Commodities Daily

Standard Bank

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Walter de Wet
+44 (20) 7815 2759
Walter.DeWet@standardbank.com

Leon Westgate
+44 (20) 7815 4090
Leon.Westgate@standardbank.com

Manqoba Madinane
+27 (11) 378 7220
Manqoba.Madinane@standardbank.com

Focus: **Increased downside risk for gold** While we remain generally bullish on Gold's medium to long-term outlook, **our short-term outlook has turned negative**. Gold suffered a third consecutive w/w decline last week, amid ETF investment outflows. Although the stronger US dollar has been the main risk factor for spot gold prices over the past five weeks, its link with the yellow metal has declined, suggesting other price drivers, such as investment flows and crude oil, may start to have a greater impact.

- The base metals came under heavy pressure on Monday. There were a number of factors behind the sell-off, such as a stronger dollar, however the catalyst appeared to be a report by the World Bank forecasting that the global recession will be deeper than previous estimates.
- The nearby portion of the SHFE copper forward curve has shifted into backwardation over the past couple of days, while physical premiums have also picked up. The sharp fall in LME prices relative to the SHFE has seen the nearby SHFE contracts trade at a premium to the LME, though the arbitrage ratio between the SHFE and LME is not yet at a level to spur significant Chinese interest.
- The stronger dollar and economic concerns saw the precious metals and energy complexes also come under pressure.

Commodity price data (22 June 2009)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,621	1,574	1,668	1,572	-105	-6.25	1,585.00	-57	-31.50
Copper	4,850	4,762	4,940	4,715	-264	-5.25	4,821.00	-199	-22.50
Lead	1,620	1,603	1,670	1,595	-75	-4.43	1,600.00	-100	-23.00
Nickel	14,750	14,505	14,801	14,390	-710	-4.67	14,700.00	-500	-90.00
Tin	14,800	14,510	14,800	14,360	-425	-2.87	14,615.00	-385	-3.00
Zinc	1,515	1,502	1,565	1,487	-74	-4.70	1,490.50	-71	-29.50

Energy	Open	Close	High	Low	day/day	Change (%)	ATM 1-m vol	ATM 6-m vol	ATM 1-y vol
ICE Brent	66.89	66.12	66.89	65.90	-0.86	-1.30%	45.00	45.00	46.00
NYMEX WTI	67.15	66.70	67.49	66.37	-0.80	-1.20%	42.00	41.00	40.00
ICE Gasoil	548.50	545.00	548.50	544.75	-3.00	-0.55%	39.00	39.00	38.00
API2 Q3'09	63.38	58.49	-	-	-4.89	-8.36%	-	-	-
ICE EUA Dec09	13.06	12.95	-	-	-0.11	-0.84%	-	-	-

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	924.00	919.25	934.75	918.70	924.50	-11.30	0.20/0.60
Silver	-	13.65	14.08	13.72	13.71	-0.49	-3.00/-1.00
Platinum	1,209.00	1,212.00	1,209.00	1,165.00	1,165.00	-42.00	-1/3
Palladium	241.00	243.00	245.00	233.00	231.00	-12.00	0/3

Sources: Standard Bank; LME; Bloomberg

Focus: Increased downside risk for gold

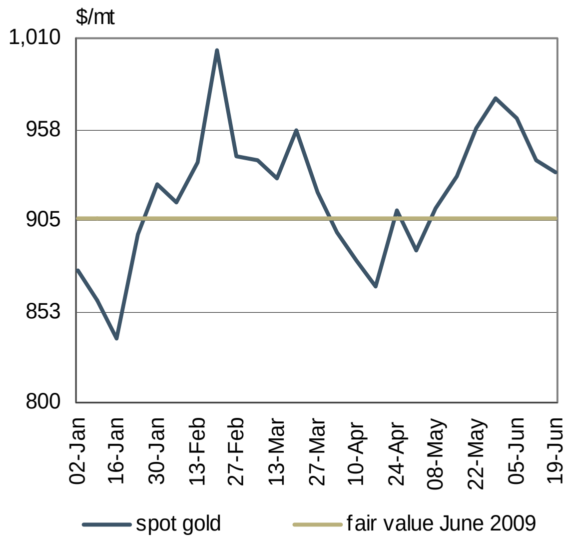
While we remain generally bullish on Gold's medium to long-term outlook, **our short-term outlook has turned negative**. Gold suffered a third consecutive w/w decline last week, amid ETF investment outflows.

Although the stronger US dollar has been the main risk factor for spot gold prices over the past five weeks (from May 22), the 1-month rolling correlation between the trade-weighted US dollar and spot gold prices has fallen from -94% on 5 June to -45% on Friday. **With the greenback having a reduced influence on spot gold price movements, other price drivers, such as investment flows and crude oil, may start to have a greater impact.**

According to our calculations, the fair-value spot gold price - i.e. the gold price consistent with the current economic climate - is currently around $906/oz. On this basis, and with gold essentially range trading and showing an element of mean reversion, (see chart), there is still further downside potential for gold.

