

# FICC Research

## Commodities: Daily

### Focus: Gold physical demand turns positive



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**Focus:** There was brisk scrap and other physical selling in the gold market throughout June, but this trend has now ended, now that gold has fallen by almost \$50. With gold below \$1,200, the demand response from the physical market has swung from resistance to strong support.

- The base metals opened higher across the board, but have generally drifted sideways on the back of very thin volumes.
- With the support for gold from the physical market in place, there is growing resistance to a move lower in the gold price. That said, we would not be surprised to see more gold liquidation on the investment front this week. Support is at \$1,190 and \$1,184. Resistance is at \$1,206 and \$1,218.
- As with the industrial metals, WTI is rather short on direction, with the market in wait and see mode ahead of US trade.

#### Commodity price data (7 July 2010)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,980	1,987	2,008	1,967	7	0.35%	1,954.50	9	-22.75
Copper	6,550	6,645	6,690	6,510	95	1.45%	6,545.00	22	-24.25
Lead	1,785	1,797	1,805	1,755	12	0.68%	1,756.00	1	-21.25
Nickel	19,000	19,150	19,225	18,800	150	0.79%	18,990.00	135	-58.00
Tin	17,400	17,650	1,838	17,050	250	1.44%	17,650.00	210	-32.00
Zinc	1,840	1,854	1,862	1,820	14	0.76%	1,810.00	-4	-30.75

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	74.20	73.84	74.43	73.83	0.33	0.45%
NYMEX WTI	74.85	74.52	75.10	74.49	0.45	0.60%
ICE Gasoil	635.25	633.75	637.75	633.75	7.25	1.14%
API2 Q3'10	93.50	93.00	-	-	-0.50	-0.54%
EUA Dec10	15.24	14.89	-	-	-0.35	-2.30%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,186.00	1,193.25	1,199.00	1,185.70	1,198.00	2.70	0.1/0.5
Silver	-	18.07	18.07	17.69	18.02	0.22	0.5/2.5
Platinum	1,503.00	1,512.00	1,523.00	1,500.00	1,522.00	7.00	-1.0/1.0
Palladium	433.00	439.00	442.00	430.00	440.00	2.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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

## Focus: Gold physical demand turns positive

In our last gold physical flows update (*Commodities Daily* 30 June 2010), we pointed out strong resistance from the gold physical market to a higher gold price. There was brisk scrap and other physical selling in the gold market throughout June — but this trend has now ended.

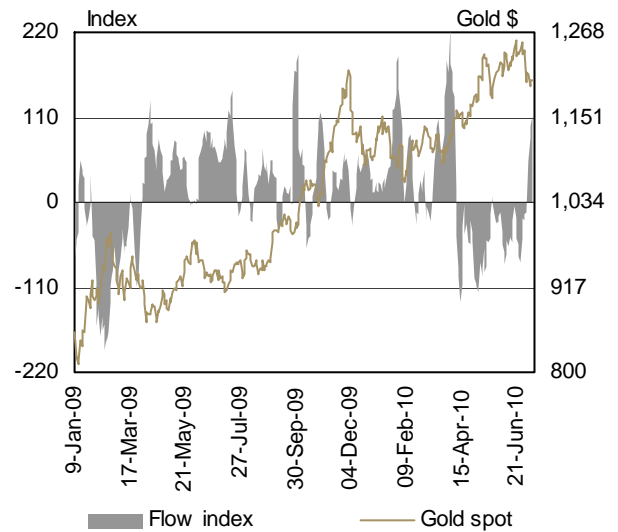
Trends in the gold physical market are captured by our physical gold index. Our index tracks physical gold buying and selling, including scrap gold, on a daily basis. Recently, the index dipped deeply into negative territory on rallies above \$1,250.

However, now that gold has fallen by almost \$50, the trend has reversed. With gold below \$1,200, the demand response from the physical market has swung from resistance to strong support, as gold selling and scrap sales have dried up. Our Standard Bank physical gold index has bounced into highly positive territory.

