

Commodities

Futures market and ETF positioning



Week ended 11 May 2012

14 May 2012

The latest CFTC (Commodity Futures Trading Commission) data, released on Friday 11 May 2012, reveals the following:

- **Gold:** Net speculative length appears decidedly weak compared to historical norms, signalling a continued lack of confidence. What is more disconcerting is that while investors have over the past few weeks appeared cautious of running too short on gold, this fear seems to have evaporated.
- **Silver:** The abrupt increase in shorts is a cause for concern, as a bearish view on silver appears to be gaining traction. The paradoxical increase in longs does not provide much comfort, falling far short of the decline in the previous week.
- **Platinum:** The elevated level of total speculative short positioning raises the possibility of a short-covering rally should production problems in South Africa resurface, as might be the case with Northam Platinum's suspension of smelting operations last week Friday.
- **Palladium:** Net speculative length now looks distinctly weak, and speculative shorts are uncomfortably elevated (having reached a 12-month high). The advantage over platinum that palladium appeared to have had in investors' minds seems to have been significantly eroded.
- **Oil:** Despite the week's liquidation, net speculative length remains far removed from historical norms. This extremely high level of net speculative length signals a market that remains vulnerable to a sudden and abrupt sell-off.
- **Copper:** Speculative shorts are quite high, currently at 446.7 tonnes (and have been for some time now) — a situation which remains concerning. As a percentage of open interest, net speculative length has fallen to 2.4%. This, however, is still worryingly higher than the -0.2% average recorded over the past five years.

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Weekly change in speculative positions and ETF holdings

	Gold	Silver	Platinum	Palladium	Crude oil (WTI)	Crude oil (Brent)	Copper
	tonnes	tonnes	k oz	k oz	m bbls	m bbls	tonnes
Speculative longs	531.4	4,567.7	1,390.8	1,146.9	363.7	2.8	486.7
- Change	-33.6	132.9	45.5	-120.0	-29.5	-0.2	17.2
Speculative shorts	142.5	2,237.6	591.8	550.5	114.4	3.1	446.7
- Change	51.3	646.9	83.5	101.3	17.9	0.6	21.4
Net speculative length	388.9	2,330.1	799.1	596.4	249.3	-0.3	40.0
- Change	-84.9	-513.9	-38.0	-221.3	-47.4	-0.8	-4.3
Net speculative length as a % of open interest	18.1%	9.6%	34.8%	24.8%	9.8%	-0.9%	2.4%
- Change	-4.6%	-2.7%	-2.8%	-9.0%	-1.9%	-2.1%	-0.3%
EFT holdings	2,463.6	18,054.1	1,360.4	1,976.5			
- Change	2.0	-75.8	-3.6	17.7			

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

Gold — COMEX

- Net speculative length dropped dramatically, surrendering 84.9 tonnes this past week. The change in the net position was largely the result of speculative shorts being added (51.3 tonnes, the strongest increase of the last 12 months), with the 33.6 tonnes unwound from longs also contributing significantly to the overall deterioration. Net speculative length (at 388.9 tonnes) appears decidedly weak compared to historical norms (the 5-year average is 611.7 tonnes), signalling a continued lack of confidence. What is more disconcerting is that while investors have over the past few weeks appeared cautious of running too short on gold, this fear looks to have evaporated.
- ETFs, however, have turned net buyers, for the first time in four weeks, with 2.0 tonnes of gold bought over the past week. The mild increase is hardly an indication of investor confidence — ETFs have not completely shrugged off their bearish view on gold.
- We believe that getting bearish on gold at current levels (c.\$1,560) would be wrong and too late. In fact, we believe that from a risk/return perspective, gold should be bought, not sold, on dips lower than this.

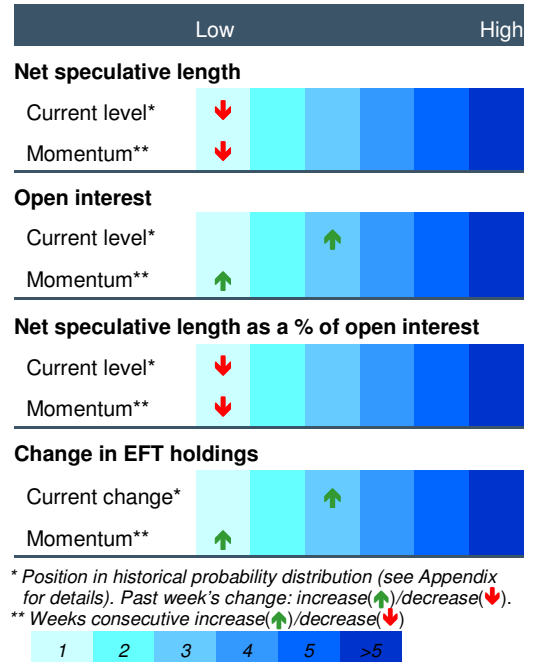
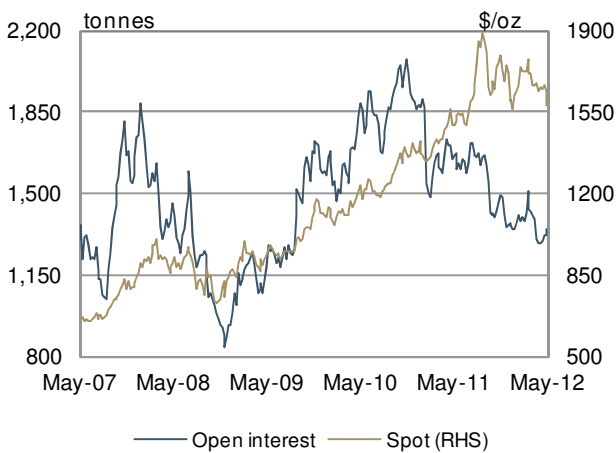
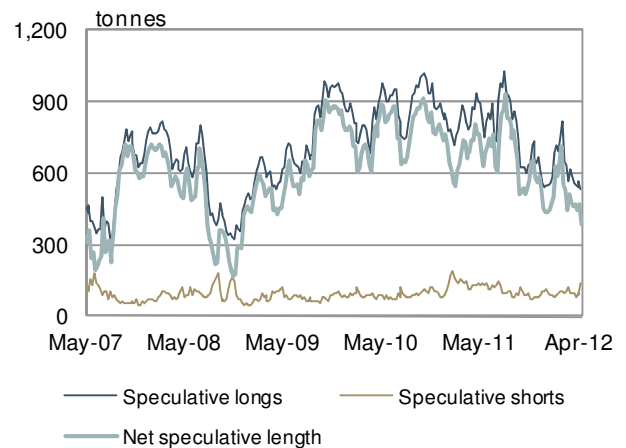


