

Commodities

Commodities: Daily



Focus: Market positioning against PGM

16 April 2012

Focus: The uptake in short positions in NYMEX platinum is alarming (this is the largest increase since August 2011), and the surest signal we've had in a while of a market that is turning against the metal. As for platinum, the sustained re-positioning in the futures market for palladium is worrisome and signals an expectation of future price weakness

- Along with the futures market, we remain pessimistic about copper's price prospects and believe that rallies towards \$9,000 are likely to be unsustainable in Q2:12. 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 surge towards the 650kt mark.
- This morning, with the euro testing the 1.30 level against the dollar, buying interest remains cautious. We anticipate gold physical buying to come to the fore should gold dip below \$1,640. For PGM, we could see US retail sales data out this afternoon spark some reaction from an industrial demand perspective.
- The oil market was soft on Friday driven by a slower Chinese economy and a weaker-than-expected US consumer confidence level. May WTI and June Brent lost 81c/bbl and 31c/bbl respectively. The May Brent future expired on Friday, following a sharp drop in the time spread between May and June contracts since the beginning of April. The front-end of Brent remained under pressure as crude supply appeared to have surpassed demand in recent weeks.

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Commodity price data (13 April 2012)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,110	2,070	2,113	2,061	-40	-1.90%	2,046.00	-24	-39.50
Copper	8,201	7,990	8,218	7,964	-211	-2.58%	8,165.50	-20	55.75
Lead	2,085	2,065	2,085	2,051	-20	-0.96%	2,073.00	-8	-5.75
Nickel	18,700	18,310	18,700	18,150	-390	-2.09%	18,400.00	200	-64.00
Tin	22,650	22,205	22,650	22,200	-445	-1.96%	22,650.00	25	-74.00
Zinc	2,031	1,984	2,035	1,987	-47	-2.31%	2,012.50	-9	2.75

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	121.00	119.86	121.00	119.80	-1.35	-1.13%
NYMEX WTI	102.80	102.02	102.83	102.01	-0.81	-0.79%
ICE Gasoil	1,009.25	1,002.25	1,009.25	1,001.25	-6.25	-0.62%
API2 Q2'12	99.20	99.35	-	-	0.15	0.15%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,670.50	1,666.50	1,677.00	1,655.20	1,659.00	-20.60	0.8/1.2
Silver	-	31.28	32.39	31.36	31.40	-1.14	-3.0/-1.0
Platinum	1,594.00	1,600.00	1,605.00	1,587.00	1,583.00	-2.00	1.5/3.5
Palladium	649.00	643.00	653.50	644.00	644.00	3.00	0.0/1.0

Sources: Standard Bank; LME; BBG

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Focus: Market positioning against PGM

After the previous week's brief interruption, net speculative length for NYMEX platinum has resumed its fall, dropping 171.5k oz this last week—the largest fall since September last year. The drop was largely the result of a 102.9k oz increase in short positions, although the 68.6k oz unwound from long positions also contributed significantly to the overall deterioration. While the fall in longs is a point of concern, we've seen this lack of confidence in platinum from futures market participants before. However, the uptake in short positions is most alarming (this is the largest increase since August 2011), and the surest signal we've had in a while of a market that is turning against platinum.

While ETF selling of platinum did increase (to 6.3k oz from 3.8k oz in the previous week), the pace is still relatively mild. It would appear as though ETFs are not as negative on platinum's prospects as futures market participants as yet.

Net speculative length for NYMEX palladium continued three weeks of decline with a massive 156.4k oz fall this past week. Unlike in previous weeks, this drop was mostly the result of short positions being added (103.0k oz). Another 53.4k oz were unwound from longs last week. The overall decline puts net speculative length at 616k oz, well below the 1,125.0k oz average for 2011 and closing in on the 455.5k oz 12-month low. Total speculative shorts are at 501.8k oz, considerably higher than the 292.1k oz 2011 average. As for platinum, this sustained re-positioning in the futures market is worrisome and signals an expectation of future price weakness.

ETF buying of palladium has resumed, although with only 4.4k oz added, this is hardly a sign of investor confidence.

Base metals

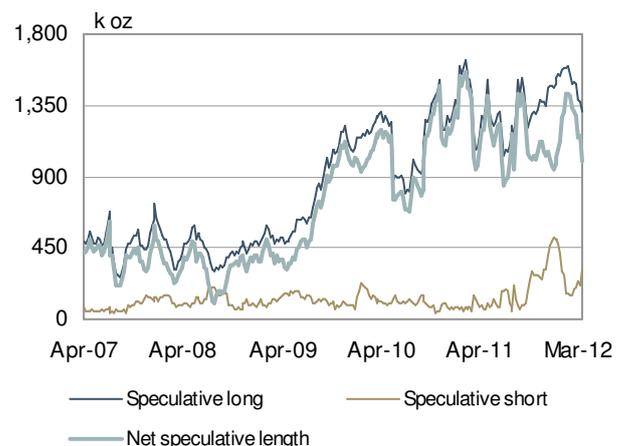
Eurozone worries flared up again on Friday (CDS spreads on Spanish debt soared higher), which via a stronger dollar pushed base metals prices lower. The complex also continued to be weighed down by the disappointing GDP numbers as US markets digested the news. Asian trading this morning remained cautious with a downward bias, especially on copper. Aluminium found some support from arbitrage buying.

