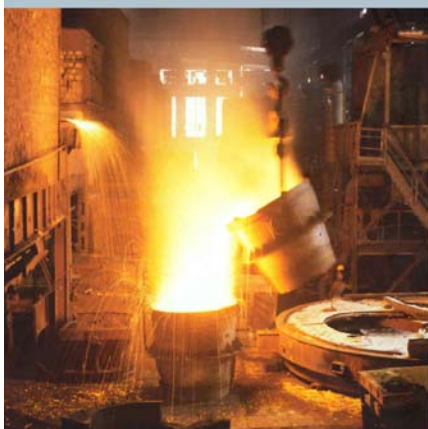


27 October 2009



Focus: Speculative activity keeps rising Commodities, especially base metals, continue to rise on gathering signs of growth. Chinese growth was confirmed last week, and there is little doubt that Asia is recovering. The market is also optimistic that the US and Eurozone economies are recovering, albeit off a very low base. However, the crude oil market, the base metals market, even the precious metals market, remain well stocked. We expect buying on large dips.

- After a very bullish start yesterday, base metals sold off sharply as US equities declined and the US dollar strengthened. We would look closely at US consumer sentiment data due for release later today. With the market already risk-averse, a weaker-than-expected number could see more long liquidation. However, should the number be very good, short-covering might push base metals prices higher quickly.
- Gold is presently holding firm at \$1,040, and we have seen some buying interest at these levels. Technically, gold could test \$1,024, from where we see a recovery. Resistance is at \$1,045 and \$1,048.
- Crude oil prices are directionless after coming under pressure in New York trade yesterday, with front-month WTI crude plummeting from \$81.63/bbl to \$77.96/bbl, as the greenback rallied from \$1.5039 to \$1.4847 against the euro this morning.

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Commodity price data (26 October 2009)**Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,010	1,999	2,028	1,970	26	1.32	1,974.00	26	-35.25
Copper	6,696	6,610	6,732	6,530	-36	-0.54	6,675.50	36	-24.00
Lead	2,415	2,315	2,434	2,270	-20	-0.85	2,376.00	-30	-25.50
Nickel	19,275	18,655	19,437	18,600	-300	-1.58	19,150.00	-345	-71.00
Tin	15,200	15,248	15,425	15,050	110	0.73	15,500.00	150	255.00
Zinc	2,338	2,315	2,366	2,270	42	1.85	2,331.00	62	-25.25

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.23	77.31	77.42	77.22	0.05	0.06%
NYMEX WTI	78.68	78.82	78.90	78.48	0.10	0.13%
ICE Gasoil	639.00	638.25	639.00	637.75	1.75	0.27%
API2 Q4'09	76.50	75.60	-	-	-0.90	-1.19%
ICE EUA Dec09	14.36	14.31	-	-	-0.05	-0.35%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold*	1,055.00	1,054.00	1,059.75	1,038.50	1,042.50	-13.00	0.2/0.7
Silver	-	17.19	17.76	17.02	17.02	-0.66	1.0/3.0
Platinum	1,359.00	1,364.00	1,365.00	1,335.00	1,335.00	-25.00	4.5/6.5
Palladium	335.00	336.00	335.00	333.00	331.00	-4.00	1/3

Sources: Standard Bank; LME; BBG



Focus: Speculative activity keeps rising

Commodities, especially base metals, continue to rise on gathering signs of growth. Chinese growth was confirmed last week, and there is little doubt that Asia is recovering. The market is also optimistic that the US and Eurozone economies are recovering, albeit off a very low base.

However, the crude oil market, the base metals market, even the precious metals market, remain well stocked. Stockpiles are high, while, except for the PGM market, benchmark commodity prices are well above the cost of production. With stockpiles high for many commodities, and little pressure on margins, from a fundamental perspective, upside should be limited; the risk involved of going long from here must outweigh the upside potential for many commodities with exposure to industrial demand.

We look at the cumulative net long non-commercial position for some futures contracts in the US (contracts included is soybean, wheat, corn, gold, silver, platinum, palladium, copper and WTI).

The current cumulative net speculative length for these contracts are at the same level as in May last year indicating large speculative activity in the commodities market. The only difference now is some economies are showing signs of a recovery. In May 2008, most economies were on the decline. Also, we expect more dollar weakness in the next six months (target \$1.58 against the euro). There is a clear correlation between dollar weakness and a rise in speculative length (especially since 2007). **As a result, the speculative length could last longer** (but not keep rising without intermittent liquidation).

Base metals

After a very bullish start yesterday, **base metals sold off sharply as US equities declined and the US dollar strengthened.** We would look closely at US consumer sentiment data due for release later today. With the market already risk-averse, a weaker-than-expected number could see more long liquidation. However, should the number be very good, short-covering might push base metals prices higher quickly.