Figure 1: Gold price vs. COMEX open interest



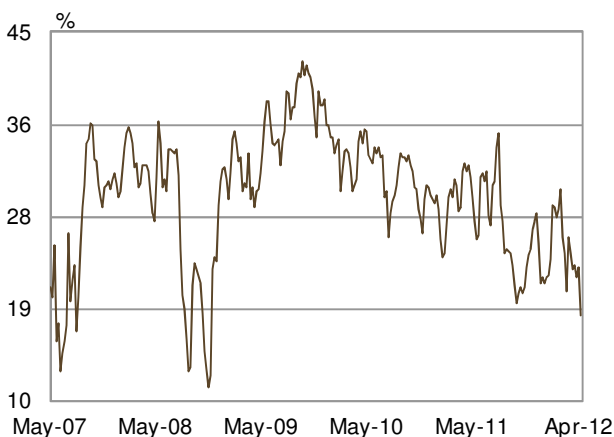
Source: COMEX

Figure 2: COMEX speculative longs and shorts



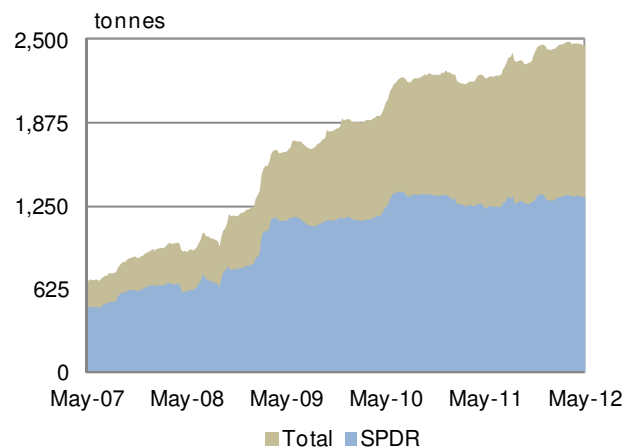
Sources: COMEX; Standard Bank Research

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



Sources: COMEX; Standard Bank Research

Figure 4: ETF holdings



Sources: Various ETFs; Standard Bank Research

Silver — COMEX

- The decline in net speculative length continued for a fifth successive week, with a tremendous 513.9 tonne fall. Total losses for the past five weeks amount to 1,423.9 tonnes. The overall drop was due to a dramatic 646.9 tonne increase in speculative shorts — the largest increase of the year so far. The 132.9 tonnes increase in longs softened the overall deterioration. The abrupt increase in shorts is a cause for concern, as a bearish view on silver appears to be gaining traction. The paradoxical increase in longs does not provide much comfort, falling far short of the 306.7 tonne decline of the previous week.
- The negative attitude towards silver is underscored by the particularly hefty fall in ETF holdings of the metal (75.8 tonnes). Liquidations of the past three weeks now amount to 188.0 tonnes — erasing more than half the year's gains so far.
- We believe that silver will continue to struggle and that rallies should be sold into as long as Chinese stockpiles remain high. We feel that at current levels (below \$29) the metal provides good value, with the potential to reach \$40 towards year-end.

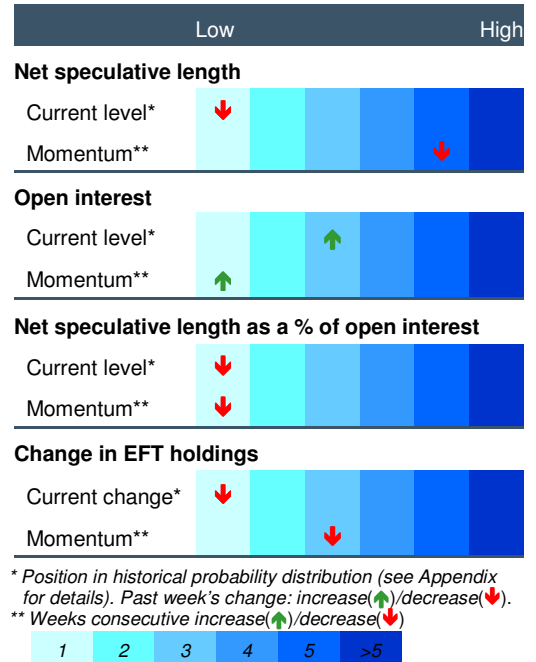
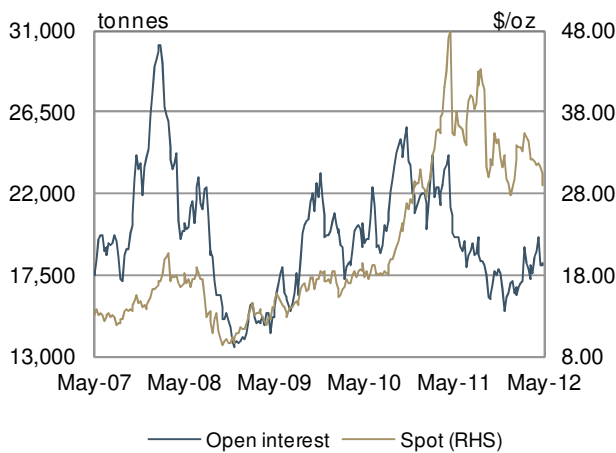
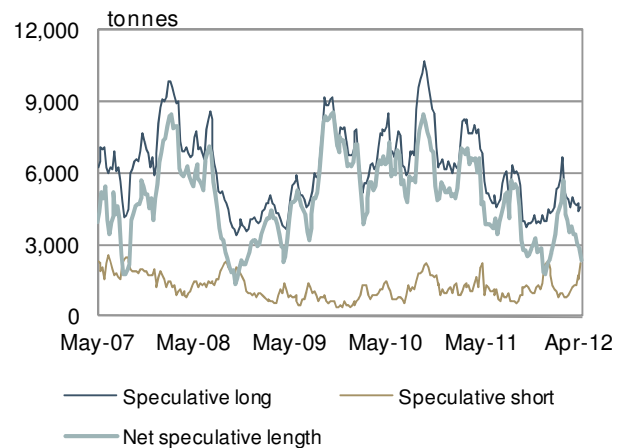


Figure 1: Silver price vs. COMEX open interest



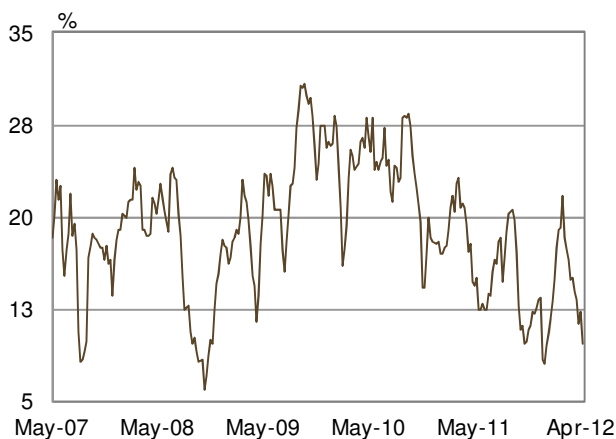
Source: COMEX

Figure 2: COMEX speculative longs and shorts



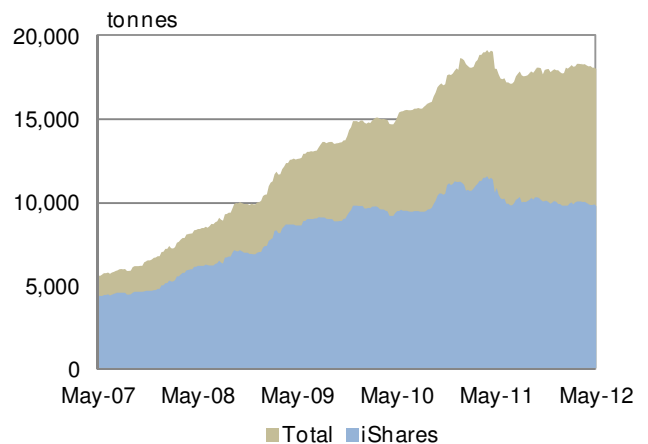
Sources: COMEX; Standard Bank Research

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



Sources: COMEX; Standard Bank Research

Figure 4: ETF holdings



Sources: Various ETFs; Standard Bank Research

Platinum — NYMEX

- After the previous week's interruption, net speculative length resumed its decline, shedding 38.0k oz. A strong increase in speculative shorts (83.5k oz) was responsible for the net decline. The 45.5k oz increase in long positions lessened the overall decrease. While net speculative length is largely in line with the 5-year average of 763.3k oz, total speculative short positioning is considerably elevated (591.8k oz, compared to the five-year average of 135.6k oz). However, this also raises the possibility of a short-covering rally should production problems in South Africa resurface, as might be the case with Northam Platinum's suspension of smelting operations last week Thursday.
- ETF selling also continued, although only a relatively mild 3.6k oz were shed this past week. This brings the total drop in platinum holdings over the past six weeks to 35.6k oz — the longest consecutive losing streak this year and further evidence of the wariness with which investors are viewing platinum.
- At current levels, we believe that upside outweighs downside from a cost-of-production perspective (see *Commodities Daily* dated 10 May 2012).

