

Commodities

Futures market and ETF positioning



Week ended 1 March 2013

4 March 2013

The latest **CFTC** (Commodity Futures Trading Commission) data released on Friday 1 March 2013 (covering the week ended 26 February) and **ETF** data (covering the week ended 1 March 2013) reveal the following:

Strategist

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- **Gold:** Surprisingly, the post-FOMC sell-off that occurred Wednesday 20 February was overwhelmed by some interest at the end of the week, which culminated in a 49.1 tonne increase in net speculative length. Clearly, participants were encouraged to re-position at these lower prices. From a risk/return perspective, we believe that the value in being short gold has declined substantially and that the largest part of the decline in the gold price has taken place already.
- **Silver:** Silver bore the brunt of the post-FOMC sell-off, without any respite occurring later in the week, as it did for gold. A hefty 809.2 tonne fall in net speculative length was recorded, equating to a 19.2% w/w drop—the worst among the precious metals. Underlying moves showed a definite bearish attitude to the metal.
- **Platinum:** Given the overbought nature of the platinum market, it was unsurprising that the hawkish FOMC minutes sparked a major sell-off. Net speculative length fell 388.4k oz—the largest fall of the past 12 months.
- **Palladium:** Finally, palladium has succumbed to the woes of the other precious metals. Ending six weeks of consecutive increases, net speculative length fell 153.9k oz.
- **Oil:** Net speculative length fell for the second week in a row (the last time this happened was in mid-November last year), losing 23.5m bbls. Disconcertingly, participants appeared to be positioning for more downside, with a 13.5m bbls increase in speculative shorts.
- **Copper:** Copper was dragged down with the other commodities, after the Fed's commitment to quantitative easing until year-end was brought into doubt by the FOMC minutes. A substantial 113.4 tonnes of net speculative length were liquidated.

Weekly change in speculative positions and ETF holdings

	Gold	Silver	Platinum	Palladium	Crude oil (WTI)	Crude oil (Brent)	Copper
	tonnes	tonnes	k oz	k oz	m bbls	m bbls	tonnes
Speculative longs	633.2	5,852.4	2,306.9	2,789.9	389.5	5.3	530.4
- Change	24.5	-237.6	-419.3	-256.5	-10.0	-0.4	-132.8
Speculative shorts	267.9	2,445.2	145.9	239.6	109.9	2.9	538.7
- Change	-24.5	571.6	-30.9	-102.6	13.5	1.1	-19.4
Net speculative length	365.3	3,407.3	2,161.0	2,550.3	279.7	2.3	-8.3
- Change	49.1	-809.2	-388.4	-153.9	-23.5	-1.5	-113.4
Net speculative length as a % of open interest	17.7%	11.9%	59.0%	66.0%	11.7%	4.3%	-0.5%
- Change	2.9%	-1.6%	-1.4%	11.1%	-1.2%	-2.8%	-5.6%
EFT holdings	2,587.0	20,253.6	1,645.4	2,159.6			
- Change	-59.3	67.8	-14.3	-2.8			

Sources: Standard Bank Research; COMEX; NYMEX; LME; Various ETFs

Please refer to the disclaimer at the end of this document.

Gold — COMEX

- Surprisingly, the post-FOMC sell-off that occurred Wednesday 20 February was overwhelmed by some interest at the end of the week, which culminated in a 49.1 tonne **increase in net speculative length**. Clearly, participants were encouraged to re-position at these lower prices.
- Speculative longs increased by 24.5 tonnes, undoing the losses of the previous two weeks (24.1 tonnes). However, given the extreme level of shorts (267.9 tonnes, compared to a 5-year average of 102.7 tonnes), we would view this increase in longs as short covering, rather than a renewed confidence in the metal. Speculative shorts were unwound to the tune of 24.5 tonnes, which taken in the context of 174.9 tonnes added in the past four weeks appears unconvincing.
- The week saw another strong sell-off of ETFs' holdings of gold—59.3 tonnes were liquidated, a 12-month record. Total holdings are now at 2,587.0 tonnes, down 133.4 tonnes since the beginning of the year.
- From a risk/return perspective, we believe that the value in being short gold has declined substantially and that the largest part of the decline in the gold price has taken place already (see [Commodities Strategy: Gold price probabilities](#) dated 28 February 2013).

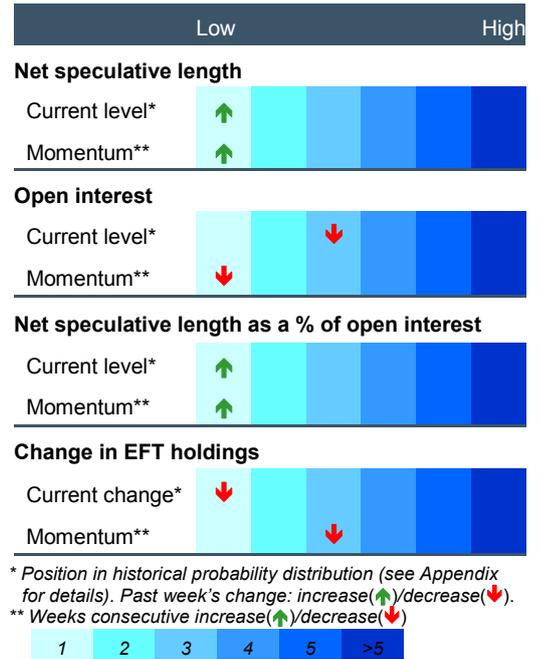
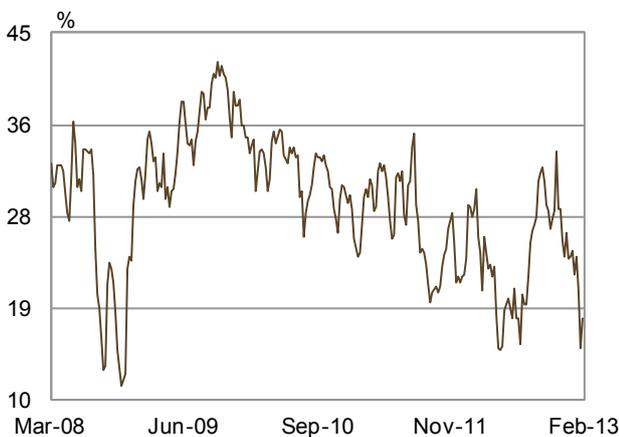


