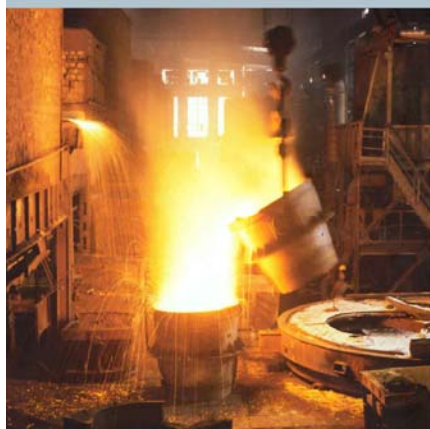


21 October 2009



**Focus: Electricity: two growth stories** China's Q3:09 GDP figure is due for release tomorrow; the spotlight is now on the strength and sustainability of a Chinese economic recovery (see *Focus overleaf*). We believe that especially commodities with large exposure to China are unlikely to see such demand-side support for prices as they did in H1:09.

- Base metals remain cautious, given the decline in risk appetite following weak US data yesterday. However, the base metals complex is finding support on the downside.
- Precious metals look weak after they failed to retain their intra-day highs yesterday. Gold scrap is still entering the market, and gold is meeting strong resistance on approach of \$1,070. We do not advise adding new longs at the current gold price. However, buying price dips remains our strategy. Gold support is at \$1,050 and \$1,040, and resistance at \$1,064 and \$1,075.
- *Uncertainty over the US dollar's next move*, with the greenback strengthening from \$1.4993 to \$1.4883 against the euro, coupled with a *build on US crude inventories*, is weighing on crude oil prices. Front-month WTI crude oil bounced between \$78.90/bbl and \$78.46/bbl in electronic trade this morning after encountering resistance at \$80.05/bbl yesterday.

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**Commodity price data (20 October 2009)****Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,964	1,915	1,970	1,907	-32	-1.65	1,921.00	51	-35.75
Copper	6,470	6,417	6,570	6,390	-49	-0.76	6,444.00	184	-20.00
Lead	2,330	2,299	2,357	2,285	49	2.18	2,315.00	124	-25.75
Nickel	19,300	18,900	19,400	18,800	-425	-2.20	19,170.00	340	-72.00
Tin	14,700	14,700	14,800	14,399	-175	-1.20	15,050.00	290	385.00
Zinc	2,125	2,131	2,155	2,101	16	0.76	2,100.00	66	-26.50

**Energy**

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	76.92	77.15	77.24	76.63	-0.09	-0.12%
NYMEX WTI	78.69	78.96	79.06	78.46	-0.16	-0.20%
ICE Gasoil	636.25	639.25	639.75	636.25	1.75	0.27%
API2 Q4'09	74.00	73.60	-	-	-0.40	-0.54%
ICE EUA Dec09	14.35	14.53	-	-	0.18	1.25%

**Precious metals**

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold*	1,064.00	1,061.75	1,067.25	1,052.80	1,057.40	0.40	0.5/0.9
Silver	-	17.49	17.89	17.43	17.52	-0.06	1.0/3.0
Platinum	1,359.00	1,371.00	1,375.00	1,349.00	1,345.00	-10.00	5/7
Palladium	334.00	339.00	339.00	335.00	336.00	4.00	1/3

Sources: Standard Bank; LME; BBG



## Focus: Electricity — two growth stories

China's Q3:09 GDP figure is due for release tomorrow; the spotlight is now on the strength and sustainability of a Chinese economic recovery. China is the single biggest base metal consumer (~25- 30%), posting large imports of thermal coal, PGM and many other metals and bulk commodities. Expectations are that China's economy has grown at 9% y/y in Q3:09, up from 7.9% y/y in Q2:09 and 6.1% Q1:09. Conversely, the US economy has contracted 3.8% y/y in Q2:09.

