

FICC Research

Commodities: Daily

Focus: Long liquidation may slow from here



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Focus: Commodity prices remain volatile. A look at speculative activity is informative to gauge investor interest in the futures market. The crude oil market, the base metals market, even the precious metals market, remain well stocked, and commodity prices have come under pressure as investor interest has declined substantially. However, long liquidation may slow from here.

- In spite of a weaker dollar throughout much of yesterday, the base metals failed to respond, with the complex struggling to make any headway at all in the face of middling to poor US data and deteriorating sentiment.
- Our view on the precious metals market remains unchanged. We believe that gold will approach \$1,300 in H2:10, but right now \$1,220/\$1,250 is our preferred trading range. The bias is for a break to the upside.
- Front month WTI has continued to come under pressure this morning but is so far holding above \$76/bbl.

Commodity price data (17 June 2010)

Base metals LME 3-month

| | Open | Close | High | Low | Daily change | Change (%) | Cash Settle | Change in cash settle | Cash – 3m |
|-----------|--------|--------|--------|--------|--------------|------------|-------------|-----------------------|-----------|
| Aluminium | 1,992 | 1,959 | 2,000 | 1,948 | -33 | -1.66% | 1,950.50 | -17 | -30.50 |
| Copper | 6,520 | 6,345 | 6,621 | 6,410 | -175 | -2.68% | 6,480.50 | -112 | -26.50 |
| Lead | 1,730 | 1,735 | 1,765 | 1,710 | 5 | 0.29% | 1,715.00 | 14 | -22.50 |
| Nickel | 19,710 | 19,425 | 19,950 | 19,360 | -285 | -1.45% | 19,685.00 | 130 | -69.00 |
| Tin | 17,650 | 17,600 | 1,765 | 17,325 | -50 | -0.28% | 17,300.00 | -400 | -63.00 |
| Zinc | 1,763 | 1,765 | 1,810 | 1,746 | 3 | 0.14% | 1,727.50 | -51 | -33.25 |

Energy

| | Open | Close | High | Low | day/day | Change (%) |
|------------|--------|--------|--------|--------|---------|------------|
| ICE Brent | 78.10 | 78.54 | 78.54 | 77.64 | 0.40 | 0.51% |
| NYMEX WTI | 77.44 | 77.50 | 77.50 | 76.78 | -0.17 | -0.22% |
| ICE Gasoil | 672.25 | 676.50 | 676.50 | 668.75 | 13.75 | 2.03% |
| API2 Q3'10 | 96.10 | 96.10 | - | - | 0.10 | 0.10% |
| EUA Dec10 | 15.97 | 15.86 | - | - | -0.11 | -0.69% |

Precious metals

| | AM Fix | PM Fix | High bid | Low offer | Closing bid | Change (d/d) | EFPs |
|-----------|----------|----------|----------|-----------|-------------|--------------|----------|
| Gold | 1,234.50 | 1,245.00 | 1,251.20 | 1,229.50 | 1,247.00 | 18.00 | 1/1.4 |
| Silver | - | 18.75 | 18.87 | 18.61 | 18.76 | 0.34 | -2/0 |
| Platinum | 1,565.00 | 1,577.00 | 1,575.00 | 1,573.00 | 1,570.00 | 5.00 | -1/1 |
| Palladium | 471.00 | 482.00 | 482.00 | 477.00 | 479.00 | 7.00 | -0.5/1.5 |

Sources: Standard Bank; LME; BBG

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Focus: Long liquidation may slow from here

Commodity prices remain volatile. A look at speculative activity is informative to gauge investor interest in the futures market. According to last week's CFTC data, at an aggregate level, commodities' net speculative length has declined substantially since 1 May.

The crude oil market, the base metals market, even the precious metals market, remain well stocked, and commodity prices have come under pressure as investor interest has declined substantially. However, long liquidation may slow from here.

We look at the cumulative net long non-commercial position for some futures contracts in the US (soybean, wheat, corn, gold, silver, platinum, palladium, copper and WTI). The current cumulative net speculative length for these contracts is at levels last seen in May 2009 and Jan 2010. This indicates that much of the speculative long positions built in commodities since the start of the year have since been liquidated.

We believe that one of the key drivers for long liquidation could be FX moves — most importantly, the euro/dollar exchange rate. There is a clear correlation between dollar weakness and a rise in speculative length since 2007. Our dollar target is at \$1.15 for the euro within three months. While we take note of the actual level of this target, the speed of the move towards the target of \$1.15 is much more important than the actual level. A disorderly adjustment lower in the euro could see much more liquidation across commodity markets. A more evenly paced euro depreciation should have a much smaller impact on speculative longs.

The recent headline macroeconomic data releases have been

Base metals

In spite of a weaker dollar throughout much of yesterday, the base metals failed to respond, with the complex struggling to make any headway at all in the face of middling to poor US data and deteriorating sentiment. Copper was particularly unresponsive, with the recent close relationship between copper and the dollar breaking down spectacularly.