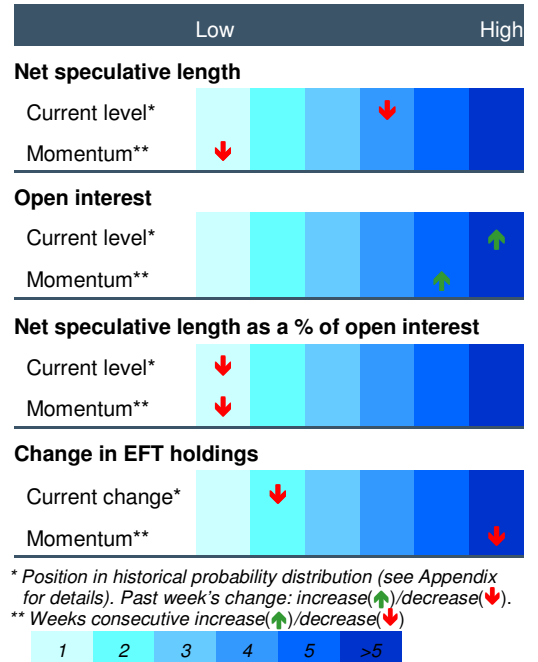
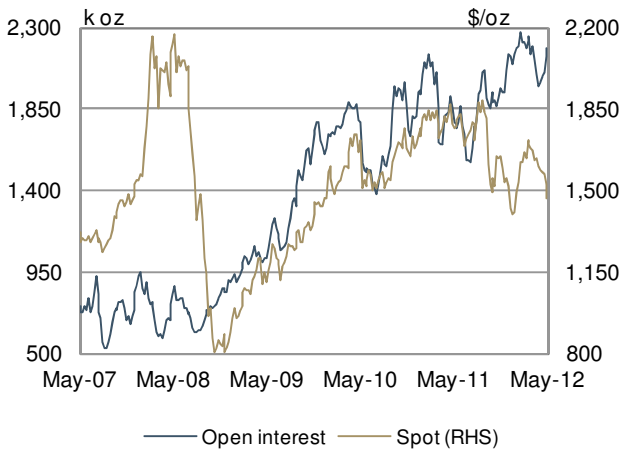
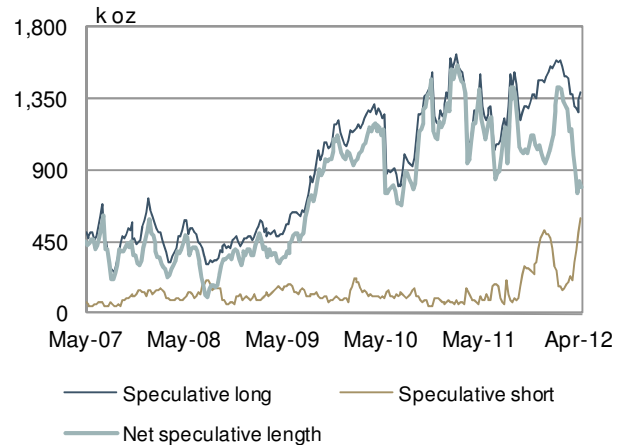


Figure 1: Platinum price vs. NYMEX open interest



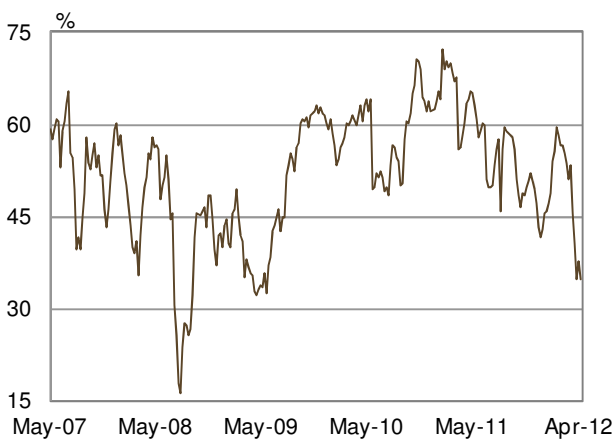
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



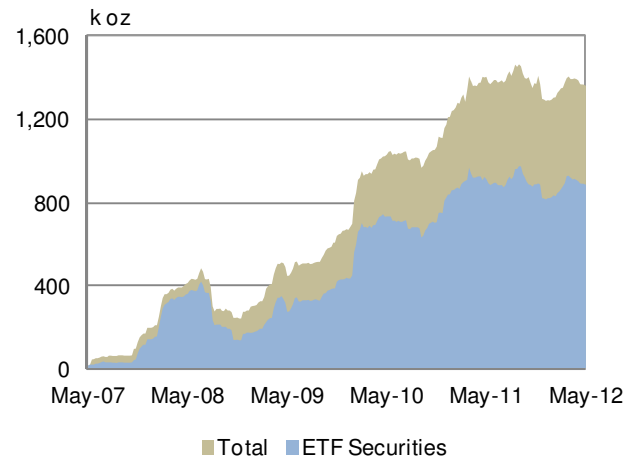
Sources: NYMEX; Standard Bank Research

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



Sources: NYMEX; Standard Bank Research

Figure 4: ETF Holdings



Sources: Various ETFs; Standard Bank Research

Palladium — NYMEX

- Net speculative length saw three weeks of gains completely wiped out by a 221.3k oz decline. The decline was characterised by a market turning decidedly negative on palladium, with a large fall off in longs (120.0k oz) accompanied by an equally strong increase in short positioning (101.3k oz). Net speculative length now looks distinctly weak, with the current level (596.4k oz) far removed from the five-year average (999.5k oz), and speculative shorts are uncomfortably elevated (having reached a 12-month high). The advantage over platinum that palladium appeared to have had in investors' minds seems to have been significantly eroded.
- However, the preference for palladium is still evident among ETFs which remained net buyers of the metal. Although with only 17.7k oz added (compared to 31.5k oz in the previous week), enthusiasm does appear to be waning.
- Net speculative length as a percentage of open interest is extremely low and consequently is no cause for concern.
- We believe that palladium provides good value below \$600.

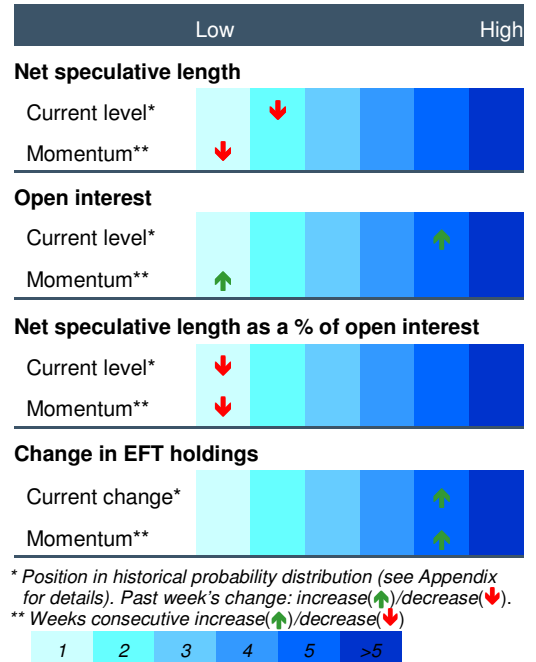
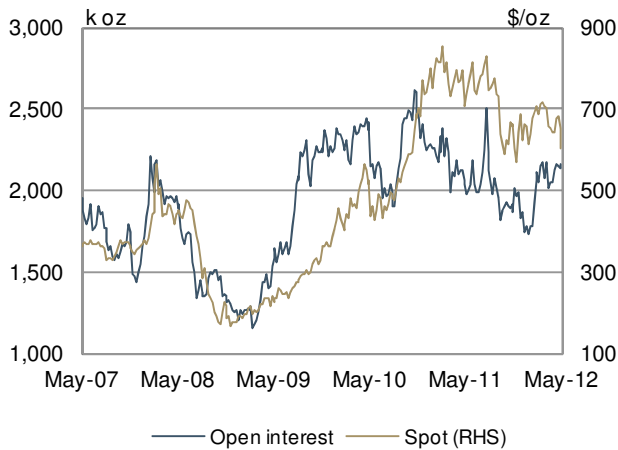
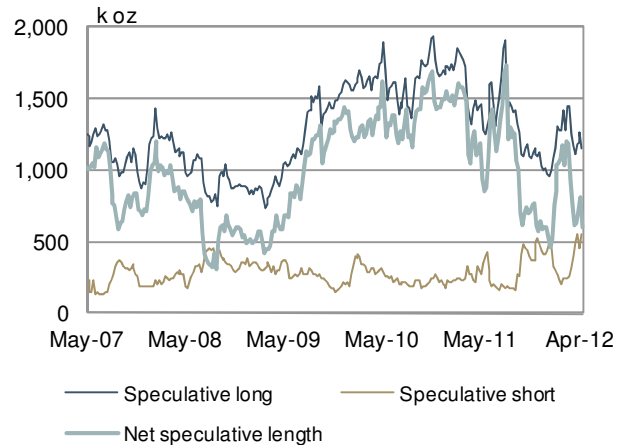