**Electricity production in China and the US:** Electricity is a good indicator of underlying real economic activity. The adjacent graphs show two themes:

**Firstly**, YTD, the growth trend is indeed improving. Using China's electricity production as indicator, Chinese economic growth has picked up substantially since Jan 2009, signalling that the economic growth in Q3 could be much higher than in Q2:09 and Q1:09. The same trend is evident in the US, where electricity production is now much higher than at the start of 2009.

**Secondly**, comparing electricity data for both countries on a y/y basis, electricity figures cast some doubt over the strength of the US economy — especially for the primary and secondary sectors which are electricity-intensive. Electricity figures remain well below levels seen since 2004. It shows that while the growth rate is positive, at an absolute level, the recovery in the US still has long legs. However, China's electricity figures are signalling growth, even at an absolute level.

Electricity figures also support a rise in demand for commodities YTD. This would be consistent with higher prices. However, m/m growth in electricity figures is slowing, which is another indication that **especially commodities with large exposure to China are unlikely to see such demand-side support for prices as they did in H1:09.**

By Walter de Wet

## Base metals

**Base metals remain cautious**, given the decline in risk appetite following weak US data yesterday. However, with the release of *China's GDP* tomorrow, which should be positive for base metals (refer to *Focus*), combined with *continued supply disruptions in copper and zinc* (BHP's Olympic Dam operations could affect copper production until Q1:2010; labour disputes in Chile and Peru affect both copper and zinc), **the entire base metals complex is finding support on the downside.**

Caterpillar reported earnings yesterday, beating expectations; however, sales were still down 53% y/y in Q3. Given that Caterpillar's market is heavy earth-moving equipment, this signals **still weak underlying industrial activity** (relative to last year).

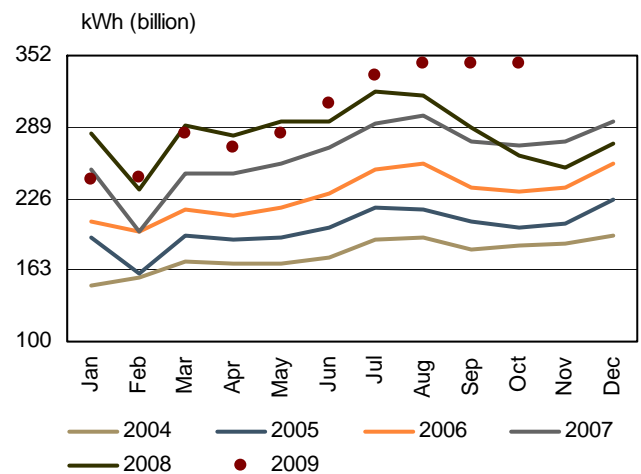
**Copper is retreating towards \$6,400.** The follow-through buying of copper on the SHFE has not materialised after the red metal pushed closer to \$6,500 yesterday. With the LME/SHFE arbitrage opportunity limited, it continues to cap upside for the metal.

**Aluminium is also failing on the upside** after another 9,050mt inflow of metal into LME warehouses this morning. At the same time, crude oil is down, mainly on the back of the stronger dollar.

After a good start to the week zinc and lead are finding resistance on the back of copper's move lower. However, zinc remains above \$2,100 while lead well above \$2,250.

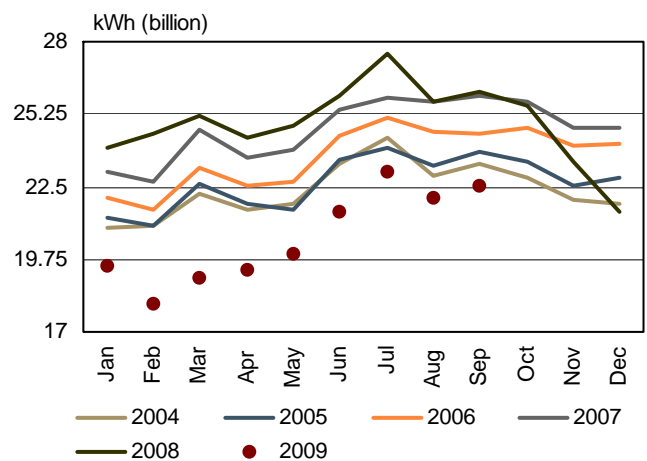
Market conditions remain quiet, and the **dollar will probably dictate movements today.**

