Focus: **Slow recovery in industrial production** For industrial commodities, although demand might have bottomed, the magnitudes consumed in major economies (excluding China) remain well below levels seen in 2007 and 2008. This also reflects the large excess capacity in the global economy, which should, at least for the time being, keep inflationary pressures at bay. We also believe it should keep industrial metal prices at bay in during this quarter.

- After encountering buying resistance on Monday afternoon, base metals are retreating. We expect this to continue today.
- The risk of adding longs under current financial conditions, at current prices, surely outweighs the benefit.
- Crude oil is under pressure amid weaker equity markets. However, it is still finding better support than most metals. With the focus on US data this afternoon and tomorrow, the greenback could remain a key risk factor for the front-end of the crude oil forward curve.

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Commodity price data (27 October 2009)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,012	1,985	2,030	1,974	-13	-0.65	1,981.00	7	-35.25
Copper	6,580	6,581	6,642	6,538	-28	-0.42	6,563.00	-113	-25.50
Lead	2,280	2,271	2,339	2,260	-70	-2.97	2,305.00	-71	-25.50
Nickel	18,725	18,650	19,095	18,476	0	0.00	18,900.00	-250	-72.00
Tin	15,000	15,325	15,350	15,000	140	0.92	15,510.00	10	420.00
Zinc	2,320	2,313	2,345	2,267	-2	-0.09	2,320.00	-11	-25.50

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	78.00	77.61	78.10	77.59	-0.31	-0.40%
NYMEX WTI	79.47	79.25	79.83	79.23	-0.29	-0.37%
ICE Gasoil	640.75	636.75	641.25	636.75	-4.00	-0.63%
API2 Q4'09	75.60	75.50	-	-	-0.10	-0.13%
ICE EUA Dec09	14.31	14.32	-	-	0.01	0.07%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold*	1,040.75	1,036.50	1,043.00	1,033.60	1,035.00	-7.50	0.3/0.7
Silver	-	16.67	17.18	16.51	16.50	-0.52	1.0/3.0
Platinum	1,328.00	1,323.00	1,336.00	1,315.00	1,313.00	-22.00	4.5/6.5
Palladium	330.00	328.00	331.00	328.00	326.00	-5.00	1/3

Sources: Standard Bank; LME; BBG

Focus: Slow recovery in industrial production

Japan will release industrial production figures for September tomorrow. Industrial production is expected to come in at a massive 19.3% below that of last year, but industrial production has turned the corner. On a m/m basis, industrial production should come in at 1% — the sixth month of positive growth.

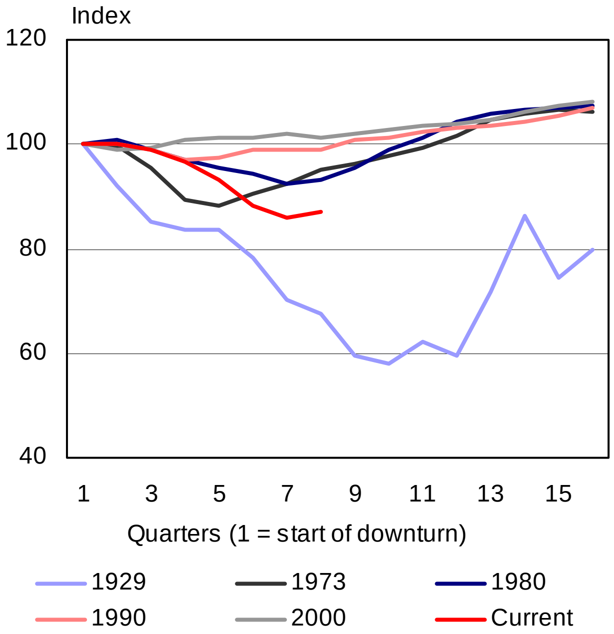
Industrial production in the Eurozone has contracted 15.4% y/y, but like Japan, the m/m growth figure is encouraging. In August, industrial production grew by 1.1%.

In the US, industrial production grew 0.7% m/m in September; y/y, US industrial production contracted 6.1% in September. Comparing US industrial production with previous recessions reveals that the current downturn in production is the worst since 1929. While the initial decline was muted, the fall in production is now been deeper and longer than any downturn since the Great Depression.