Figure 1: Palladium price vs. NYMEX open interest



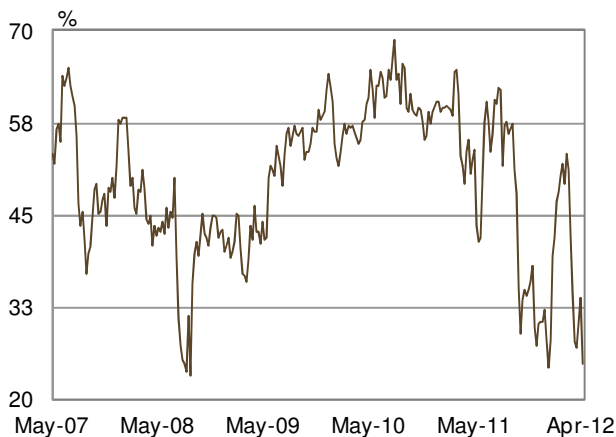
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



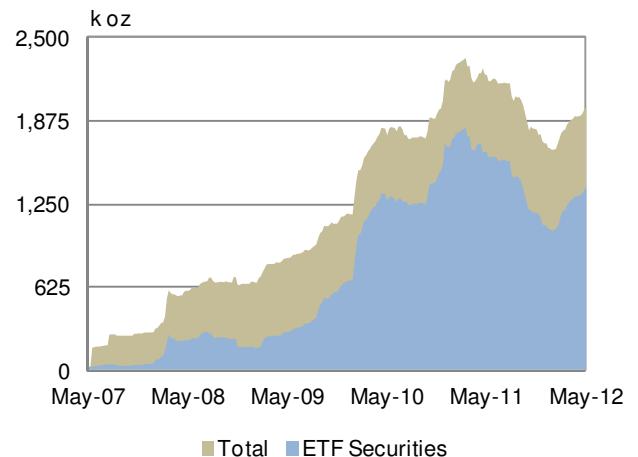
Sources: NYMEX; Standard Bank Research

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



Sources: NYMEX; Standard Bank Research

Figure 4: ETF holdings



Sources: Various ETFs; Standard Bank Research

Crude oil (WTI) — NYMEX

- Net speculative length fell 47.4m bbls — the largest fall of the past 12 months — which is not surprising, since these figures include the sell-off that occurred post the disappointing US nonfarm payrolls data. The week saw 29.5m bbls unwound from speculative longs, and a 17.9m bbl increase in shorts (marking a 12-month record increase). Despite the liquidation, net speculative length remains far removed from historical norms. This extremely high level of net speculative length signals a market that remains vulnerable to a sudden and abrupt sell-off.
- The extremes (and consequent vulnerability) of the oil market are further underscored by net speculative length as a percentage of open interest, which is currently at 9.8%. This is well above the average level experienced over the past five years (6.0%), indicating an overly stretched market.
- From a fundamental perspective, we now shift our bearish bias to neutral ahead of the re-opening of Iranian negotiations. Outside the US, oil stocks are unlikely to have built much. US crude inventories are also likely to have reached their seasonal peak in May.

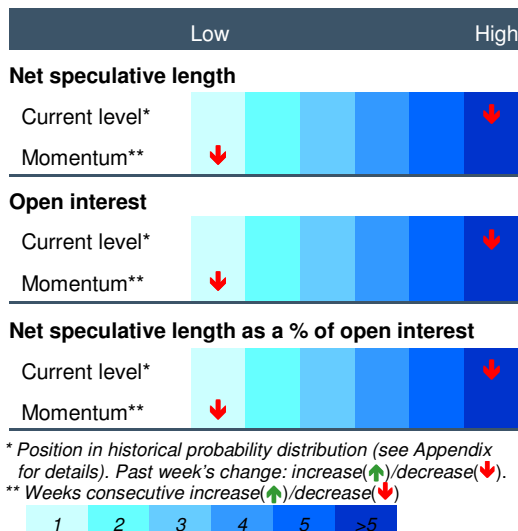
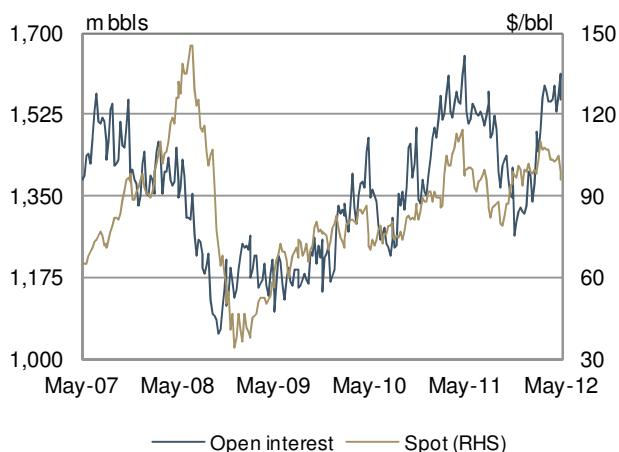
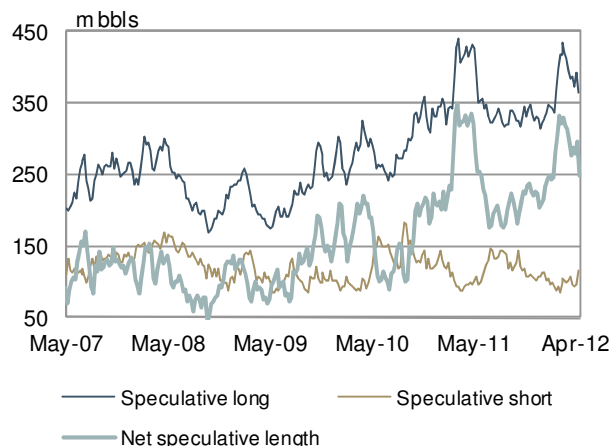


Figure 1: NYMEX WTI price vs. open interest



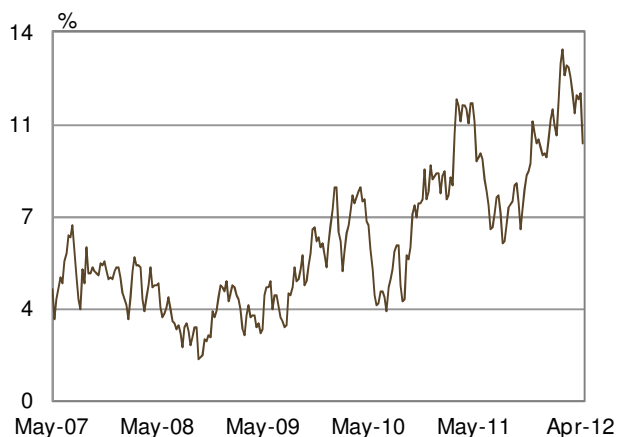
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



