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**Focus: Brent crude oil forward curve flattening** The ICE Brent crude oil forward curve has become flatter since December 2008, with 12-month contango contracting from \$15.36/bbl, in December last year, to \$5.7/bbl in May.

- **Precious metals tracked the US dollar and oil prices yesterday.** Gold found support at \$931 in Asia and climbed to \$938 in London before sliding to \$928 in early NY trade as front-month WTI crude fell from \$71.29/bbl to \$69/bbl and the greenback strengthened from \$1.3929 to \$1.3823 against the euro.
- **Silver sank from \$14.31 in London to \$13.94** in early NY trade before climbing back to \$14.34. **Platinum drifted below \$1,200** in New York.
- **DOE crude inventory data surprised on the downside**, which saw front-month crude oil prices return to \$71.20/bbl, and clawing to \$71.74/bbl in London today. With the WTI/Brent differential slipping back into negative territory, implied US crude import demand has weakened. This should limit upside potential for the front-month WTI crude oil contract today.
- The dollar has continued to be the main price driver for the Base Metals on Thursday, with the lack of any fundamental news or direction again resulting in a rather skittish market.

**Commodity price data (17 June 2009)****Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,590	1,623	1,637	1,584	12	0.75	1,562.50	-39	-30.00
Copper	4,905	4,960	5,010	4,880	-20	-0.40	4,903.00	-146	-23.50
Lead	1,620	1,662	1,678	1,615	11	0.67	1,610.00	-80	-26.25
Nickel	14,675	14,850	15,125	14,650	-250	-1.66	14,650.00	-300	-90.00
Tin	15,200	15,180	15,325	14,850	-275	-1.79	14,880.00	-270	-40.00
Zinc	1,545	1,552	1,584	1,538	-14	-0.89	1,520.00	-41	-29.50

**Energy**

	Open	Close	High	Low	day/day	Change (%)	ATM 1-m vol	ATM 6-m vol	ATM 1-y vol
ICE Brent	70.99	70.66	71.31	70.64	-0.19	-0.27%	45.00	45.00	46.00
NYMEX WTI	70.82	70.93	71.58	70.80	-0.10	-0.14%	42.00	41.00	40.00
ICE Gasoil	589.00	586.50	590.25	586.00	7.50	1.28%	39.00	39.00	38.00
API2 Q3'09	69.20	64.23	-	-	-4.97	-7.74%	-	-	-
ICE EUA Dec09	12.97	13.06	-	-	0.09	0.69%	-	-	-

**Precious metals**

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	933.75	930.50	940.20	929.20	935.50	4.00	0.30/0.70
Silver	-	14.29	14.34	14.00	14.28	0.16	-3.00/-1.00
Platinum	1,211.00	1,201.00	1,223.00	1,198.00	1,202.00	-16.00	2/4
Palladium	243.00	239.00	242.00	240.00	241.00	1.00	0/3

Sources: Standard Bank; LME; Bloomberg

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## Focus: Brent crude oil forward curve flattening

The ICE Brent crude oil forward curve has become flatter since December 2008, with the 12-month contango contracting from \$15.36/bbl, in December last year, to \$5.7/bbl in May this year. The main driver behind the shift in the curve has been the sharp recovery of nearby prices, and signs of tighter crude oil market fundamentals.

