

Commodities

Commodities: Daily



Focus: Some encouragement from market positioning

23 April 2012

Focus: Net speculative length for COMEX gold remains relatively weak, which signals a continued lack of confidence. While investors are not overtly bullish, the drop in short positions is somewhat encouraging as a sign that investors are cautious of running too short.

- The base metals rallied strongly on Friday afternoon, helped by firmer US equities and short covering activity ahead of the weekend. The complex has come back under pressure during Monday morning, however, with a another disappointing sub-50 level HSBC Flash China Manufacturing PMI weighing on sentiment.
- After tracking sideways for the greater part of Asian trading hours, gold staged an abrupt move down early this morning. Dollar strength was the primary catalyst as sentiment turned against the Eurozone. However, stops were triggered around the \$1,638 mark, sending the price even lower. It appears as if the market has now stabilised around the \$1,632, level with good support coming from Asian buyers.
- Oil recovered slightly on Friday during a quiet day of trading with few significant economic data releases or news headlines. WTI and Brent gained \$1.16/bbl and 76c/bbl respectively. The counter-seasonal strength in middle-distillates has been helped by the shutdown of a 300kb/d Indian refinery due to a water shortage. However, we believe that the strength in middle-distillates will be short-lived because supply will be improved as refineries increase run-rates after maintenance during a generally weak demand season.

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Commodity price data (20 April 2012)

Base metals LME 3-month

	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m	
Aluminium	2,085	2,059	2,094	2,054	-26	-1.25%	2,034.50	18	-40.00
Copper	8,056	8,050	8,125	7,986	-6	-0.07%	8,120.50	75	47.50
Lead	2,074	2,045	2,094	2,028	-29	-1.40%	2,100.00	61	0.50
Nickel	17,850	17,650	17,950	17,650	-200	-1.12%	17,750.00	145	-78.00
Tin	21,500	21,000	21,600	20,826	-500	-2.33%	21,255.00	195	-74.00
Zinc	1,995	1,992	2,010	1,979	-3	-0.15%	1,999.50	15	-12.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	118.53	118.80	118.91	118.43	0.04	0.03%
NYMEX WTI	103.82	103.81	103.90	103.70	-0.07	-0.07%
ICE Gasoil	998.25	999.75	1,000.25	996.25	-2.50	-0.25%
API2 Q2'12	97.10	97.65	-	-	0.55	0.56%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,640.00	1,641.50	1,646.40	1,639.00	1,642.00	1.70	0.5/0.9
Silver	-	31.63	31.85	31.60	31.65	-0.14	-3.5/-1.5
Platinum	1,577.00	1,579.00	1,582.00	1,576.00	1,580.00	5.00	1.5/3.5
Palladium	660.00	666.00	677.00	664.00	677.00	16.00	0.0/1.0

Sources: Standard Bank; LME; BBG

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Focus: Some encouragement from market positioning

Open interest for COMEX gold has for the second week remained relatively steady, with only a meagre 1.9 tonnes drop this past week. Nevertheless, open interest stands at 1,284.9 tonnes — a new 12-month low. Trading activity remained relatively muted for most of last week, although the bias in prices was to the downside as investor sentiment was weighed down by Eurozone concerns and disappointing US macro data flow. This saw prices push lower by 0.9% w/w — with gold the worst performer of the precious metals.