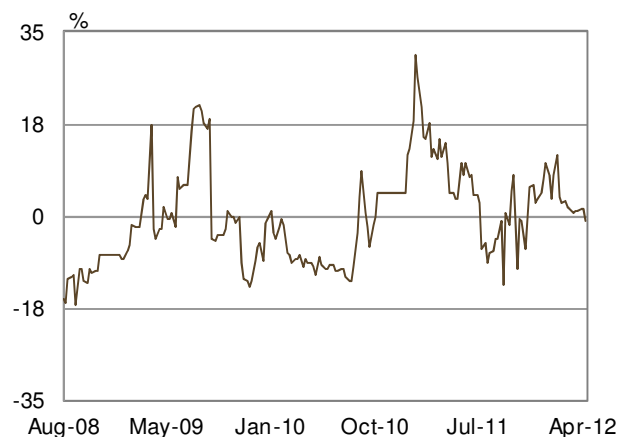
Sources: NYMEX; Standard Bank Research

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



Sources: NYMEX; Standard Bank Research

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



Sources: NYMEX; Standard Bank Research

Copper — COMEX

- Ending three weeks of modest gains, the past week saw a meagre 4.3 tonne fall in net speculative length. This loss was the result of a strong 21.4 tonnes added to speculative shorts. Countering this was a 17.2 tonne increase in long positions. Speculative shorts are quite high, currently at 446.7 tonnes (and have been for some time now) — a situation which remains concerning. Net speculative length, at 40.0 tonnes, although relatively strong, has once again edged closer to negative territory.
- As a percentage of open interest, net speculative length has fallen to 2.4%. This, however, is still worryingly higher than the -0.2% average recorded over the past five years.
- Despite the recent fall, we still remain pessimistic about copper's price prospects. Chinese refined copper imports surged over the past few months in spite of a negative SHFE-LME arbitrage, which, without an increase in real consumer demand to absorb it, has seen copper stocks in bonded warehouses push higher persistently.

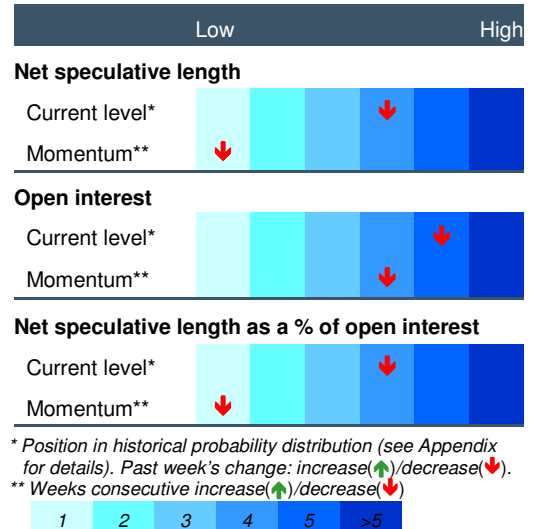
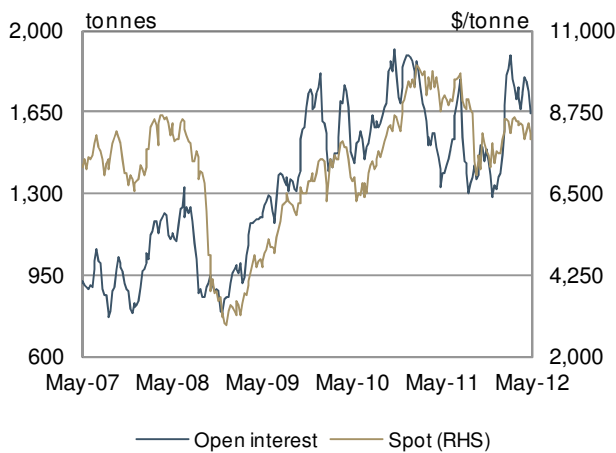
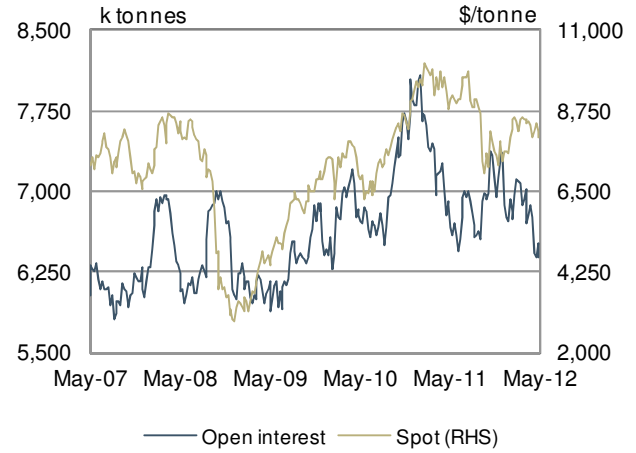


Figure 1: LME copper price vs. COMEX open interest



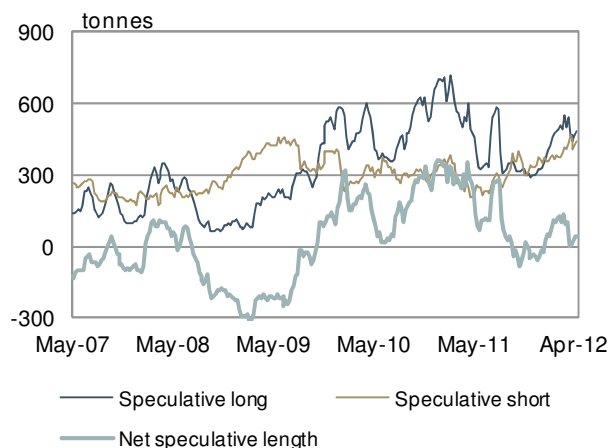
Sources: COMEX; LME

Figure 2: LME copper price vs. LME open interest



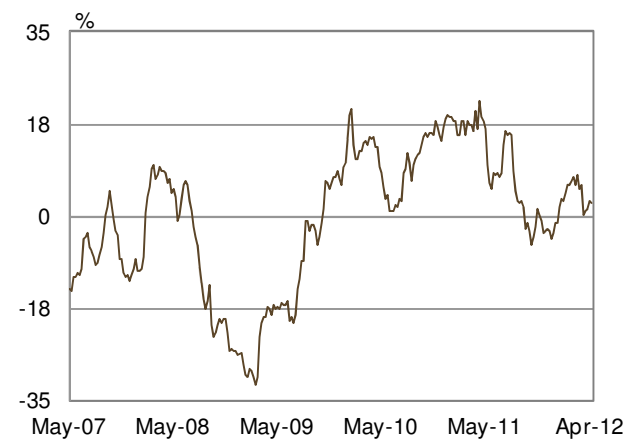
Source: LME

Figure 3: COMEX speculative longs and shorts



Sources: COMEX; Standard Bank Research

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



Sources: COMEX; Standard Bank Research

Appendix

Explanation of tables and appendix graphs

Using open interest for NYMEX platinum as an example, the *Example Table* alongside is explained.

For **Current level** the green upward-pointing arrow (↑) indicates that open interest over the week under review increased (see *Actual data*). If a decrease had been recorded this would be a red downward-pointing arrow (↓). The position of the arrow indicates where the current level of open interest (in this example, 2,113.3k oz) falls in relation to the percentiles of the calculated probability distribution of open interest (explanation of this calculation follows), as per the table below. For this example, the current level falls in the >83.3% and =<100% bracket.

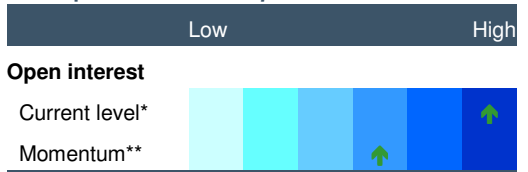
	>0% and =<16.7%		>50% and =<66.7%
	>16.7% and =<33.3%		>66.7% and =<83.3%
	>33.3% and =<50%		>83.3% and =<100%

A graphical depiction of the calculated probability distribution of open interest is also provided in this Appendix, see *Probability distribution* graph. The *red line* in this graph indicates the position of the current level (in this example, 2,113.3k oz) in relation to the calculated probability distribution, while the *black line* indicates the position of the average as taken over a five-year period (in this example, 1,366.6k oz). The colour variation of the probability distribution graph corresponds to the percentiles of the distribution, as per the table discussed above.

As for Current level, for **Momentum** the green upward-pointing arrow indicates that open interest over the week under review increased (see *Actual data*). If a decrease had been recorded this would be a red downward-pointing arrow. Consequently, this arrow will always be the same as for Current level. However, the position of the arrow here indicates the number of consecutive weeks of increase/decrease that have been observed (in this example, there has been four consecutive weeks of increase), as per the table below.