Figure 1: Gold price vs. COMEX open interest



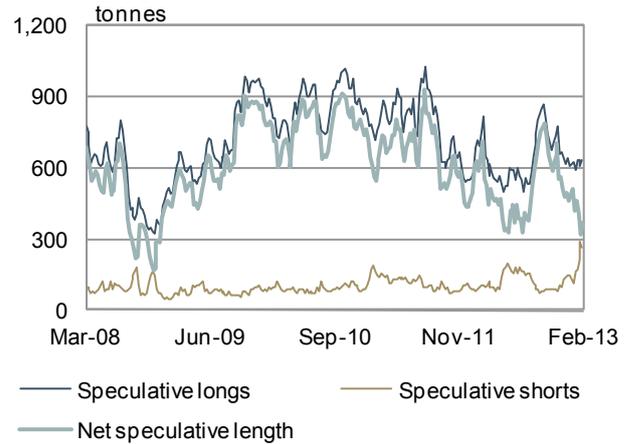
Source: COMEX

Figure 3: COMEX net spec length as a % of open interest



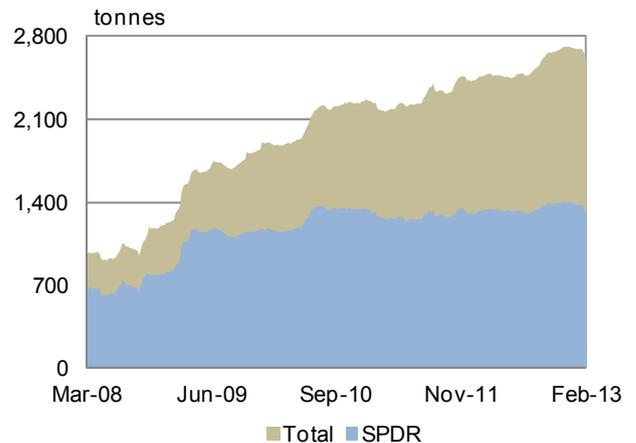
Sources: COMEX; Standard Bank Research

Figure 2: COMEX speculative longs and shorts



Sources: COMEX; Standard Bank Research

Figure 4: ETF holdings



Sources: Various ETFs; Standard Bank Research

Silver — COMEX

- Silver bore the brunt of the post-FOMC sell-off, without any respite occurring later in the week, as it did for gold. **A hefty 809.2 tonne fall in net speculative length** was recorded, equating to a 19.2% w/w drop—the worst among the precious metals and only slightly better than the 21.1% w/w pre-FOMC drop recorded the previous week.
- Underlying moves showed a definite bearish attitude to the metal. Another strong increase in speculative shorts was seen (571.6 tonnes), taking total shorts to 2,445.2 tonnes, almost double the 5-year average of 1,232.6 tonnes. As for gold, while a very large short position is not necessarily a case for prices to move higher again, it does indicate that it is becoming a crowded trade, in the futures market at least.
- A total of 237.6 tonnes were unwound from speculative longs, marking the fourth week of decline (for a total of 1,189.1 tonnes).
- ETFs, however, remained resolute and even stepped up their purchases of silver, adding a strong 67.8 tonnes to their holdings (17.9 tonnes were purchased the previous week). Total holdings now stand at 20,253.6 tonnes — not too far from the all-time high of 20,362.1 tonnes.

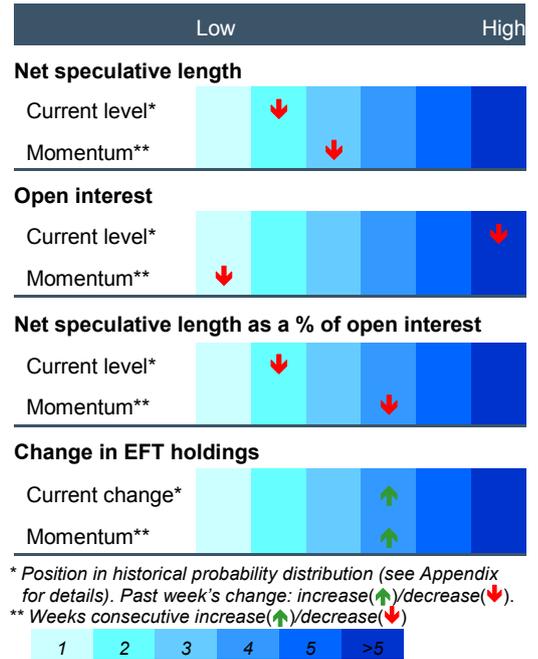
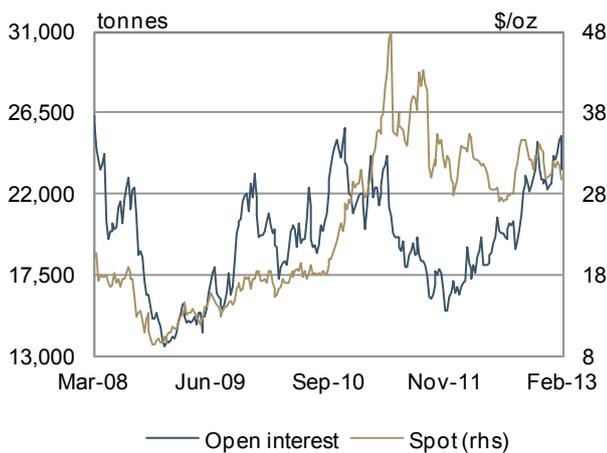
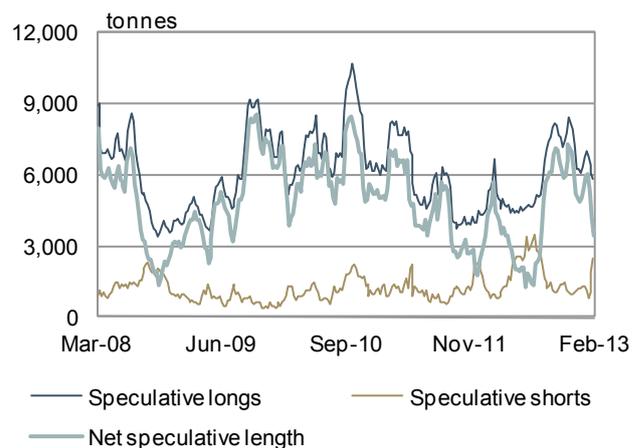


Figure 1: Silver price vs. COMEX open interest



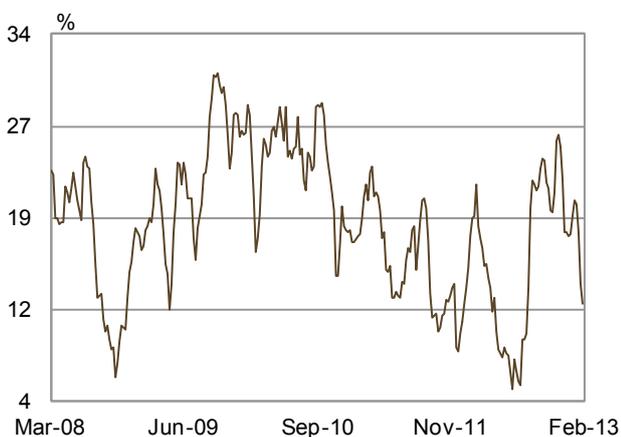
Source: COMEX

Figure 2: COMEX speculative longs and shorts



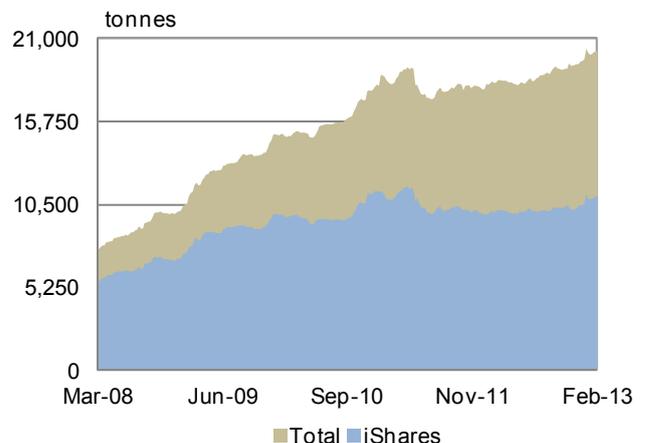
Sources: COMEX; Standard Bank Research

Figure 3: COMEX net spec length as a % of open interest



Sources: COMEX; Standard Bank Research

Figure 4: ETF holdings



Sources: Various ETFs; Standard Bank Research

Platinum — NYMEX

- Given the overbought nature of the platinum market, it was unsurprising that the hawkish FOMC minutes sparked a **major sell-off**. Net speculative length fell 388.4k oz—the largest fall of the past 12 months.
- As would be expected (due to the excessive length), the net deterioration was borne rather of a liquidation of longs (419.3k oz) than additions to shorts. In fact, shorts fell 30.9k oz. The hefty liquidation of longs was also a 12-month record.
- In the absence of any headlines concerning the South African mining industry, it is clear that enthusiasm for the metal is waning. However, the situation among South Africa’s platinum miners and the respective labour unions remains explosive and the market awaits the outcome of negotiations surrounding Amplats’s review (scheduled to conclude end of March)—hence participants might be reluctant to stray to far from the PGM space.
- ETFs followed the futures market’s direction, selling off 14.3k oz of their platinum holdings. Total holdings are now at 1,645.4k oz—up 147.6k oz for the year.

