonnes — closer to last year's average of 777.6 tonnes. The increase in net speculative length was equally due to an increase of 13.6 tonnes in speculative longs, and a 13.1 tonne decline in speculative shorts. This is an encouraging sign of growing investor confidence.
- ETF holdings of gold saw an increase of 10.7 tonnes over the week ended 10 June. Once again, investor interest in gold is growing, which, together with physical demand from Asia, should keep gold well supported.
- As a percentage of open interest, net speculative length has remained steady at 31.7% (up only marginally from 31.15% in the previous week). This is largely in line with the two-year average of 33%, and continues to indicate a market that is not particularly overextended.

Figure 1: Gold price vs. COMEX open interest



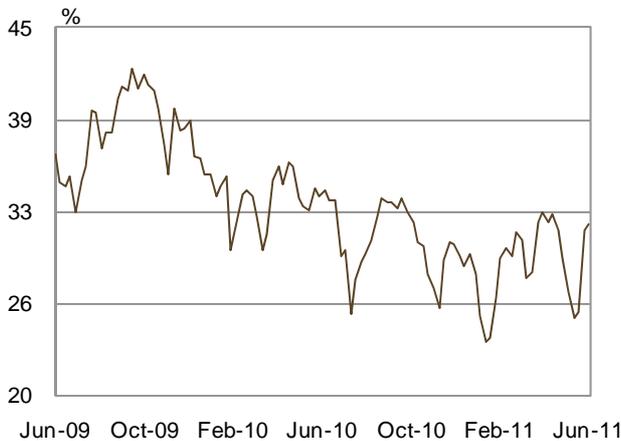
Source: COMEX

Figure 2: COMEX speculative longs and shorts



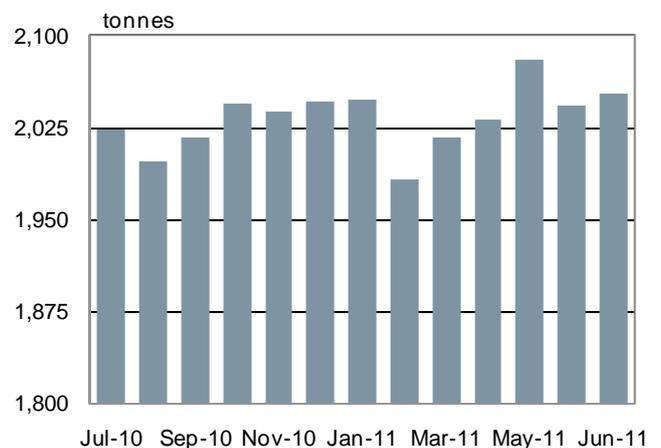
Sources: COMEX; Standard Bank

Figure 3: COMEX net spec length as a % of open interest



Sources: COMEX; Standard Bank

Figure 4: ETF holdings

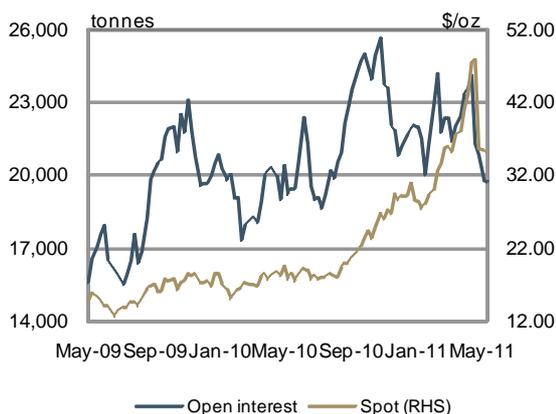


Sources: Various ETFs; Standard Bank

Silver — COMEX

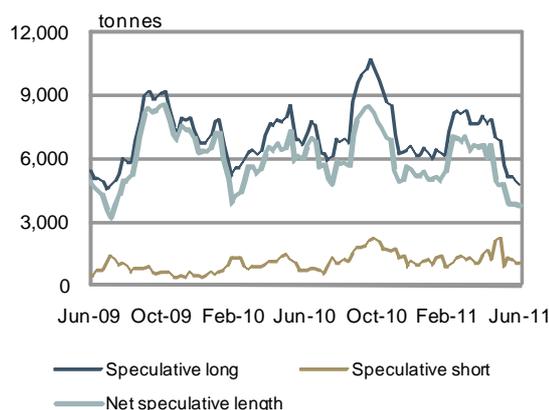
- Open interest saw the gains of the previous two weeks all but erased last week. Open interest fell a modest 15.1 tonnes, bringing COMEX open interest to 19,533 tonnes and within touching distance of this year's low of 19,530 tonnes. Accompanying this modest decline in open interest was a marginal 0.2% w/w fall in prices.
- Net speculative length fell sharply, losing 111.1 tonnes. This builds on the 33.1 tonne decline of the previous week, and brings net speculative length to a low for the year of 3,753 tonnes. A strong offtake in speculative longs explained almost all of the decline in the net position, with a 110.4 tonnes lost in speculative long positions. Speculative longs reached another low for the year (4,761.3 tonnes) last week. Speculative shorts increase marginally by 0.6 tonnes. Consequently, we would caution that markets remain wary of silver and that upside could be limited in the coming weeks.
- Another sign of growing investor disinterest is the 583.7 tonnes of silver sold off by ETFs over the past week. Currently at 14,267 tonnes, ETF holdings of silver are at a w/w low for the year, a level last seen in November 2010.
- Net speculative length as a percentage of open interest remains around the 12% level, well below the 2010 average of 23%, indicative of a market far from overstretched.

