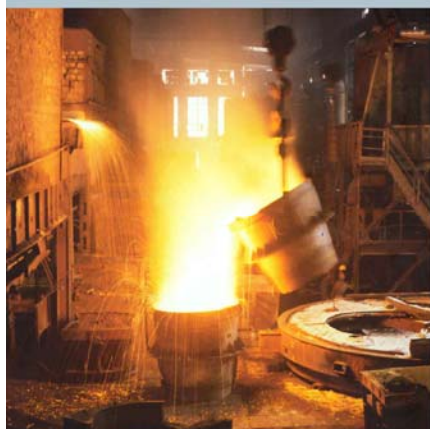


22 October 2009



**Focus: Oil fundamentals calling for a correction** Front-month WTI crude oil broke above the \$80/bbl resistance level despite gains in both API and DOE inventories and increased US crude and distillate fuel production levels. We believe \$71/bbl-\$73/bbl would be more consistent with underlying fundamentals. Crude oil above \$80/bbl is most probably unsustainable, given weak demand. We now see increased risk of a short-term correction for front-month WTI crude oil.

- Despite the weaker dollar, GDP data out of China is the main focus this morning, with the complex finding good support from economic data. However, copper and aluminium production data shows increased production in China despite the fact that the domestic market remains well supplied.
- The rally in precious metals yesterday was met with strong resistance, which we believe remains in place. Buy into dips.
- Front-month WTI crude oil has remained above the \$80/bbl level this morning, ranging between \$80.55/bbl and \$81.50/bbl after rising to \$82/bbl in New York yesterday despite a 1,312K barrel build on DOE crude oil inventories. With WTI crude oil ignoring weakening US crude oil demand conditions, equity markets have become increasingly correlated to the front-end of the crude oil forward curve. The 5-day rolling correlation between front-month WTI crude and the Shanghai Composite is at 0.71. Global equity index futures are pricing in losses in Europe and the US today, which could deflate oil price momentum today.

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**Commodity price data (21 October 2009)****Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,902	1,967	1,982	1,897	53	2.77	1,860.50	-61	-35.90
Copper	6,380	6,590	6,665	6,345	174	2.71	6,346.00	-98	-24.25
Lead	2,280	2,455	2,485	2,263	146	6.35	2,246.00	-69	-26.50
Nickel	18,800	19,740	19,750	18,675	885	4.69	18,825.00	-345	-73.00
Tin	14,500	14,650	14,600	14,200	50	0.35	14,750.00	-300	330.00
Zinc	2,118	2,233	2,240	2,112	107	5.03	2,114.50	15	-23.50

**Energy**

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	79.41	79.43	79.93	79.26	-0.26	-0.33%
NYMEX WTI	81.04	81.02	81.50	80.74	-0.35	-0.43%
ICE Gasoil	652.25	655.75	659.00	652.25	6.75	1.03%
API2 Q4'09	73.60	74.40	-	-	0.80	1.08%
ICE EUA Dec09	14.53	14.93	-	-	0.40	2.75%

**Precious metals**

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold*	1,053.50	1,053.75	1,064.80	1,048.50	1,063.20	5.80	0.4/0.8
Silver	-	17.60	17.80	17.31	17.79	0.27	1.0/3.0
Platinum	1,355.00	1,346.00	1,369.00	1,348.00	1,365.00	20.00	5/7
Palladium	336.00	334.00	339.00	336.00	336.00	0.00	1/3

Sources: Standard Bank; LME; BBG



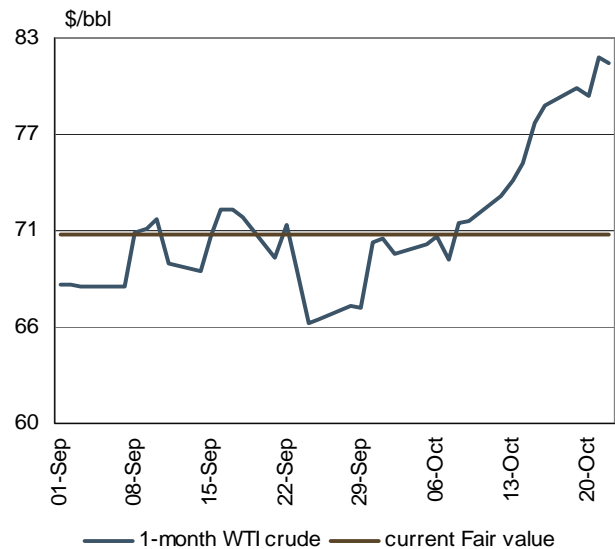
## Focus: Oil fundamentals calling for a correction

**Front-month WTI crude oil broke above the \$80/bbl resistance level, climbing to \$82/bbl in New York yesterday**, despite gains in both API and DOE inventories and increased US crude and distillate fuel production levels. After the US API reported a 3,847K barrel increase in crude oil inventories on Tuesday, yesterday's DOE inventory data also showed a 1,312K build in crude stockpiles. Distillate inventories declined 784K bbls. Although gasoline stockpiles contracted, we associate the 2,200K run on DOE gasoline stockpiles with decreased refinery usage (utilization rates are down 1 percentage point, to 81%).