The widening of the daily trading band for the renminbi (from 0.5% to 1% around the official reference rate against the USD) has failed to spark much activity in the base metals market. This muted reaction is understandable given that recent trade surpluses have reduced expectations of renminbi appreciation—a gradual appreciation in the currency has in the past proved beneficial to base metals.

According to the latest CFTC numbers, net speculative length for COMEX copper fell hard this past week, surrendering 102.3 tonnes—the largest drop since May of last year. This fall was mostly the result of 76.9 tonnes being unwound from speculative longs. There was also a strong 25.5 tonne increase in short positions, which worsened the overall deterioration. Speculative shorts remain at a 12-month high of 463.7 tonnes (compared to the 2011 average of 300.0 tonnes). Net speculative length is once again moving towards negative territory (currently at 4.3 tonnes), underscoring a possible return to the market weakness we saw for much of last year.

Along with the futures market, we remain pessimistic about copper's price prospects and believe that rallies towards \$9,000 are likely to be unsustainable in Q2:12. 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 surge towards the 650kt mark.

NYMEX platinum speculative longs and shorts



Sources: NYMEX; Standard Bank Research

The only bright spot for both metals is that the deterioration in net speculative length has not been accompanied by an equal drop in open interest. Consequently, net speculative length as a percentage of open interest has fallen to 45.6% and 27.7% for platinum and palladium respectively. This is well below the respective averages for 2011 (57.0% and 27.7%), indicating markets that are far from overstretched.

Platinum is in our zone of \$1,550-\$1,600, where we see value. At \$1,550, we believe that upside outweighs downside from a cost-of-production perspective. We believe that palladium provides good value on approach of \$600.

By Marc Ground

By Marc Ground

Precious metals

Along with most commodities, precious metals suffered on Friday as heightened Eurozone concerns pushed the dollar higher. During Asian trading hours, gold and silver proved fairly resilient with some light demand supporting prices. Platinum came under strong selling pressure as the market opened, and remained on the back foot for most of the session.

This morning, with the euro testing the 1.30 level against the dollar, buying interest remains cautious. We anticipate gold physical buying to come to the fore should gold dip below \$1,640. For PGM, we could see US retail sales data out this afternoon spark some reaction from an industrial demand perspective.

The liquidation in COMEX gold net speculative length continued. Although, compared to the other precious metals the fall was relatively mild at only 19.0 tonnes. The change in the net position was largely the result of speculative longs being added (18.8 tonnes). A meagre 0.1 tonnes were added to shorts. A distinct lack of confidence remains, although with only a mild increase in shorts the market does not appear overtly bearish. ETFs turned net seller, although the loss was marginal at only 1.1 tonnes, underlining the cautious (but not overly negative) investor attitude towards gold.

The changes in market positioning in COMEX silver were relatively more marked than those for gold. Net speculative length fell 320.5 tonnes, with 210.4 tonnes unwound from long positions and 110.1 tonnes added to shorts. Total short positions are now above the 2011 average (1,317.8 tonnes compared to 1,140.0 tonnes), indicating a market positioned for weakness. ETFs sold off 52.1 tonnes of the metal last week.

Gold support is at \$1,640 and \$1,630. Resistance is \$1,669 and \$1,688. Silver support is at \$31.03 and \$30.63, resistance is at \$32.14 and \$33.84.

Platinum support is at \$1,569 and \$1,561, resistance is at \$1,598 and \$1,618. Palladium support is at \$639 and resistance at \$653.

By Marc Ground

Energy

The oil market was soft on Friday driven by a slower Chinese economy and a weaker-than-expected US consumer confidence level. May WTI and June Brent lost 81c/bbl and 31c/bbl respectively. The May Brent future expired on Friday, following a sharp drop in the time spread between May and June contracts since the beginning of April. The front-end of Brent remained under pressure as crude supply appeared to have surpassed demand in recent weeks, judging from the price activity in both the time spread and price differentials of physical crude cargoes over dated Brent. In fact, the CFD market weakened further into a steeper contango. Oil products held up relatively better, driven by ongoing refinery maintenance activities.

According to the latest CFTC commitment of traders report, non-commercials reduced their net length in WTI for the fourth consecutive week during the week ended 10 April, which had underpinned the weak performance in the WTI market. Meanwhile, non-commercial net length fell by 5.2k, to 100.7k in gasoline and by 1.0k, to 17.9k in heating oil (futures and options). The overall picture remains that speculative length in the oil market is very long, which continues to pose significant downside risk to oil prices, even if physical supply continues to exceed demand.