	1 week		4 weeks
	2 weeks		5 weeks
	3 weeks		More than 5 weeks

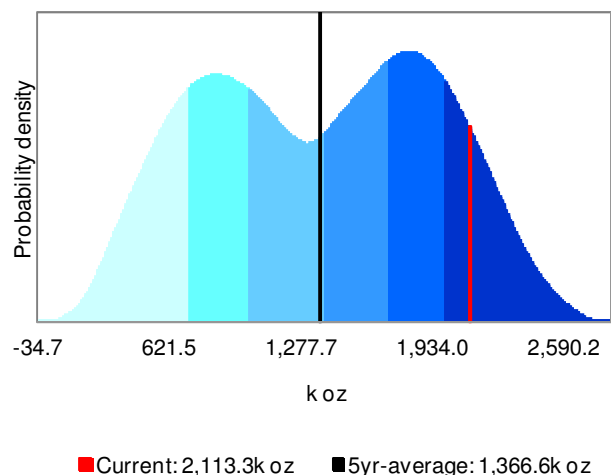
Example table - NYMEX platinum



Actual data - Open interest for NYMEX platinum

Date	Level (k oz)	Change (k oz)
Previous weeks	2,044.5	
	1,968.9	-75.6
	1,998.1	29.3
	2,027.2	29.1
	2,050.2	23.0
Current	2,113.3	63.1

Probability distribution - Open interest for NYMEX platinum



Calculation of probability distribution

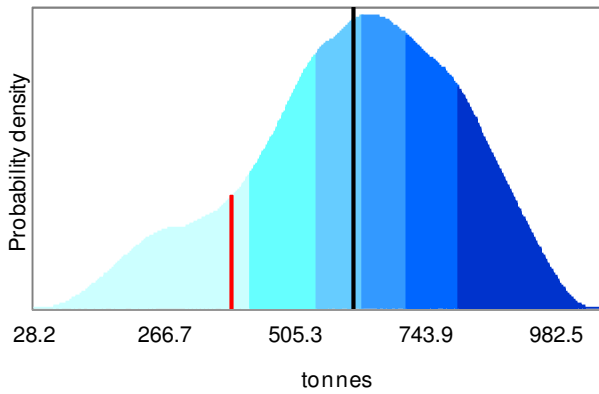
Taking open interest data over a rolling five-year period, an empirical probability density is obtained using a kernel density estimator (see the example *Probability distribution* graph). A kernel density estimator is used instead of the usual normal density approximation since the observed values do not always conform to the classic bell shape of the normal distribution (as is apparent in our example graph).

This probability density essentially indicates the implied (as per historical observations) distribution of open interest for NYMEX platinum. This is useful in gauging how unusual or extreme the current level of open interest is compared to historical observations. Observations in the tails of the distribution (far left and far right) are considered more unusual, while observations closer to the peak (not necessarily the middle or unique, since we are not using the normal distribution) are considered more likely.

In our example, the current level of open interest for NYMEX platinum (at 2,113.3k oz) is positioned in the far right end of the distribution (within the >83.3% and =<100% bracket), indicating that open interest is currently at an extremely high level compared to historical norms.