Figure 1: Silver price vs. COMEX open interest



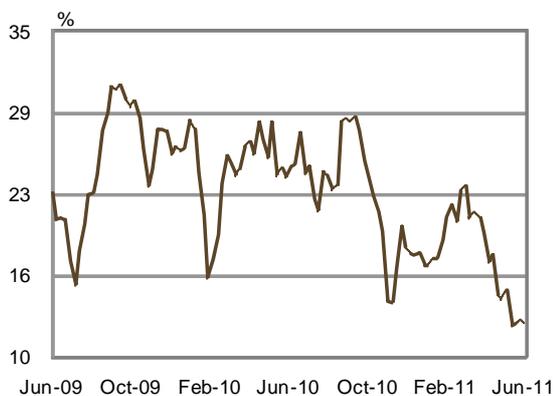
Source: COMEX

Figure 2: COMEX speculative longs and shorts



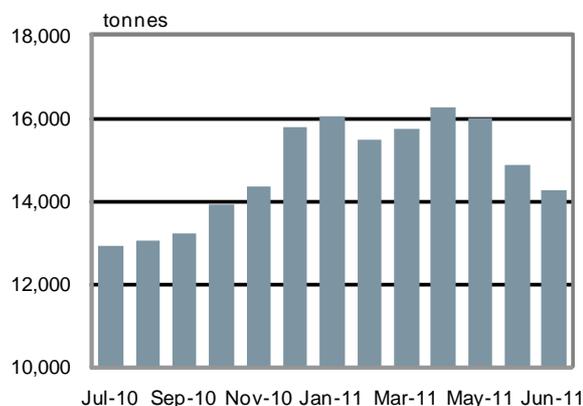
Sources: COMEX; Standard Bank

Figure 3: COMEX net spec length as a % of open interest



Sources: COMEX; Standard Bank

Figure 4: ETF holdings

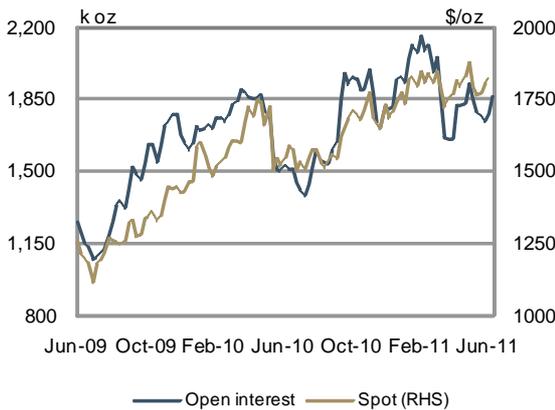


Sources: Various ETFs; Standard Bank

Platinum — NYMEX

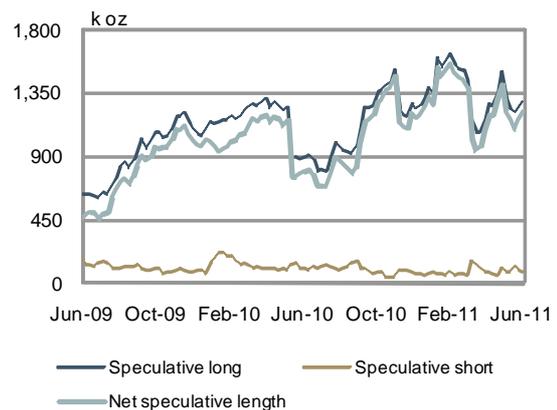
- We believe that the current rally in platinum will run into resistance. We believe that much of the price rally over the past month was driven by investment demand and speculative interest, not real demand. The trend in slowing industrial demand is reflected in the latest Swiss and China customs data (see our *Monthly Customs Data: Platinum and Palladium Flow Analysis* report dated 26 May 2011). We expect a rise in industrial demand only in Q4:11.
- According to the latest CFTC data and ETF holdings, the rally in platinum has been driven by a rise in non-commercial long positions and a rise in ETF holdings. ETF holdings increased 9,905 oz last week, while non-commercial longs rose by 43K oz. At the same time, shorts of 396K oz were covered.
- Open interest for platinum rose for the second week in a row, now standing at 1,85m oz — up from 1,74m oz at the end of May. Combined with the rise of 62K oz, the non-commercial net long position as a percent of open interest now stands at 60% — up from 58% last week. This is in line with the average long position seen over the past two years of 58.8%.
- The rise in speculative longs with platinum below \$1,750 is consistent with our fundamental view (based on cost-of-production economics) that platinum provides value on approach of \$1,750 (with a ZAR at 7.00 against the USD). We still target \$1,900 for platinum in Q4:11.

Figure 1: Platinum price vs. NYMEX open interest



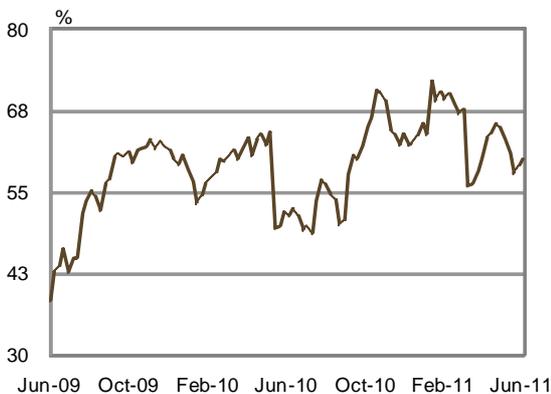
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