While the IEA anticipates a significant oil inventory build during Q2 globally, weekly oil stocks in the US, the ARA region and Singapore have fallen, driven by declining product stocks. These keep refining margins well supported for now. However, we expect the situation to reverse as the spring maintenance season might have peaked already. In addition, oil inventories across the three regions remained at the high end of their respective 5-year range, which is more aligned with the IEA forecast.

We maintain our bearish bias on oil market fundamentals, as supply has outpaced demand in recent weeks on the back of increased Saudi crude production and the continuous decline in OECD demand. Amid the geopolitical uncertainty ahead of the upcoming Iranian negotiations (where the five permanent members of the UN Security Council are set to reopen negotiations with Iran on 17 April), we prefer expressing our bearish view via shorting time spreads and product cracks rather than aggressively shorting the flat price. As for options, we view the current level of volatility as cheap. It has been pushed down by the unwinding of long vol positions built at the height of the Iranian nuclear tensions at the beginning of this year.

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	5,052,700	5,059,875	0	7,175	-7,175	82,300	1,616,125	31.99	299,329
Copper	264,400	266,075	500	2,175	-1,675	-106,500	68,225	25.80	178,311
Lead	372,600	373,550	0	950	-950	19,525	23,700	6.36	82,403
Nickel	98,388	98,442	0	54	-54	8,340	6,198	6.30	48,012
Tin	13,265	13,225	40	0	40	1,075	880	6.63	6,853
Zinc	902,675	900,325	3,050	700	2,350	80,975	18,975	2.10	129,693

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	15,995	16,020	-80
Copper	56,880	56,960	-1,390
Zinc	15,300	15,325	-200

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali May'12	-	-	-	-
Cu May'12	363	357.05	-5.65	-1.56%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,153	64,467	16,366	145,268	178,822	15,889	7.8950
3-month	16,563	63,930	16,523	146,504	177,669	15,875	8.0013

Energy

Energy futures pricing	Price	Change								
	1 month		2 month		3 month		6 month		1 year	
Sing Gasoil (\$/bbl)	133.97	0.01	133.85	0.23	133.83	0.37	133.22	0.46	-	-
Gasoil 0.1% Rdam (\$/mt)	1,002.25	-6.25	999.50	-7.00	999.00	-6.25	995.25	-8.00	985.50	1.75
NWE CIF jet (\$/mt)	1,082.30	1.40	1,079.57	4.10	1,079.09	4.50	1,079.32	3.18	1,070.42	0.18
Singapore Kero (\$/bbl)	134.47	0.28	134.25	0.35	134.33	0.39	134.31	0.40	133.16	0.21
3.5% Rdam barges (\$/mt)	692.04	1.07	690.50	0.50	688.00	0.00	677.25	-0.50	656.00	-1.50
1% Fuel Oil FOB (\$/mt)	750.61	0.29	737.25	-0.25	733.75	-0.75	725.50	-0.50	-	-
Sing FO180 Cargo (\$/mt)	735.28	-0.99	729.13	-0.62	727.00	-1.75	715.50	-1.75	-	-

Thermal coal	Q2-12		Q3-12		Q4-12		Cal 13		Cal 14	
API2 (CIF ARA)	99.35	0.15	103.95	-0.20	107.95	-0.20	113.65	-0.15	119.35	-0.15
API4 (FOB RBCT)	102.55	-0.30	103.55	-0.35	105.85	-0.30	111.30	-0.30	115.00	-0.05

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.34600	0.35800	0.39000	0.48000	0.53200
Silver	0.50000	0.50200	0.50200	0.49800	0.47400
USD Libor	0.23975	0.34605	0.46615	0.73190	1.04870

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	46.12	1,647.38	1,656.24	1,675.82	1,697.23	1,640.00	1,669.00
Silver	45.51	31.77	32.04	32.02	34.30	31.03	32.14
Platinum	43.74	1,600.25	1,620.09	1,575.94	1,635.85	1,569.00	1,598.00
Palladium	44.51	644.38	653.47	667.38	684.37	639.0	653.0

Active Month Future	COMEX GLD Jun'12	COMEX SLV May'12	NYMEX PAL Jul'12	NYMEX PLAT Jul'12	DGCX GLD Jun'12	TOCOM GLD Feb'13	CBOT GLD Jun'12
Settlement	1,645.70	31.1750	640.80	1,587.90	1,647.80	4,281.00	1,646.30
Open Interest	403,233	117,210	20,892	40,001	1,383	125,417	1,509
Change in Open Interest	2,957	2,262	258	515	0	-673	3

Sources: Standard Bank; LME; Bloomberg

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