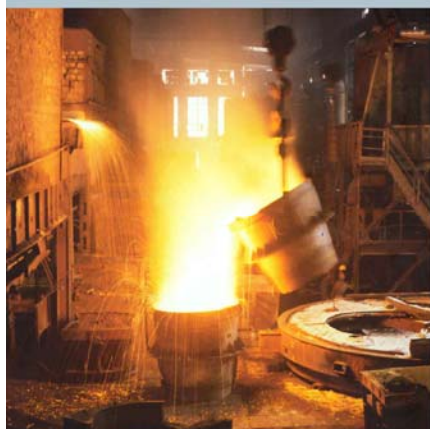


10 November 2009



**Focus: Focus: Copper open interest - new longs being added** - After a period of uncertainty during the first half of the year, the recent trend has been one of rising copper prices coupled with rising open interest - suggesting new long positions are being added regardless of near-term demand concerns.

- The base metals had an unusual start to the week, trading sideways for much of Monday, before a flurry of selling activity emerged towards the close. Aluminium was the only metal to avoid the sell-off, rallying instead to finish the day on its highs. Tuesday morning has been a rather mixed picture, with a continuation of yesterday's selling activity being partially offset by movements in the dollar.
- Gold has run into strong resistance yesterday. While we believe the metal will test the \$1,110 level again soon, we would also not look to add new longs at current price levels.
- Front-month WTI crude rallied strongly during Monday afternoon, helped by a weaker dollar, before prices softened slightly late-on. Ultimately however, crude oil prices remain rangebound, with WTI stuck firmly in a \$77-\$82 range. Vols have declined significantly as a result and arguably are starting to look cheap.

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**Commodity price data (09 November 2009)****Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,928	1,953	1,960	1,934	42	2.20	1,896.00	9	-33.50
Copper	6,590	6,539	6,580	6,477	50	0.77	6,565.00	33	-22.25
Lead	2,297	2,300	2,285	2,230	50	2.22	2,278.00	-42	-26.75
Nickel	17,550	17,435	17,510	16,865	80	0.46	17,430.00	-375	-71.00
Tin	14,854	14,775	14,856	14,665	0	0.00	15,050.00	75	80.00
Zinc	2,213	2,160	2,184	2,127	-14	-0.64	2,188.50	21	-26.25

**Energy**

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.50	77.51	77.59	76.90	-0.26	-0.34%
NYMEX WTI	79.24	79.14	79.50	78.55	-0.29	-0.37%
ICE Gasoil	625.50	625.75	626.00	619.50	-3.25	-0.52%
API2 Q4'09	67.80	66.90	-	-	-0.90	-1.35%
ICE EUA Dec09	12.61	12.58	-	-	-25.19	-0.24%

**Precious metals**

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,108.50	1,106.75	1,109.20	1,101.50	1,100.50	105.50	0/0.4
Silver	-	17.36	17.73	17.48	17.46	0.80	0/2.0
Platinum	1,360.00	1,359.00	1,361.00	1,355.00	1,355.00	73.00	3/5
Palladium	331.00	330.00	332.00	321.00	322.00	31.00	1/3

Sources: Standard Bank; LME; BBG



### Focus: Copper open interest - new longs being added

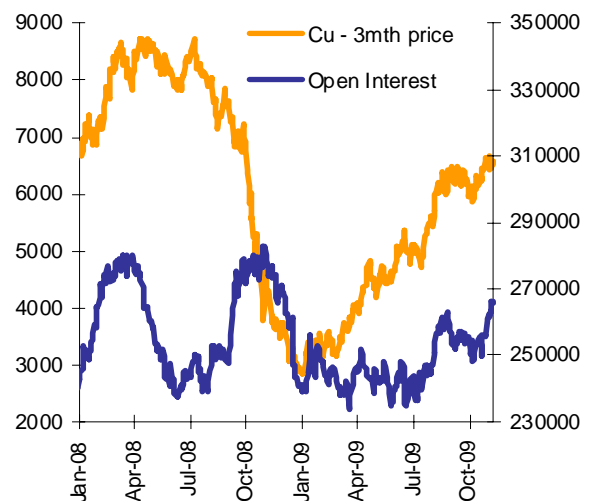
After a period of uncertainty during the first half of the year, the recent trend has been one of rising copper prices coupled with rising open interest - suggesting new long positions are being added regardless of near-term demand concerns.

Total open interest is still some way below the recent highs in early 2008 - when the wider market was looking at \$10,000/mt prices, and late 2008 - when the market was talking about sub-\$2,000/mt prices, however open interest is also significantly above the lows seen during the first half of this year.