Figure 1: China electricity production



Sources: China NBS, Global Markets Research

Figure 2: US electricity production



Sources: US DOE, Global Markets Research

## Precious metals

**Precious metals look weak after they failed to retain their intra-day highs yesterday.** Gold scrap is still entering the market, and gold is meeting strong resistance on approach of \$1,070. Should the dollar show a bit more strength, there could be a downward correction towards \$1,040 in the gold price. We do not advise adding new longs at the current gold price. However, **buying price dips remains our strategy.** Gold support is at \$1,050 and \$1,040, and resistance at \$1,064 and \$1,075.

The dollar backtracked yesterday after really weak Sept PPI figures in the US. The figures show very little price pressure in production (incl. and excl. energy) in the US. On a m/m basis, PPI fell -0.6%. Given that producers have (a) been cutting back on labour costs and (b) capacity utilisation in the US remains at only 70.5%, inflationary pressures remain at bay for producers. More importantly, it shows that interest rates could remain low (and maybe longer than what the futures market suggests). **We believe rates in the US will rise at the earliest in Q4:10, ultimately to the benefit of precious metals.**

**With gold showing signs of weakness, platinum, palladium and silver are likely to follow suit.** Silver remains most at risk, followed by platinum and then palladium.

Silver failed to rally yesterday when base metals pushed higher. This morning, especially copper is retreating which could add to possible downside in silver. Silver support is at \$17.30 and \$17.00, while resistance is at \$17.85 and \$18.15.

Overall, we remain constructive on PGM, but we would not add longs for platinum and palladium, given that we see a possible correction in gold. **Platinum support is \$1,340 and resistance at \$1,370. Palladium support is at \$330 and resistance at \$350.**

Walter de Wet

## Energy

**Uncertainty over the US dollar's next move, with the greenback strengthening from \$1.4993 to \$1.4883 against the euro, coupled with a build on US crude inventories, is weighing on crude oil prices.** Front-month WTI crude oil bounced between \$78.90/bbl and \$78.46/bbl in electronic trade this morning after encountering resistance at \$80.05/bbl yesterday.

According to yesterday's API data, US crude oil inventories gained 3,847K barrels last week, while crude oil imports contracted 469K barrels. Although there was a 998K decline in refined product inventories, we believe this was a result of reduced refinery utilization and not increased demand — refinery utilization fell 1 percentage point, to 81% last week. Later today, the DOE inventory data will be released — expectations are for a 1,500K barrel build on crude oil inventories.

**The correlation between equity markets and front-month WTI crude oil has grown this morning** — with the 5-day rolling correlation between the Shanghai Composite and WTI crude rising from 0.65, yesterday, to 0.69. With global equity index futures pricing in losses for the DJIA later today, and crude looking more into equity markets for guidance today, **front-month WTI crude could encounter resistance in NY trade.**

**Thermal coal contract prices came under pressure** in London trade yesterday, tracking crude oil lower despite the Baltic Dry index gaining 2.4%. API2(CIF ARA) for Q4:09 delivery shed \$0.40/mt, to \$73.60/mt; API4(FOB) for Q4:09 delivery slipped \$0.30/mt, to \$65.25/mt.

**Carbon contracts gained yesterday** amid firmer German base load power prices. ICE EUA for December delivery gained EUR0.18/mtCO<sub>2</sub>, to EUR14.53/mtCO<sub>2</sub>. UN-backed CER for December delivery gained EUR0.11/mtCO<sub>2</sub>, to EUR13.43/mtCO<sub>2</sub>.