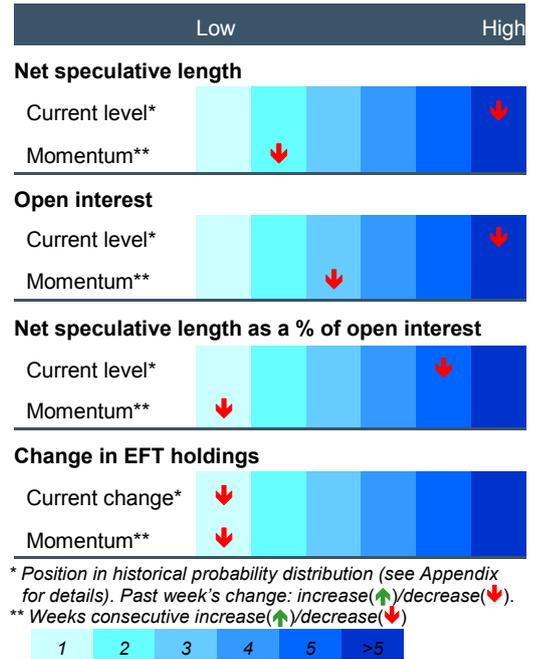
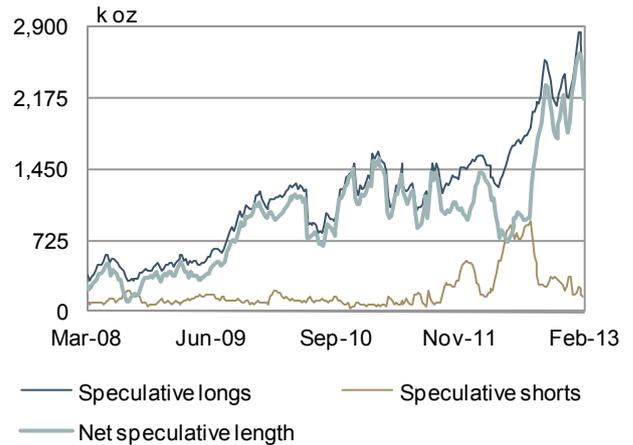


Figure 1: Platinum price vs. NYMEX open interest



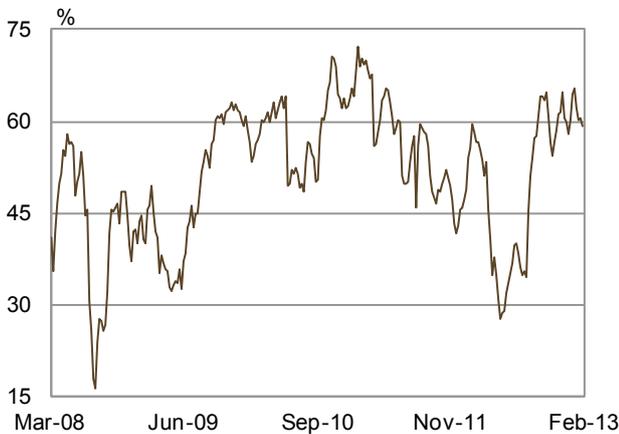
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



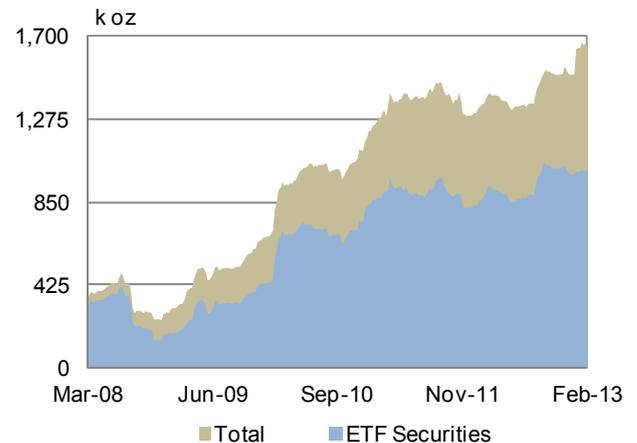
Sources: NYMEX; Standard Bank Research

Figure 3: NYMEX net spec length as a % of open interest



Sources: NYMEX; Standard Bank Research

Figure 4: ETF Holdings



Sources: Various ETFs; Standard Bank Research

Palladium — NYMEX

- Finally, palladium has succumbed to the woes of the other precious metals. Ending six weeks of consecutive increases, **net speculative length fell 153.9k oz.**
- The underlying moves showed some confusion amongst participants, with a desire to get out of the metal evident, rather than any clear conviction that a fall in palladium's price was imminent. Speculative longs fell 256.5k oz, but shorts also fell, losing 102.6k oz.
- The move out of the metal saw open interest deteriorate dramatically, overshadowing the drop in net speculative length. Consequently, the ratio of the two climbed to 66.0% (from 54.9%), heightening concerns that the market is overstretched (the 5-year average is only 47.9%).
- After the previous week's strong addition (49.5k oz), ETFs appeared more cautious this week, selling off a token 2.8k oz. This is the first time ETFs have been net sellers of palladium in seven weeks—therefore, on such a mild liquidation, we are wary to say that they have turned against the metal just yet.

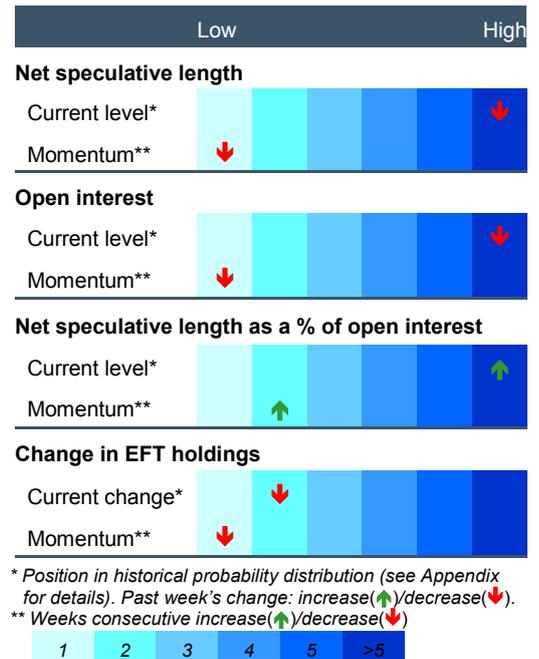
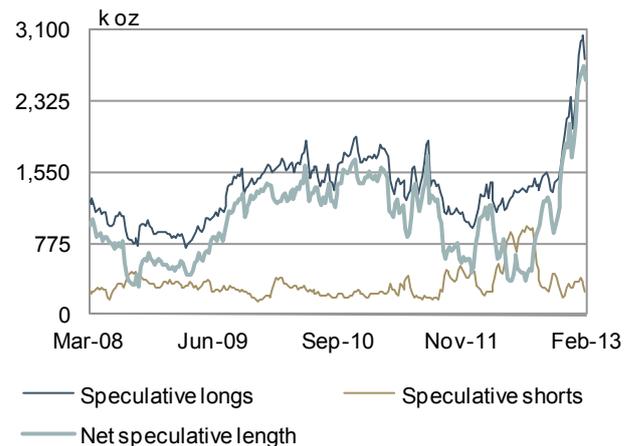


