

# Commodities

## Commodities: Daily



Market positioning cautiously confident on gold

16 January 2012

**Focus:** Although only a modest improvement in net speculative length for COMEX gold this past week, the decline in short positions is encouraging. Perhaps the speculative market is becoming less apprehensive about gold's prospects. ETFs turned net buyers of gold, perhaps further evidence that investors are growing more confident in gold.

- With the US markets on holiday today, and with China winding down ahead of the New Year holidays, turnover has been relatively muted with position housekeeping ahead of third-Wednesday the main feature of the LME metals this morning. The base metals are generally trending sideways to higher, with direction being dictated by the Euro and European equities.
- While the euro has stabilised against the dollar for now, we still believe that it remains on a path to \$1.15 (see *G10 Daily—Debt downgrade weakens the euro* dated 16 January 2012). This, together with the negative reaction of precious metals to Friday's weakness in the euro (despite developments being conducive to increased safe-haven demand), affirms our belief that dollar strength will continue to limit any upside for precious metals in Q1:12.
- The oil market was under pressure again last Friday as S&P downgraded the sovereign ratings for nine Eurozone countries. WTI and Brent fell by 40c/bbl and 82c/bbl respectively. The term structures of crude and products at the front end of the curves have been softening in recent days, indicating lacklustre prompt demand.

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### Commodity price data (13 January 2012)

#### Base metals LME 3-month

		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,158	2,145	2,168	2,116	-13	-0.60%	2,110.00	-48	-31.25
Copper	7,966	8,000	8,117	7,879	34	0.43%	7,965.50	20	-9.00
Lead	2,025	2,012	2,049	2,002	-14	-0.67%	2,004.00	4	-25.00
Nickel	19,550	19,600	19,900	19,251	50	0.26%	19,630.00	55	-39.00
Tin	20,990	21,100	21,250	20,500	110	0.52%	21,090.00	-10	-56.00
Zinc	1,959	1,960	1,967	1,936	1	0.05%	1,943.00	-2	-6.25

#### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	110.70	110.74	110.90	110.49	0.30	0.27%
NYMEX WTI	98.95	98.88	98.95	98.60	0.18	0.18%
ICE Gasoil	952.75	954.75	955.25	952.50	2.25	0.24%
API2 Q1'12	107.25	105.40	-	-	-1.85	-1.76%

#### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,642.00	1,635.50	1,649.50	1,626.00	1,630.60	-16.60	0.3/0.6
Silver	-	29.72	30.24	29.48	29.54	-0.59	-4.0/-2.0
Platinum	1,483.00	1,479.00	1,495.00	1,475.00	1,480.00	-18.00	1.5/3.5
Palladium	632.00	627.00	636.00	626.00	632.00	-13.00	0.0/1.0

Sources: Standard Bank; LME; BBG

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### Focus: Market positioning cautiously confident on gold

Ending four successive weeks of decline, net speculative length for COMEX gold gained 11.7 tonnes this past week. The change in the net position was the result of speculative shorts being unwound (13.3 tonnes), although this was marginally negated by a 1.5 tonne decrease in speculative long positions. The slight improvement brings the net position to 448.3 tonnes, after the previous week's 12-month low of 436.6 tonnes. Although only a modest improvement this past week, the decline in short positions is encouraging. Perhaps the speculative market is becoming less apprehensive about gold's prospects.

ETFs turned net buyers of gold, with 13.6 tonnes added to their holdings this past week. This is perhaps further evidence that investors are growing more confident in gold. ETF holdings are currently at 2,438.3 tonnes.

After appearing to recover from the losses of early December, COMEX silver open interest has suffered a considerable loss this past week, shedding 425.8 tonnes.

Despite the set back in open interest, net speculative length for COMEX silver continued to rise, with a healthy increase of 157.1 tonnes. Unlike in the previous week, the increase in the net position was mostly attributable to a 309.8 tonne decrease in short positions, with the 152.7 tonnes unwound from speculative long detracting from the overall improvement. While the decline in speculative shorts this past week is encouraging, combined with the unwinding of speculative long positions, it would appear as if the market remains undecided on silver's future prospects. Added to this, market positioning still appears

### Base metals

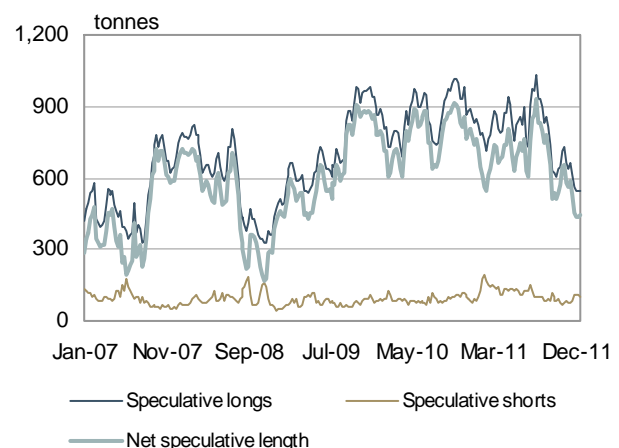
The credit rating downgrade of various European countries by Standard & Poors was largely anticipated by the market, with the move having limited impact on prices this morning. With the US markets on holiday today, and with China winding down ahead of the New Year holidays, turnover has been relatively muted with position housekeeping ahead of third-Wednesday the main feature of the LME metals this morning. The base metals are generally trending sideways to higher, with direction being dictated by the Euro and European equities.