APPENDIX — Net speculative length

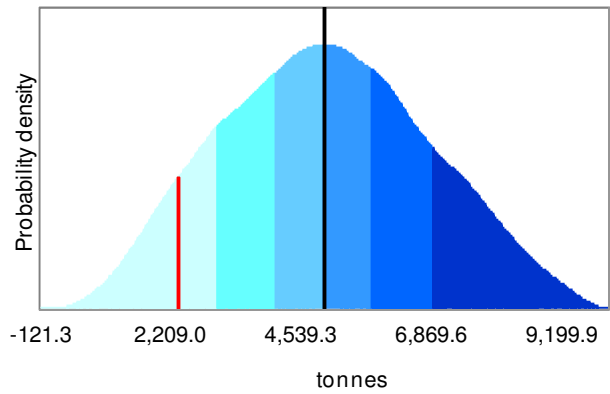
Gold — COMEX



■ Current: 388.9 tonnes ■ 5yr-average: 611.7 tonnes

Sources: Standard Bank Research; COMEX

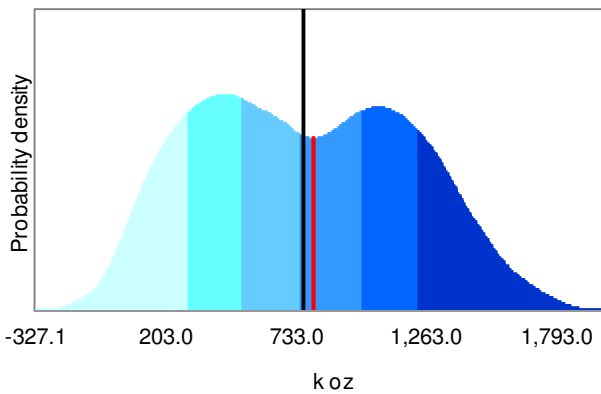
Silver — COMEX



■ Current: 2,330.1 tonnes ■ 5yr-average: 4,963.0 tonnes

Sources: Standard Bank Research; COMEX

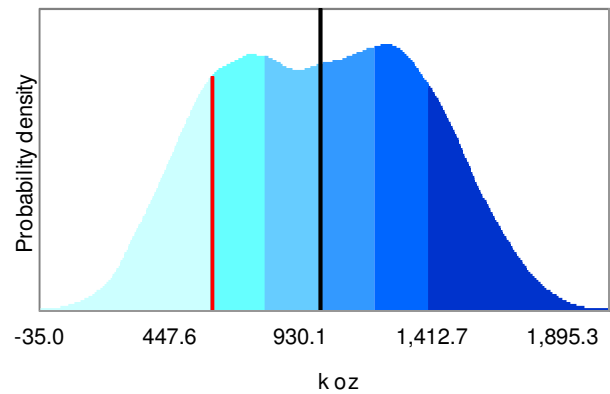
Platinum — NYMEX



■ Current: 799.1k oz ■ 5yr-average: 763.3k oz

Sources: Standard Bank Research; NYMEX

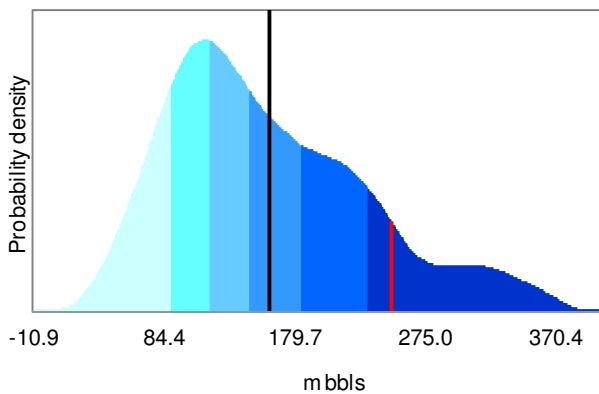
Palladium — NYMEX



■ Current: 596.4k oz ■ 5yr-average: 999.5k oz

Sources: Standard Bank Research; NYMEX

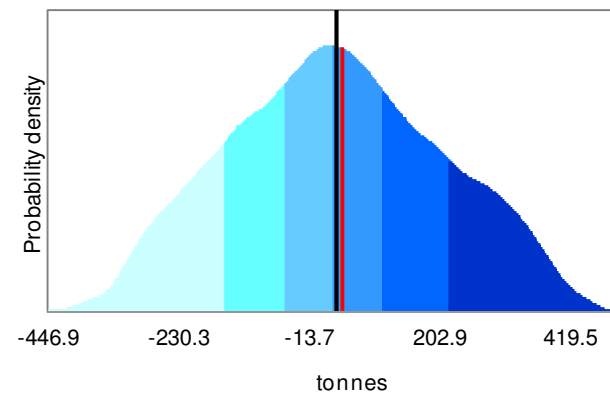
Crude oil (WTI) — NYMEX



■ Current: 249.3m bbls ■ 5yr-average: 160.0m bbls

Sources: Standard Bank Research; NYMEX

Copper — COMEX

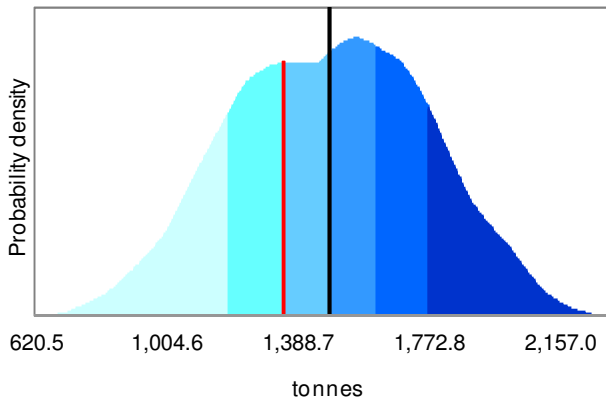


■ Current: 40.0 tonnes ■ 5yr-average: 28.9 tonnes

Sources: Standard Bank Research; COMEX

APPENDIX — Open interest

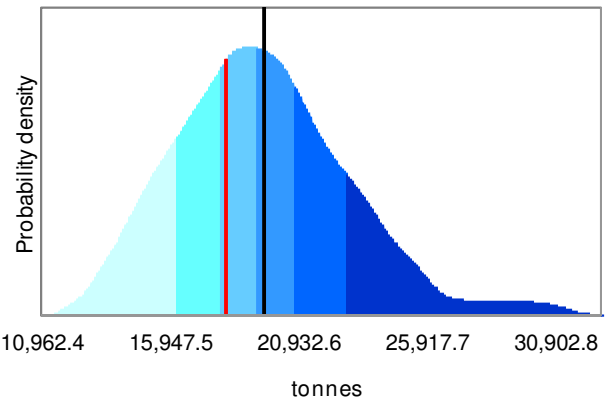
Gold — COMEX



■ Current: 1,341.5 tonnes ■ 5yr-average: 1,476.3 tonnes

Sources: Standard Bank Research; COMEX

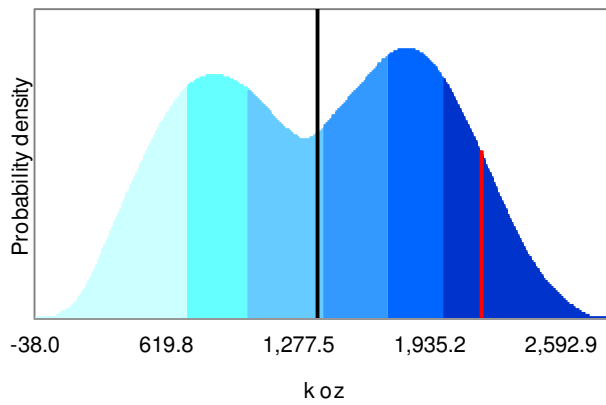
Silver — COMEX



■ Current: 18,093.7 tonnes ■ 5yr-average: 19,555.0 tonnes

Sources: Standard Bank Research; COMEX

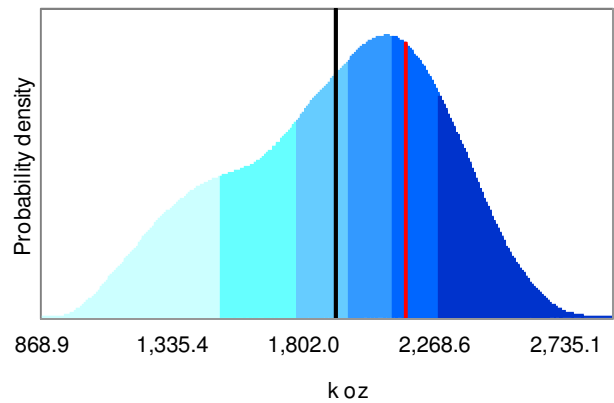
Platinum — NYMEX



■ Current: 2,185.4k oz ■ 5yr-average: 1,372.0k oz

Sources: Standard Bank Research; NYMEX

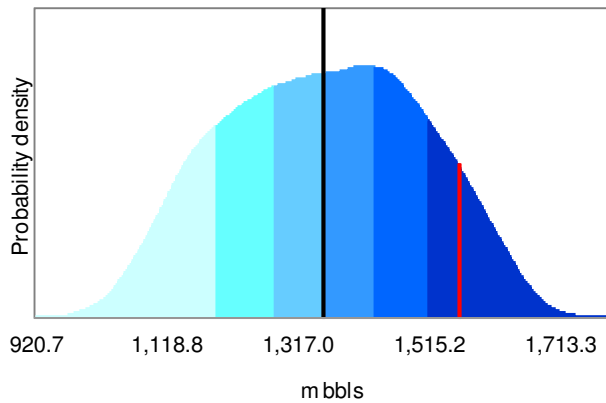
Palladium — NYMEX



■ Current: 2,161.0k oz ■ 5yr-average: 1,916.0k oz

Sources: Standard Bank Research; NYMEX

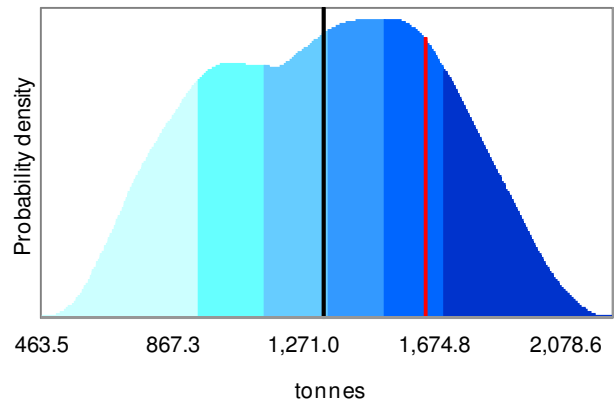
Crude oil (WTI) — NYMEX



■ Current: 1,556.8m bbls ■ 5yr-average: 1,353.7m bbls

Sources: Standard Bank Research; NYMEX

Copper — COMEX

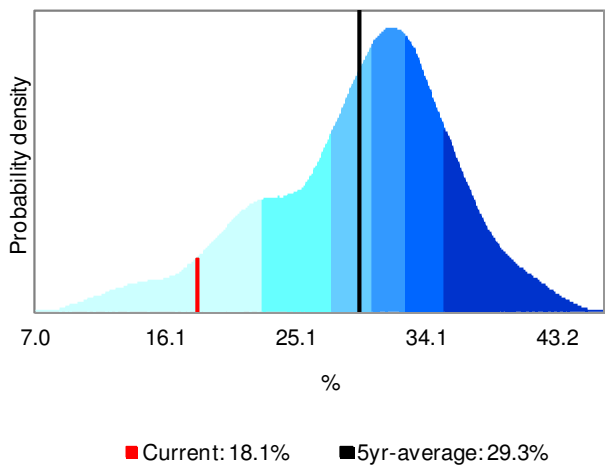


■ Current: 1,641.2 tonnes ■ 5yr-average: 1,331.6 tonnes

Sources: Standard Bank Research; COMEX

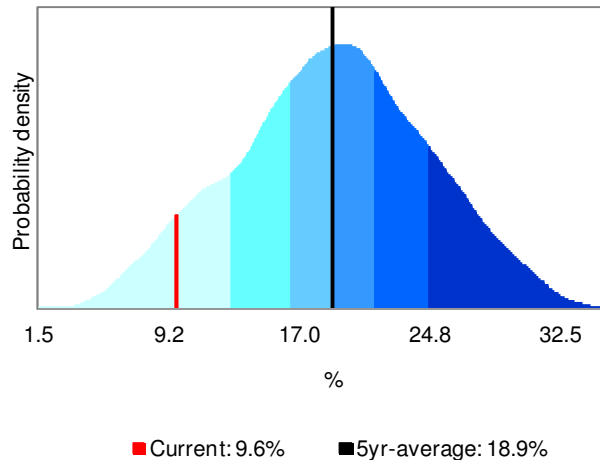
APPENDIX — Net speculative length as a percentage of open interest