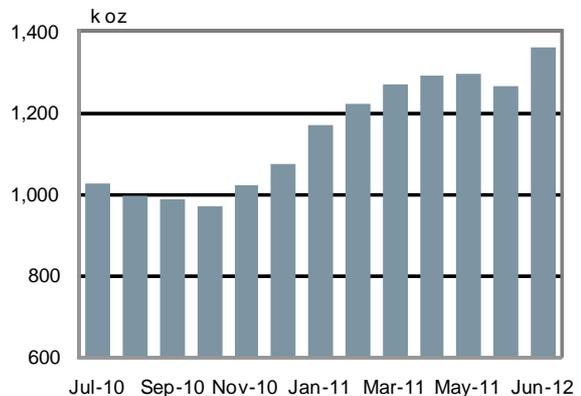
Sources: NYMEX; Standard Bank

Figure 3: NYMEX net spec length as a % of open interest



Sources: NYMEX; Standard Bank

Figure 4: ETF Holdings



Sources: Various ETFs; Standard Bank

Palladium — NYMEX

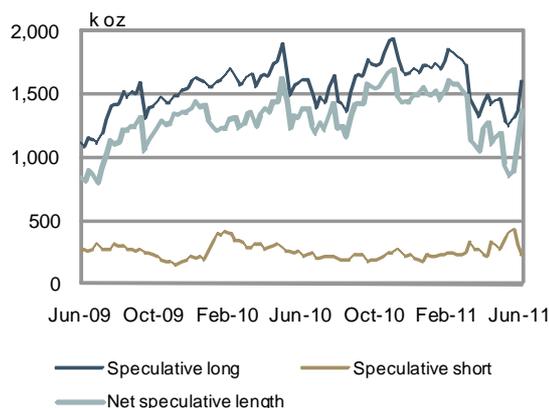
- Similar to platinum, palladium has seen a sharp rise in non-commercial longs, rising by 230Koz the past week, to 1,59m oz. At the same time, non-commercial shorts declined from 294K oz — to 225K oz. The net non-commercial (or speculative) positions increased by 300K oz — to 1.37m oz. At the same time, ETF holdings increased by 7,500oz.
- Our underlying fundamental view for palladium is based on cost-of-production economics where we see value in palladium on approach of \$700 (with a ZAR at 7.00 against the USD). The latest customs data from China and Switzerland also indicates that palladium demand is still healthy (see our *Monthly customs data: platinum and palladium flow analysis* report of 26 May 2011).
- We expect the metal to find strong resistance to a break higher above \$820. As with platinum the recent rally seems to have been driven by speculative demand rather than industrial demand.
- Although our strategic view on palladium remains unchanged (*the metal should be bought on approach of \$700, with building a core long position in mind. We still target \$950 for palladium. We expect these levels to be reached towards Q4:11*), we believe that the metal could pull back towards \$775 (and possibly \$760) — which would provide better entry levels.

Figure 1: Palladium price vs. NYMEX open interest



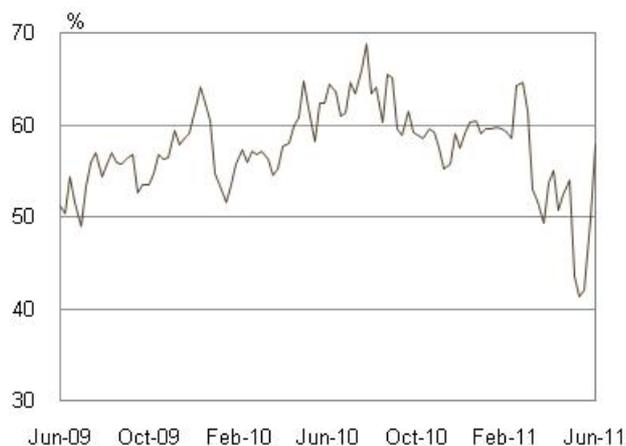
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



