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Focus: US Dollar - the only show in town? The recent lack of direction across much of the commodities, have seen commodity prices, increasingly look to the FX markets for direction. This has been demonstrated by increased correlation in some commodities, particularly Gold and Oil.

- Tuesday morning has seen the base metals recover from Monday's liquidation, helped variously by a recovery in the euro, profit taking and technical support. Position housekeeping has also been a feature ahead of the Third Wednesday.
- The dollar and technical signals are dictating price direction for the wider base metals complex. The short term nature of the market also appears to be limiting the extent of any price moves, as participants still lack the conviction to take a longer term view and take profits sooner rather than later.
- PGM prices were harder hit than gold on Monday - in percentage terms at least - however they have rebounded strongly during Tuesday morning. Platinum has climbed back above \$1,220, while palladium is back above \$247 again.
- This afternoon sees the release of the US Housing starts for May (expected at 485K) and the May US Industrial Production figure (expected at -0.1% from -0.5% in April).

Commodity price data (15 June 2009)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	1,646	1,605	1,646	1,592	-35	-2.13	1,586.00	-55	-29.50
Copper	5,220	5,006	5,225	4,995	-224	-4.28	5,075.00	-166	-24.50
Lead	1,780	1,677	1,780	1,630	-103	-5.79	1,720.00	-77	-26.50
Nickel	15,300	14,775	15,390	14,675	-915	-5.83	15,050.00	-550	-90.00
Tin	15,444	15,050	15,490	15,050	50	0.33	15,340.00	-360	-30.00
Zinc	1,655	1,575	1,655	1,556	-115	-6.81	1,601.50	-71	-30.50

Energy

	Open	Close	High	Low	day/day	Change (%)	ATM 1m vol	ATM 6m vol	ATM 1y vol
ICE Brent	69.89	69.94	70.01	69.55	-0.30	-0.43%	45.00	45.00	46.00
NYMEX WTI	70.31	70.16	70.65	69.90	-0.46	-0.66%	42.00	41.00	40.00
ICE Gasoil	572.50	574.00	576.25	572.50	3.50	0.61%	39.00	39.00	38.00
API2 Q3'09	72.75	69.05	-	-	-3.70	-5.36%	-	-	-
ICE EUA Dec09	13.00	12.50	-	-	-0.50	-3.85%	-	-	-

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	932.00	932.25	938.75	927.00	927.00	-33.70	0.50/0.90
Silver	-	14.26	14.70	14.05	14.05	-1.43	-2.50/-0.50
Platinum	1,229.00	1,234.00	1,247.00	1,208.00	1,207.00	-58.00	2/4
Palladium	247.00	249.00	249.00	245.00	245.00	-12.00	0/3

Sources: Standard Bank; LME; Bloomberg

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Focus: US dollar - the only show in town?

The recent lack of direction across much of the commodities, have seen commodity prices, increasingly look to the FX markets for direction. The relationship with commodity prices has been a relatively recent occurrence however, and varies dramatically between the base metal, precious metal and energy complexes.

Looking at the various correlations for commodities and the dollar-euro exchange rate (using R^2 as a proxy), the changes in behaviour have been very stark.

Since the beginning of this year, the R^2 for Gold and the dollar-euro has been a very low 0.02 (range is from 0 to 1). Since the start of Q2 however, the R^2 has shot up to 0.84.

The same trend has been seen in Oil. Front month WTI crude has always had a strong link with the dollar, with the R^2 since the beginning of 2009 of 0.62. However, since the beginning of Q2, that figure has also jumped with Oil exhibiting an R^2 of 0.88.

The level of correlation with the base metals and the dollar is

much less significant however. The R^2 for Lead and the dollar has hardly changed, coming in at 0.42 for the year to date and 0.41 since Q2. Copper has seen some increase, with its R^2 with the dollar-euro coming in at 0.37 for the year to date, and increasing to 0.43 since Q2. **Aluminium however has seen its R^2 deteriorate dramatically, from 0.53 for the year to date, to only 0.12 for Q2.**

The breakdown in the relationship for the base metals is quite understandable, as fundamental factors come into play regularly, which override the impact from the FX markets. However, with perhaps the exception of oil, all of the other commodities have shown periods where the relationship with the dollar breaks down.

Therefore, while the dollar-euro rate is a useful crutch in these uncertain times, recent history suggests that it will also snap at some point.

By Leon Westgate

Base metals

Liquidation kicked in across the complex on Monday, spurred by a stronger US dollar. Sentiment seems very fragile and fickle at the moment, with the market going from all guns blazing towards the end last week, to panicked sell-off, all in the space of 48 hours or so. A very sharp ~9.5% increase in the VIX also pointed to heightened fear in the wider markets and a reduction in risk appetite. Tuesday morning has seen the base metals recover, helped variously by a recovery in the euro, profit taking and technical support. With tomorrow representing Third Wednesday, position housekeeping has also been a feature.

