

Commodities

Commodities: Daily



Focus: Softening preference for palladium

21 May 2012

Focus: Net speculative length for NYMEX platinum saw a second week of decline, shedding 47.5k oz and, unlike the other precious metals, downward momentum appeared to be growing (only 38.0k oz were lost the previous week). Again, this past week, a strong increase in speculative shorts (112.6k oz — nearly a 12-month record) was responsible for the net decline. The 65.2k oz increase in long positions lessened the overall decrease. Total speculative short positioning remains quite high (704.4k oz, compared to the five-year average of 135.6k oz). However, we continue to believe that this raises the possibility of a short-covering rally should production problems in South Africa resurface.

- It was comments from China rather than from the G8 summit that gave the industrial metals a boost overnight, in particular Wen Jiabao pledging to focus on stabilising Chinese growth, while also making no reference to inflation. With nothing conclusive in terms of tackling the European situation however, and with the Greek elections (Mk II) still several weeks away, the blue mood has returned to the markets this morning with prices coming back under pressure ahead of afternoon trade.
- Net speculative length for COMEX gold continued to plummet, surrendering 55.2 tonnes this past week. The change in the net position was equally the result of speculative shorts being added (26.9 tonnes) and longs being unwound (28.2 tonnes). Net speculative length is currently at a 12-month low (333.8 tonnes).

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Commodity price data (18 May 2012)

Base metals LME 3-month

		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,055	2,068	2,072	2,041	13	0.63%	2,016.50	30	-39.75
Copper	7,660	7,650	7,760	7,627	-10	-0.13%	7,795.50	88	52.00
Lead	1,937	1,966	1,985	1,928	29	1.50%	1,950.00	20	-13.00
Nickel	17,105	16,825	17,279	16,801	-280	-1.64%	17,105.00	195	-65.00
Tin	19,275	19,645	19,550	19,150	370	1.92%	19,400.00	-50	-38.00
Zinc	1,900	1,894	1,925	1,888	-6	-0.32%	1,921.00	38	-0.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	107.40	107.88	107.94	106.75	0.74	0.69%
NYMEX WTI	91.27	91.86	92.04	90.84	0.38	0.41%
ICE Gasoil	903.50	911.50	912.00	903.25	3.75	0.41%
API2 Q3'12	92.00	90.50	-	-	-1.50	-1.66%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,588.00	1,589.50	1,597.50	1,569.00	1,591.70	17.00	-0.4/0.0
Silver	-	28.70	28.91	27.84	28.72	0.67	-4.0/-2.0
Platinum	1,458.00	1,456.00	1,463.00	1,447.00	1,457.00	1.00	1.5/3.5
Palladium	606.00	605.00	612.00	599.00	604.00	0.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Softening preference for palladium

Net speculative length for NYMEX platinum saw a second week of decline, shedding 47.5k oz and, unlike the other precious metals, downward momentum appeared to be growing (only 38.0k oz were lost the previous week). Again, this past week, a strong increase in speculative shorts (112.6k oz — nearly a 12-month record) was responsible for the net decline. The 65.2k oz increase in long positions lessened the overall decrease. Total speculative short positioning remains quite high (704.4k oz, compared to the five-year average of 135.6k oz). However, we continue to believe that this raises the possibility of a short-covering rally should production problems in South Africa resurface.

ETF selling of platinum also continued, picking up momentum with a strong 21.0k oz shed this past week. This brings the total drop in platinum holdings over the past six weeks to 56.6k oz — the longest consecutive losing streak this year and further evidence of the wariness with which investors are viewing platinum.

The losses in NYMEX palladium's net speculative length continued, with a further 211.1k oz wiped out this past week. However, this time the decline was entirely due to a massive increase in speculative shorts (231.5k oz — a 12-month record increase). A meagre 20.4k oz were also added to long positions. It appears as though the market is turning negative on palladium. Net speculative length looks terribly weak, with the current level (385.3k oz) far removed from the five-year average (999.5k oz), and speculative shorts are uncomfortably elevated (having reached another 12-month high). The advantage over platinum that palladium appeared to have had in investors'