Figure 1: Palladium price vs. NYMEX open interest



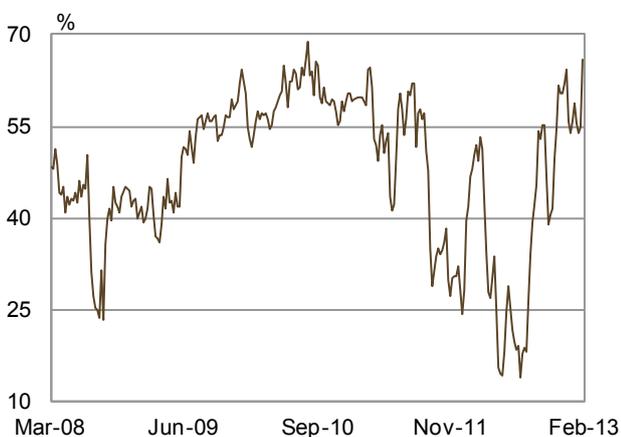
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



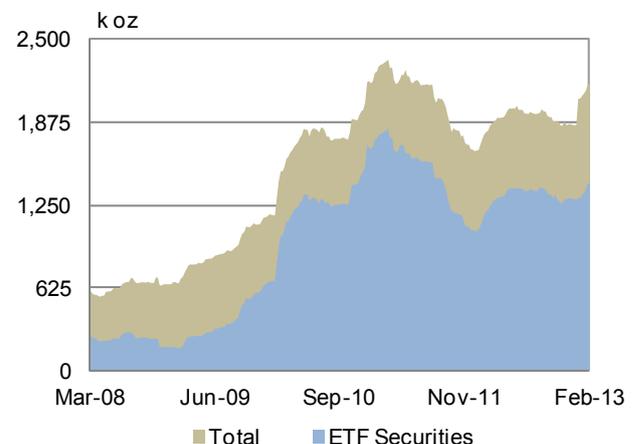
Sources: NYMEX; Standard Bank Research

Figure 3: NYMEX net spec length as a % of open interest



Sources: NYMEX; Standard Bank Research

Figure 4: ETF holdings



Sources: Various ETFs; Standard Bank Research

Crude oil (WTI) — NYMEX

- An apparently more hawkish FOMC and the seemingly more conciliatory tone taken by all parties in last week's negotiations surrounding Iran nuclear enrichment programme, **kept oil markets under selling pressure**. Net speculative length fell for the second week in a row (the last time this happened was in mid-November last year), losing 23.5m bbls.
- Disconcertingly, participants appeared to be positioning for more downside, with a 13.5m bbls increase in speculative shorts (the largest increase since mid-December). Speculative longs fell 10.0m bbls—the strongest liquidation of longs since the week ended 25 August.
- We have been sceptical about the demand optimism up until recently implied in oil prices (see *Commodities Daily* dated 20 February 2013) and feel that the recent correction has been warranted. From here, we feel that the potential for further downside is compressed, but not completely absent. Uncertainty surrounding the effect of the sequester on the US economy and the question marks over the extent of China's growth going forward could keep the door to further weakness ajar.

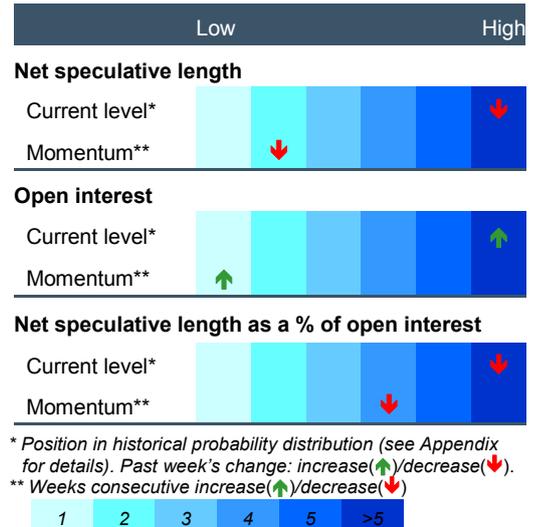
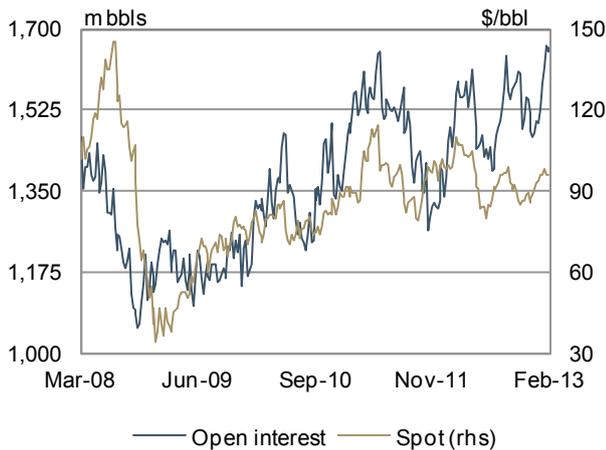
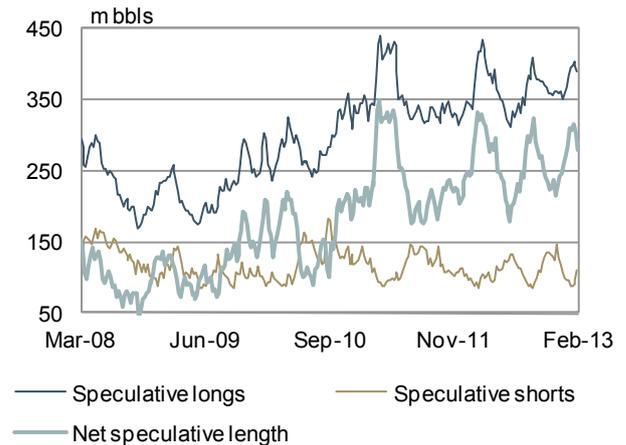


Figure 1: NYMEX WTI price vs. open interest



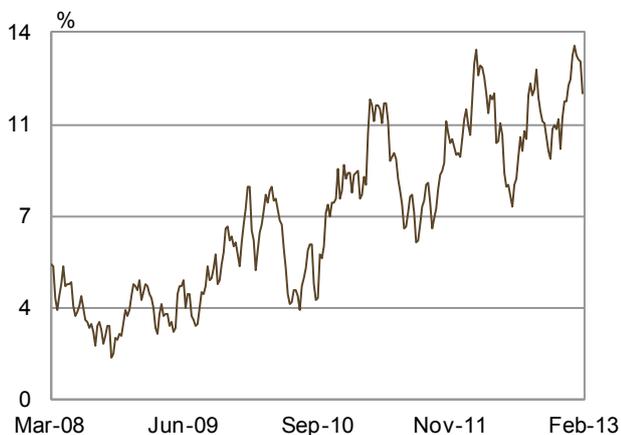
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



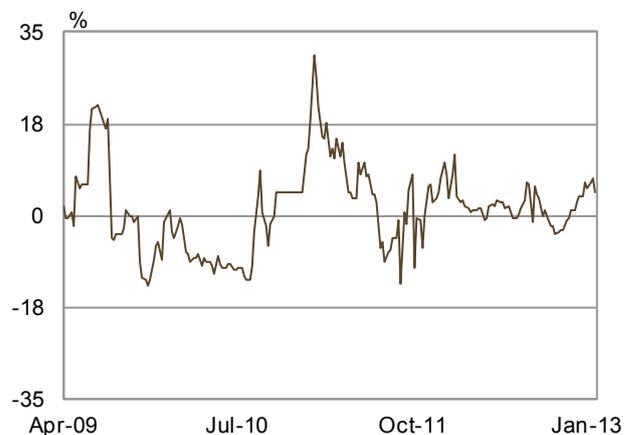
Sources: NYMEX; Standard Bank Research

Figure 3: NYMEX net spec length as a % of open interest (WTI)



Sources: NYMEX; Standard Bank Research

Figure 4: NYMEX net spec length as a % of open interest (ICE Brent)



Sources: NYMEX; Standard Bank Research

Copper — COMEX

- **Copper was dragged down** with the other commodities, after the Fed’s commitment to quantitative easing until year end was brought into doubt by the FOMC minutes. A substantial 113.4 tonnes of net speculative length were liquidated—the largest fall of the past 12 months and enough to push net speculative length into negative territory (for the first time since November last year).
- Speculative longs fell 132.8 tonnes (a 12-month record). **Shorts also were unwound**, although at only 19.4 tonnes, this was far from undoing the damage of the previous week (56.9 tonnes were added).
- There has been an abrupt turnaround in net speculative length as a percentage of open interest, which has fallen from 5.2% to the current -0.5%. So, from looking vulnerable and overbought just a week ago, the market now looks more comfortable (the 5-year average is 0.6%), if not slightly oversold.