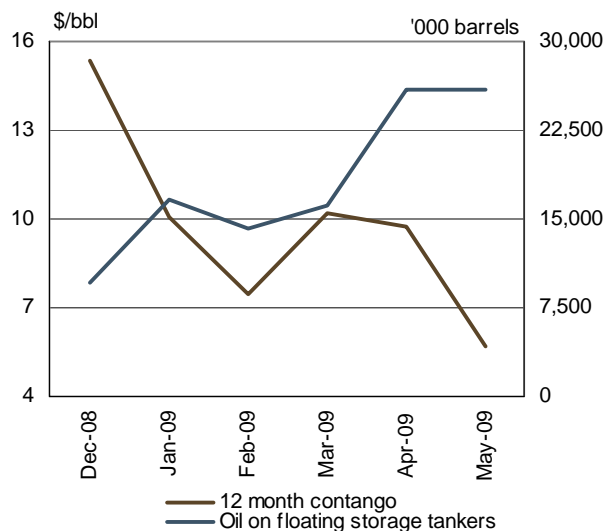
Evidence of improved demand conditions in the ICE Brent crude oil market comes from the front-month WTI/Brent differential, which contracted to  $-\$0.09/\text{bbl}$  yesterday despite a surprise 3,874K decrease in US DOE crude oil inventories. Chinese and Japanese industrial production also showed significant improvement, climbing 8.9% y/y in May and 5.9% m/m in April respectively.

Another factor behind the tighter nearby market, has been the sharp increase in the amount of crude oil tied up in cash and carry trades and therefore unavailable to end-users. According to data from Simpson Spence Young, the total crude oil stored on floating tankers increased from 9,600K barrels in December 2008, to an almighty 25,917K in May.

Looking ahead, the combination of increased demand, plus the ~26 million barrels of oil held in storage, may see the 12-month contango on the ICE Brent forward curve tighten further in the medium-term, with this floating stockpile overhanging the market and weighing on future prices, but not being able to feed nearby demand.

With the flatter forward curve however, also comes the end of the cash-and-carry trade. In addition, limited storage capacity and a

## ICE Brent contango and oil stored on tankers



Source: Standard CIB Global Research; Simpson Spence Young

dramatic 351% increase in the Baltic freight index, for the period December 2008 to May this year, has led to a significant increase in storage costs, further impacting on the viability of the cash and carry trade.

By Manqoba Madinane

## Base metals

Wednesday was volatile and rather muddled day with the dollar again governing intraday direction. A weakening in the dollar during the afternoon, plus a fall in the VIX did see commodities recover, with the everything bar Tin finishing the day significantly above their opening levels - albeit perhaps still lower in day-on-day terms. Aluminium was particularly solid once again, gaining steadily during the afternoon, after an early wobble.

The dollar has continued to be the main price driver on Thursday, with the lack of any fundamental news or direction again resulting in a rather skittish market. That trend is likely to continue, perhaps heightening the impact of this afternoon's macroeconomic data - namely the US Initial Jobless Claims (expected at 604K), Leading Indicators (expected at 1.0%) and the Philly Fed (expected -17.0) - should the results be significantly out of line with consensus expectations.

Meanwhile, spot copper TC/RC's in China have reportedly dropped to around \$20-30/mt and 2-3¢/lb, compared to the 2009 benchmark price of \$75/mt and 7.5¢/lb. The sharp fall in TC/RCs is indicative of a tightening concentrate market, and is likely related to the issue of lower grades experienced at several major copper mines in Chile and elsewhere over the past couple of quarters. In terms of impact on the refined market, the lack of a significant backwardation to exploit, may make it costly for the smelters to operate at these sorts of levels, perhaps impacting on short to medium term refined production levels.

The World Bank has raised its growth forecast for China from 6.5% to 7.2%. Interestingly, around 6% of the 7.2% growth forecast is attributed, either directly or indirectly, to government spending and investment. The high proportion of growth related to the government is indicative of the scale of infrastructure work that has been, and will likely continue to be carried out this year. Upgrading and/or creating infrastructure is very commodity intensive in nature, and has been one of the key drivers behind China's demand for industrial metals so far this year. Therefore, while the traditional summer slowdown will impact on metals demand over the next couple of months, we expect Chinese demand to rebound strongly thereafter, particularly if it is to meet its self-imposed GDP growth target of 8% this year.