Base metals

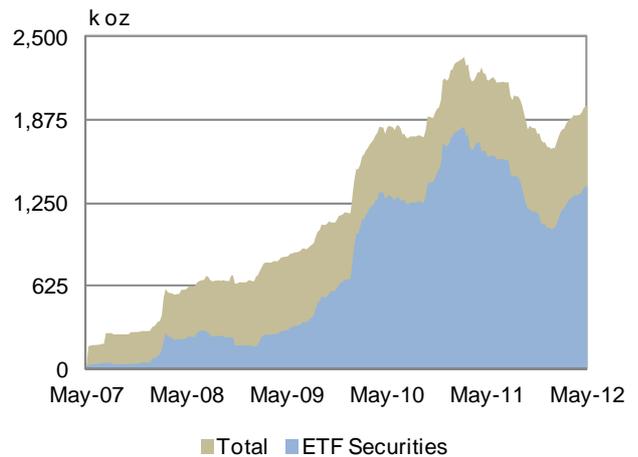
Celery, a vegetable that supposedly takes more calories to eat and digest than it provides nutritionally, appears to be a pretty good analogy to the apparent waste of time that was this weekend's G8 meeting. It was comments from China rather than from the G8 summit that gave the industrial metals a boost overnight, in particular Wen Jiabao pledging to focus on stabilising Chinese growth, while also making no reference to inflation. With nothing conclusive in terms of tackling the European situation however, and with the Greek elections (Mk II) still several weeks away, the blue mood has returned to the markets this morning with prices coming back under pressure ahead of afternoon trade.

The form in which any potential Chinese stimulus measures take will be absolutely key for the industrial metals. Whether they are directed towards increased domestic consumption, or another slug of infrastructure spending remains to be seen, though any relaxation in policy will take time to feed through to the economy and demand. The most immediate impact therefore, may be what happens to the Yuan. The currency has stabilised so far this year, trading sideways. Whether it will strengthen further, or even be allowed to weaken, will be of particular importance with regards to commodity financing trades.

Chinese refined copper imports fell sharply in April, coming in at 272.9 kt vs. the 345.7 kt imported in March. YTD imports are still up 75.9% in y/y terms however at 1.33Mt. Imports of copper concentrates and scrap also declined in April, falling 10.5% and 12.6% m/m respectively to 474.9 kt and 370.9 kt. Imports for both concentrates and scrap remain more or less around the monthly average levels seen over the past 5 years or so, while imports of copper concentrate some 18.8% higher y/y YTD. With the recent focus on potential Chinese exports of copper, last month's 27.4 kt refined copper export figure, shed little additional light on the subject. Instead, LME warehouse numbers remain the main focus, with this morning seeing 4,925 mt enter warehouses in South Korea. New Orleans also saw a 1,150 mt inflow of copper, albeit offset by a jump in cancelled warrants.

Elsewhere, tin saw a large 1,260 mt jump in cancelled warrants in Johor. Cancelled tin warrants at Johor now represent 37% of global LME Tin inventory. It will be interesting to see how quickly they are removed.

Palladium ETF holdings



Sources: Various ETFs; Standard Bank Research

minds seems to have been significantly eroded.

ETFs have now turned net sellers of palladium, for the first time in five weeks. Although the fall was only 0.7k oz, it is a sure signal that enthusiasm for palladium is waning.

We believe that platinum at \$1,450 is too low, and \$1,550 from a cost-of-production perspective appears to be a fair price level (see *Commodities Daily* dated 10 May 2012). However, we also believe that due to the lack of strong industrial demand, platinum above \$1,750 provides little upside from a fundamental perspective.

We believe that palladium is showing less and less value as it moves further away from \$600.

By Marc Ground

By Leon Westgate

Precious metals

Sentiment received a boost overnight as China's Premier Wen emphasized the government's commitment to supporting growth through proactive fiscal policy and prudent monetary policy. This pushed precious metals higher on the prospect of further monetary accommodation. However, we remain sceptical that there will be any significant PBoC monetary easing (other than reserve requirement adjustments, which have a fairly benign affect on commodities) just yet, and even if something more substantial, like a cut in the lending rate is enacted it would take 12-18 months before this is felt in real economic activity and commodity demand.

Net speculative length for COMEX gold continued to plummet, surrendering 55.2 tonnes this past week. The change in the net position was equally the result of speculative shorts being added (26.9 tonnes) and longs being unwound (28.2 tonnes). Net speculative length, currently at a 12-month low (333.8 tonnes), is decidedly weak, compared to historical norms (the 5-year average is 611.7 tonnes), signalling a persistent lack of confidence. Emphasizing this unease, is that investors no longer appear cautious of running short on gold. ETFs, however, have remained net buyers, for the second week, with 0.3 tonnes of gold bought over the past week. This mild increase is hardly an indication of investor confidence; ETFs have not completely shrugged off their bearish view on gold. Despite this apparent investor reluctance, we see gold as undervalued at current levels—we see fair value at around \$1,640.

