

FICC Research

Commodities: Daily

Focus: Gold selling fizzles out



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Walter de Wet, CFA*
Walter.DeWet@standardbank.com

Leon Westgate*
Leon.Westgate@standardbank.com

Focus: We expect strong gold demand in H2:10. (See overleaf.)

- Base metals are trading well off yesterday's lows. However, they remain within their ranges of the past two weeks. Copper buying below \$6,600 remains strong, with good support around this level. Aluminium is seeing good buying interest on approach of \$1,960, and the same goes for zinc below \$1,800. We foresee consolidation for base metals within their current ranges rather than more steep declines.
- Gold support remains intact. However, if equities push higher, long gold positions might unwind — but only temporarily. We still favour buying dips in gold. Gold support is at \$1,213 and \$1,205, resistance at \$1,226 and \$1,231.
- NYMEX WTI remains range-bound between \$72 and \$75 — we expect this to continue. US non-farm payrolls data is due for release on Friday. We don't expect risk-taking ahead of this data release. However, crude oil prices could move up.

Commodity price data (2 June 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,985	1,985	1,996	1,962	0	0.00%	1,954.00	1	-32.50
Copper	6,635	6,668	6,775	6,560	33	0.50%	6,605.00	-110	-30.00
Lead	1,735	1,696	1,770	1,670	-39	-2.25%	1,709.50	-42	-28.75
Nickel	19,950	19,655	20,300	19,250	-295	-1.48%	19,880.00	-625	-76.00
Tin	17,671	17,675	6,774	17,500	4	0.02%	17,650.00	220	-70.00
Zinc	1,828	1,802	1,890	1,779	-26	-1.42%	1,791.00	-30	-32.25

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	74.50	74.66	74.81	74.36	0.91	1.22%
NYMEX WTI	73.70	73.82	73.89	73.43	0.96	1.30%
ICE Gasoil	642.25	641.00	645.00	640.25	4.00	0.62%
API2 Q3'10	89.70	90.50	-	-	0.80	0.88%
EUA Dec10	15.10	15.24	-	-	0.14	0.93%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,221.00	1,215.00	1,226.50	1,214.30	1,220.00	-4.80	1.5/1.7
Silver	-	18.39	18.49	18.11	18.30	-0.25	-1.0/1.0
Platinum	1,539.00	1,542.00	1,560.00	1,540.00	1,545.00	-5.00	0.0/3.0
Palladium	452.00	450.00	460.00	450.00	450.00	-10.00	0.0/2.0

Sources: Standard Bank; LME; BBG

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

Focus: Gold selling fizzles out

In our last physical flow update at the start of May (*Commodities Daily 4 May 2010*) we reported on large amounts of scrap and other physical selling in the gold market. This selling trend continued throughout May, but now seems to have run its course. Also in May, gold ETFs added almost 150 tonnes to holdings (which increased from 1,800 tonnes 1 May to 1,950 tonnes 1 June). The investment market is very bullish and, without the scrap and other gold selling in the physical market, the gold price could arguably have been much higher.

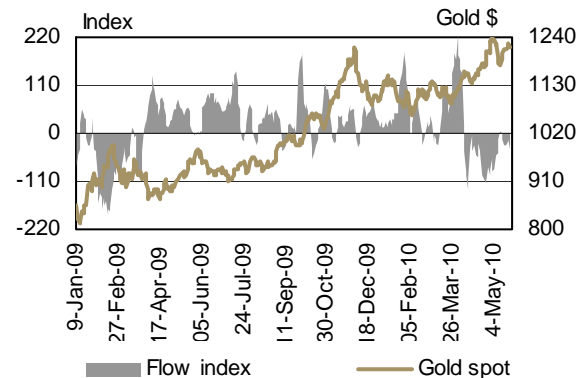
Physical market selling is graphically presented alongside; the Index pushed deeply into negative territory in April and May (an index value below zero indicates net selling in the physical gold market).