The key economic data coming up are China's December Industrial Production (exp. 12.3%), Fixed Asset Investment (exp. 24.1%) and Retail Sales (exp. 17.2%) numbers, due out overnight, along with China's Q4 GDP (exp. 9.2% according to Bloomberg consensus). With the market hoping for / anticipating further easing measures, it could be the case that worse than expected numbers may actually be greeted positively, as the market hopes for some sort of government reaction intensify. That said however, with the Shanghai Composite index falling further, the hope of imminent easing measures, shared by many Western observers, are not necessarily shared by Chinese participants.

Copper came under pressure overnight, before recovering back above \$8,000 heading into the afternoon. After breaking higher on January 11th, the metal has started to run out of steam. While a risk-on mentality does appear to be having a reprise at the moment, with no physical market activity to sustain the rally - the loss per tonne for importing cash copper from LME into China now coming in at \$453/mt this morning from \$300/mt this time last week - the metal is again struggling to push higher.

Inventory-wise, New Orleans continues to see fresh copper warrant cancellations, while stocks are also starting to be withdrawn. In other news, Pan Pacific Copper meanwhile expects its Saganoseki smelter to restart in February, following the Jan-7th fire at its power unit.

### COMEX gold speculative longs and shorts



Sources: COMEX; Standard Bank Research

weak, with net speculative length at 2,337.0 tonnes (the 2011 average is 4,538.8 tonnes) and short positions totaling 1,977.4 tonnes (the average was 1,140.5 tonnes last year).

After four weeks of being net sellers, ETFs have finally added 12.4 tonnes to their holdings this past week. This brings ETF holdings to 17,789.3 tonnes. Again, while this appears encouraging, the modest nature of the increase leaves us unconvinced that ETFs have thrown off their cautious stance on silver.

By Walter de Wet

By Leon Westgate

## Precious metals

The reaction of precious metals to S&P's downgrade of nine Eurozone members late last Friday was mostly driven by the consequent dollar strength. As such, precious metals lost ground, with safe-haven associated buying providing little or no support. Overnight in Asia, we initially saw the downward trend persist as participants expected further dollar gains. However, with the dollar remaining relatively stable against the euro, we saw some light Asian buying arrest the downward momentum. With Asian equity markets ending the day mostly down, some of this buying could be attributed to a return of safe-haven interest in the region.

This morning we've seen some upside for precious metals, most likely as a result of safe-haven demand and speculation that China will loosen monetary policy ahead of New Year celebrations next week. However, activity remains lacklustre with not much scope for improvement with the US markets closed for a public holiday. Physical markets are also subdued, with India the only noteworthy buyer as the country enters a period of auspicious days.

While the euro has stabilised against the dollar for now, we still believe that it remains on a path to \$1.15 (see *G10 Daily—Debt downgrade weakens the euro* dated 16 January 2012). This, together with the negative reaction of precious metals to Friday's weakness in the euro (despite developments being conducive to increased safe-haven demand), affirms our belief that dollar strength will continue to limit any upside for precious metals in Q1:12.

According to the latest CFTC data, net speculative length for NYMEX platinum continued to rise, with a relatively strong increase of 33.0k oz this past week. Again, the improvement was attributable to a healthy increase in long positions (34.6k oz), although this time the modest addition to short positions (1.5k oz) detracted from the net increase. Total short positions are still worryingly high, at 499.8k oz (not far off last year's high of 517.2k oz posted only three weeks ago). Until we see a more marked improvement, we would remain sceptical that the speculative market has become more supportive of the platinum market.

For the second week net speculative length fell markedly, shedding 74.7k oz (72.9k oz were lost in the previous week). This has resulted in net speculative length reaching a new 12-month low of 455.5k oz. Market positioning remains decidedly bearish with total speculative shorts elevated at 496.4k oz (2011 average is 292.1k oz) and speculative long positions at a 12-month low (951.9k oz).

Gold support is at \$1,629 and \$1,615. Resistance is \$1,655 and \$1,665. Silver support is at \$29.50 and \$29.06, resistance is at \$30.34 and \$30.73. Platinum support is at \$1,477 and \$1,459, resistance is at \$1,506 and \$1,517. Palladium support is at \$629 and resistance at \$647.