China's industrial production grew at 13.9% y/y in September, and never contracted during the current downturn on a y/y basis. China is also the single biggest consumer of base metals. However, in many cases, it is not bigger than Japan, the US and Eurozone combined.

For industrial commodities, although demand might have bottomed, the magnitudes consumed in major economies (excluding China) remain well below levels seen in 2007 and 2008. This also reflects the large excess capacity in the global economy, which should, at least for the time being, keep inflationary pressures at bay. **We also believe it should keep industrial metal prices at bay in during this quarter**.

Figure 1: US Industrial production in downturns



Source: Global Markets Research

By Walter de Wet

Base metals

After encountering buying resistance on Monday afternoon, **base metals are retreating**. We expect this to continue today.

Much of the pull-back has been on the US dollar which is finding renewed strength as risk appetite backs off. The dollar is trading below $1.4800 against the euro, and is also strengthening on a trade-weighted basis.

Yesterday's data releases out of the US was all negative. US consumer confidence (as measured by both the ABC index and the Conference Board) fell in October. This fall in confidence comes despite equity markets finding good support for most of the month. Normally, consumer confidence and equity market performance are correlated. **This could weigh on equities and support the dollar**.

Today and tomorrow also offer other important data: Japanese industrial production, US new homes sales, and US Q3 GDP. We believe the data could keep risk appetite at bay, following yesterday's weak consumer confidence data.

Although copper is giving back recent gains, it is still trading around $6,500. Shanghai took the lead by selling copper early this morning. The selling continues on the LME. A rise of 1,075 tonnes in LME inventory saw copper push below the $6,500 support level. Given the general sell-off in commodities and rising risk aversion, we expect this level to be tested again. However, with wage negotiations in Chile still in the background, **copper should remain better supported**, relative to rest of the complex.

We also see better support for zinc relative to the rest of the complex. But it should also struggle in current market conditions. Zinc saw a rise of 375mt in LME inventory.

Aluminium is back below the $2,000 level despite crude hanging on to the $78.50 level. This highlights the metal's vulnerability to its still weak underlying fundamentals.

By Walter de Wet

Precious metals

The risk of adding longs under current financial conditions, at current prices, surely outweighs the benefit. There was no positive news out of the US data yesterday. More importantly, both consumer confidence indices which were released in the US yesterday was lower. This fall in confidence comes despite equity markets finding good support for most of the month. Normally, consumer confidence and equity market performance are correlated.

We foresee more risk aversion towards the end of the week. Today, tomorrow and Friday will see many data releases. At the same time, equities are struggling and EM currencies are weaker. Today, US New home sales and durable goods orders will be released. Home sales could be important but the focus might be on tomorrow's Q3 US GDP data.

While gold remains on the back foot, we have seen substantial buying in the physical market. We believe this should protect the market from any major sell-off. However, with risk appetite low, the dollar should find support and, as a result, gold is likely to struggle to make gains today**. Gold support is at $1,030 and $1,025. Resistance is at $1,045 and $1,050**.

Silver is back-tracking and, with the metal having broken below the support level of $17.00 yesterday, we believe it might see more selling today. Copper is also struggling, which adds to the downside potential. **Silver support is at $16.40 and $16.00. Resistance is at $17.00 and $17.15.**

Walter de Wet

Energy

Crude oil is under pressure amid weaker equity markets. However, it is still finding better support than most metals after API inventories showed a surprise contraction in US crude and refined product inventories. As the Nikkei shed 1.40% this morning, and European equities are lower, front-month WTI crude oil is also trading lower.

According to US API data, US crude oil inventories contracted 3,532K barrels; gasoline and distillate fuel stock piles fell 255K and 671K barrels respectively. However, the data also showed US crude oil imports contracted 116K barrels, which implies that a segment of the total run on crude oil inventories was a result of reduced crude oil import volumes. With refinery utilization unchanged at 82%, we believe the net contraction in refined product inventories alludes to improved US demand — which could support crude oil today.

With the focus on US data this afternoon and tomorrow, **the greenback could remain a key risk factor for the front-end of the crude oil forward curve**. Of note, the rolling correlation (on a 5-day basis) between front-month WTI crude oil and trade-weighted US dollar is at -0.93 this morning.