By Leon Westgate

## Precious metals

**Precious metals tracked the US dollar and oil prices yesterday.** Gold found support at \$931 in Asia and climbed to \$938 in London before sliding to \$928 in early NY trade as front-month WTI crude fell from \$71.29/bbl to \$69/bbl and the greenback strengthened from \$1.3929 to \$1.3823 against the euro. US CPI data further limited investment funds into gold as it surprised on the downside, falling 1.3% y/y against market expectations for a softer 0.9% y/y decline, signaling US inflation risks remain under control. A surprise 3,874K barrel decline in US DOE inventories saw front-month WTI crude oil prices ratchet back to \$71.20/bbl in late NY trade, inviting bargain-buying interest into gold which saw the metal climb back to \$938. Buying continued in Asian trade this morning, with **gold climbing to \$943.70**. The greenback remains the main risk factor for gold prices and investors should look out for US initial jobless claims and leading indicators data later today for further clues on the greenback. Support and resistance are at \$930 and \$945 respectively.

**Silver sank from \$14.31 in London to \$13.94** in early NY trade before climbing back to \$14.34. Asian trade saw the metal remain well supported, clawing to \$14.42 ahead of the London session this morning. The gold:silver ratio drifted sideways in Asia after falling from 66.60 to 65.20 yesterday — a sign silver should continue tracking gold for the rest of the day. A significant gain in the US Leading indicators index could support silver during the NY trade later today. Support and resistance are at \$14.04 and \$14.52 today.

**Platinum drifted below \$1,200** in NY trade yesterday, falling to \$1,194 before bargain-buying interest propelled the metal to \$1,219 in Asian trade this morning. It then went sideways in London, with investors glued to the greenback. US leading indicators index should set the tone for platinum in NY trade later. With crude oil prices jumping from \$70.88/bbl to \$71.73/bbl this morning, industrial metals sentiment should remain well supported in London. Platinum support and resistance are at \$1,193 and \$1,226 respectively.

By Manqoba Madinane

## Energy

Following a bearish US API inventory report on Tuesday, which showed a 2,140K barrel gain in gasoline inventories and saw front-month WTI crude oil slip to \$69.80/bbl, all eyes were on **DOE crude inventory data, which surprised on the downside, falling 3,874K barrels against market expectations for a 1,750K decline**. This saw front-month crude oil prices return to \$71.20/bbl, and clawing to \$71.74/bbl in London today. Meanwhile, the WTI/Brent differential slipped back into negative territory, implying that US crude import demand has weakened. This should limit upside potential for the front-month WTI crude oil contract today.

Today's US leading indicators data should be important for clues on expected US crude oil demand conditions — weaker-than-expected data should weigh on the front-end of the WTI crude oil forward curve. The back-end of the curve is still finding support from free-falling US oil supply capacity — Baker Hughes' has now reported another 1.2% w/w decline in the US oil rig count to 876. Support and resistance for front-month WTI crude oil are at \$70.34/bbl and \$72.12/bbl respectively.

**Thermal coal prices came under strain in London** following an announcement by the Indian Environment minister to increase the country's coal production within 7 years to 1 billion metric tonnes a year in an effort to double power generation capacity. Higher Indian domestic production would have adverse effects on global thermal coal import demand pressure which would weigh on thermal contract prices. Subsequently, API4(FOB) for Q3:2009 delivery shed \$4.05/mt to \$59.25/mt. However, increased supply-side risks in South Africa, as Labour union Solidarity threatens industrial action, could support thermal coal contract prices. Furthermore, Chinese Customs also reported a 2.9% m/m increase in Chinese coal imports to a record 9.43 million tonnes in May, which should also support thermal coal prices.

**Carbon contract prices were steady** despite lower German base load power prices. Active-year ICE EUA gained EUR0.09/mtCO<sub>2</sub>, to EUR13.06/mtCO<sub>2</sub>. UN-backed CER for December 2009 delivery gained EUR0.11/mtCO<sub>2</sub>, to EUR11.16/mtCO<sub>2</sub>.

