

FICC Research

Commodities: Daily

Focus: Gold support intact



1 June 2010

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

Leon Westgate*
Leon.Westgate@standardbank.com

Focus: The futures market indicates that gold remains well positioned to benefit from risk aversion. The latest CFTC data (Friday afternoon) has confirmed that speculative length in gold remains at acceptable levels despite gold's rally of the past two weeks.

- The euro at a 4-year low to the dollar (\$1.2115) is putting pressure on base metals.
- Gold remains well supported above \$1,200. Dips are buying opportunities. Gold support is at \$1,213 and \$1,205, resistance at \$1,226 and \$1,231. We still favour gold in euro terms relative to gold in dollar terms. The euro has crashed to \$1.2110 — a four-year low to the dollar. Our target for the euro remains at \$1.15. We believe that gold will touch record highs in dollar terms soon. We also see it trading above \$1,300 in Q3/Q4:10.
- As with the metals, crude oil remains under pressure as the euro moves lower. Our target for the euro remains at \$1.15 against the dollar within the next three months. Front-month WTI is back below \$72. We see support at \$70.50 and \$69.20, resistance at \$74.48 and \$77.00.

Commodity price data (31 May 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,025	2,065	2,070	2,000	40	1.98%	2,003.50	-7	-30.50
Copper	6,915	6,984	7,000	6,730	69	1.00%	6,875.50	40	-29.00
Lead	1,820	1,844	1,845	1,745	24	1.32%	1,777.00	17	-27.25
Nickel	21,675	21,800	21,800	21,000	125	0.58%	21,600.00	140	-74.00
Tin	17,725	17,990	1,875	17,525	265	1.50%	17,725.00	15	-65.00
Zinc	1,911	1,941	1,947	1,878	30	1.57%	1,875.50	-6	-31.25

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	74.82	74.05	74.90	73.98	-0.60	-0.81%
NYMEX WTI	73.97	73.92	75.17	73.71	-0.05	-0.07%
ICE Gasoil	640.00	634.75	640.00	634.50	-3.00	-0.47%
API2 Q3'10	90.00	90.50	-	-	0.50	0.55%
EUA Dec10	15.57	15.10	-	-	-0.47	-3.02%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,214.00	1,207.50	1,214.80	1,203.50	1,212.00	-0.50	1.4/1.8
Silver	-	18.54	18.48	18.25	18.39	-0.06	0.0/2.0
Platinum	1,569.00	1,555.00	1,565.00	1,543.00	1,543.00	-4.00	0.0/3.0
Palladium	469.00	471.00	470.00	456.00	462.00	0.00	0.0/2.0

Sources: Standard Bank; LME; BBG

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

Focus: Gold support intact

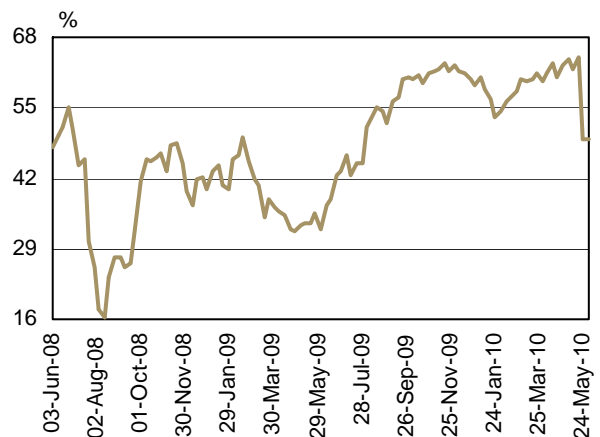
The futures market indicates that gold remains well positioned to benefit from risk aversion. The latest CFTC data (Friday afternoon) has confirmed that speculative length in gold remains at acceptable levels despite gold's rally of the past two weeks. As expected, platinum has seen a very large liquidation of non-commercial long positions.