We believe that investment demand for gold will remain strong. Despite the sharp decline in the gold price last week, ETF holdings remain steady. The latest data shows total gold ETF holdings at 2,038 tonnes — up 6 tonnes since the start of July. In June, gold ETFs added 76 tonnes to their holdings (ETF holdings increased from around 1,956 tonnes at the start of June to 2,032 tonnes yesterday). The investment market remains bullish and, but for the scrap and other gold selling in the physical market in June, the gold price could arguably have been much higher.

Our view on the physical gold market remains unchanged. We expect support from the physical market to intensify ahead of

Standard Bank physical gold index



Source: Standard Bank

Q4:10 — we estimate seasonality in gold jewellery demand to be the strongest in Q4. Buying of gold for jewellery demand, especially in India, may increase as early as Augusts/September.

We still see gold heading towards \$1,300 in, or just before, Q4:10.

By Walter de Wet

## Base metals

A very strong performance from the US equity markets - the Dow recovering nearly 3% to close back above the 10,000 mark - had surprisingly little effect on the Asian markets overnight. The base metals opened higher across the board, but have generally drifted sideways on the back of very thin volumes.

The lack of volume suggests the market is not yet convinced about the recent strength, while the key ECB rate announcement and the start of the Q2 earnings season next week is also prompting the market to stay in wait and see mode. A solid run of earnings figures may provide the impetus to tempt money back in from the sidelines, however whether it will be enough to jolt the metals out of their current sideways trading pattern remains to be seen.

Also of interest were comments from China's central bank saying that it will stick to a moderately loose monetary policy, noting that money and loan growth were reasonable during H1, the economy was better balanced and that liquidity in the banking system was basically appropriate. Given those statements, it seems that further tightening measures seem unlikely, with the Chinese government likely to wait and see how the rest of the year unfolds before taking any further action.

Aluminium has traded in a fairly narrow range either side of \$2,000. Turnover has been very thin indeed, with the metal attracting very little interest. That pattern has been repeated across the rest of the complex.

Copper has been a bit more interesting, with the metal taking a breather after Wednesday afternoon's rally and consolidating ahead of US trade. After opening higher, arbitrage selling emerged during Asian trade, seeing prices drift back towards Wednesday's closing levels. In contrast to previous days, on-warrant LME inventories increased this morning, gaining 2,300 mt, though headline inventories still posted a 350 mt decline. The main locations for the activity were St Louis and Busan.

By Leon Westgate

## Precious metals

We still see healthy demand for gold in the physical market. At the same time, gold scrap sales have dried up. With the support for gold from the physical market in place (refer to *Focus*), there is growing resistance to a move lower in the gold price. That said, we would not be surprised to see more gold liquidation from the investment front this week. We therefore still see short-term momentum as down. Support is at \$1,190 and \$1,184. Resistance is at \$1,206 and \$1,218.

While platinum and palladium are slightly higher following yesterday's rally in US equities, as with gold, we are not looking for substantial upside just yet. In fact, we believe that the risk for further long liquidation remains. That said, on a 3-6 month horizon, the risk/reward ratio appears very attractive. This view is motivated by both the supply-side pressures and demand for PGM (which is still expected to grow).

On the demand side, India released auto sales figures for June this morning. Indian passenger cars sales were up 30.8% y/y, trucks and bus sales were up 44%. While Indian sales in absolute terms are not nearly as large as sales in China, the US, Europe or Japan, to us it is another signal that demand remains healthy in especially emerging markets. While we could see a seasonal slowdown in auto demand in July and August, we expect demand to pick up again towards Q4.

Platinum support is at \$1,503 and \$1,480, resistance is at \$1,535 and \$1,550. Palladium support is at \$436 and \$420. Resistance is at \$460 and \$466.

**By Walter de Wet**

## Energy

Crude oil rallied strongly throughout Wednesday, boosted by a weaker dollar and stronger US equities. Bullish API inventory figures have kept prices well supported overnight, with front month WTI opening higher then trading sideways. As with the industrial metals, WTI is rather short on direction, with the market in wait and see mode ahead of US trade.

The key event this afternoon will be the release of the latest DOE inventory figures. Yesterday's API inventory numbers showed a very bullish 7.26 million bbl draw in crude inventories and a 1.02 million bbl draw in Distillates.