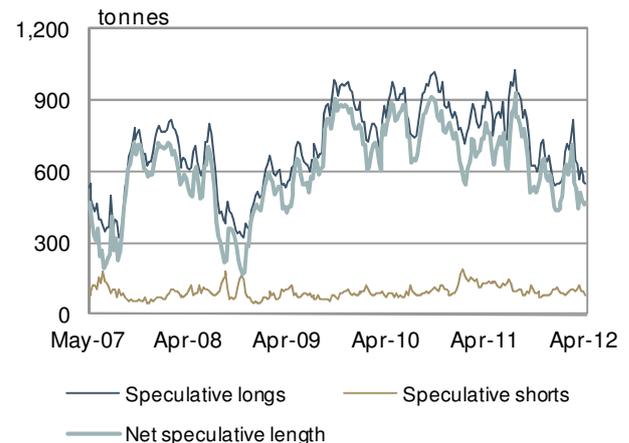
Net speculative length for COMEX gold increased modestly, adding 10.1 tonnes. The change in the net position was the result of speculative shorts being unwound (21.4 tonnes), with the 11.4 tonne decrease in long positions subtracting from the overall improvement. Net speculative length remains relatively weak at 472.1 tonnes (compared to the 2011 average of 671.3 tonnes), which signals a continued lack of confidence. While investors are not overtly bullish, the drop in short positions is somewhat encouraging as a sign that investors are cautious of running too short.

ETFs are still net sellers of gold, with 2.2 tonnes sold over the past week. However, the modest nature of the selling is once again a sign that ETFs do not have a particularly bearish view either.

We see value in gold between \$1,630 and \$1,600. We remain neutral around the current levels of \$1,645. Longer term, we maintain that gold will reach new highs in 2012, probably around Q3.

For COMEX silver, open interest climbed for the third consecu-

COMEX gold speculative longs and shorts



Sources: COMEX; Standard Bank Research

tive week, adding a strong 536.3 tonnes last week. This brings open interest to 19,363.0 tonnes, now in line with last year's average of 19,388.6 tonnes and a high for the year so far. Despite gold's poor performance, silver managed to gain 0.6% w/w last week.

Net speculative length dropped again, shedding 8.0 tonnes, although compared to the previous week's fall (320.5 tonnes), this drop was hardly significant. Both long and short positions were unwound, shedding 65.1 tonnes and 57.1 tonnes respectively. The drop in longs is still a cause for concern, although the situation does appear more benign as (a) the drop is much less than those we've seen since beginning March and (b) the fall in shorts — the first in four weeks — is encouraging.

By Marc Ground

Base metals

The base metals rallied strongly on Friday afternoon, helped by firmer US equities and short covering activity ahead of the weekend. The complex has come back under pressure during Monday morning, however, with another disappointing sub-50 level HSBC Flash China Manufacturing PMI (49.1 in April) weighing on sentiment. Weak European manufacturing PMI figures this morning have also added to the general gloom, while a weaker euro is also eroding price support.

Copper saw a rather head-scratching 43,750 mt fall in LME on-warrant stocks this morning. The fall was driven by a wide-spread jump in cancelled warrants in places like Rotterdam (+14,825 mt), Livorno (+8,100 mt), Baltimore (+3,900 mt), Singapore (+4,600 mt), Busan, (+7,250 mt) and finally Gwangyang (+5,325 mt). Looking at the state of the Chinese copper market, the SHFE-LME arbitrage remains deeply negative, to the tune of ~\$400/mt or so right along the forward curve, while SHFE physical material is still trading at a 70 CNY/mt discount to the May contract. SHFE copper inventories did post a significant 10.6 kt decline last week, suggesting some degree of increased activity, albeit not enough to warrant such a jump in LME cancelled warrants. Instead, the origin is likely to have more to do with the ever advancing backwardation in the nearby spreads, now creeping into the July-August period, and the continued presence of the dominant position holder in Cash and Tom warrants (still in the 50-79% band for both), rather than a sudden improvement in spot demand.

The latest Chinese refined copper imports were strong, as flagged by the preliminary data, coming in at 345.7 kt in March, down 8% m/m. On a YTD basis however, refined imports are still up 77.4% y/y, with early 2011 also characterised by a build in Chinese bonded warehouse inventory. Copper concentrate weakened in March, dropping 15.5% m/m to 530.6 kt, but still remains some 24.3% higher y/y in YTD terms. Scrap imports rebounded in March however, climbing 6.8% m/m to 430.1 kt.

Aluminium prices remain under pressure, with the metal again testing its recent lows. Turnover is subdued, however, with the metal drifting lower without much fight. Open interest has fallen 27% since the start of this year, pointing to the degree of disinterest, while prices are now more or less back at the same level they started the year.