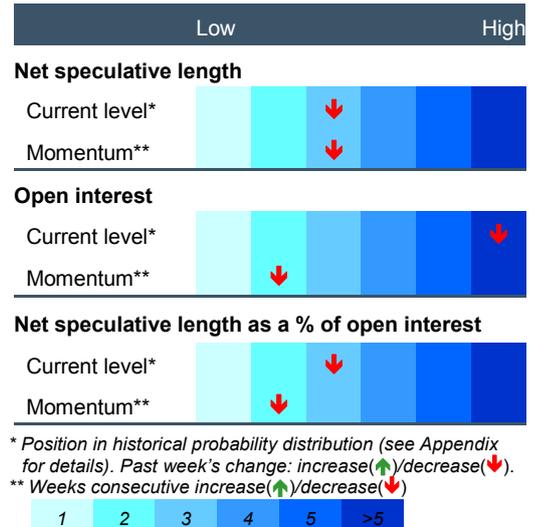
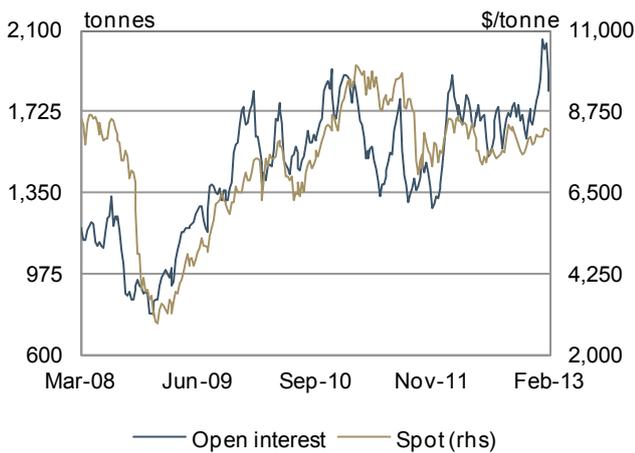
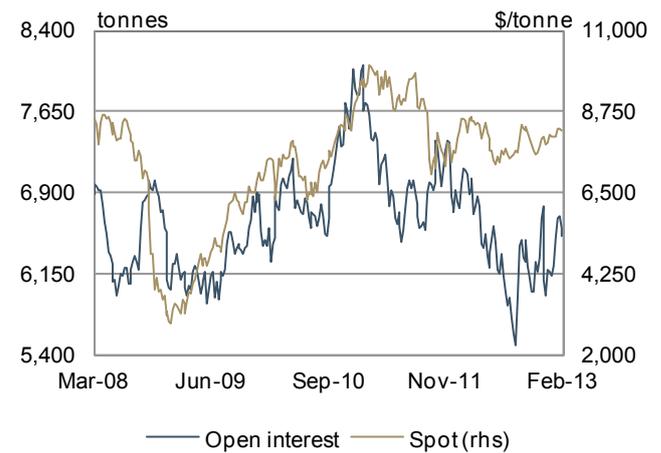


Figure 1: LME copper price vs. COMEX open interest



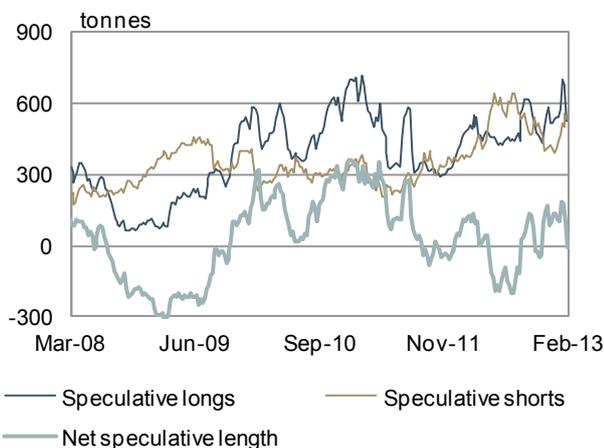
Sources: COMEX; LME

Figure 2: LME copper price vs. LME open interest



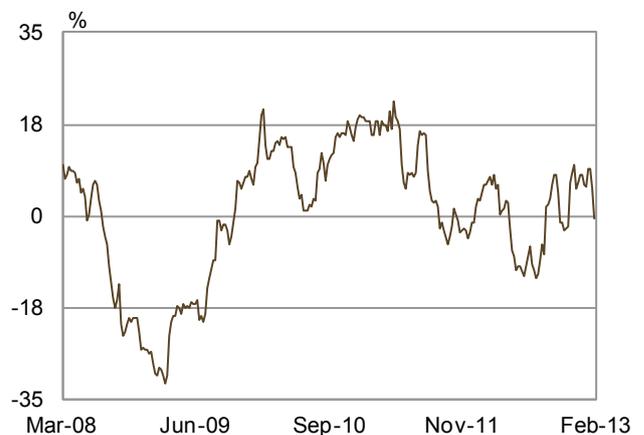
Source: LME

Figure 3: COMEX speculative longs and shorts



Sources: COMEX; Standard Bank Research

Figure 4: COMEX net spec length as a % of open interest



Sources: COMEX; Standard Bank Research

Appendix

Explanation of tables and appendix graphs

Using open interest for NYMEX platinum as an example, the *Example Table* alongside is explained.

For **Current level** the green upward-pointing arrow (↑) indicates that open interest over the week under review increased (see *Actual data*). If a decrease had been recorded this would be a red downward-pointing arrow (↓). The position of the arrow indicates where the current level of open interest (in this example, 2,113.3k oz) falls in relation to the percentiles of the calculated probability distribution of open interest (explanation of this calculation follows), as per the table below. For this example, the current level falls in the >83.3% and =<100% bracket.

	>0% and =<16.7%		>50% and =<66.7%
	>16.7% and =<33.3%		>66.7% and =<83.3%
	>33.3% and =<50%		>83.3% and =<100%

A graphical depiction of the calculated probability distribution of open interest is also provided in this Appendix, see *Probability distribution* graph. The *red line* in this graph indicates the position of the current level (in this example, 2,113.3k oz) in relation to the calculated probability distribution, while the *black line* indicates the position of the average as taken over a five-year period (in this example, 1,366.6k oz). The colour variation of the probability distribution graph corresponds to the percentiles of the distribution, as per the table discussed above.

As for Current level, for **Momentum** the green upward-pointing arrow indicates that open interest over the week under review increased (see *Actual data*). If a decrease had been recorded this would be a red downward-pointing arrow. Consequently, this arrow will always be the same as for Current level. However, the position of the arrow here indicates the number of consecutive weeks of increase/decrease that have been observed (in this example, there has been four consecutive weeks of increase), as per the table below.

	1 week		4 weeks
	2 weeks		5 weeks
	3 weeks		More than 5 weeks

Calculation of probability distribution

Taking open interest data over a rolling five-year period, an empirical probability density is obtained using a kernel density estimator (see the example *Probability distribution* graph). A kernel density estimator is used instead of the usual normal density approximation since the observed values do not always conform to the classic bell shape of the normal distribution (as is apparent in our example graph).