The latest estimates for the DOE numbers are a 2.0 million bbl fall in Crude Oil inventories, a 0.1 million bbl increase in Gasoline stocks and a 1.6 million bbl increase in Distillate stocks. Following the API numbers however, the market may have positioned itself for a bullish set of DOE numbers later this afternoon. Consequently, the market may be caught off guard and react more strongly should the numbers prove to be disappointing.

Coal prices came under pressure yesterday, in spite of firmer crude oil numbers. Overall, coal continues to show very little correlation with other commodities or the wider financial markets. Most of the prices action occurred towards the back end of the curve with API4 seeing Cal-11 fall \$1/mt to \$93.75 while Q3-10 was unchanged on the day at \$90.60. API2 showed a similar pattern with Cal-11 falling \$1.50/mt while Q3-10 dropped \$0.50/mt.

**By Leon Westgate**

## 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	4,403,875	4,409,550	4,075	9,750	-5,675	-225,025	282,225	6.41	180,894
Copper	439,000	439,350	3,200	3,550	-350	-63,325	32,425	7.39	97,257
Lead	189,350	189,850	-	500	-500	42,850	13,500	7.13	25,077
Nickel	121,326	121,716	-	390	-390	-36,684	5,640	4.65	26,378
Tin	16,605	16,820	40	255	-215	-10,160	1,475	8.88	5,304
Zinc	616,825	616,575	300	50	250	128,775	24,050	3.90	91,165

### Shanghai 3-month forward prices

### COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	14,940	14,890	35	Ali Jul'10	-	-	-	-
Copper	53,370	53,280	830	Cu Jul'10	302	302.20	0.70	0.23%
Zinc	15,375	15,285	95					

### ZAR metal prices (7 July 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,020	50,298	13,495	145,938	135,640	13,910	7.6850
3-month	15,506	51,855	14,023	149,439	137,734	14,468	7.8036

## 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)	82.57	0.32	83.64	0.41	84.03	0.37	85.48	0.35	-	-
Gasoil 0.1% Rdam (\$/mt)	633.75	7.25	635.25	6.75	639.00	6.75	654.75	11.50		
NWE CIF jet (\$/mt)	675.44	5.08	681.39	4.34	687.31	4.08	702.55	3.07		
Singapore Kero (\$/bbl)	82.82	0.36	84.49	0.46	85.13	0.42	86.93	0.40		
3.5% Rdam barges (\$/mt)	403.75	0.75	406.25	1.25	408.50	1.50	416.25	1.50		
1% Fuel Oil FOB (\$/mt)	448.50	5.00	451.00	4.00	452.50	4.00	460.25	5.00		
Sing FO 380 Cargo (\$/mt)	426.50	0.50	426.50	0.50	426.50	0.50	426.50	0.50		
Sing FO180 Cargo (\$/mt)	434.75	0.50	434.75	0.50	436.00	0.75	445.00	2.25		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	93.00	-0.50	94.00	-1.20	96.10	-1.30	98.00	-1.50	105.00	-1.25
API4 (FOB RBCT)	90.60	0.00	90.50	-0.45	92.60	-0.80	93.75	-1.00	99.25	-1.00

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.49800	0.53400	0.56000	0.68800	0.76600		
Silver	0.67500	0.68750	0.71250	0.75000	0.75000		
USD Libor	0.34500	0.42813	0.52988	0.74244	1.16188		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	50.09	1,219.74	1,228.25	1,172.88	1,138.58	1,184.00	1,206.00
Silver	49.03	18.23	18.42	17.90	17.64	17.60	18.40
Platinum	44.19	1,529.67	1,550.59	1,611.82	1,530.98	1,485.00	1,550.00
Palladium	45.78	447.46	461.16	480.56	429.72	420.00	450.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	Jul'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,204.30	18,0700	446.75	1,526.40	1,204.10	3,431.00	1,204.90
Open Interest	577,732	118,962	19,506	28,097	1,545	122,223	3,151
Change in Open Interest	-2,037	2,314	-55	617	-137	-4,465	0

Date: 7 July 2010

Sources: Standard Bank; LME; Bloomberg

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