The long non-commercial position on COMEX gold has declined by 20 tonnes last week, from 975 tonnes to 955 tonnes. Non-commercial shorts are down 15 tonnes, to 72 tonnes. This leaves the net speculative long position at 883 tonnes (down from 888 tonnes the previous week). As a percentage of open interest (OI), the net long speculative position has decreased to 32.87% of OI (from 33.3% the previous week). This is still well below 42% of OI in September 2009, and now below the average 36% seen over the past 12 months.

Relative to gold, silver looks overbought. The long non-commercial position on COMEX silver has jumped 546 tonnes last week, from 7,674 tonnes to 8,220 tonnes. Non-commercial shorts are down 264 tonnes, to 7,039 tonnes. This leaves the net speculative long position at 7,039 tonnes (up from 6,229 tonnes the previous week). In terms of open interest, silver's speculative length is now at 28.1% of OI (25.3% the previous week). Speculative length increased from 16% of OI in February and reached a high of 28% the last week of April. Silver's speculative length is well above the average 24.6% seen over the past 12 months.

CFTC data shows that platinum's non-commercial long position has fallen by 401K oz to 750,950oz last week. This puts the net speculative longs at 49% of OI — down from 64% the previous week. This is the lowest level since June last year. In sharp con-

NYMEX Pt non-commercial net long position as % of OI



Sources: CFTC; Standard Bank

trast, palladium's net long position is at 58% of OI — down only 3% from 62% of OI the previous week. We believe platinum has seen the worse of the sell-off. We expect some consolidation above \$1,500.

We are surprised by the stickiness in the net speculative longs in NYMEX palladium. It does show the market remains bullish on palladium, but it makes us wary of palladium, as it would be susceptible to a larger sell-off than platinum should risk appetite suddenly decline.

By Walter de Wet

Base metals

The euro at a 4-year low to the dollar (\$1.2110) is putting pressure on base metals.

China's PMI (manufacturing index) for May has come in at 53.9 (April: 55.7). This indicates a slowdown in manufacturing. However, China's PMI manufacturing index has consistently (for the past 6 years) printed lower in May than April — we therefore view a large part of the decline in the PMI index as "seasonal". Also, we may see another decline in June and July, if seasonal patterns hold.

In the US, COMEX copper's spec length stands at 3.1% of open interest (OI) — down from 5.6% the previous week. Copper's non-commercial interest is also well below the 15% of OI seen at the start of April. While LME copper is the benchmark for the metal, COMEX copper could be indicative of speculative activity in copper. If so, the data indicates that copper has seen large liquidation already, and most futures market liquidation may have run its course. However, with the Shanghai/LME price ratio drifting around 8.01, there was little arbitrage buying interest; the LME price therefore failed to push higher this morning.

While aluminium continues to take direction from copper, the aluminium market remains relatively tight, especially in Europe. We see this not only in a rise in premiums in Europe, but also in the high sensitivity of LME 3-month copper prices to changes in LME inventories (despite LME inventories remaining high). Over the past 30 days — after accounting for movements in other variables such as the dollar, copper prices and equity prices — the aluminium price has risen by 1.6% for every 1% decline in LME inventories. The sensitivity of aluminium prices to LME inventories is another indication that large amounts of inventories are tied up in warehouse rent deals.

By Walter de Wet

Precious metals

Gold remains well supported above \$1,200. Dips are buying opportunities. Gold support is at \$1,213 and \$1,205, resistance at \$1,226 and \$1,231. We still favour gold in euro terms relative to gold in dollar terms. The euro has crashed to \$1.2110 — a four-year low to the dollar. Our target for the euro remains at \$1.15. We believe that gold will touch record highs in dollar terms soon. We also see it trading above \$1,300 in Q3/Q4:10.

There are many macro-economic risks, as confirmed by Spain's ratings downgrade on Friday. We look to equity markets for direction on risk appetite. The 200d MA still provides strong resistance to the S&P and Dow in the US. Both indices attempted a close above this level on Thursday/Friday — neither did. Looking at the US futures market, both indices seem headed down today.