This probability density essentially indicates the implied (as per historical observations) distribution of open interest for NYMEX platinum. This is useful in gauging how unusual or extreme the current level of open interest is compared to historical observations. Observations in the tails of the distribution (far left and far right) are considered more unusual, while observations closer to the peak (not necessarily the middle or unique, since we are not using the normal distribution) are considered more likely.

In our example, the current level of open interest for NYMEX platinum (at 2,113.3k oz) is positioned in the far right end of the distribution (within the >83.3% and =<100% bracket), indicating that open interest is currently at an extremely high level compared to historical norms.

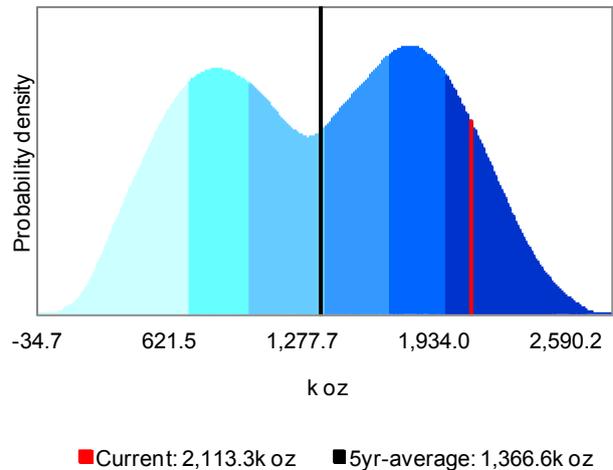
Example table - NYMEX platinum



Actual data - Open interest for NYMEX platinum

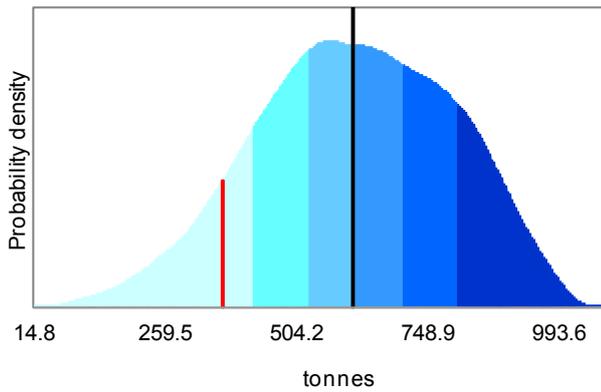
Date	Level (k oz)	Change (k oz)
Previous weeks	2,044.5	
	1,968.9	-75.6
	1,998.1	29.3
	2,027.2	29.1
	2,050.2	23.0
Current	2,113.3	63.1