By Leon Westgate

Precious metals

After tracking sideways for the greater part of Asian trading hours, gold staged an abrupt move down early this morning. Dollar strength was the primary catalyst as sentiment turned against the Eurozone in the wake of election uncertainty in France and ECB President Draghi at the weekend's G20 finance ministers summit resisted pressure from the IMF to do more to stem the debt crisis in the region. However, stops were triggered around the \$1,638 mark, sending the price even lower. It appears as if the market has now stabilised around the \$1,632, level with good support coming from Asian buyers.

The Shanghai Gold Exchange announced an increase in margin requirements and trading bands for its gold and silver contracts. The margin for gold contracts will be raised to 13% from 12%, while the trading band is increased to 10% from 9% as of 26 April settlement. For silver, the margin becomes 16% (from 15%), and trading limits are 13% (from 12%). This has not had much effect on markets because the move was largely anticipated in advance as of the end of April/early May holidays in China.

According to the latest CFTC data, net speculative length for NYMEX platinum fell hard again. Similar to the previous week, the deterioration was largely owing to a strong increase in short positions (81.5k oz). The strong build-up in speculative short positions is worrisome. As pointed out last week, this is the surest signal we've had in a while of a futures market that is turning against platinum. However, this also raises the possibility of a shortcovering rally should the production issues in South Africa once again return. ETF selling also continued, with 17.8k oz shed this past week. This is the largest decline since early December and further underpins the wariness with which investors appear to view platinum at the moment.

After the previous three week's heavy losses (578.3k oz in total), net speculative length for NYMEX palladium climbed a paltry 16.8k oz. This increase in the net position was attributable to an increase in speculative longs (63.8k oz) — the first increase in three weeks. Shorts continued to grow, albeit that the pace appears to be slowing. While futures market positioning in palladium is still worrisome, the slowdown in momentum is encouraging. Compared to platinum, palladium seems to have the advantage in investors' minds. This preference for palladium is also evident among ETFs, which remained net buyers of the metal. With 1.9k oz added, total ETF holdings are at 1,910.4k oz — the highest level since September last year.

Gold support is at \$1,632 and \$1,631. Resistance is \$1,642 and \$1,649. Silver support is at \$31.27 and \$31.26, resistance is at \$31.62 and \$31.94. Platinum support is at \$1,564 and \$1,560, resistance is at \$1,580 and \$1,591.

By Marc Ground

Energy

Oil recovered slightly on Friday during a quiet day of trading with few significant economic data releases or news headlines. WTI and Brent gained \$1.16/bbl and 76c/bbl respectively. Middle-distillates were firmer, while gasoline continued to lose ground as investors abandoned the long RBOB/Heating Oil spread. The ending of the spring refinery maintenance season has put pressure on product cracks in general. The counter-seasonal strength in middle-distillates has been helped by the shut-down of a 300kb/d Indian refinery due to a water shortage. However, we believe that the strength in middle-distillates will be short-lived because supply will be improved as refineries increase run-rates after maintenance during a generally weak demand season.

Net for last week, front-month WTI gained 22c/bbl, driven by the news that the reversal of the Seaway pipeline is set to start on 17 May, which is earlier than the originally planned timing of end of Q2:12. By contrast, front-month Brent lost \$3.07/bbl for the same period because the supply situation improved for the crude oil market. The geopolitical tension over Iran was also on the backburner, having largely been replaced by the concerns over the Eurozone debt crisis as the main driver in the market.

The Eurozone April PMI released this morning struck a downbeat tone, with both manufacturing and services below market expectations and stuck in below-50 (contraction) territory. THE HSBC flash China PMI showed signs of improvement over the previous month, remaining soft at a level below 50. In addition, the European stock market and the euro also responded negatively to the first round of the French presidential election over the weekend, which saw Sarkozy trailing behind the socialist candidate. This sparks speculation concerning the future of the Eurozone fiscal austerity as advocated by Germany and France.

