Commodities Daily

Standard Bank

Commodities Research

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Focus: We revisit the relative value of base metals. We analyse the ratio between gold and several base metals (aluminium, copper, lead and zinc) since 1990. While this relative value approach ignores market fundamentals on specific metals, it puts base metal prices into perspective, relative to the rise in global liquidity (to which the gold price reacts well).

- Base metals are still pushing higher, with copper leading the pack. With very positive earnings reports out of the US yesterday, risk appetite abides. Companies such as Apple and Texas Instruments showed very positive earnings. This does not affect base metals directly, but does indicate that consumer demand could be improving.

- Risk appetite abides; precious metals are now benefiting (after ignoring risk appetite for most of last week). Stock markets continue to rally on positive earnings results. The S&P is testing the 1,100 resistance level, and might break above it. The main beneficiaries should be precious metals.

- Crude oil prices remained well supported this morning amid investor optimism. Front-month WTI crude oil climbed to $80.05/bbl, the highest level since October 2008, in electronic trade in Asia before easing to $79.80/bbl ahead of European trade. Support came from the US dollar's slide from $1.4935 to $1.4997 against the euro. However, the 5-day rolling correlation between front-month WTI crude and the trade-weighted US dollar has contracted from -0.69 to -0.52 this morning.

Commodity price data (19 October 2009)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,906	1,947	1,962	1,895	40	2.10	1,870.50	6	-35.50
Copper	6,280	6,470	6,510	6,170	225	3.61	6,260.00	100	-17.00
Lead	2,210	2,289	2,310	2,194	46	2.09	2,191.00	11	-25.75
Nickel	18,875	19,300	19,350	18,605	575	3.07	18,830.00	185	-65.00
Tin	14,500	14,800	14,800	14,400	25	0.17	14,760.00	-165	440.00
Zinc	2,055	2,112	2,131	2,043	59	2.87	2,034.50	26	-26.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.72	78.04	78.18	77.68	0.27	0.35%
NYMEX WTI	79.61	79.80	80.05	79.50	0.19	0.24%
ICE Gasoil	632.00	641.75	643.00	632.00	8.75	1.36%
API2 Q4'09	73.85	74.00	-	-	0.15	0.20%
ICE EUA Dec09	14.10	14.35	-	-	0.25	1.77%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold*	1,054.50	1,050.50	1,062.00	1,048.75	1,057.00	6.50	0.6/1.0
Silver	-	17.83	17.63	17.29	17.58	0.19	1.0/3.0
Platinum	1,350.00	1,352.00	1,358.00	1,339.00	1,355.00	15.00	5/7
Palladium	329.00	331.00	334.00	330.00	332.00	6.00	1/3

Sources: Standard Bank; LME; BBG

Focus: Base metals' relative value

We revisit the relative value of base metals (see *Commodities Daily* of 7 July 2009). We analyse the ratio between gold and several base metals (aluminium, copper, lead and zinc) since 1990. While this relative value approach ignores market fundamentals on specific metals, it puts base metal prices into perspective, relative to the rise in global liquidity (to which the gold price reacts well).

Copper remains fairly priced relative to gold. The current copper/gold ratio is consistent with levels seen during the economic downturn in the early 1990s, the Asian crisis in 1998, and the downturn in 2002 (see Figure 1). Should gold rally towards $1,100, the copper price would have to fall towards $5,000 before the copper/gold ratio would trade close to its 19-year floor, where we see good value.

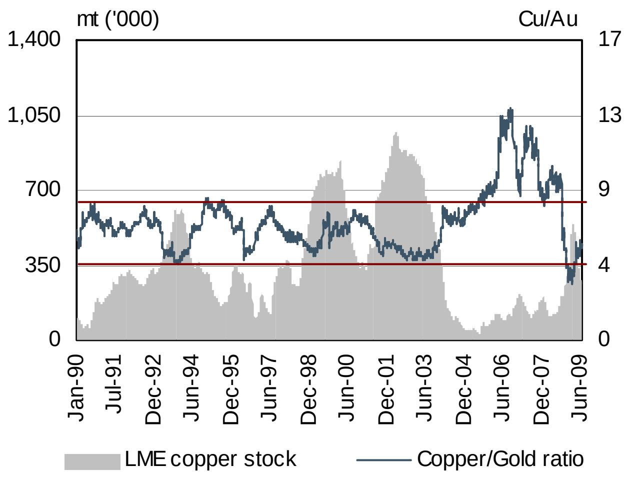
Zinc remains cheap on a relative basis with gold despite recent rally. The ratio has improved during the past three months but we still see potential upside in the ratio. Zinc LME stock levels have been rising, but remain low compared to previous periods when the zinc/gold ratio was below the 19-year floor (refer to Figure 2). LME warehouse stock is not the only reflection of the metal availability. Shanghai warehouse stock is at 108,068mt, which increases the combined warehouse stock of the SFE and the LME to 460,018mt. There are large non-visible zinc stocks, which could be large justifying a lower price. However, the non-visible stock would have to be very large to match LME inventory levels seen in 2003/4 — and even then, the zinc/gold ratio was not as low.