**By Marc Ground**

## Energy

The oil market was under pressure again last Friday as S&P downgraded the sovereign ratings for nine Eurozone countries. WTI and Brent fell by 40c/bbl and 82c/bbl respectively. Oil products were mixed with RBOB gasoline rising slightly while distillates weakened. Meanwhile, fuel oil cracks remained very strong. Refining margins were fairly healthy, which should underpin demand for physical crude oil. However, the term structures of crude and products at the front end of the curves have been softening in recent days, indicating lacklustre prompt demand.

Net for last week, front-month WTI and Brent fell \$2.86/bbl and \$2.62/bbl respectively, as the Eurozone crisis was brought back to the forefront of investors' concerns. The rhetoric around the sanction over Iran from both sides have so far failed to materially affect global oil supply. The threat of an imminent shutdown of oil production in Nigeria has also been sidelined while the government and the unions negotiate the changes in the fuel subsidy.

The latest CFTC report shows that money managers raised their net length in WTI crude by 2.9% w/w (on a futures and options combined basis). Commercial hedgers' net short positions fell sharply, by 15%, reaching a new record 24-month low. Consumer long-hedging grew significantly faster than producer short-hedging in recent weeks. Meanwhile, open interest in WTI stood at about 10% below the average of last year, as the high volatility in the market keeps some participants on the sideline.

The downgrade of the Eurozone countries from S&P has so made relatively little impact on the market. Nevertheless, the Eurozone crisis remains the single largest downside risk for the oil market for now. As we noted last Friday, we are optimistic that some compromise is likely to be reached between the government and the union to avoid a complete shutdown of the oil sector in Nigeria. The EU is still expected to agree on an embargo over Iranian oil on 23 January, which is likely to raise the oil price again. In the very short term, the oil market is likely to soften a bit further, both on bearish technical signals as well as a weaker term structure.

**By James Zhang**

## 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	4,970,550	4,973,725	975	4,150	-3,175	150	741,225	14.91	279,989
Copper	356,825	358,250	450	1,875	-1,425	-14,075	66,025	18.50	184,661
Lead	352,500	352,650	0	150	-150	-575	31,375	8.90	44,612
Nickel	92,460	92,334	300	174	126	2,412	2,322	2.51	55,099
Tin	11,205	11,250	0	45	-45	-985	2,240	19.99	5,276
Zinc	817,500	818,500	0	1,000	-1,000	-4,200	8,625	1.06	126,019

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,110	16,145	5
Copper	57,570	57,860	20
Zinc	15,175	15,230	0

### COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'12	-	-	-
Copper	Cu Mar'12	364	363.25	-0.45
Zinc				

### ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,979	64,098	16,126	157,963	169,711	15,635	8.0470
3-month	17,505	65,288	16,416	159,956	172,197	15,996	8.1610

## Energy

Energy futures pricing	Price	Change	Price	Change	Price	Change	Price	Change	Price	Change
	1 month		2 month		3 month		6 month		1 year	
Sing Gasoil (\$/bbl)	128.15	-1.50	127.08	-2.42	126.57	-2.40	125.57	-2.27	-	-
Gasoil 0.1% Rdam (\$/mt)	954.75	2.25	953.25	2.00	950.75	2.25	942.25	-17.00	935.00	-17.00
NWE CIF jet (\$/mt)	1,021.66	-12.27	1,022.00	-19.58	1,025.76	-19.48	1,026.09	-17.70	1,021.55	-17.04
Singapore Kero (\$/bbl)	127.10	-1.55	126.93	-2.62	127.10	-2.62	126.17	-2.44	125.21	-2.42
3.5% Rdam barges (\$/mt)	662.75	-6.69	641.75	-13.25	633.00	-13.75	617.50	-13.75	593.25	-14.75
1% Fuel Oil FOB (\$/mt)	679.81	-6.50	672.00	-8.75	665.25	-10.25	652.50	-11.50		
Sing FO180 Cargo (\$/mt)	713.38	-6.46	690.00	-13.00	676.25	-12.75	651.75	-15.00		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	105.40	-1.85	105.40	-2.00	107.35
API4 (FOB RBCT)	104.15	-0.85	104.05	-0.50	105.35

## Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.51760	0.53400	0.57500	0.61940	0.64200
Silver	0.28833	0.28167	0.28000	0.28000	0.28000
USD Libor	0.28510	0.41500	0.56700	0.79425	1.11395

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	48.45	1,627.12	1,607.29	1,698.93	1,638.98	1,629.00	1,655.00
Silver	45.99	29.56	29.05	33.13	35.93	29.50	30.34
Platinum	48.27	1,452.66	1,432.67	1,583.33	1,683.23	1,477.00	1,506.00
Palladium	49.53	637.01	637.94	651.84	708.60	629.0	647.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'12	Mar'12	Apr'12	Apr'12	Feb'12	Dec'12	Feb'12
Settlement	1,640.70	29.6750	639.05	1,488.80	1,639.50	4,058.00	1,638.40
Open Interest	418,672	103,877	17,893	43,475	5,831	126,729	1,738
Change in Open Interest	4,383	-5	-190	-163	0	-2,526	23

Sources: Standard Bank; LME; Bloomberg

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