Platinum and palladium are sacrificing last week's gains. While we believe, based on fundamentals, that PGM prices will move higher, the rally last week was on the back of short-covering and month-end positioning; some correction is possible. Platinum support is at \$1,530 and \$1,500, resistance at \$1,579. Palladium support is at \$443 and \$425, resistance at \$475. With the euro under pressure (see *Focus*), we remain wary of palladium. Palladium has seen little decline in its speculative long positions as a percentage of open interest, and remains susceptible to a larger sell-off than the rest of the precious metals basket.

Silver is caught between gold (moving higher) and industrial metals (moving down). Should US equities continue to struggle this afternoon, we would favour some downside for silver. Silver support is at \$18.21 and 18.03, resistance at \$18.58 and \$18.78.

By Walter de Wet

Energy

As with the metals, crude oil remains under pressure as the euro moves lower. Our target for the euro remains at \$1.15 against the dollar within the next three months. Front-month WTI is back below \$72. We see support at \$70.50 and \$69.20, resistance at \$74.48 and \$77.00.

According to the latest CFTC data, NYMEX WTI has seen the net long non-commercial position decline from 5% of open interest (OI) to 3.96% of OI last week. It is also much lower than the 8% of OI seen at the start of April and the lowest net long position since July last year.

We've calculated the sensitivity of the oil price to various factors such as the dollar and equity markets. We find that the euro/dollar exchange rate is still the dominant driver of crude oil price moves over the past 30 days. A stronger dollar should still put downward pressure on crude oil prices. However, with the NYMEX non-commercial net long positions much lower than a month ago, we expect crude oil to become less sensitive to dollar strength than it has been over the past 4 weeks.

As with base metals, the real economy remains particularly important for the outlook for crude oil demand. This morning, China's PMI manufacturing index for May came in at 53.9 — signaling a slowdown in manufacturing activity in the country. However, China's PMI manufacturing index has consistently printed lower in May than April. We may see another decline in June and July if seasonal patterns hold. We expect US PMI manufacturing index to indicate that US manufacturing had expanded strongly in May. This may support WTI prices this afternoon.

Our view on crude oil remains unchanged, and we believe it will trade above \$80 towards end June.

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	4,556,175	4,561,400	4,500	9,725	-5,225	-72,725	297,300	6.53	172,039
Copper	475,575	476,725	-	1,150	-1,150	-26,750	22,225	4.67	121,861
Lead	192,675	190,600	3,425	1,350	2,075	46,175	3,575	1.86	29,768
Nickel	138,396	138,504	396	504	-108	-19,614	5,982	4.32	30,713
Tin	20,350	20,060	290	-	290	-6,415	1,545	7.59	5,087
Zinc	620,200	619,000	2,000	800	1,200	132,150	20,000	3.22	67,364

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	15,280	15,270	-35	Ali May'10	-	-	-	-
Copper	54,750	54,430	-1,010	Cu May'10	310	306.30	-4.15	-1.34%
Zinc	15,820	15,820	-140					

ZAR metal prices (28 May 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,369	52,742	13,631	165,694	135,968	14,387	7.5725
3-month	16,080	54,384	14,359	169,754	140,086	15,114	7.6862

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)	84.81	0.51	85.23	0.50	85.74	0.48	87.28	0.45	-	-
Gasoil 0.1% Rdam (\$/mt)	634.75	-3.00	637.25	-3.25	641.50	-3.00	659.00	1.50		
NWE CIF jet (\$/mt)	693.30	3.87	697.36	4.00	702.74	3.25	719.24	3.75		
Singapore Kero (\$/bbl)	85.80	0.40	86.36	0.43	86.95	0.44	88.99	0.41		
3.5% Rdam barges (\$/mt)	411.00	2.00	413.00	1.50	416.25	1.50	426.50	2.25		
1% Fuel Oil FOB (\$/mt)	432.75	2.50	438.50	2.75	443.25	2.75	456.75	3.25		
Sing FO 380 Cargo (\$/mt)	434.25	1.00	437.25	1.00	-	16.25	-	16.25		
Sing FO180 Cargo (\$/mt)	437.00	1.00	440.75	1.00	444.00	1.00	453.75	1.25		