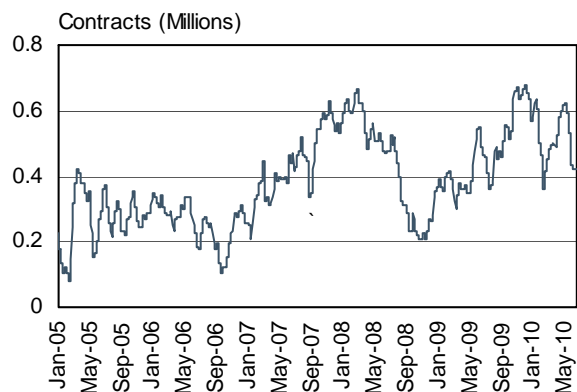
With no US economic data of note, and with the relationship to the Euro having largely broken down, the performance of the US equity markets - as a proxy for general sentiment - are likely to dictate price direction for the base metals heading into the weekend.

The base metals have continued to come under pressure this morning with weaker Asian equities and faltering Chinese sentiment weighing on prices. Of note, one of the academic advisors to the PBOC's monetary policy committee said that China should return to normal monetary policies this year, which may result in slower economic growth in the second half of the year. Comments about a new home transaction tax have also knocked Chinese sentiment.

While copper prices struggled yesterday, turnover was nevertheless pretty solid, suggesting some participants may have used the weakening dollar as an opportunity to sell. A rather lacklustre overnight session, both in terms of prices and turnover has set the tone for the day so far, with the red metal dropping below \$6,400 heading into the afternoon. Most of the other base metals have tracked copper lower, with aluminium the only metal to keep its head above water.

In other Power supply problems in the Zambian Copperbelt have reportedly led to the suspension of some operations. Details remain thin on the ground for the moment, with no news over the scale or likely duration of any stoppages. The news has done little to arrest copper's slide so far.

Net long spec position for selected commodities



Sources: CFTC, Standard Bank

positive. This week US industrial production came in above expectations, as did Eurozone industrial production. We believe this indicates that the real economy is continuing to grow despite current sovereign debt concerns in Europe.

Risk remains high, but unlike in May, when we believed that the risk for more downside was high (*Commodities Daily 20 May 2010*), we now believe that the sharp decline in prices has run its course. We expect better support for metal and energy prices in coming days.

By Walter de Wet

By Leon Westgate

Precious metals

Our view on the precious metals market remains unchanged. We believe that gold will approach \$1,300 in H2:10, but right now \$1,220/\$1,250 is our preferred trading range. The bias is for a break to the upside. There is still strong resistance above \$1,250, especially in the physical market. But despite this, downside support is firming, setting the scene for another break higher in the gold price. Gold support is at \$1,220, resistance at \$1,254.

Platinum and palladium are holding steady. However, with base metals still under pressure, we expect little upside from either metal today.

Although the steep rise in platinum and palladium ETF holdings since the start of the year has slowed, investor interest in both platinum and palladium is steady. The latest platinum ETF holdings stand at 1.008m oz. This is still 4K oz of platinum more than at the start of May (before the steep slide in the platinum price). Palladium ETF holdings stand at 1,747m oz — down only a marginal 29K oz since the start of May.

Platinum support is at \$1,560 and \$1,550, resistance at \$1,580 and \$1,620. Palladium support is at \$470 and resistance is at \$478.

We expect silver to move higher in coming days, on the back of gold. At the moment, there is selling on approach of \$19.00. However, in line with our gold view, we believe that silver will approach \$19.50 when gold breaks above \$1,254. Silver support is at \$18.40 and \$18.06, resistance at \$18.95 and \$19.20.

By Walter de Wet

Energy

Sentiment appears to have deteriorated over the past 24 hours or so, with middling to poor US data seeing front month WTI fall back below its 200-day MA to close at \$76.79/bbl, in spite of a weakening dollar throughout much of yesterday afternoon. Front month WTI has continued to come under pressure this morning but is so far holding above \$76/bbl.

Looking at the WTI forward structure, the back end of the curve continues to be well bid, particularly with growing concern over future output levels in light of the offshore drilling suspension in the US, and suspensions to new offshore drilling activity in Norway. That said, the nearby portion of the curve has played catch-up over the past week or so, with the period out to Dec-12 accounting for most of the movement.

Coal has been rather quiet, again moving to its own beat, or rather to the beat of the European power markets, rather than looking towards the wider commodities complex. API2 for Q3-10 posted a small \$0.10/mt gain yesterday to close at \$96.10/mt while the back end of the curve was better bid, with Cal-11 climbing \$0.50/mt.

In other news, strong demand from India continues to be a feature of the market, with the country increasing its coal purchases from Columbia. India is planning to nearly double its electricity generation capacity by 2012, with the country's demand for coal expected to remain very strong.