By Manqoba Madinane

## 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	4,359,100	4,322,300	41,725	4,925	36,800	2,030,200	111,975	2.57	243,168
Copper	283,175	285,050	75	1,950	-1,875	-56,600	17,925	6.33	89,393
Lead	84,200	83,825	375	0	375	39,050	75	0.09	28,594
Nickel	108,186	108,192	0	6	-6	29,796	3,234	2.99	32,843
Tin	16,250	16,135	115	0	115	8,460	585	3.60	20,021
Zinc	336,450	335,150	1,975	675	1,300	82,950	6,950	2.07	94,032

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	13,420	13,410	60	Ali June'09	73	74.50	1.25	1.71%
Copper	39,300	39,120	180	Cu June'09	227	227.15	0.20	0.09%
Zinc	13,500	13,390	-30					

### ZAR metal prices ( June 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	12,618	39,594	13,002	118,306	120,163	12,275	8.0755
3-month	13,326	40,726	13,646	121,930	124,640	12,743	8.2108

## Energy

Energy futures pricing	Price Change		Price Change		Price Change		Price Change		Price Change	
	1-month forward	2-month forward	3-month forward	6-month forward	1-year forward					
Sing Gasoil (\$/bbl)	76.74	0.00	77.65	-1.33	78.19	-1.24	81.45	-1.32	86.53	-1.40
Gasoil 0.1% Rdam (\$/mt)	586.50	7.50	596.75	7.00	600.25	-10.25	626.75	-10.25	663.50	-10.50
NWE CIF jet (\$/mt)	622.90	-3.42	639.98	-6.67	647.25	-7.25	675.20	-6.25	713.67	-8.74
Singapore Kero (\$/bbl)	76.60	-0.25	79.05	-0.88	80.19	-1.04	83.88	-1.37	88.98	-1.40
3.5% Rdam barges (\$/mt)	373.50	1.30	371.57	0.15	371.61	-0.91	377.40	-2.98	394.52	-4.82
1% Fuel Oil FOB (\$/mt)	381.22	4.00	385.32	-0.85	392.61	-1.16	412.15	-2.98	440.02	-3.82
Sing FO 380 Cargo (\$/mt)	394.32	1.15	392.61	0.09	393.41	-0.79	400.97	-1.82	417.29	-4.63
Sing FO180 Cargo (\$/mt)	396.75	-2.75	397.50	1.15	397.00	0.09	403.75	-1.73	417.29	-4.63
Thermal coal	Q3-09		Q4-09		Q1-10		Cal 11		Cal 12	
API2 (CIF ARA)	64.23	-4.97	73.75	-5.45	95.75	-3.65	101.77	-3.68	106.50	-3.70
API4 (FOB RBCT)	59.25	-4.05	68.50	-4.80	87.00	-3.40	92.51	-3.54	97.25	-3.45
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	12.85	0.15	13.06	0.09	13.62	0.05	14.27	0.06	15.18	0.01
ICE - ECX CER (€/mt)	11.10	0.10	11.16	0.11	11.01	0.02	11.20	-0.05	11.55	0.05

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.37000	0.40571	0.47286	0.57429	0.76857		
Silver	0.43571	0.45714	0.49286	0.52143	0.65000		
USD Libor	0.31313	0.44813	0.61000	1.15750	1.69375		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.44	945.63	955.87	926.49	872.42	930.00	945.00
Silver	51.76	14.80	15.01	13.53	12.14	14.04	14.52
Platinum	54.31	1,240.57	1,215.62	1,126.33	1,023.72	1,193.00	1,226.00
Palladium	53.43	250.16	244.18	221.78	208.68	237.00	246.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Aug'09	Jul'09	Jul'09	Jul'09	Jun'09	Apr'10	Jun'09
Settlement	938.50	14,2850	244.85	1,205.20	938.70	2,898.00	938.70
Open Interest	371,997	103,981	16,465	23,901	769	100,639	3,661
Change in Open Interest	-2,588	-2,370	-376	-256	-2	-963	-49

Date: 17 June 2009

Sources: Standard Bank; LME; Bloomberg

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