What is interesting however, is the impact that the last significant dip in copper prices - in early October - had on the market generally. Although prices only briefly dropped below \$5,900, the subsequent and dramatic increase in open interest, combined with the rally in prices, points to the level of bargain hunting activity that emerged from the speculative community.

We still believe the short term risk to copper prices remains skewed to the downside. However, should this recent level of in-

Figure 1: LME Copper price vs Open Interest



Source: Standard Bank, LME

vestor appetite remain in place, then that downside should also be somewhat limited.

By Leon Westgate

## Base metals

The base metals had an unusual start to the week, trading sideways for much of Monday, before a flurry of selling activity emerged towards the close. Aluminium was the only metal to avoid the sell-off, rallying instead to finish the day on its highs. Tuesday morning has been a rather mixed picture, with a continuation of yesterday's selling activity being partially offset by a weaker dollar. With little in the way of economic data this afternoon, the metals will likely revert to looking at technical signals and fluctuations in the dollar.

Most of the excitement in zinc came right at the end of the day, with the metal coming under heavy selling pressure during the final PM Kerb trading session on the LME floor, with the price falling around \$60 before picking up slightly and stabilising during the aftermarket. Zinc has since come under further pressure this morning, with the metal taking direction from a weaker copper price.

After trading sideways for much of Monday afternoon, copper was also sold aggressively on the close. The market absorbed the selling relatively well, however prices have since come under further pressure this morning. The lack of upwards progress appears to have shifted focus back towards the bearish arguments regarding copper, while a 4,725 mt increase in on-warrant LME inventory - the majority of which entering Asian warehouses once again - has also weighed on sentiment.

As noted last week (*see the Focus section of the Commodities Daily on Friday 6th November*), the physical demand picture in China, on the surface at least, looks rather poor at the moment. Adding a bit of fuel to the fire is a Bloomberg story this morning citing Xi'an Maike Metal International Group as saying China may start re-exporting copper, and that the firm itself had diverted bonded material from China to LME warehouses in Asia, due to a lack of buying interest. Overall however, the metal remains caught up in a battle between participants with a short term view looking at the weak physical picture, and those expressing a longer term view, looking towards the general economic recovery and tightening fundamentals towards the end-2010 and in 2011.

In contrast to copper, aluminium has performed much better, attracting buying interest towards Monday's close and finishing the day on its highs. The light metal has since continued to rally heading into the afternoon, boosted by a 3,925 mt fall in on-warrant inventory.

Elsewhere, Nickel, after a poor close yesterday, has come back under fairly sustained pressure this morning, with prices heading below \$17,000. Lead has also seen Monday's selling pressure spill over into the morning session, however prices have bounced from their lows. Tin meanwhile has had a much busier time than in previous days, with the metal breaking free from the rest of the complex and rallying, in spite of a 405 mt increase in on-warrant LME stocks.

By Leon Westgate

## Precious metals

Despite the latest ZEW economic sentiment index for the Euro-zone showing a substantial decline in November (falling from 56.9 to 51.8), European equity markets remain well supported this morning. The ZEW sentiment reading was also well below the expected reading of 58. However, the reading seems to have made the market slightly more cautious and indications are that this cautiousness could carry into US markets today.

US equity futures are trading slightly lower, while 10-year Treasury yields have also decline. These are both signs that risk appetite is waning. Combined with no major data releases in the US today, we expect markets to remain cautious. This cautious approach should favour some dollar strength.

Gold has run into strong resistance yesterday. While we believe the metal will test the \$1,110 level again soon, we would also not look to add new longs at current price levels. The overall strategy remains one of buying dips — but there might be better entry points around the mid-\$1,180 levels. We see support for gold at \$1,095 and \$1,088. Resistance is at \$1,105 and \$1,110.

Given our believe that risk appetite will remain subdued today, combined with the fact that silver's beta with gold is around 2, silver should struggle. However, base metals support remains in place. We expect this to support silver against a major sell-off. Silver support is at 17.40 and \$17.00. Resistance is at \$17.80 and \$18.00.

Platinum and palladium remains range-bound. While there might be some downside today, overall we expect little activity. Platinum continues to find strong resistance at \$1,370, while palladium's resistance is at \$335.

Tomorrow sees the release of China's industrial production figures for October. The market expects 15.5% y/y growth. A good data print could favour the upside in PGM's and silver.