Thermal coal contracts were marginally lower yesterday despite higher oil prices. API2(CIF ARA) and API4(FOB) for December 2009 delivery shed $0.10/mt respectively, to $75.50/mt and $68.10/mt. Positive on the demand side, data from the Indian government released this morning show the country's electricity production grew 7.5% m/m in September while an index which tracks India's six main infrastructure industries also advanced 4% m/m in September.

Carbon contracts were steady yesterday, despite lower German base load power prices, supported by firmer crude oil prices. ICE EUA for December 2009 delivery gained EUR0.01/mtCO2 to EUR14.32/mtCO2; UN-backed CER was steady at 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	4,570,025	4,571,400	3,750	5,125	-1,375	2,241,125	111,475	2.44	151,269
Copper	371,725	370,650	1,550	475	1,075	31,950	5,000	1.35	97,472
Lead	129,825	130,000	-	175	-175	84,675	1,000	0.77	18,666
Nickel	124,326	123,744	696	114	582	45,936	912	0.73	31,564
Tin	26,675	26,640	60	25	35	18,885	400	1.50	91,863
Zinc	428,175	427,800	600	225	375	174,675	10,325	2.41	67,930

Shanghai 3-month forward prices			
Metal	Open	Last	1d Change
Aluminium	15,190	15,390	195
Copper	51,090	51,350	220
Zinc	17,135	17,030	-155

COMEX active month future prices	Open	Close	Change	Change (%)
Ali Oct'09	-	-	-	-
Cu Oct'09	300	301.15	1.25	0.42%

ZAR metal prices (27 October 2009)	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,092	50,000	17,561	143,990	118,163	17,675	7.6185
3-month	15,388	51,016	17,605	144,575	118,799	17,930	7.7520

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 ($/bbbl)	79.69	-0.24	85.51	0.52	86.32	0.55	88.74	0.34	-	-
Gasoil 0.1% Rdam ($/mt)	636.75	-4.00	644.00	-3.75	653.00	-3.25	675.75	0.75	711.75	1.75
NWE CIF jet ($/mt)	655.54	0.40	688.08	4.44	697.55	4.08	722.83	2.75	770.16	1.83
Singapore Kero ($/bbl)	80.17	-0.22	86.01	0.57	87.17	0.50	90.39	0.34	95.54	0.21
3.5% Rdam barges ($/mt)	422.28	-0.04	439.82	-1.24	441.69	-1.09	448.83	-1.61	455.66	-1.41
1% Fuel Oil FOB ($/mt)	438.42	0.27	459.57	-2.49	463.94	-1.84	479.83	-1.61	503.91	-1.41
Sing FO 380 Cargo ($/mt)	461.44	-0.59	463.09	-0.99	464.78	-0.95	468.94	-0.59	-	-
Sing FO180 Cargo ($/mt)	444.28	-0.49	464.32	0.01	466.19	-0.59	471.58	-0.86	-	-
Thermal coal	Q4:09		Q1:10		Q2:10		Cal 11		Cal 12	
API2 (CIF ARA)	75.50	-0.10	90.25	-0.40	84.10	-0.20	102.30	0.00	112.05	0.00
API4 (FOB RBCT)	68.10	-0.10	80.45	-0.40	75.20	-0.20	92.30	0.00	102.05	0.00
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	14.31	0.02	14.32	0.01	14.68	0.00	15.29	-0.01	16.10	-0.03
ICE - ECX CER (€/mt)	13.40	0.05	13.20	0.00	13.00	0.03	13.00	0.00	13.37	-0.03

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.24000	0.26500	0.33500	0.42500	0.63833
Silver	0.54000	0.54000	0.55000	0.55333	0.58167
USD Libor	0.24350	0.25400	0.28063	0.57688	1.23625

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	57.67	1,051.39	1,045.26	974.29	948.99	1,032.00	1,043.00
Silver	52.46	17.34	17.32	15.19	14.28	16.33	17.10
Platinum	53.03	1,346.42	1,334.78	1,250.09	1,180.07	1,304.00	1,334.00
Palladium	63.98	332.99	323.37	279.67	249.06	324.00	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	1,038.70	16.6600	330.55	1,319.00	1,038.90	3,053.00	1,039.30
Open Interest	509,265	134,414	22,860	32,649	1,618	96,698	4,349
Change in Open Interest	5,891	-2,478	113	18	-275	-421	221

Date: 27 October 2009

Sources: Standard Bank; LME; Bloomberg

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