While refining margins are startlingly strong and refineries are returning from maintenance, crude supply continued to surpass demand, reflected by the contango structure in the dated Brent CFD market. Given the shift in the Brent structure, we have to maintain our bearish bias on oil market fundamentals. That said, the biggest upside risk will come from any dovish remarks from the Fed after its FOMC meeting this week. Therefore, 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	5,058,475	5,062,125	7,600	11,250	-3,650	88,075	1,670,500	33.02	223,851
Copper	261,150	262,700	1,325	2,875	-1,550	-109,750	62,125	23.79	194,603
Lead	369,150	370,200	0	1,050	-1,050	16,075	32,575	8.82	61,127
Nickel	100,080	99,762	576	258	318	10,032	4,074	4.07	41,293
Tin	13,645	13,480	170	5	165	1,455	1,005	7.37	6,624
Zinc	910,900	911,825	0	925	-925	89,200	15,550	1.71	129,278

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,060	16,060	-30
Copper	57,310	57,520	60
Zinc	15,455	15,450	-10

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali May'12	-	-	-	-
Cu May'12	371	367.60	-3.05	-0.82%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,900	63,462	16,412	138,716	166,108	15,626	7.8150
3-month	16,306	63,751	16,195	139,777	166,307	15,775	7.9194

Energy

Energy futures pricing	Price	Change								
	1 month		2 month		3 month		6 month		1 year	
Sing Gasoil (\$/bbl)	133.15	0.26	132.60	0.90	132.73	0.94	132.06	0.73	-	-
Gasoil 0.1% Rdam (\$/mt)	999.75	-2.50	996.00	-2.25	992.50	-4.00	994.00	5.50	977.00	5.00
NWE CIF jet (\$/mt)	1,075.96	1.79	1,071.22	5.65	1,070.08	5.58	1,070.23	5.34	1,060.41	4.33
Singapore Kero (\$/bbl)	133.15	0.26	133.10	0.85	133.21	0.89	133.13	0.72	131.88	0.67
3.5% Rdam barges (\$/mt)	684.00	0.46	679.75	3.25	677.50	3.25	667.75	3.50	647.50	3.75
1% Fuel Oil FOB (\$/mt)	744.68	2.39	730.25	5.50	727.75	5.50	718.75	4.75		
Sing FO180 Cargo (\$/mt)	729.22	-0.55	721.25	3.25	717.50	3.25	705.50	3.25		

Thermal coal	Q2-12		Q3-12		Q4-12		Cal 13		Cal 14	
API2 (CIF ARA)	97.65	0.55	102.05	0.75	106.05	0.70	112.10	0.75	117.85	0.50
API4 (FOB RBCT)	100.65	0.55	102.20	0.65	104.50	0.60	110.20	0.75	113.80	0.40

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.34400	0.36400	0.39000	0.46400	0.54200
Silver	0.51600	0.51600	0.51400	0.50800	0.48200
USD Libor	0.23975	0.34755	0.46565	0.73040	1.04770

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	45.66	1,652.47	1,652.57	1,671.31	1,698.68	1,632.00	1,642.00
Silver	46.73	31.72	31.92	31.98	34.13	31.27	31.62
Platinum	45.53	1,585.11	1,606.29	1,577.82	1,631.89	1,564.00	1,580.00
Palladium	50.60	656.85	652.64	671.08	681.76	658.0	679.0

Active Month Future	COMEX GLD Jun'12	COMEX SLV Jul'12	NYMEX PAL Jul'12	NYMEX PLAT Jul'12	DGCX GLD Jun'12	TOCOM GLD Feb'13	CBOT GLD Jun'12
Settlement	1,643.00	31.6600	674.15	1,584.20	1,643.30	4,308.00	1,643.00
Open Interest	399,653	120,454	21,402	40,396	1,608	124,135	1,522
Change in Open Interest	1,127	-994	-64	-189	-10	-1,282	10

Sources: Standard Bank; LME; Bloomberg

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