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	4,589,900	4,580,850	13,900	4,850	9,050	2,261,000	90,150	1.96	276,069
Copper	362,550	357,275	6,250	975	5,275	22,775	4,500	1.24	143,762
Lead	129,525	129,050	575	100	475	84,375	2,075	1.60	30,417
Nickel	123,666	123,498	318	150	168	45,276	960	0.78	37,689
Tin	26,615	26,390	245	20	225	18,825	445	1.67	37,739
Zinc	426,550	427,175	-	625	-625	173,050	10,000	2.34	76,177

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	14,980	14,970	-90	Ali Oct'09	85	85.75	0.75	0.88%
Copper	49,950	49,990	-170	Cu Oct'09	293	294.45	1.25	0.43%
Zinc	16,210	16,200	-20					

### ZAR metal prices (20 October 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,050	47,131	16,932	140,209	110,076	15,359	7.3140
3-month	14,248	47,744	17,105	140,620	109,371	15,855	7.4402

## 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)	79.24	0.14	84.46	0.49	85.49	0.57	88.15	0.65	-	-
Gasoil 0.1% Rdam (\$/mt)	639.25	1.75	646.00	1.25	654.50	1.50	671.25	4.50	706.75	4.50
NWE CIF jet (\$/mt)	654.65	2.45	683.99	5.16	693.38	5.75	719.25	4.59	765.24	4.50
Singapore Kero (\$/bbl)	79.69	0.15	85.11	0.34	86.69	0.47	90.00	0.60	95.03	0.55
3.5% Rdam barges (\$/mt)	420.19	1.95	433.29	0.25	435.09	0.82	442.23	0.98	450.26	2.26
1% Fuel Oil FOB (\$/mt)	433.43	1.02	453.79	2.25	457.59	1.82	472.73	1.48	498.01	2.76
Sing FO 380 Cargo (\$/mt)	451.29	-0.75	453.34	-0.18	455.93	0.21	460.15	1.11	-	-
Sing FO180 Cargo (\$/mt)	442.10	1.39	455.79	-0.25	458.09	0.32	464.23	0.73	-	-

Thermal coal	Q4:09		Q1:10		Q2:10		Cal 11		Cal 12	
API2 (CIF ARA)	73.60	-0.40	90.20	-0.35	83.90	-0.40	101.65	-0.65	111.25	-0.80
API4 (FOB RBCT)	65.25	-0.30	80.70	-0.35	75.25	-0.45	92.05	-0.85	101.45	-1.00
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	14.51	0.17	14.53	0.18	14.91	0.20	15.54	0.24	16.35	0.25
ICE - ECX CER (€/mt)	13.78	0.26	13.43	0.11	13.05	0.13	13.00	0.13	13.33	0.18

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.28400	0.31200	0.33400	0.45000	0.65200		
Silver	0.52800	0.52800	0.53800	0.55600	0.57600		
USD Libor	0.24500	0.25425	0.28313	0.58563	1.23875		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	64.23	1,056.36	1,032.54	969.90	943.76	1,049.00	1,064.00
Silver	60.45	17.65	17.09	15.09	14.13	17.22	17.84
Platinum	59.54	1,348.03	1,321.48	1,246.34	1,169.95	1,341.00	1,373.00
Palladium	70.28	328.95	313.38	275.78	245.31	332.00	340.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGTX GLD	TOCOM GLD	CBOT GLD
	Dec'09	Sep'09	Oct'09	Oct'09	Aug'09	Jun'10	Aug'09
Settlement	1,056.30	17,4750	338.50	1,356.30	1,056.10	3,090.00	1,056.30
Open Interest	509,988	136,505	22,157	32,527	1,785	91,265	4,080
Change in Open Interest	-4,730	118	69	24	29	-152	-3

Date: 20 October 2009

Sources: Standard Bank; LME; Bloomberg

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