Probability distribution — open interest for NYMEX platinum



APPENDIX — Net speculative length

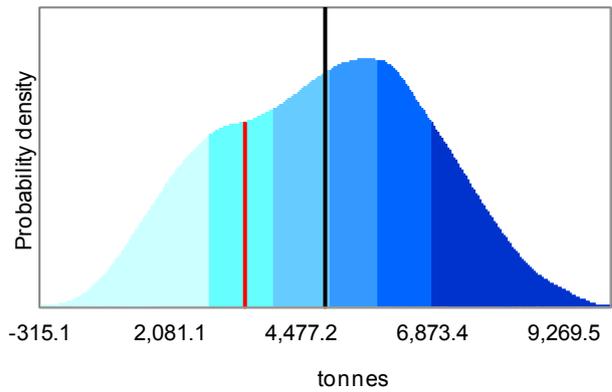
Gold — COMEX



■ Current: 365.3 tonnes ■ 5yr-average: 610.7 tonnes

Sources: Standard Bank Research; COMEX

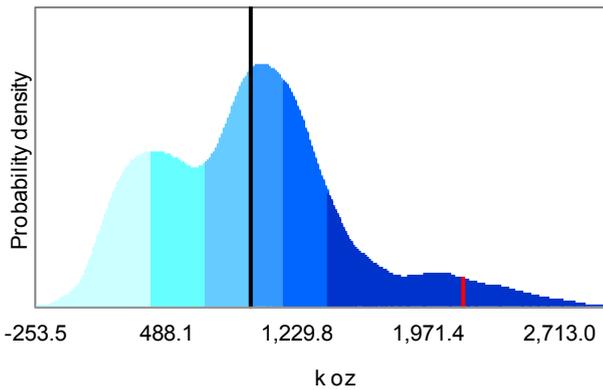
Silver — COMEX



■ Current: 3,407.3 tonnes ■ 5yr-average: 4,884.7 tonnes

Sources: Standard Bank Research; COMEX

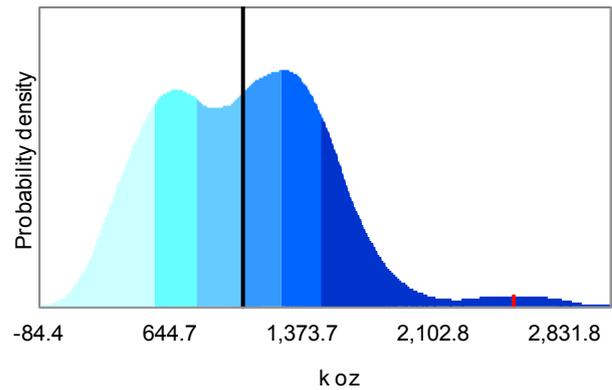
Platinum — NYMEX



■ Current: 2,161.0k oz ■ 5yr-average: 966.7k oz

Sources: Standard Bank Research; NYMEX

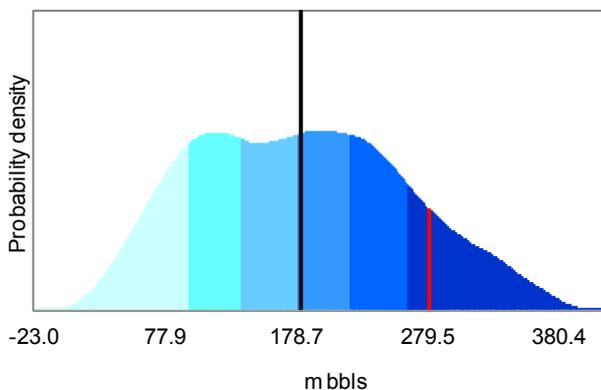
Palladium — NYMEX



■ Current: 2,550.3k oz ■ 5yr-average: 1,045.4k oz

Sources: Standard Bank Research; NYMEX

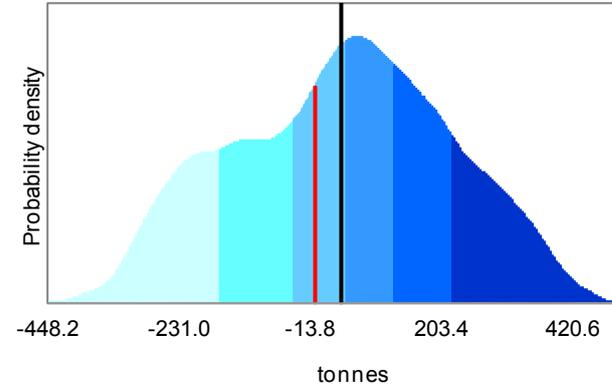
Crude oil (WTI) — NYMEX



■ Current: 279.7m bbls ■ 5yr-average: 181.2m bbls

Sources: Standard Bank Research; NYMEX

Copper — COMEX

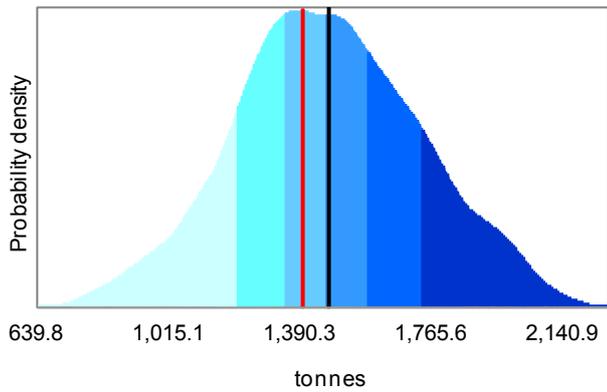


■ Current: -8.3 tonnes ■ 5yr-average: 35.8 tonnes

Sources: Standard Bank Research; COMEX

APPENDIX — Open interest

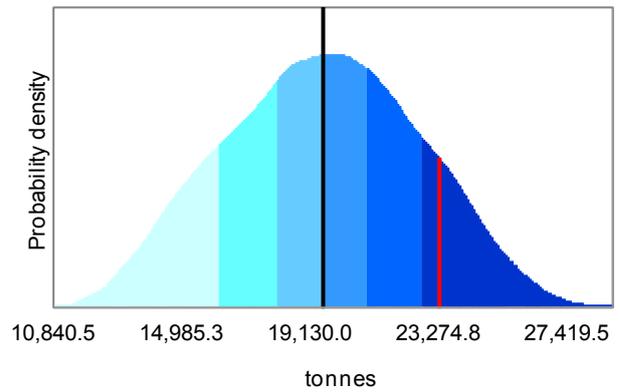
Gold — COMEX



■ Current: 1,399.3 tonnes ■ 5yr-average: 1,471.0 tonnes

Sources: Standard Bank Research; COMEX

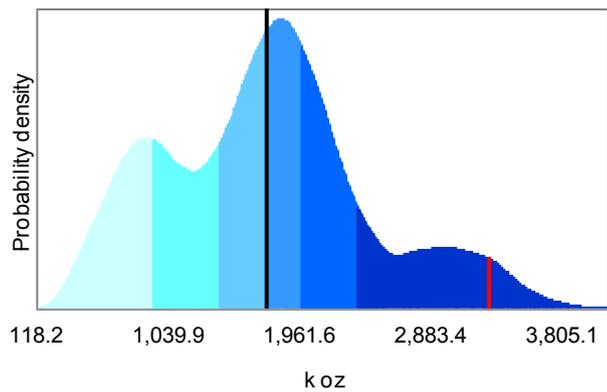
Silver — COMEX



■ Current: 23,278.7 tonnes ■ 5yr-average: 19,495.3 tonnes

Sources: Standard Bank Research; COMEX

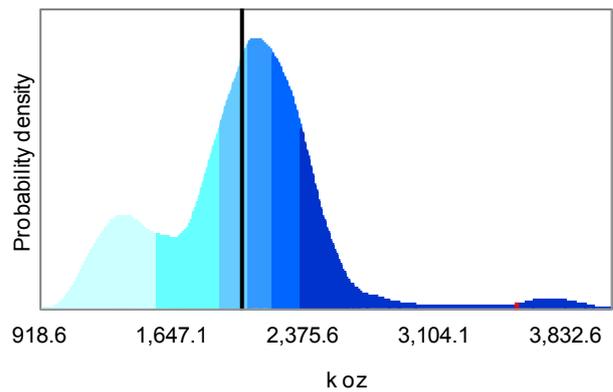
Platinum — NYMEX



■ Current: 3,290.8k oz ■ 5yr-average: 1,722.6k oz

Sources: Standard Bank Research; NYMEX

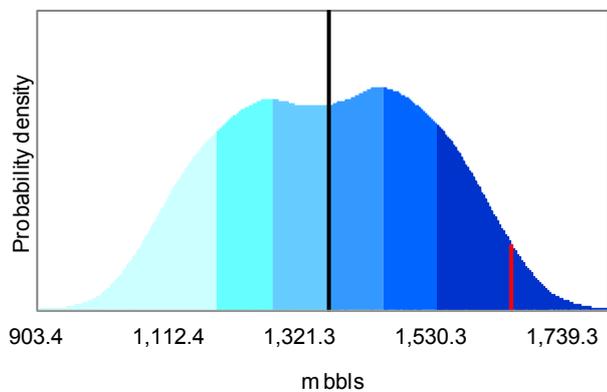
Palladium — NYMEX



■ Current: 3,558.9k oz ■ 5yr-average: 2,034.0k oz

Sources: Standard Bank Research; NYMEX

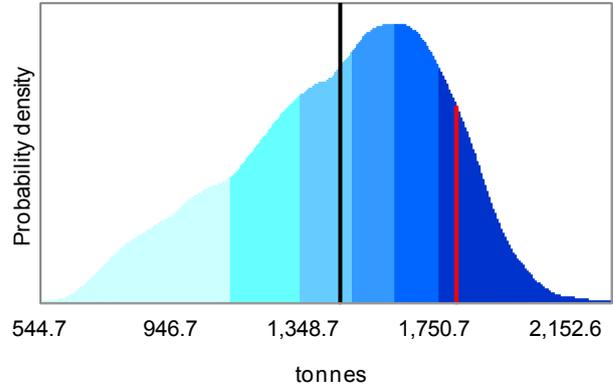
Crude oil (WTI) — NYMEX



■ Current: 1,659.7m bbls ■ 5yr-average: 1,366.6m bbls

Sources: Standard Bank Research; NYMEX

Copper — COMEX

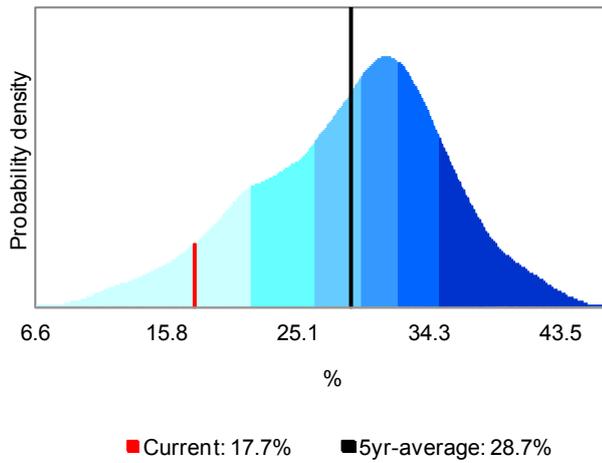


■ Current: 1,820.6 tonnes ■ 5yr-average: 1,460.2 tonnes

Sources: Standard Bank Research; COMEX

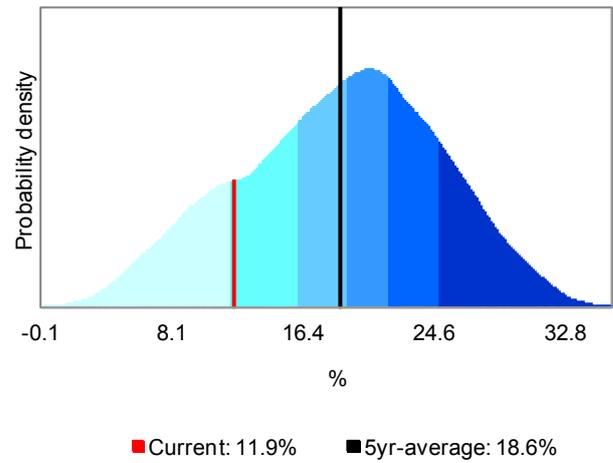
APPENDIX — Net speculative length as a percentage of open interest