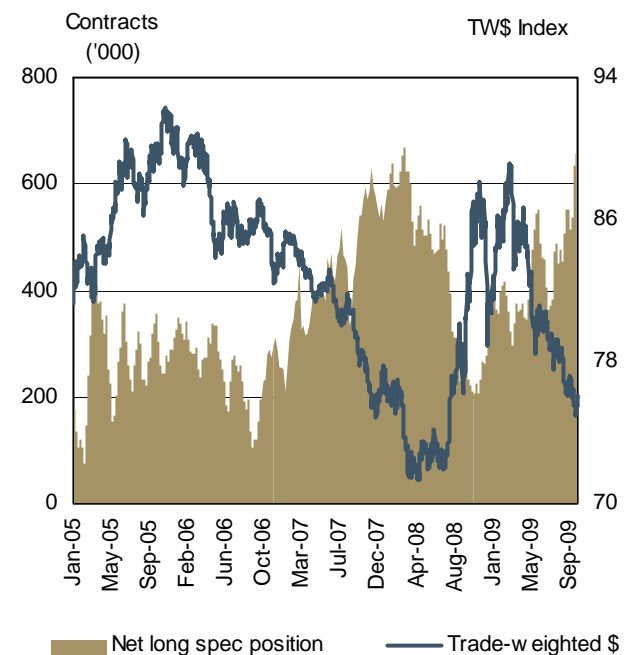
Copper struggled this morning in Shanghai. We still believe the market remains well supplied in China and we still believe that copper prices are unlikely to sustain large rallies in Q4:09. However, as long as underlying supply issues in Chile continue, we do not expect a major sell-off. Copper is testing \$6,600 again.

Zinc and aluminium have seen good support despite yesterday's sell-off. While copper has been driving the complex, both zinc and aluminium showed better resistance to the stronger dollar yesterday. This morning, there was buying interest in both metals. With crude oil trading higher, support for aluminium remains. We also remain more bullish on zinc relative to the other base metals. LME aluminium stock declined 4,475 tonnes while zinc stocks increased 875 tonnes.

Lead is trading around \$2,300 while nickel is slightly higher at \$18,600.

While speculative activity remains very high in commodities (refer to *Focus*) we believe this will make base metals more volatile. While we believe upside remains limited for this quarter from current levels, **we believe large dips in metals prices should be bought.**

Figure 1: Cumulative net long spec positions



Sources: CFTC, Global Markets Research

However, this could mean two things: *Firstly*, commodities will remain partly a dollar play (and therefore remain highly correlated with other financial assets such as equities). *Secondly*, commodity prices will be subject to sizeable corrections lower, as more speculative activity means greater volatility. **We expect buying on large dips.**

By Walter de Wet

By Walter de Wet

Precious metals

US equities sold off yesterday and precious metals were lower. While risk appetite has been limited today, the US bond market is doing fine. US treasury yields have not declined (they usually do, when risk aversion rises). Although the bias has to lie with risk appetite remaining low today, there could be a turnaround in the US — and some resultant short-covering if economic data is positive. Watch out for the CaseShiller House prices and US Consumer Confidence data in the US.

We observed buying appetite in the physical gold market yesterday. But physical buying is being overshadowed by investment selling of gold. The break lower yesterday, which we were looking for all of last week, pushed gold as low as \$1,037. Gold is presently holding firm at \$1,040, and we have seen some buying interest at these levels. **Technically, gold could test \$1,024, from where we see a recovery.** Resistance is at \$1,045 and \$1,048.

We are witnessing large-scale silver selling but **the market is providing very good support for silver at \$17.00.** Should gold come down, silver could face a sizable decline; silver's bias could lie to the downside. A break below \$17.00 could see silver test \$16.80 and then \$16.50. Resistance is at \$17.56 and \$18.00.

While **platinum and palladium** are pushing lower, with gold, we see less downside for both metals, especially palladium. **Any further correction in these metals should be bought.**

Walter de Wet

Energy

Crude oil prices are directionless after coming under pressure in New York trade yesterday, with front-month WTI crude plummeting from \$81.63/bbl to \$77.96/bbl, as the greenback rallied from \$1.5039 to \$1.4847 against the euro this morning.

With investors wary of the greenback's next move, and no economic data to offer clues, front-month WTI crude bounced between \$78.94/bbl and \$78.50/bbl in Asia this morning. The rolling correlation (on a 5-day basis) between front-month WTI crude and the trade-weighted US dollar is at -0.93.

However, the spotlight could fall on macroeconomic fundamentals in New York trade ahead of the release of API inventory data. Investors should also look out for US consumer confidence and Richmond Fed Manufacturing Index data for further clues on US crude oil demand developments.