By Manqoba Madinane

Spot and fair value gold price



Sources: Standard CIB Global Research; Bloomberg

Base metals

A wave of liquidation swept across the complex on Monday, seeing prices come under heavy pressure. While there were a number of factors behind Monday's sell-off, such as a stronger dollar and uncertainty over Chinese demand, the catalyst appeared to be a report by the World Bank forecasting that the recession will be deeper than previous estimates. The World Bank now predicts the contraction in the global economy will be 2.9%, compared to previous estimates of a 1.7% decline. Even so, the World Bank is still forecasting a recovery In global growth next year with a 2% expansion, though this figure has been revised down from a prior 2.3% forecast. The base metals weren't the only asset class top come under pressure on Monday however, with energy, precious metals and equities also declining sharply. The VIX gained 14% at one point before closing over 11% higher - indicating the scale of risk reduction taking place.

After a poor start, copper held on throughout Monday morning before falling away during the afternoon. Volumes were pretty good however, indicating good two-way interest rather than a complete collapse. The red metal has stabilised and recovered heading into Tuesday afternoon, helped by technical pullback in the dollar and by another fall in available LME inventories - down 2,450 mt. **Of particular interest however, has been the Shanghai market. The nearby portion of the SHFE copper forward curve has shifted into backwardation over the past couple of days, while physical premiums have also picked up** - last heard trading at $10-30/mt from $5-10 previously. **The sharp fall in LME prices relative to the SHFE has also seen the nearby SHFE contracts trade at a premium to the LME once again, though the arbitrage ratio between the SHFE and LME is not yet at a level to spur significant Chinese interest.**

In other news, Zambia's electricity utility, Zambian Power Supply Corp. has applied for a 66% tariff increase for 2009 in order to pay for the rehabilitation of power plants. According to the company, moving to a rate of 9¢ / kWh from the current 3¢ / kWh would also attract competition in the sector.

Tin has stood out from the other base metals, with the recent jump in warrant cancellations seeing cancelled warrants - measured as a percentage of total inventory - jump from 5.7% on June 19th to 13.3% as of this morning. The bullish inventory data has helped the metal shrug off some of yesterday's pressure, and has also seen prices recover during Tuesday morning. The rest of the base metals have followed a similar pattern to copper, stabilising and recovering on the back of the weaker dollar. The exception has been nickel, which has been weighed down by an increase in available LME inventory - up 240 mt.

Looking ahead, the main economic data releases this afternoon are the US Existing Home Sales numbers for May (expected at 4.82 million, from 4.68 million last month), while the FOMC meeting also gets underway, with the keenly awaited statement due out on Wednesday evening.

By Leon Westgate

Precious metals

The stronger greenback, and lower crude oil prices, weighed on precious metals yesterday. While the US dollar rallied from $1.3968 in Asia to $1.3827 against the euro in NY trade yesterday, front-month WTI crude oil prices plummeted from $69.90/bbl to $66.25/bbl. Gold then nose-dived from $934 in Asia to $918 during NY trade before slipping to $913 in Asia this morning, amid institutional investment outflows. ETF securities (Ltd) and SPDR gold shares ETF have liquidated 45,000oz and 29,457oz respectively of their gold investment holdings. Speculative net length on the June COMEX gold contract fell 3,372 yesterday. Also noteworthy, the weekly Bloomberg gold indicator fell 4.13% w/w last week, to 36.36 — signalling that more investors are bearish about spot gold prices. These developments should see gold struggle for support today. Support and resistance are at $908 and $929 respectively.

Silver tracked gold lower yesterday, falling from $14.18 in Asia to $13.76 in New York before slipping to $13.61 in Asian trade. With the World Bank now forecasting a -2.9% y/y contraction in the global economy this year, from -1.7% y/y previously, industrial investment sentiment could remain under pressure. With gold under pressure, lower demand-side expectations could bode ill for silver. Support and resistance are at $13.47 and $14.04 respectively.

With the World Bank's downward revision to its global growth forecast, **PGMs also came under pressure**. Japan's April Leading index was also revised to 76.2 from 76.5 this morning, further weighing on PGM sentiment throughout Asian trade this morning. After falling from $1,215 to $1,162, between Asia and N Y trade yesterday, platinum slipped to $1,158 in Asia before drifting sideways going into the London session. Platinum support and resistance are at $1,142 and $1,200 respectively.

By Manqoba Madinane

Energy

The energy complex came under pressure yesterday amid a stronger US dollar and bearish World Bank global growth forecast. As the greenback rallied from $1.3968 to $1.3827 yesterday, front-month WTI crude oil plummeted from $69.90/bbl, in Asia to $66.26/bbl in late NY trade.

The World Bank's forecast has undermined expectations for a global crude oil demand recovery, and has seen the front-month WTI crude oil contract struggle for support in electronic trade throughout the Asian session this morning (it ranged between $67.50/bbl and $66.36/bbl). Sombre equity market sentiment, with the Nikkei shedding 2.82%, could also weigh on crude oil going into the European session. Noteworthy, equity index futures are pricing in gains in the US today — which could attract some crude oil buying interest in New York. Support and resistance are at $65.53/bbl and $69.13/bbl respectively.