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 | 4,474,175 | 4,481,200 | 350 | 7,375 | -7,025 | -154,725 | 323,125 | 7.22 | 122,408 |
| Copper | 457,425 | 460,175 | - | 2,750 | -2,750 | -44,900 | 27,400 | 5.99 | 121,692 |
| Lead | 189,800 | 190,850 | - | 1,050 | -1,050 | 43,300 | 17,175 | 9.05 | 20,559 |
| Nickel | 129,798 | 131,052 | - | 1,254 | -1,254 | -28,212 | 7,938 | 6.12 | 22,737 |
| Tin | 20,305 | 20,340 | 10 | 45 | -35 | -6,460 | 2,545 | 12.53 | 9,358 |
| Zinc | 618,025 | 617,175 | 950 | 100 | 850 | 129,975 | 17,100 | 2.77 | 65,360 |

Shanghai 3-month forward prices

COMEX active month future prices

| Metal | Open | Last | 1d Change | | Open | Close | Change | Change (%) |
|-----------|--------|--------|-----------|------------|------|--------|--------|------------|
| Aluminium | 14,580 | 14,550 | -135 | Ali May'10 | - | - | - | - |
| Copper | 51,670 | 51,360 | -660 | Cu May'10 | 292 | 287.85 | -4.55 | -1.56% |
| Zinc | 14,300 | 14,140 | -280 | | | | | |

ZAR metal prices (17 June 2010)

| | Aluminium | Copper | Lead | Nickel | Tin | Zinc | ZAR/USD fix |
|---------|-----------|--------|--------|---------|---------|--------|-------------|
| Cash | 14,770 | 49,074 | 12,987 | 149,065 | 131,004 | 13,081 | 7.5725 |
| 3-month | 15,060 | 48,777 | 13,338 | 149,328 | 135,298 | 13,568 | 7.6874 |

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) | 86.36 | 1.12 | 90.35 | 2.57 | 90.75 | 2.54 | 91.81 | 2.25 | - | - |
| Gasoil 0.1% Rdam (\$/mt) | 676.25 | -8.00 | 677.25 | -7.50 | 679.75 | -7.50 | 687.75 | -7.50 | | |
| NWE CIF jet (\$/mt) | 711.71 | 10.66 | 736.59 | 23.15 | 739.84 | 21.43 | 752.75 | 19.52 | | |
| Singapore Kero (\$/bbl) | 87.38 | 1.14 | 91.25 | 2.62 | 91.80 | 2.54 | 93.26 | 2.25 | | |
| 3.5% Rdam barges (\$/mt) | 420.88 | 0.22 | 427.25 | -1.75 | 430.50 | -1.75 | 440.25 | -1.50 | | |
| 1% Fuel Oil FOB (\$/mt) | 442.50 | 0.25 | 455.75 | -1.50 | 461.00 | -1.75 | 474.75 | -1.25 | | |
| Sing FO 380 Cargo (\$/mt) | 450.50 | -1.75 | 452.75 | -1.50 | 452.75 | -1.50 | 452.75 | -1.50 | | |
| Sing FO180 Cargo (\$/mt) | 443.22 | -0.47 | 454.75 | -2.25 | 458.75 | -2.25 | 468.75 | -2.00 | | |

Thermal coal

| | Q3-10 | | Q4-10 | | Q1-11 | | Cal 11 | | Cal 12 | |
|-----------------|-------|-------|-------|------|--------|------|--------|------|--------|------|
| API2 (CIF ARA) | 97.75 | 0.00 | 99.35 | 1.10 | 100.45 | 0.95 | 102.00 | 0.50 | 109.00 | 1.50 |
| API4 (FOB RBCT) | 94.00 | -0.25 | 95.10 | 0.35 | 96.45 | 0.70 | 97.75 | 0.25 | 102.00 | 0.80 |

Precious metals

| Forwards (%) | 1-month | 2-month | 3-month | 6-month | 12-month | | |
|-------------------------|------------|-----------|-----------|------------|------------|-----------|------------|
| Gold | 0.51600 | 0.54800 | 0.56800 | 0.68400 | 0.80400 | | |
| Silver | 0.64000 | 0.66000 | 0.70000 | 0.78000 | 0.83000 | | |
| USD Libor | 0.34734 | 0.43250 | 0.53819 | 0.75063 | 1.18313 | | |
| Technical Indicators | 30-day RSI | 10-day MA | 20-day MA | 100-day MA | 200-day MA | Support | Resistance |
| Gold | 59.73 | 1,232.70 | 1,222.68 | 1,154.21 | 1,123.00 | 1,085.00 | 1,105.00 |
| Silver | 54.57 | 18.38 | 18.27 | 17.53 | 17.52 | 16.30 | 16.90 |
| Platinum | 47.38 | 1,549.86 | 1,544.98 | 1,608.98 | 1,514.56 | 1,500.00 | 1,550.00 |
| Palladium | 50.43 | 458.98 | 455.25 | 475.71 | 418.35 | 420.00 | 433.00 |
| 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 | 1,245.70 | 18.7500 | 479.25 | 1,572.00 | 1,245.80 | 3,641.00 | 1,245.50 |
| Open Interest | 569,744 | 132,031 | 21,636 | 30,832 | 1,502 | 108,516 | 2,776 |
| Change in Open Interest | -4,000 | -3,151 | -232 | -370 | -182 | 3,041 | 28 |

Date: 17 June 2010

Sources: Standard Bank; LME; Bloomberg

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