The recent build on crude inventories is a function of decline in refinery runs and seasonal demand weakness for gasoline. **The build in inventories could imply that a growing speculative premium is driving crude oil prices.** According to the latest CFTC data on NYMEX crude oil, speculative net long positions have increased by 21,191 contracts, with the number of bullish investors expanding 3.2% w/w.

We believe an oil price around \$71/bbl-\$73/bbl would be more consistent with current underlying fundamentals. **We believe that crude oil above \$80/bbl is unsustainable, given weak demand.**

Figure 1: 1-month WTI crude and fair value



Sources: China NBS, Global Markets Research

**We now see increased risk of a short-term correction for front-month WTI crude oil.**

By Manqoba Madinane

## Base metals

Despite the weaker dollar, GDP data out of China is the main focus this morning, with **the complex finding good support from economic data.** However, copper and aluminium production data shows increased production in China despite the fact that the domestic market remains well supplied.

**Base metals are trading slightly lower this morning.** But although there was some selling in Asia before London markets opened, metals remain well supported. China's data showed GDP grew at 8.9% y/y in Q3:09 — only slightly less than the 9% expected. A wide range of data released this morning continues to support strong growth in China. Industrial production grew 13.9% y/y in September (and 8.7% YTD). Fixed urban investment grew at 33.4% YTD, while retail sales data shows strong consumer demand, growing at 15.5% y/y in September. The data shows well balanced growth on both the consumer and production side of the economy.

Putting **some downward pressure on copper** this morning is Chinese copper production figures which indicate a rise in refined copper production of 20.2% y/y, to 394,800mt in September. Compared to August figures, production is 8.2% higher. With the Chinese market already well supplied, domestic spot prices for copper could remain subdued in China. However, with ongoing supply disruption, combined with a weaker dollar, **downside for copper should remain limited.** After touching \$6,650 yesterday afternoon, the metal retreated back towards \$6,550 this morning.

As with copper, **aluminium pushed higher quickly yesterday**, trading as high as \$1,980 at one stage. With crude oil above \$80/bbl again, and the weaker dollar, support remains. The \$2,000 level continues to provide resistance and the fact that Chinese aluminium production is growing again, could see the already large stock overhang linger longer. China's refined aluminium production in China jumped 5.5% y/y to 1,207,200mt in September. Due to the decline in aluminium production earlier this year, YTD aluminium production in China is still down 7.6% over the same period last year.

**The rest of the complex rallied higher yesterday** but is also drifting slightly lower this morning. The impact of the closure of lead smelters in China can be seen in 6.3% m/m decline of lead production in China in September (although lead production is still up 7.1% y/y). Lead continues to hold on to trade above \$2,400, while zinc is at \$2,220. Nickel managed to break above \$19,000 to close at \$19,735 yesterday.

By Walter de Wet

## Precious metals

**The rally in precious metals yesterday was met with strong resistance, which we believe remains in place. Buy into dips.**

On the PGM front, both Lonmin and Anglo Platinum procured production results this morning in line with market expectations. Anglo Platinum, the largest platinum producer in the world, produced 629K oz of platinum in Q3:09 (652Koz of Pt in Q2). The miner looks set to reach its target of 2.4m oz of Pt for 2009. While Lonmin met its revised target of 680K oz of Pt for FY09, production is down, from 726K oz in 2008. While we continue to believe supply pressures should support PGM prices, it is not because of operational problems, but rather due to cost pressures which are amplified by the stronger ZAR. **Platinum support remains at \$1,340 and resistance at \$1,370. Palladium support is at \$330 and resistance at \$340.**

While gold is meeting resistance to a move higher, buying interest remains. This is evident from the failure of the metal to break below \$1,050. With initial jobless claims and continuing claims out in the US this afternoon, the market could remain range-bound until then. **Gold support is at \$1,045 and \$1,040. Resistance is at \$1,060 and \$1,070.**

Silver remains range-bound between \$17.81 and \$17.40; we expect this to continue. **Silver support is at \$17.30 and \$17.00, while resistance is at \$17.85 and \$18.15.**

Walter de Wet

## Energy

**Front-month WTI crude oil has remained above the \$80/bbl level this morning**, ranging between \$80.55/bbl and \$81.50/bbl after rising to \$82/bbl in New York yesterday despite a 1,312K barrel build on DOE crude oil inventories. Positive economic data out of China (GDP expanded 8.9% q/q in Q3:09, following a 7.9% q/q increase in Q2:09) has anchored crude oil prices despite weaker equity markets this morning (the Nikkei and Shanghai Composite down 0.64% and 0.62% respectively). China's industrial production data recorded a 13.9% y/y expansion in September (consensus was for a 13.2% y/y increase). **This signals growing Chinese energy demand, which could support crude oil today**, with China the second-largest crude oil consumer after the US. Today's US leading indicators data could guide crude oil prices during the New York session today — market expectations are for a 0.8% increase.