The lead/gold ratio remains at reasonable levels compared to past observations (although the lead/gold ratio is closing in on the ceiling set by the lead/gold ratio over the past 19 years).

Aluminium's ratio with gold is well below the 19-year floor. However, visible stocks are also much higher than any previous levels. Taking stock levels into account, **we do not presently view aluminium undervalued relative to gold.**

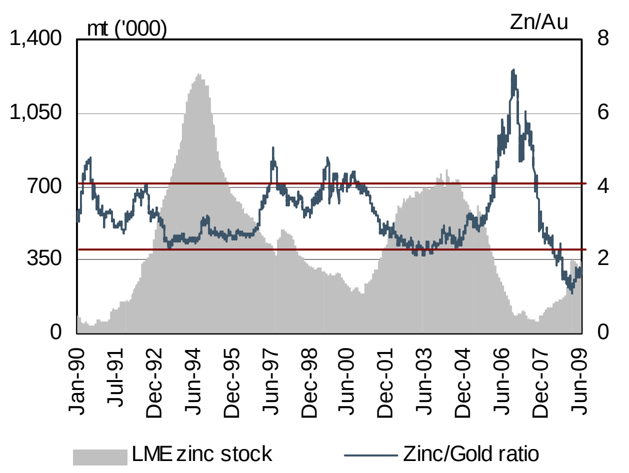
By Walter de Wet

Figure 1: The copper/gold ratio



Sources: CIB Global Research; LME

Figure 2: The zinc/gold ratio



Sources: CIB Global Research; LME

Base metals

Base metals are still pushing higher, with copper leading the pack. However, copper is finding strong resistance at $6,500. Much of its rally has been on the back of a weaker dollar — but there are also some positive signs for base metals. With very positive earnings reports out of the US yesterday, risk appetite abides. Companies such as Apple and Texas Instruments showed very positive earnings, partly on the back of improved sales. This does not affect base metals directly, but provides signals that **consumer demand could be improving**.

However, for copper, the SFE/LME arbitrage opportunity remains closed, indicating that Chinese buying is not tracking LME prices higher. **This could cap upside for copper**. With a large amount of copper already stockpiled in China, there might not be the follow-through buying in Shanghai to push copper much higher.

Aluminium is benefiting from the weaker dollar but the main resistance at $2,000 remains well in place. However, with crude oil moving higher, there could be good support for the metal on the downside. Nevertheless, with LME inventories rising another sizable 35,975mt this morning, and copper finding resistance, resistance closer to $2,000 could be strong.

Zinc and lead are finding good support. Both metals have held onto early morning gains. While lead has its supply problems supporting the price (with the ongoing closure of smelting capacity in Henan Province, China), on a relative basis (to gold), zinc might offer value (refer to *Focus*). Zinc is trading at $2,120. Nickel is back above $19,000 on the back of the rest of the complex.

By Walter de Wet

Precious metals

Risk appetite abides. Precious metals are now benefiting (after ignoring risk appetite for most of last week). Stock markets continue to rally on positive earnings results; more earnings are due. We expect generally good earnings reports. The S&P is testing the 1,100 resistance level, and might break above it. This could see more dollar weakness; our next target is at $1.5300 (on the way to $1.600). The main beneficiaries (looking at correlations between precious metals and equities, and precious metals and the US dollar) should be precious metals.

The earnings reports should dwarf most of the economic data today should the economic data be bearish (US PPI, housing starts, housing permits and ABC consumer confidence). A much higher-than-expected US PPI (headline PPI is expected at 0% m/m) could see expectations for a rise in interest rates move forward. On the back of rising equity markets and rising oil prices, the futures market is pricing a 12% probability of rates at 75 bps by November 2010. This is not a large probability, but two months ago, the market was giving 75 bps less than a 1% probability.

We expected gold to push lower as there are still scrap flows coming to the market, while buying interest remains little. But at the moment the lack of buying in the physical market is overshadowed by investment interest on the back of a weaker dollar. **Gold support is at $1,050 ad $1,040, while resistance is at $1,068 and $1,070.**

Although silver is pushing higher, it is struggling to gain traction. It remains firmly within the $17.00 - $18.00 band. Silver support is at $17.40 and $17.00, while resistance is at $18.00 and $18.25.

Platinum and palladium continue to push higher. Palladium is once again above $330, and is eyeing $350. Platinum has managed to break above $1,360. **Our strategy for both metals remains one of buying dips**.

Walter de Wet

Energy

Crude oil prices remained well supported this morning amid investor optimism. Front-month WTI crude oil climbed to $80.05/bbl, the highest level since October 2008, in electronic trade in Asia before easing to $79.80/bbl ahead of European trade. Unless we see a very bearish DOE report tomorrow crude is set to move higher with the next major resistance only at $85/bbbl. Support came from the US dollar's slide from $1.4935 to $1.4997 against the euro. However, the 5-day rolling correlation between front-month WTI crude and the trade-weighted US dollar has contracted from -0.69 to -0.52 this morning.