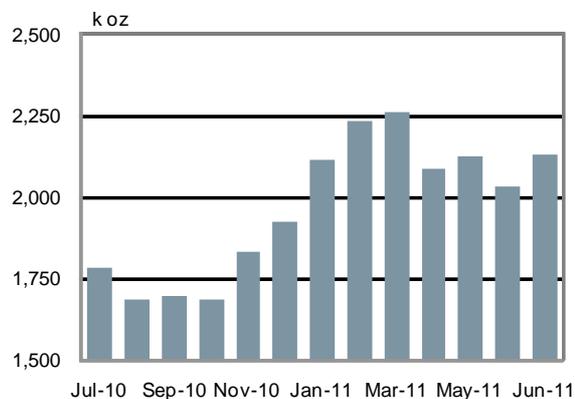
Sources: NYMEX; Standard Bank

Figure 3: NYMEX net spec length as a % of open interest



Sources: NYMEX; Standard Bank

Figure 4: ETF holdings

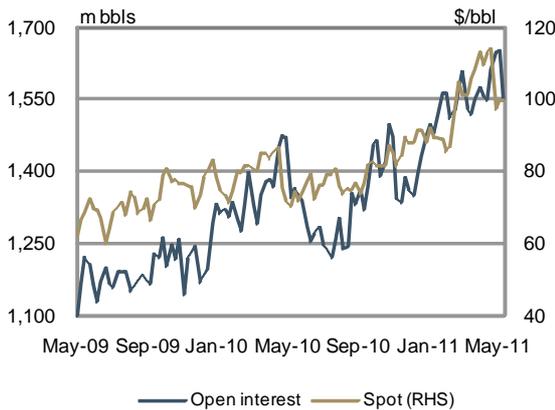


Sources: Various ETFs; Standard Bank

Crude oil (WTI) — NYMEX

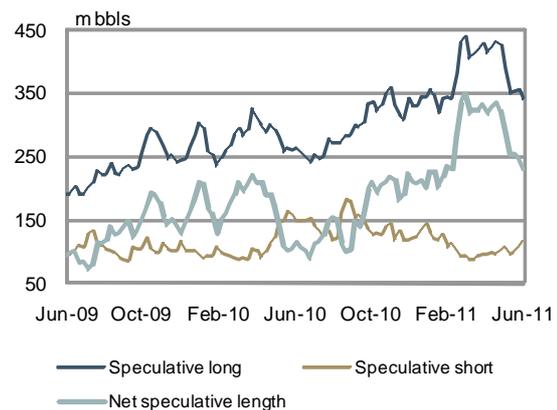
- Non-commercial longs fell last week, after three weeks of consecutive (although modest) gains. Losing 11.8m bbls, speculative long positions now stand at 343.6m bbls, approximately the level seen in mid-February before the MENA region crisis began. Non-commercial shorts rose, with 9.0m bbls added. Currently, at 115.7m bbls, this is still below the 2010 average of 124m bbls. This leaves the net non-commercial length, or net speculative length, in NYMEX WTI long 228m bbls. The net speculative length in NYMEX WTI is down substantially from the net long position of 322m bbls seen at the start of May. The market appears to be growing less optimistic about crude's prospects.
- Net speculative length as a percentage of open interest dropped slightly, decreasing from 9.2% two weeks ago, to 8.4% last week. While this is encouraging, we note that net speculative length is still very high on a historic basis. Over the past two years, the average net speculative length as a percentage of open interest was 6.4%. As a result, we believe that crude oil may continue to struggle to gain ground in the coming days, and that it remains vulnerable to changes in sentiment.
- The decline in net speculative length, with a significant contribution stemming from increased short positions, is consistent with our view that the WTI term structure will weaken.

Figure 1: NYMEX WTI price vs. open interest



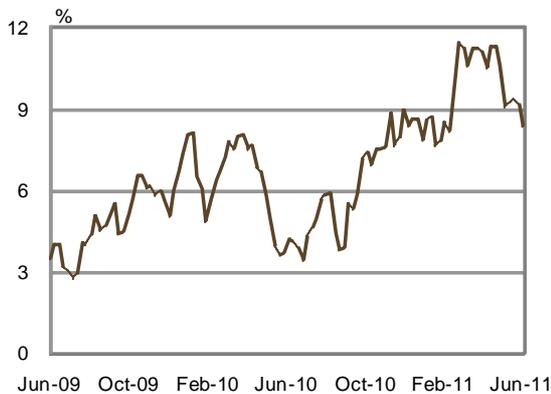
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