Gold — COMEX



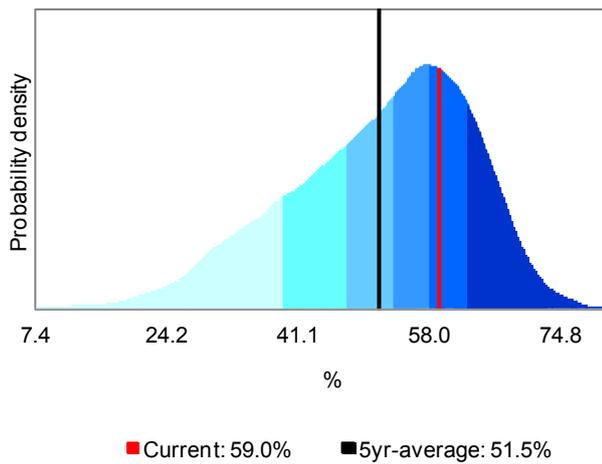
Sources: Standard Bank Research; COMEX

Silver — COMEX



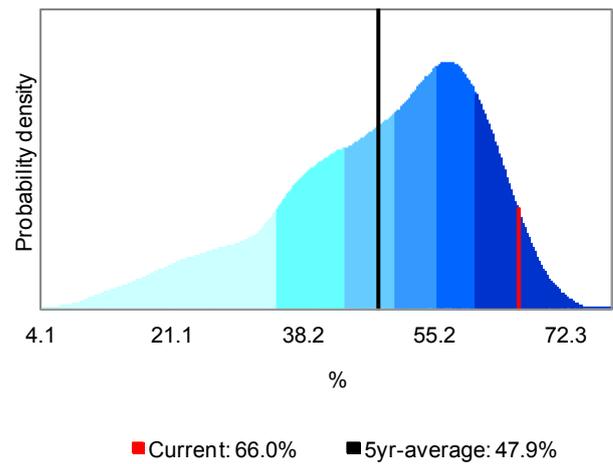
Sources: Standard Bank Research; COMEX

Platinum — NYMEX



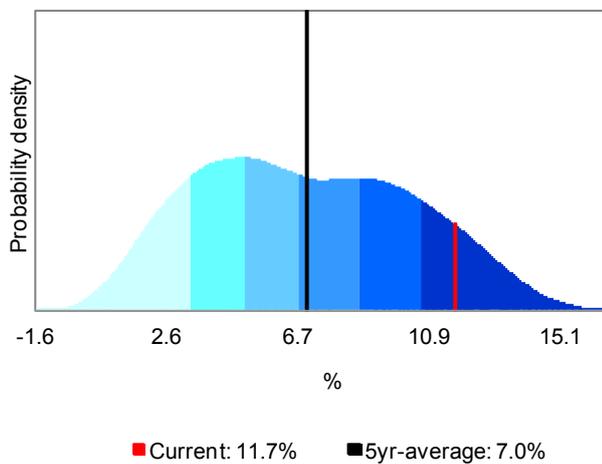
Sources: Standard Bank Research; NYMEX

Palladium — NYMEX



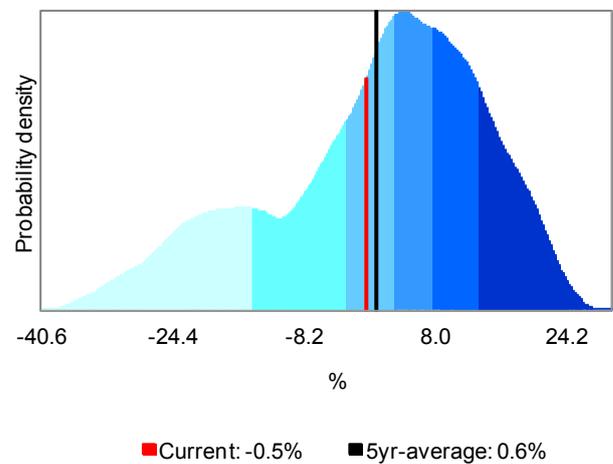
Sources: Standard Bank Research; NYMEX

Crude oil (WTI) — NYMEX



Sources: Standard Bank Research; NYMEX

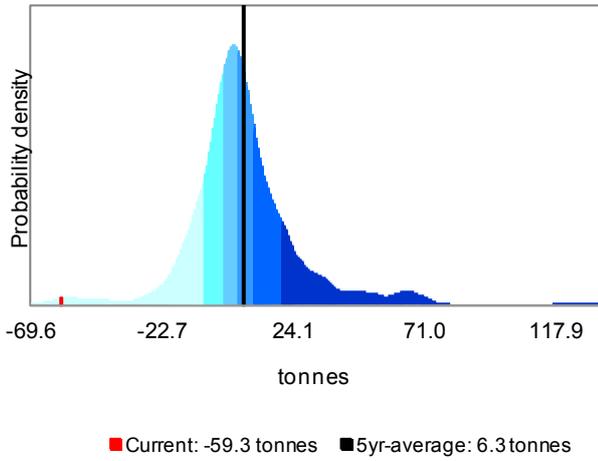
Copper — COMEX



Sources: Standard Bank Research; COMEX

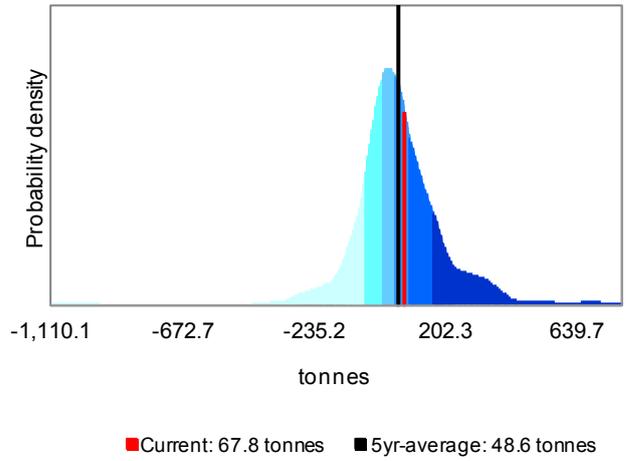
APPENDIX — Change in ETF holdings

Gold — COMEX



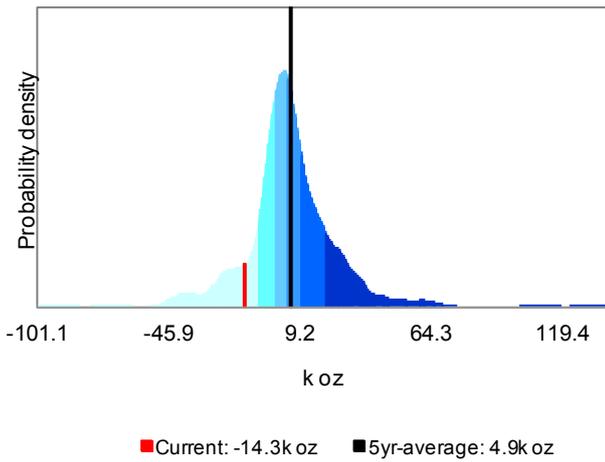
Sources: Standard Bank Research; Various ETFs

Silver — COMEX



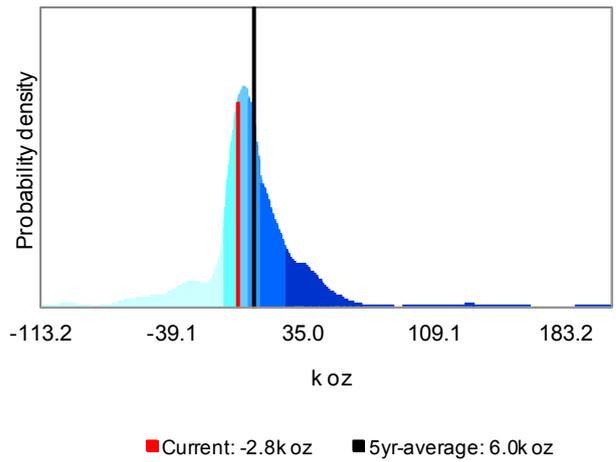
Sources: Standard Bank Research; Various ETFs

Platinum — NYMEX



Sources: Standard Bank Research; Various ETFs

Palladium — NYMEX



Sources: Standard Bank Research; Various ETFs

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