Thermal coal	Q3-10	Q4-10	Q1-11	Cal 11	Cal 12
API2 (CIF ARA)	90.50	0.50	92.75	0.35	95.00
API4 (FOB RBCT)	92.75	1.45	93.55	1.55	93.50

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.57000	0.62167	0.65667	0.76000	0.91000
Silver	0.66000	0.68833	0.68000	0.72000	0.75000
USD Libor	0.35125	0.43375	0.53625	0.75188	1.20406

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	58.55	1,203.41	1,206.03	1,137.15	1,103.85	1,205.00	1,226.00
Silver	53.32	18.24	18.44	17.44	17.30	18.50	18.80
Platinum	43.73	1,565.26	1,629.80	1,612.82	1,492.65	1,520.00	1,570.00
Palladium	46.45	457.75	491.69	473.05	405.86	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	1,220.30	18.5250	465.60	1,549.40	1,216.20	3,584.00	1,220.10
Open Interest	559,613	123,179	21,933	30,624	872	104,658	2,799
Change in Open Interest	4,800	-1,795	-880	-1,027	-8	-294	-29

Date: 31 May 2010

Sources: Standard Bank; LME; Bloomberg

Disclaimer

Certification

The analyst(s) who prepared this research report (denoted by an asterisk*) hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and issuer(s) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

Conflict of Interest

It is the policy of The Standard Bank Group Limited and its worldwide affiliates and subsidiaries (together the "Standard Bank Group") that research analysts may not be involved in activities in a way that suggests that he or she is representing the interests of any member of the Standard Bank Group or its clients if this is reasonably likely to appear to be inconsistent with providing independent investment research. In addition research analysts' reporting lines are structured so as to avoid any conflict of interests. For example, research analysts cannot be subject to the supervision or control of anyone in the Standard Bank Group's investment banking or sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of those sales and trading departments may conflict with your interests. **Please note that one or more of the analysts that prepared this report sit on a sales and trading desk of the Standard Bank Group.**

Legal Entities:

To U. S. Residents

Standard New York Securities, Inc. is registered with the Securities and Exchange Commission as a broker-dealer and is also a member of the FINRA and SIPC. Standard Americas, Inc is registered as a commodity trading advisor and a commodity pool operator with the CFTC and is also a member of the NFA. Both are affiliates of Standard Bank Plc and Standard Bank of South Africa. Standard New York Securities, Inc is responsible for the dissemination of this research report in the United States. Any recipient of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting Standard New York Securities, Inc.

To South African Residents

The Standard Bank of South Africa Limited (Reg.No.1962/000738/06) is regulated by the South African Reserve Bank and is an Authorised Financial Services Provider.

To U.K. Residents

Standard Bank Plc is authorised and regulated by the Financial Services Authority (register number 124823) and is an affiliate of Standard Bank of South Africa. The information contained herein does not apply to, and should not be relied upon by, retail customers.

General

This research report is based on information from sources that Standard Bank Group believes to be reliable. Whilst every care has been taken in preparing this document, no research analyst or member of the Standard Bank Group gives any representation, warranty or undertaking and accepts no responsibility or liability as to the accuracy or completeness of the information set out in this document (except with respect to any disclosures relative to members of the Standard Bank Group and the research analyst's involvement with any issuer referred to above).

All views, opinions and estimates contained in this document may be changed after publication at any time without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors or any particular class of investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value.

Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Members of Standard Bank Group may act as placement agent, advisor or lender, make a market in, or may have been a manager or a co-manager of, the most recent public offering in respect of any investments or issuers referenced in this report. Members of the Standard Bank Group and/or their respective directors and employees may own the investments of any of the issuers discussed herein and may sell them to or buy them from customers on a principal basis. This report is intended solely for clients and prospective clients of members of the Standard Bank Group and is not intended for, and may not be relied on by, retail customers or persons to whom this report may not be provided by law. This report is for information purposes only and may not be reproduced or distributed to any other person without the prior consent of a member of the Standard Bank Group. Unauthorised use or disclosure of this document is strictly prohibited. By accepting this document, you agree to be bound by the foregoing limitations. Copyright 2010 Standard Bank Group. All rights reserved.