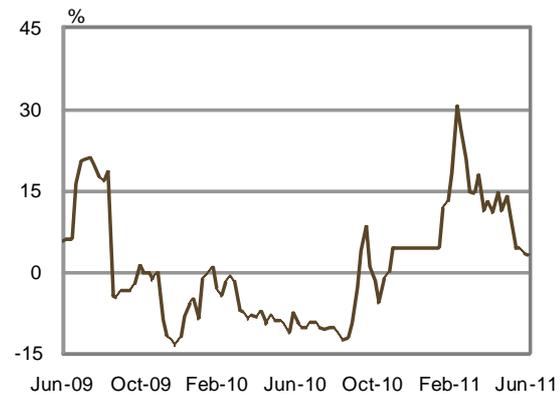
Sources: NYMEX; Standard Bank

Figure 3: NYMEX WTI net spec length as a % of open interest



Sources: NYMEX; Standard Bank

Figure 4: NYMEX Brent net spec length as a % of open interest



Sources: NYMEX; Standard Bank

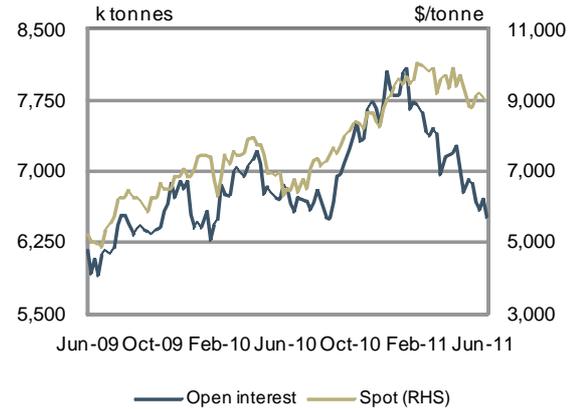
Copper — COMEX

- Tactically, we see upside for copper compressed by the cyclical slowdown and policy uncertainty. We favour selling into rallies. Strategically, we see the copper market in a small deficit this year and a larger deficit in 2012. We therefore believe that the price will stay high into 2012.
- The latest CFTC data indicates speculative positioning in COMEX copper has remained largely unchanged over the past week. After rebounding strongly from a net long position of 68 tonnes to 113 tonnes two weeks ago, the latest data indicates that the net speculative position stands at 113 tonnes. Much of the change in the net speculative position has been driven by a 13 tonne increase in non-commercial shorts, which was partly offset by a 10 tonne rise in non-commercial longs.
- While the speculative length in COMEX copper has declined substantially from the highs of 306 tonnes reached at the start of April, we believe that there may be more room for short positions to be added.
- As a percentage of open interest, net speculative length is at 7.9%, almost unchanged from 8% the previous week. The current position is in line with the average level of 12% observed over the past two years.

Figure 1: LME copper price vs. COMEX open interest



Figure 2: LME copper price vs. LME open interest



Sources: COMEX; LME

Source: LME

Figure 3: COMEX speculative longs and shorts

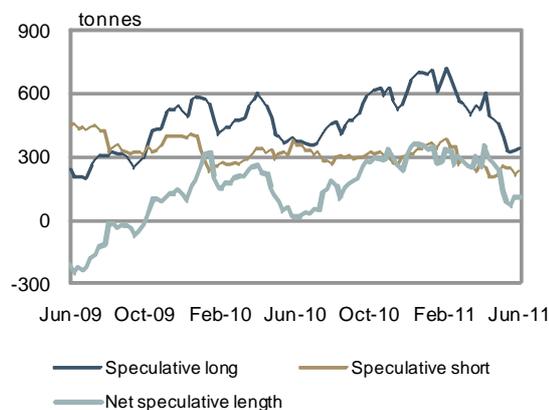
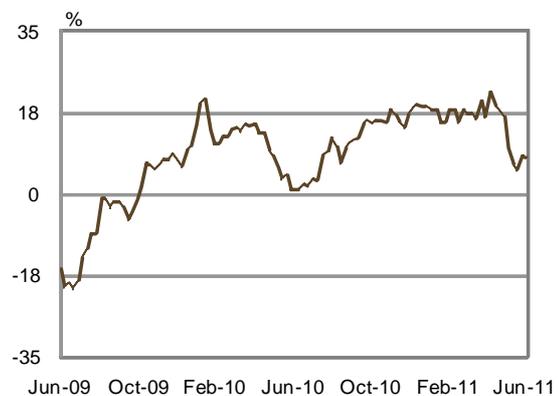


Figure 4: COMEX net spec length as a % of open interest



Sources: COMEX; Standard Bank

Sources: COMEX; Standard Bank

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