This afternoon sees the release of the US Housing starts for May (expected at 485K) and the May US Industrial Production figure (expected at -0.1% from -0.5% in April). The data will likely dictate direction this afternoon, particularly if the results come in significantly out of line with consensus expectations.

Lead was one of the hardest hit on Monday, with the metal closing nearly 6% lower. Interestingly, much of the Lead selling was done via LME Select rather than through the floor - perhaps a sign of liquidation from the more system-based participants. This morning however has seen Lead recover back around the \$1,700 level on the back of a weaker dollar and gains elsewhere in the complex. The gains have come in spite of a 1,500 mt increase in available LME inventory.

Copper crashed back through the Fibonacci level at \$5,155, closing the day over 4% lower at \$5,006. Copper continued to come under pressure overnight, reaching an intraday low of \$4,922, before powering back up above \$5,050, boosted by a 1,300 mt fall in available Copper inventory. The metal still appears to be in the process of finding its feet after the liquidation seen on Friday and Monday so achieving a solid close is imperative, if it is to consolidate.

Meanwhile the dollar and technical signals are dictating price direction for the wider complex. **The short term nature of the market also appears to be limiting the extent of any price moves, as participants still lack the conviction to take a longer term view and look to take profits sooner rather than later.**

Looking at the LME inventory data in general, one noticeable aspect has been a sharp reduction in activity. Across the board, cancelled warrants when measured as a percentage of total inventory, have declined sharply. Copper has seen cancelled warrants fall very sharply, from 13% at the beginning of the month, to just over 7% now. It is a similar story elsewhere, with only Aluminium having shown any signs of life recently. Lead looking particularly forlorn, with cancelled warrants for the metal representing only 0.09% of total inventory. **Whether this lack of activity signals that the summer slowdown is here remains to be seen, however it does appear to shift the emphasis, in terms of demand, onto the investment community for the time being.**

By Leon Westgate

Precious metals

The stronger dollar saw the precious metals come under sustained pressure on Monday, with nearly all of the metals finishing the day at or around their close. The trigger for the dollar strength, or rather euro weakness, was an announcement by the ECB that European banks faced a further \$283 billion in write-downs of "hard to value assets" by the end of 2010. The ECB was quick to point out that the banks were sufficiently well capitalized, however the initial damage was done with the Euro weakening sharply against the dollar. After the initial panicked sell-off, both Gold and the PGM's held on well, stabilising, before trading sideways.

This morning has seen the euro recover against the dollar - helped by a much better than expected ZEW survey of investor sentiment. The survey came in at 44.8 in June, compared to expectations of 35.0 from May's reading of 31.1. The June figure represents a three-year high. As a consequence, the precious metals are pushing higher once again. This afternoon sees the release of the US Housing and Industrial Production numbers (see the base metals section). The data will also likely impact on the FX markets and may govern direction during the afternoon.

While the FX markets will likely continue to dictate short term price direction, technical levels are also coming into play. Gold, for example, held on very well just above its 100-day MA at ~\$925, before recovering strongly. Therefore, while it is easy to get engrossed in the tick-by-tick moves in the dollar/euro etc. other factors do come into play.

PGM prices were harder hit than gold on Monday - in percentage terms at least - however they have also rebounded more strongly during Tuesday morning. Platinum has climbed back above \$1,220, after closing at \$1,207 on Monday, while palladium is back above \$247 again.

In other news, Lonmin Plc - the world's third largest platinum producer - announced that its No. 1 furnace in South Africa will be offline for around 30-days. The facility was shut at the weekend after suffering damage from a leak. Guidance on lost output will be released at a later date, however smaller plants have opened to try and mitigate the impact on production.

By Leon Westgate

Energy

As with the base and precious metals, the stronger dollar was the main driver behind the declines seen in crude oil prices on Monday. Front month WTI crude prices did briefly drop below \$70/barrel on Monday afternoon, before recovering to finish at \$70.62. Overnight trade saw prices again briefly dip below \$70, before picking up again heading into the afternoon.

As noted already, Tuesday is a busy day in terms of macroeconomic data releases. In addition to the US housing and Industrial Production data, this evening also sees the release of the API Inventory data. While the main inventory data is still the US DOE inventory data - due out Wednesday afternoon, since the API numbers have been released a day earlier they have increasingly had an impact on prices. Last week's numbers were a case in point.

Coal also came under pressure on Monday, with prices being bullied by the crude oil and the boarder energy complex, and also the stronger dollar. Meanwhile, coal exports from Newcastle, Australia, dropped 17% last week to 1.8 million tonnes. The number of ships waiting outside the port also fell to 33, from 37 during the previous week.