With crude oil under pressure, **thermal coal contract prices remained on the back foot yesterday** despite Chinese customs data showing rising thermal coal import demand. API2(CIF ARA) for December 2009 delivery contracted \$0.90/mt, to \$75.60/mt. API4(FOB) for December delivery shed \$0.30/mt, to \$68.20/mt. Trade flows at Australia's Newcastle Coal Terminal, Asia's main coal hub, showed a 0.35% w/w contraction in export volumes. This is not necessarily an indication of Asian coal demand weakness as the shipping queue grew from 22 to 25 vessels last week while coal inventories at Carrington and Kooragang contracted 6.15% and 9.13% respectively.

Carbon remained under pressure yesterday amid a weaker energy complex and another decline in German base load power prices (which are positively correlated to carbon contract prices). ICE EUA for December 2009 delivery shed EUR0.05/mtCO₂, to EUR14.31/mtCO₂. UN-backed CER for December 2009 delivery slipped EUR0.12/mtCO₂, to EUR13.20/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	4,571,400	4,575,875	1,650	6,125	-4,475	2,242,500	109,275	2.39	100,895
Copper	370,650	368,850	2,475	675	1,800	30,875	5,050	1.36	71,337
Lead	130,000	130,250	-	250	-250	84,850	1,175	0.90	20,072
Nickel	123,744	123,420	420	96	324	45,354	984	0.80	19,928
Tin	26,640	26,410	350	120	230	18,850	350	1.31	45,418
Zinc	427,800	426,925	1,100	225	875	174,300	10,350	2.42	53,543

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	15,070	15,300	230
Copper	51,170	51,790	750
Zinc	16,695	17,310	680

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Oct'09	-	-	-
Copper	Cu Oct'09	303	304.40	0.95
Zinc				

ZAR metal prices (26 October 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,817	50,106	17,834	143,740	116,343	17,496	7.5060
3-month	15,266	50,479	17,679	142,463	116,444	17,679	7.6367

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)	79.93	-0.17	84.99	-1.09	85.77	-1.12	88.40	-0.86	-	-
Gasoil 0.1% Rdam (\$/mt)	638.25	1.75	646.00	2.00	654.25	1.50	674.25	2.00	710.00	-5.25
NWE CIF jet (\$/mt)	655.14	-1.58	683.64	-7.94	693.47	-6.58	720.08	-5.92	768.33	-5.25
Singapore Kero (\$/bbl)	80.39	-0.06	85.44	-0.94	86.67	-1.12	90.05	-0.93	95.33	-0.79
3.5% Rdam barges (\$/mt)	422.32	-0.80	441.06	-5.72	442.78	-6.10	450.44	-7.10	457.07	-9.15
1% Fuel Oil FOB (\$/mt)	438.15	-1.65	462.06	-6.22	465.78	-5.60	481.44	-7.10	505.32	-8.90
Sing FO 380 Cargo (\$/mt)	462.03	-5.85	464.08	-6.50	465.73	-7.21	469.53	-9.09	-	-
Sing FO180 Cargo (\$/mt)	444.77	0.23	464.31	-5.22	466.78	-5.60	472.44	-7.85	-	-

Thermal coal

	Q4:09	Q1:10	Q2:10	Cal 11	Cal 12
API2 (CIF ARA)	75.60	-0.90	90.65	-1.35	84.30
API4 (FOB RBCT)	68.20	-0.30	80.85	-1.35	75.40

Carbon

	Spot	Dec-09	Dec-10	Dec-11	Dec-12
ICE - ECX EUA (€/mt)	14.29	-0.06	14.31	-0.05	14.68
ICE - ECX CER (€/mt)	13.35	-0.16	13.20	-0.12	12.97

Precious metals

Forwards (%)

	1-month	2-month	3-month	6-month	12-month
Gold	0.25333	0.27667	0.30667	0.41167	0.64667
Silver	0.54000	0.54000	0.54833	0.55667	0.59000
USD Libor	0.24375	0.25400	0.28063	0.58063	1.24438

Technical Indicators

	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	58.90	1,054.34	1,043.98	973.49	948.09	1,033.00	1,055.00
Silver	56.56	17.52	17.34	15.18	14.26	16.87	17.65
Platinum	55.56	1,352.45	1,334.78	1,249.81	1,178.18	1,323.00	1,359.00
Palladium	65.93	333.31	321.94	279.00	248.36	330.00	336.00

Active Month Future

	COMEX GLD Dec'09	COMEX SLV Sep'09	NYMEX PAL Oct'09	NYMEX PLAT Oct'09	DGCX GLD Aug'09	TOCOM GLD Jun'10	CBOT GLD Aug'09
Settlement	1,042.60	17,2000	332.30	1,345.80	1,042.90	3,095.00	1,042.80
Open Interest	503,374	136,892	22,747	32,631	1,893	97,119	4,128
Change in Open Interest	-3,324	1,129	371	503	0	377	-8

Date: 26 October 2009

Sources: Standard Bank; LME; Bloomberg

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