But in recent days, selling has slowed, and our index is near neutral territory *despite* the gold price having edged back above \$1,200 (see graph).

Re future physical flows: Our analysis shows that, after controlling for movements in the gold price, Q3 jewellery demand is slightly weaker than in Q2. We therefore infer a lull in gold demand in Q3:10. Jewellery gold demand is by far the strongest in Q4.

However, H2:09 produced, on average, an index value above zero — which implies that the physical market had provided upward

Standard Bank physical gold flow index*



* Index is based on the physical flows Standard Bank see. A value below zero in the index shows net selling of gold. A value above zero shows net buying of gold.

Source: Standard Bank

momentum to the gold price. We expect strong gold demand in H2:10. An index value above zero combined with healthy investment demand could only spell new record highs for gold.

By Walter de Wet

Base metals

Base metals are trading well off yesterday's lows. However, they remain within their ranges of the past two weeks. Copper buying below \$6,600 remains strong, with good support around this level. Aluminium is seeing good buying interest on approach of \$1,960, and the same goes for zinc below \$1,800.

We foresee consolidation for base metals within their current ranges rather than more steep declines. *Firstly*, The US reported good auto sales for May last night — 11.64m SAAR. Expectations were for 11.4m. This increase has a seasonal component, but it is still a good number (autos sales are also a leading indicator). PMI manufacturing indices on Tuesday around the world confirmed that growth remains intact (although the growth rate in China's manufacturing sector is slowing). *Secondly*, we also believe that liquidation in the futures market may largely have run its course. *Thirdly*, we foresee range-bound markets ahead of the weekend for another reason — tomorrow sees the release of US non-farm payrolls data. We don't expect risk-taking ahead of this data release. The current expectation is for a rise of 515K new jobs in May. Most of these jobs will be temporary government/census related jobs. Nevertheless, US employment has been on an upward trend.

Aluminium saw another small decline in LME inventory this morning. We find that aluminium prices are experiencing heightened sensitivity to warehouse inventory at the moment due to metal locked up in rent deals (see *Commodities Daily 2 June 2010*). This, combined with copper also performing well, has pushed aluminium above \$2,020 this morning.

Copper is back above \$6,700. It remains a slave to equity market movements. However, copper has shrugged off equities in Shanghai having closed down lower this morning in anticipation of the S&P closing above its 200-day MA today.

By Walter de Wet

Precious metals

Gold support remains intact. However, if equities push higher, long gold positions might unwind — but only temporarily. We still favour buying dips in gold. Should equities indeed continue rallying (Asian and European markets are up today and US equity futures are firmly in the green), gold support could well run dry. For the S&P, the 200da MA remains a key resistance level. We expect gold support to lose momentum, as risk appetite limits gold demand. However, interest rates remain low and liquidity ample, which has been ensuring an upward trend for gold.

Gold support is at \$1,213 and \$1,205, resistance at \$1,226 and \$1,231.

Encouraging US data flow helped platinum and palladium stage a strong recovery yesterday. Improving home sales figures, and to a lesser extent the Challenger job cuts data, pointed to a stronger US economy. Most importantly for the PGM complex, US domestic vehicle sales showed a marked improvement, rising to 9.14m in May (8.78m in the previous month) and beating analyst expectations (consensus 8.9m). After the concerns over Eurozone and Asian growth, this news out the US was particularly encouraging, and we anticipate that today's US labour market data (ADP employment and jobless claims) could have a more significant effect on platinum and palladium prices than is usually the case. Better-than-expected numbers would bolster PGM prices, however, the historical volatility of the jobless claims data increases downside potential.

Platinum support is at \$1,530 and \$1,520, resistance at \$1,570. Palladium support is at \$448 and \$440, resistance at \$475.

By Walter de Wet

Energy

NYMEX WTI remains range-bound between \$72 and \$75 — we expect this to continue. US non-farm payrolls data is due for release on Friday. We don't expect risk-taking ahead of this data release. However, crude oil prices could move up.