Thermal coal prices tracked crude oil lower yesterday. API2(CIF ARA) for Q3:09 delivery shed $4.89/mt, to $58.49/mt. API4 (FOB) for Q3:09 delivery also slipped $3.40/mtm, to $56.25/mt. With the API4(FOB) forward curve adjusted vertically downwards yesterday, **signaling that investors are now pricing in further demand weakness** than previously thought in the wake of the World Bank's global growth forecast.

A weak energy complex saw carbon emissions contract prices drift lower yesterday despite marginally higher German base load power prices. ICE EUA for December 2009 delivery shed EUR0.11/mtCO2, to EUR12.95/mtCO2. Active-year UN-backed CER shed EUR0.23/mtCO2, to EUR11.18/mtCO2.

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	4,361,625	4,368,925	5,850	13,150	-7,300	2,032,725	96,025	2.20	173,095
Copper	277,600	280,350	0	2,750	-2,750	-62,175	16,625	5.99	68,780
Lead	86,175	85,800	375	0	375	41,025	100	0.12	14,161
Nickel	108,084	108,108	0	24	-24	29,694	2,958	2.74	26,907
Tin	17,185	17,200	0	15	-15	9,395	2,135	12.42	5,559
Zinc	339,175	339,100	875	800	75	85,675	10,200	3.01	46,673

Shanghai 3-month forward prices			
Metal	Open	Last	1d Change
Aluminium	13,160	13,270	-160
Copper	37,110	37,800	-460
Zinc	13,000	13,090	-175

COMEX active month future prices				
	Open	Close	Change	Change (%)
Ali June'09	76	72.25	-4.00	-5.25%
Cu June'09	214	214.95	0.55	0.26%

ZAR metal prices (22 June 2009)	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	12,921	39,301	13,043	119,834	119,141	12,151	8.1520
3-month	13,050	39,482	13,290	120,261	120,302	12,453	8.2910

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 ($/bbbl)	77.23	-0.16	73.81	-4.69	74.16	-4.69	77.73	-4.52	83.01	-4.31
Gasoil 0.1% Rdam ($/mt)	545.00	-3.00	556.25	-2.75	567.00	-3.25	598.75	-33.75	637.25	-31.50
NWE CIF jet ($/mt)	616.43	-10.77	611.65	-35.43	619.50	-35.17	649.51	-33.85	690.59	-31.58
Singapore Kero ($/bbl)	77.39	-0.22	75.16	-4.74	76.26	-4.64	80.38	-4.52	85.56	-4.26
3.5% Rdam barges ($/mt)	375.27	0.45	360.21	-17.12	359.94	-16.59	365.03	-17.05	382.65	-16.87
1% Fuel Oil FOB ($/mt)	385.31	0.64	369.21	-18.62	376.94	-18.34	395.53	-20.05	424.65	-18.37
Sing FO 380 Cargo ($/mt)	382.46	-17.12	380.44	-16.84	381.17	-16.58	388.25	-16.11	405.81	-16.16
Sing FO180 Cargo ($/mt)	405.25	2.93	386.25	-17.12	385.50	-16.84	391.25	-16.30	405.81	-16.16
Thermal coal	Q3-09		Q4-09		Q1-10		Cal 11		Cal 12	
API2 (CIF ARA)	58.49	-4.89	68.25	-4.70	91.15	-3.60	100.05	-1.95	106.03	-0.72
API4 (FOB RBCT)	56.25	-3.40	64.75	-4.20	82.40	-4.05	91.43	-1.67	97.03	-0.82
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	12.75	-0.11	12.95	-0.11	13.53	-0.34	14.15	-0.38	15.10	-0.34
ICE - ECX CER (€/mt)	11.18	-0.18	11.18	-0.23	11.03	-0.30	11.33	-0.22	11.58	-0.32

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.35143	0.38857	0.46000	0.56714	0.76714		
Silver	0.43333	0.44167	0.48333	0.52500	0.62500		
USD Libor	0.31500	0.44500	0.61000	1.16125	1.69750		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	47.10	935.31	950.77	926.84	874.67	908.00	929.00
Silver	47.46	14.40	14.89	13.57	12.18	13.47	14.04
Platinum	49.10	1,217.05	1,220.23	1,132.52	1,024.22	1,142.00	1,200.00
Palladium	49.40	244.40	244.60	223.05	208.71	225.00	249.00
Active Month Future	COMEX GLD Aug'09	COMEX SLV Jul'09	NYMEX PAL Jul'09	NYMEX PLAT Jul'09	DGCX GLD Jun'09	TOCOM GLD Apr'10	CBOT GLD Jun'09
Settlement	915.20	13.6300	236.85	1,169.10	915.00	2,809.00	914.90
Open Interest	373,641	111,380	16,122	23,906	787	101,859	3,336
Change in Open Interest	-3,372	3,640	-40	-82	0	1,439	-1,241

Date: 22 June 2009

Sources: Standard Bank; LME; Bloomberg

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