With WTI crude oil ignoring weakening US crude oil demand conditions, equity markets have become increasingly correlated to the front-end of the crude oil forward curve. The 5-day rolling correlation between front-month WTI crude and the Shanghai Composite is at 0.71. **Global equity index futures are pricing in losses in Europe and the US today, which could deflate oil price momentum today.**

**Thermal coal prices tracked crude oil higher yesterday**, while a 3% rise in the Baltic Dry index, which signalled increased global dry bulk trade activity, supported thermal coal sentiment. API2(CIF ARA) and API4(FOB) for Q4:09 delivery both gained \$0.80/mt, to \$74.40/mt and \$66.05/mt respectively. **Today's positive GDP and industrial production data releases could support thermal coal prices.**

**Carbon contracts pushed higher** amid a stronger energy complex yesterday. ICE EUA for December 2009 delivery gained EUR0.40/mtCO<sub>2</sub>, to EUR14.93/mtCO<sub>2</sub>. UN-backed CER advanced EUR0.38/mtCO<sub>2</sub>, to EUR13.81/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	15,100	15,040	65	Ali Oct'09	85	85.75	0.75	0.88%
Copper	50,890	50,860	870	Cu Oct'09	304	301.40	-2.20	-0.72%
Zinc	16,385	16,550	350					

### ZAR metal prices (21 October 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	13,847	47,230	16,716	140,105	109,777	15,737	7.4425
3-month	14,891	49,889	18,585	149,440	110,906	16,905	7.5704

## 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)	79.11	-0.13	85.91	1.45	86.87	1.38	89.40	1.25	-	-
Gasoil 0.1% Rdam (\$/mt)	655.75	6.75	662.00	6.50	673.00	9.50	681.00	9.75	716.25	9.50
NWE CIF jet (\$/mt)	658.75	4.10	696.52	12.53	704.45	11.07	729.50	10.25	774.66	9.42
Singapore Kero (\$/bbl)	79.60	-0.09	86.56	1.45	88.02	1.33	91.25	1.25	96.25	1.22
3.5% Rdam barges (\$/mt)	421.73	1.54	446.21	12.92	448.38	13.29	456.39	14.16	465.59	15.33
1% Fuel Oil FOB (\$/mt)	436.89	3.46	467.46	13.67	471.63	14.04	487.64	14.91	513.34	15.33
Sing FO 380 Cargo (\$/mt)	464.21	12.92	466.63	13.29	469.65	13.72	474.75	14.60	-	-
Sing FO180 Cargo (\$/mt)	441.16	-0.94	468.71	12.92	471.38	13.29	478.64	14.41	-	-

### Thermal coal

	Q4:09	Q1:10	Q2:10	Cal 11	Cal 12					
API2 (CIF ARA)	74.40	0.80	91.75	1.55	85.30	1.40	103.05	1.40	112.65	1.40
API4 (FOB RBCT)	66.05	0.80	82.15	1.45	76.55	1.30	93.45	1.40	102.65	1.20

### Carbon

	Spot	Dec-09	Dec-10	Dec-11	Dec-12					
ICE - ECX EUA (€/mt)	14.92	0.41	14.93	0.40	15.32	0.41	15.94	0.40	16.76	0.41
ICE - ECX CER (€/mt)	13.99	0.21	13.81	0.38	13.47	0.42	13.46	0.46	13.78	0.45

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.28667	0.32000	0.33833	0.44167	0.64333
Silver	0.53167	0.53167	0.54000	0.56000	0.58833
USD Libor	0.24375	0.25425	0.28344	0.58500	1.22750

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	63.62	1,056.76	1,035.79	970.76	945.04	1,049.00	1,066.00
Silver	60.77	17.65	17.17	15.11	14.17	17.33	17.86
Platinum	60.98	1,351.80	1,325.40	1,247.26	1,172.26	1,351.00	1,380.00
Palladium	70.71	330.85	315.59	276.63	246.12	334.00	342.00

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	1,057.80	17,6100	340.00	1,374.40	1,058.10	3,108.00	1,057.90
Open Interest	509,678	135,456	22,247	32,227	1,805	94,650	4,121
Change in Open Interest	-310	-1,049	90	-300	20	3,385	41

Date: 21 October 2009

Sources: Standard Bank; LME; Bloomberg

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