**By Walter de Wet**

## Energy

Front-month WTI crude rallied strongly during Monday afternoon, helped by a weaker dollar, before prices softened slightly late-on, as what appears to be profit taking emerged. Also weighing on prices were weather reports suggesting that Hurricane/Tropical Storm Ida was running out of energy in the Gulf of Mexico, with its sustained wind speed dropping from 65mph to 60mph. Unsurprisingly, Brent followed a very similar pattern.

Ultimately however, crude oil prices remain rangebound, with WTI stuck firmly in a \$77-\$82 range. Vols have declined significantly as a result of this rangebound behavior and arguably are starting to look cheap.

Until prices break out of this range however outright crude oil prices will continue to track the dollar and trade on the back of technical signals.

Coal prices tracked crude oil higher on Monday, with API2 (CIF ARA) for Dec-09 climbing \$1.15 and Cal-10 gaining \$1.05. Stronger physical buying emerged across the forward curve, though the majority of the price action was focused towards the nearby contract dates.

**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	4,535,900	4,539,625	700	4,425	-3,725	2,207,000	120,300	2.65	143,396
Copper	394,150	389,475	4,850	175	4,675	54,375	2,025	0.51	79,720
Lead	131,350	131,025	350	25	325	86,200	650	0.49	21,662
Nickel	131,388	131,304	174	90	84	52,998	1,002	0.76	23,892
Tin	26,795	26,445	410	60	350	19,005	160	0.60	44,329
Zinc	425,625	426,000	-	375	-375	172,125	11,800	2.77	56,791

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	15,220	15,150	-30	Ali Nov'09	-	-	-	-
Copper	51,300	50,960	-280	Cu Nov'09	297	295.00	-2.00	-0.67%
Zinc	16,945	16,770	-125					

### ZAR metal prices (9 November 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,051	48,653	16,882	129,174	111,536	16,219	7.4110
3-month	14,722	49,291	17,337	131,425	111,374	16,282	7.5380

## 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)	84.91	-1.33	85.87	3.01	86.57	2.93	89.00	2.73		
Gasoil 0.1% Rdam (\$/mt)	625.75	-3.25	635.25	-3.50	645.25	-3.75	663.50	-6.25	706.50	19.75
NWE CIF jet (\$/mt)	683.32	19.42	694.24	24.16	706.93	20.83	733.54	20.08	771.50	19.75
Singapore Kero (\$/bbl)	85.33	-1.15	87.07	3.11	88.02	2.98	91.75	2.73	96.42	2.69
3.5% Rdam barges (\$/mt)	462.06	18.04	452.41	12.51	455.10	12.41	459.21	12.42	465.56	12.97
1% Fuel Oil FOB (\$/mt)	478.56	15.79	471.66	10.01	482.60	11.91	493.21	12.42	512.06	12.47
Sing FO 380 Cargo (\$/mt)	472.41	12.51	474.10	12.41	475.83	12.63	478.23	12.43		
Sing FO180 Cargo (\$/mt)	483.06	18.29	476.16	12.51	478.60	12.41	482.96	12.42		

Thermal coal	Q4:09		Q1:10		Q2:10		Cal 11		Cal 12	
API2 (CIF ARA)	76.25	0.15	87.20	0.20	82.20	0.05	97.00	-0.65	104.40	-2.25
API4 (FOB RBCT)	67.40	0.15	77.50	0.30	73.30	0.20	87.10	-0.65	94.30	-2.35
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	14.43	0.05	14.43	0.05	14.78	0.04	15.35	0.04	16.16	0.06
ICE - ECX CER (€/mt)	13.60	0.00	13.44	-0.01	13.28	0.03	13.30	0.05	13.62	0.00

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.28000	0.29750	0.31500	0.41250	0.61000		
Silver	0.55000	0.55000	0.55000	0.56000	0.58500		
USD Libor	0.23906	0.25063	0.27250	0.54063	1.13125		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	65.97	1,074.54	1,064.20	986.96	956.90	1,084.00	1,105.00
Silver	55.45	17.00	17.24	15.43	14.50	17.26	17.65
Platinum	56.04	1,344.17	1,347.11	1,262.17	1,197.51	1,348.00	1,370.00
Palladium	61.26	327.18	329.79	286.88	255.00	327.00	334.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'09	Sep'09	Oct'09	Oct'09	Aug'09	Jun'10	Aug'09
Settlement	1,100.40	17,3700	334.00	1,367.20	1,100.50	3,196.00	1,100.80
Open Interest	521,455	140,144	22,339	32,450	2,005	100,016	-
Change in Open Interest	-9,531	-4,600	-98	37	-72	1,177	-

Date: 9 November 2009

Sources: Standard Bank; LME; Bloomberg

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