Price movements aside however, the main coal-related news was an announcement by the Richards Bay Coal Terminal, that its proposed 1.2 billion Rand (\$150 million) expansion - initially due for completion by July 1st - will now be postponed until the fourth quarter. Contractors are considering working double shifts in order to make sure that the project is ready for commissioning by Q4.

The expansion of the terminal, once completed, will boost annual capacity from 76 million tonnes per year to 91 million tonnes. Actual shipments are running sub-capacity at the moment with a total of 61.79 million tonnes being exported in 2008. Richards Bay is targeting exports of 54.2 million tonnes of coal in 2009.

Unsurprisingly, weaker energy prices also saw carbon come under pressure on Monday.

By Leon Westgate

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	4,275,075	4,269,850	11,075	5,850	5,225	1,946,175	124,850	2.92	268,077
Copper	286,975	290,275	75	3,375	-3,300	-52,800	21,375	7.45	140,121
Lead	82,325	82,125	200	0	200	37,175	75	0.09	30,108
Nickel	108,804	108,948	0	144	-144	30,414	3,714	3.41	27,726
Tin	16,060	16,035	25	0	25	8,270	565	3.52	16,647
Zinc	331,700	329,975	2,150	425	1,725	78,200	6,925	2.09	89,600

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Chnge	Open	Close	Change	Change (%)
Aluminium	13,200	13,280	-5	Ali June'09	75	73.75	-1.50 -1.99%
Copper	39,000	39,280	-870	Cu June'09	230	227.10	-2.55 -1.11%
Zinc	13,200	13,350	-190				

ZAR metal prices (15th June 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	12,784	40,907	13,864	121,311	123,648	12,909	8.0605
3-month	13,196	41,030	13,753	121,140	123,763	12,950	8.1962

Energy

Energy futures pricing	Price	Change	Price	Change	Price	Change	Price	Change	Price	Change
	1 month		2 month		3 month		6 month		1 year	
Sing Gasoil (\$/bbl)	77.38	-0.10	76.54	-2.14	77.06	-1.81	80.48	-1.95	85.77	-1.72
Gasoil 0.1% Rdam (\$/mt)	574.00	3.50	584.75	2.75	593.00	-11.75	620.00	-12.25	658.00	-12.25
NWE CIF jet (\$/mt)	613.19	-6.28	626.50	-11.67	637.33	-11.75	663.36	-12.15	709.00	-12.33
Singapore Kero (\$/bbl)	77.18	0.10	77.49	-1.99	78.76	-1.76	83.05	-1.97	88.22	-1.87
3.5% Rdam barges (\$/mt)	360.69	-9.80	360.86	-9.21	362.64	-9.57	370.04	-8.76	387.32	-8.14
1% Fuel Oil FOB (\$/mt)	371.44	-9.55	375.61	-8.21	383.89	-8.82	405.04	-8.01	431.57	-8.14
Sing FO 380 Cargo (\$/mt)	380.61	-7.71	380.89	-8.32	382.87	-8.84	391.18	-8.83	409.49	-7.88
Sing FO180 Cargo (\$/mt)	386.00	-8.55	384.25	-7.71	385.75	-8.57	394.50	-8.52	409.49	-7.88
Thermal coal	Q3-09		Q4-09		Q4-10		Cal 11		Cal 12	
API2 (CIF ARA)	69.05	-3.70	78.05	-3.50	97.75	-3.70	103.45	-3.80	108.45	-3.55
API4 (FOB RBCT)	63.05	-3.40	71.80	-3.45	88.65	-3.70	94.05	-3.80	98.70	-3.55
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	12.25	-0.53	12.50	-0.50	13.08	-0.55	13.69	-0.48	14.64	-0.50
ICE - ECX CER (€/mt)	10.60	-0.60	10.70	-0.50	10.55	-0.57	10.90	-0.50	11.25	-0.45

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months		
Gold	0.39000	0.43429	0.48714	0.59000	0.83286		
Silver	0.42857	0.44571	0.48571	0.52143	0.63429		
USD Libor	0.31875	0.45900	0.61438	1.16875	1.69875		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	50.54	951.42	956.02	925.58	870.82	923.00	949.00
Silver	51.45	15.05	15.03	13.50	12.10	14.08	15.14
Platinum	55.52	1,251.80	1,210.00	1,121.90	1,025.70	1,221.00	1,265.00
Palladium	56.07	251.93	243.64	220.84	209.05	242.00	256.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'09	May'09	Jun'09	Jul'09	Apr'09	Feb'10	Jun'09
Settlement	933.40	14,2350	249.00	1,213.70	933.70	2,898.00	933.90
Open Interest	383,603	109,232	16,848	24,955	827	100,390	3,904
Change in Open Interest	-4,771	2,075	222	609	68	2,248	257

Sources: Standard Bank; LME; Bloomberg

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