Gold — COMEX



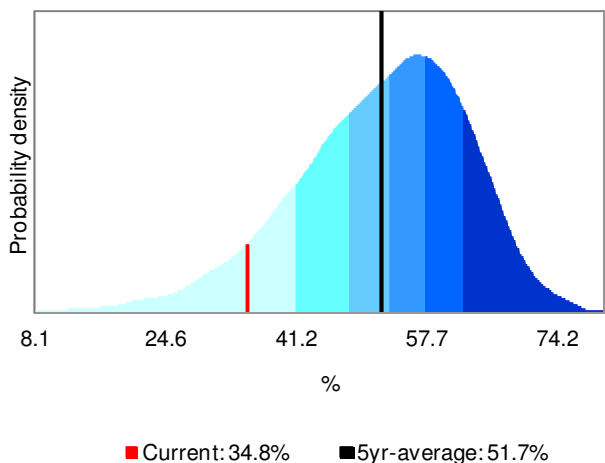
Sources: Standard Bank Research; COMEX

Silver — COMEX



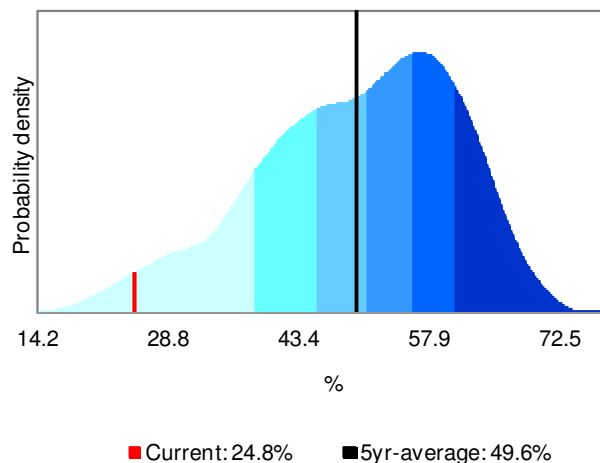
Sources: Standard Bank Research; COMEX

Platinum — NYMEX



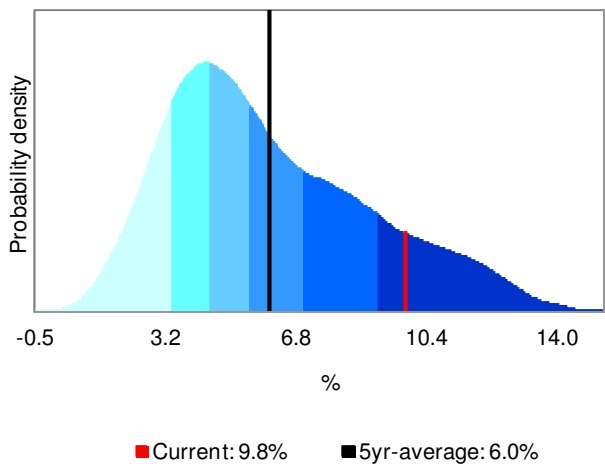
Sources: Standard Bank Research; NYMEX

Palladium — NYMEX



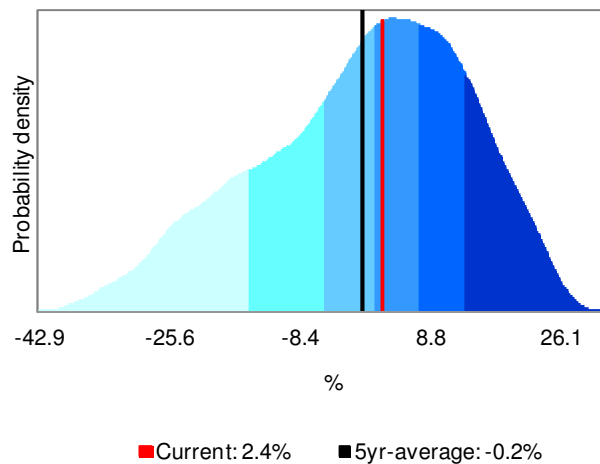
Sources: Standard Bank Research; NYMEX

Crude oil (WTI) — NYMEX



Sources: Standard Bank Research; NYMEX

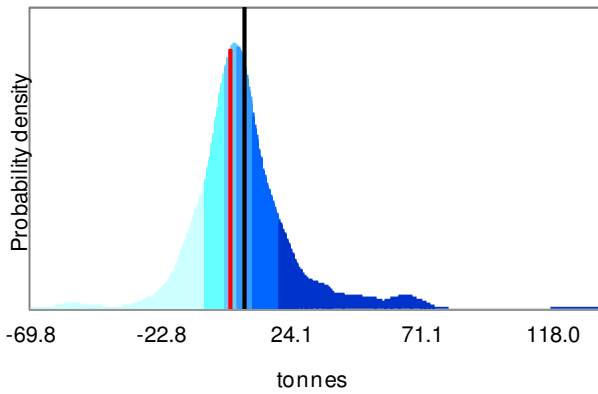
Copper — COMEX



Sources: Standard Bank Research; COMEX

APPENDIX — Change in ETF holdings

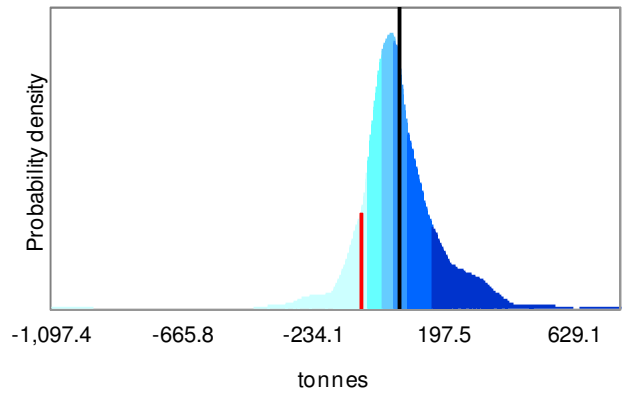
Gold — COMEX



■ Current: 2.0 tonnes ■ 5yr-average: 6.8 tonnes

Sources: Standard Bank Research; Various ETFs

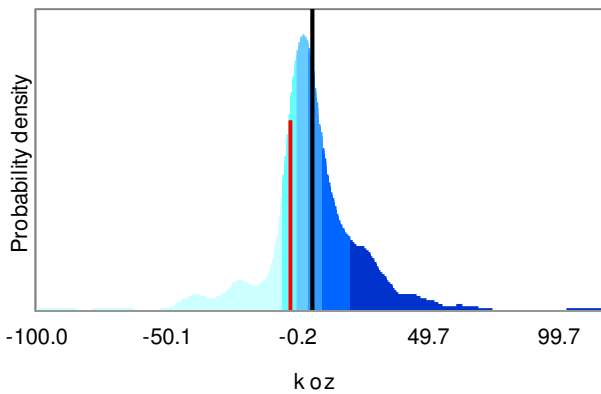
Silver — COMEX



■ Current: -75.8 tonnes ■ 5yr-average: 48.0 tonnes

Sources: Standard Bank Research; Various ETFs

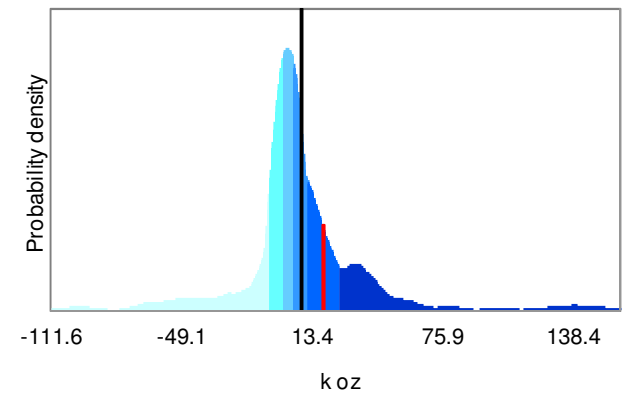
Platinum — NYMEX



■ Current: -3.6k oz ■ 5yr-average: 5.2k oz

Sources: Standard Bank Research; Various ETFs

Palladium — NYMEX



■ Current: 17.7k oz ■ 5yr-average: 7.5k oz

Sources: Standard Bank Research; Various ETFs

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