API inventory data (yesterday) was mixed. There were good draws in crude oil and gasoline inventories. But Cushing stocks were up yet again — by a sizable 716K. Consensus for DOE crude oil inventories (this afternoon) is for a less bearish print than the previous week's (but still not bullish). Gasoline stocks could decline, and distillate stocks could build. The market expect crude oil inventories to have remained largely unchanged.

We look to US equity markets (both S&P and Dow) to break above the 200-day MA today before we would become bullish on crude oil. The US futures market signals that equities may open higher today.

Coal prices remain well supported, reflecting the good underlying demand. Global PMI manufacturing indices have confirmed that growth remains intact — albeit that the growth rate in China's manufacturing sector is slowing. We foresee increased electricity demand. API2 for Cal-11 closed at 97.10, Cal-12 closed at \$104.10.

By Walter de Wet

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	4,541,150	4,548,450	25	7,325	-7,300	-87,750	284,550	6.27	154,501
Copper	474,300	475,225	-	925	-925	-28,025	23,275	4.91	106,260
Lead	192,200	192,225	500	525	-25	45,700	6,975	3.63	34,441
Nickel	136,848	137,436	42	630	-588	-21,162	5,250	3.84	32,208
Tin	20,975	19,955	1,580	560	1,020	-5,790	1,060	5.05	4,767
Zinc	617,950	618,825	-	875	-875	129,900	19,025	3.08	81,538

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	15,010	14,960	15	Ali May'10	-	-	-	-
Copper	54,000	53,960	420	Cu May'10	304	305.30	1.25	0.41%
Zinc	15,330	15,115	-215					

ZAR metal prices (2 June 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,979	50,634	13,105	152,400	135,305	13,730	7.6660
3-month	15,455	51,915	13,205	153,028	137,612	14,030	7.7857

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)	84.56	-0.45	85.14	-0.43	85.82	-0.38	87.62	-0.11	-	-
Gasoil 0.1% Rdam (\$/mt)	641.00	4.00	644.25	4.50	648.75	4.50	663.50	3.75		
NWE CIF jet (\$/mt)	694.25	-4.01	698.07	-4.04	704.34	-2.40	720.77	-1.97		
Singapore Kero (\$/bbl)	85.90	-0.45	86.19	-0.43	86.92	-0.43	89.17	-0.21		
3.5% Rdam barges (\$/mt)	415.50	4.50	414.75	3.50	417.75	3.50	427.50	3.25		
1% Fuel Oil FOB (\$/mt)	432.75	4.25	439.00	3.75	444.00	4.00	457.50	3.75		
Sing FO 380 Cargo (\$/mt)	436.50	3.75	439.00	4.00	439.00	4.00	439.00	4.00		
Sing FO180 Cargo (\$/mt)	438.50	3.50	442.00	3.50	445.50	3.75	454.75	3.25		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	90.50	0.80	92.60	0.80	94.70	0.70	97.10	0.80	104.10	0.60
API4 (FOB RBCT)	92.00	0.05	92.60	0.00	93.20	0.70	94.85	0.80	99.25	0.60

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.61167	0.68833	0.71167	0.79500	0.94833		
Silver	0.69167	0.69333	0.70167	0.76000	0.80167		
USD Libor	0.35088	0.43688	0.53750	0.75363	1.20625		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	59.99	1,210.06	1,213.67	1,140.44	1,109.41	1,205.00	1,226.00
Silver	52.44	18.22	18.53	17.43	17.39	18.50	18.80
Platinum	44.70	1,541.03	1,606.04	1,611.43	1,498.94	1,520.00	1,570.00
Palladium	45.59	453.27	480.05	474.14	409.32	445.00	480.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	May'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,225.20	18.4050	461.50	1,550.40	1,222.20	3,641.00	1,224.50
Open Interest	547,525	120,952	21,271	30,293	1,148	107,733	2,799
Change in Open Interest	0	0	295	-128	-4	-2,559	0

Date: 2 June 2010

Sources: Standard Bank; LME; Bloomberg

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