The decline in net speculative length for COMEX silver continued for a sixth successive week, with another marked fall (290.6 tonnes). Total losses for the past five weeks amount to 1,714.6 tonnes, wiping out almost half of net speculative length as it stood in early April. This week's fall was mostly due to a dramatic 164.4 tonne decrease in speculative longs. However, the 126.2 tonne increase in shorts contributed significantly to the overall deterioration. The continued increase in shorts is a cause for concern, as a bearish view on silver appears to be gaining traction. Accompanied by the decrease in longs, this does not bode well. A strong turnaround in ETF holdings does provide some encouragement for the coming week (49.0 tonnes were bought). Perhaps the change in investor sentiment that began towards the end of last week (included in the ETF data but not the CFTC numbers) will gain momentum. We are not bullish yet but believe that most of the price decline has taken place already.

Gold support is at \$1,574 and \$1,556. Resistance is \$1,604 and \$1,616. Silver support is at \$27.86 and \$27.29, resistance is at \$28.96 and \$29.49.

Platinum support is at \$1,451 and \$1,436, resistance is at \$1,474 and \$1,481. Palladium support is at \$603 and resistance at \$620.

By Marc Ground

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	4,975,175	4,982,900	0	7,725	-7,725	4,775	1,659,350	33.35	182,307
Copper	221,175	217,450	5,600	1,875	3,725	-149,725	35,850	16.21	133,751
Lead	357,925	358,975	0	1,050	-1,050	4,850	80,600	22.52	74,386
Nickel	106,182	105,564	642	24	618	16,134	7,104	6.69	27,519
Tin	14,430	14,355	115	40	75	2,240	4,380	30.35	9,176
Zinc	944,025	940,250	4,450	675	3,775	122,325	30,350	3.21	113,770

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,045	16,130	105
Copper	55,960	56,280	930
Zinc	14,930	15,015	145

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Jul'12	-	-	-
Copper	Cu Jul'12	347	349.40	2.55
Zinc				

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,717	64,625	16,166	141,800	160,826	15,925	8.2900
3-month	17,375	64,275	16,518	141,364	165,057	15,913	8.4020

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)	123.74	-0.47	120.25	-1.18	120.10	-1.30	119.91	-1.33	121.22	-1.15
Gasoil 0.1% Rdam (\$/mt)	911.50	3.75	908.50	3.75	907.75	3.75	907.75	4.00	897.50	-8.75
NWE CIF jet (\$/mt)	1,011.10	-5.29	979.75	-11.09	977.31	-11.13	980.55	-9.68	980.05	-8.53
Singapore Kero (\$/bbl)	124.33	-0.52	121.00	-1.18	121.05	-1.21	121.34	-1.27	121.07	-1.10
3.5% Rdam barges (\$/mt)	631.35	-4.09	610.75	-4.00	608.00	-4.00	600.50	-2.50	587.50	-0.50
1% Fuel Oil FOB (\$/mt)	678.01	-3.87	654.75	-2.25	653.25	-2.25	645.00	-1.50		
Sing FO180 Cargo (\$/mt)	672.22	-4.18	651.50	-4.50	648.00	-4.25	639.25	-2.50		

Thermal coal	Q3-12		Q4-12		Q1-13		Cal 13		Cal 14	
API2 (CIF ARA)	90.50	-1.50	94.00	-1.45	96.70	-1.45	99.65	-1.60	106.25	-1.80
API4 (FOB RBCT)	92.50	-1.65	93.95	-1.60	96.00	-1.70	99.05	-1.55	103.55	-1.60

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.33833	0.36833	0.39333	0.49500	0.59500
Silver	0.47500	0.47167	0.45000	0.44167	0.42500
USD Libor	0.23975	0.34575	0.46685	0.73640	1.06895

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	43.87	1,577.33	1,613.84	1,670.04	1,693.77	1,574.00	1,604.00
Silver	40.64	28.52	29.61	31.96	33.13	27.86	28.96
Platinum	37.83	1,464.13	1,508.94	1,588.97	1,605.44	1,451.00	1,474.00
Palladium	41.68	605.15	636.47	669.22	666.49	596.0	615.0

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'12	Jul'12	Jul'12	Jul'12	Jun'12	Apr'13	Jun'12
Settlement	1,596.60	28.6450	610.00	1,459.30	1,597.20	4,075.00	1,596.30
Open Interest	433,847	113,766	23,659	45,641	2,254	149,348	1,363
Change in Open Interest	16,891	103	-41	142	0	6,001	1

Sources: Standard Bank; LME; Bloomberg

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