With crude oil less correlated to the greenback in recent days, a build on API crude and refined product inventories could weigh on front-month WTI crude in NY trade today. **Support and resistance are at $78.60/bbl and $80.59/bbl respectively for front-month WTI crude today**.

On the economic data front, look out for US PPI and September US housing starts data. Following yesterday's disappointing NAHB Housing Market index, a contraction in the number of US housing starts could weigh on crude oil.

Thermal coal contract prices firmed yesterday amid crude oil price gains, despite data from Australia's Newcastle Coal Terminal showing signs of Asian coal demand weakness. API2(CIF ARA) for Q4:09 gained $0.15/mt, to $74/mt; API4(FOB) for Q4:09 delivery clawed $0.05/mt higher, to $65.55/mt. Of note, inventories at China's Qinghuangdao coal terminal have fallen to 3.79 million tonnes which has seen prices at the port climb 0.8% w/w to $94.49/mt — widening the Qinghuangdao-Newcastle differential to 32%. This could attract Chinese arbitrage buying interest, which would support thermal coal contract prices.

Carbon contracts gained amid a stronger energy complex. ICE EUA for December 2009 delivery gained EUR0.25/mtCO2, to EUR14.35/mtCO2. UN-backed CER for December 2009 delivery gained EUR0.21/mtCO2, to EUR13.32/mtCO2.

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	4,580,850	4,544,875	40,800	4,825	35,975	2,251,950	92,225	2.01	124,730
Copper	357,275	356,725	1,225	675	550	17,500	5,375	1.50	81,956
Lead	129,050	129,025	300	275	25	83,900	2,175	1.69	19,099
Nickel	123,498	123,240	312	54	258	45,108	1,074	0.87	19,878
Tin	26,390	26,410	15	35	-20	18,600	400	1.52	10,377
Zinc	427,175	427,525	-	350	-350	173,675	10,450	2.45	43,454

Shanghai 3-month forward prices			
Metal	Open	Last	1d Change
Aluminium	15,110	15,030	60
Copper	50,380	49,830	600
Zinc	16,320	16,155	55

COMEX active month future prices	Open	Close	Change	Change (%)
Ali Oct'09	85	85.75	0.75	0.88%
Cu Oct'09	297	294.55	-2.10	-0.71%

ZAR metal prices (19 October 2009)	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	13,758	46,042	16,115	138,495	108,560	14,964	7.3550
3-month	14,568	48,410	17,127	144,406	110,737	15,802	7.4822

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 ($/bbbl)	79.10	0.37	83.97	0.80	84.92	0.81	87.50	0.90	-	-
Gasoil 0.1% Rdam ($/mt)	641.75	8.75	649.25	9.25	658.00	9.75	666.75	7.00	702.25	6.00
NWE CIF jet ($/mt)	652.20	3.41	678.83	6.44	687.63	6.25	714.66	7.50	760.74	6.00
Singapore Kero ($/bbl)	79.54	0.29	84.77	0.80	86.22	0.71	89.40	0.85	94.48	0.84
3.5% Rdam barges ($/mt)	418.24	3.18	433.04	7.79	434.27	7.82	441.25	7.79	448.00	7.68
1% Fuel Oil FOB ($/mt)	432.41	4.43	451.54	7.29	455.77	7.82	471.25	8.79	495.25	7.68
Sing FO 380 Cargo ($/mt)	452.04	8.29	453.52	8.32	455.72	8.27	459.04	7.99	-	-
Sing FO180 Cargo ($/mt)	440.71	2.41	456.04	8.29	457.77	8.32	463.50	8.29	-	-
Thermal coal	Q4:09		Q1:10		Q2:10		Cal 11		Cal 12	
API2 (CIF ARA)	74.00	0.15	90.55	-0.10	84.30	0.00	102.30	-0.50	112.05	-0.15
API4 (FOB RBCT)	65.55	0.05	81.05	-0.10	75.70	0.00	92.90	-0.50	102.45	-0.15
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	14.34	0.25	14.35	0.25	14.71	0.27	15.30	0.25	16.10	0.26
ICE - ECX CER (€/mt)	13.52	0.21	13.32	0.21	12.92	0.24	12.87	0.22	13.15	0.19

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.30167	0.32500	0.33667	0.46667	0.66667
Silver	0.53333	0.53333	0.54167	0.56667	0.59000
USD Libor	0.24500	0.25313	0.28338	0.59250	1.25000

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	65.75	1,055.92	1,030.74	969.06	942.59	1,053.00	1,073.00
Silver	62.80	17.68	17.08	15.07	14.10	17.45	18.09
Platinum	60.58	1,345.63	1,320.24	1,245.28	1,167.89	1,342.00	1,377.00
Palladium	69.71	326.30	311.23	274.81	244.53	329.00	338.00

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	1,067.20	17.8700	337.00	1,364.20	1,066.60	3,101.00	1,066.60
Open Interest	514,718	136,387	22,088	32,503	1,756	91,417	4,083
Change in Open Interest	3,327	-311	252	328	0	2,013	125

Date: 19 October 2009

Sources: Standard Bank; LME; Bloomberg

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