

Commodities

Commodities: Daily



Focus: Cautious, yet growing interest in gold

17 October 2011

Focus: Given the modest nature of the past two weeks' improvement in the net position, we still feel that the speculative market remains cautious about gold's short-term prospects. However, the decline in speculative shorts is encouraging. Therefore, confidence in gold could grow over the coming weeks.

- An inconclusive G20 meeting over the weekend saw the base metals make a subdued start to the week. Buying interest did emerge as London opened up, triggering further short covering activity, however, a subsequent weakening of the euro against the dollar has again seen the rally being sold into ahead of US trade.
- We feel that it won't be long before investors once again return to the relative safety of gold and silver, as doubts about the ability of leaders grow as we move closer to the deadline. As usual, we can expect a period of heightened volatility in the build-up to this weekend's meeting.
- Crude oil finished last week on a firm footing, due to expectations of a positive G20 meeting, but also due, in part, to contract expiry. WTI closed the week at \$86.80/bbl, while Brent closed at \$112.23/bbl. The Brent-WTI spread has widened once again, trading out to \$25.50. With broader macroeconomic themes continuing to dominate however, flat prices are again tracking the euro and other exogenous factors.

Strategists

Walter de Wet, CFA*

Walter.DeWet@standardbank.com
+44-20-31456821

Leon Westgate*

Leon.Westgate@standardbank.com
+44-20-31456822

James Zhang*

Jinzhong.Zhang@standardbank.com
+44-20-31456824

Marc Ground, CFA*

Marc.Ground@standardbank.com
+27-11-3787215

Commodity price data (14 October 2011)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,219	2,225	2,228	2,196	6	0.27%	2,171.00	-7	-25.90
Copper	7,352	7,545	7,580	7,335	193	2.63%	7,500.50	173	-12.00
Lead	2,029	2,026	2,050	2,018	-3	-0.15%	2,008.00	12	-19.75
Nickel	18,450	18,875	18,950	18,450	425	2.30%	18,900.00	425	-33.00
Tin	22,225	21,800	22,500	21,850	-425	-1.91%	22,050.00	-450	-38.00
Zinc	1,925	1,931	1,957	1,918	6	0.31%	1,901.50	12	-18.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	112.46	112.99	113.86	112.10	0.76	0.67%
NYMEX WTI	87.48	87.93	88.09	86.92	1.13	1.29%
ICE Gasoil	957.50	965.00	968.25	954.00	13.00	1.35%
API2 Q4'11	117.60	117.75	-	-	0.15	0.13%
ICE EUA Dec'11	10.34	10.45	-	-	0.11	1.06%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,676.00	1,678.00	1,683.00	1,662.00	1,681.50	14.50	1.2/1.6
Silver	-	32.54	32.54	31.28	32.17	0.52	0.0/2.0
Platinum	1,546.00	1,553.00	1,559.00	1,530.00	1,551.00	16.00	1.5/3.5
Palladium	605.00	614.00	618.00	594.00	618.00	24.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Cautious, yet growing interest in gold

Net speculative length on COMEX gold increased, although once again only marginally, with only 18.4 tonnes added over the past week. The net speculative position for gold is now 540.2 tonnes — still considerably below last year's average of 777.6 tonnes. Much like in the previous week, the increase in the net position was mostly attributable to the decrease in speculative shorts (17.5 tonnes). A meagre 0.9 tonnes were added to speculative longs.

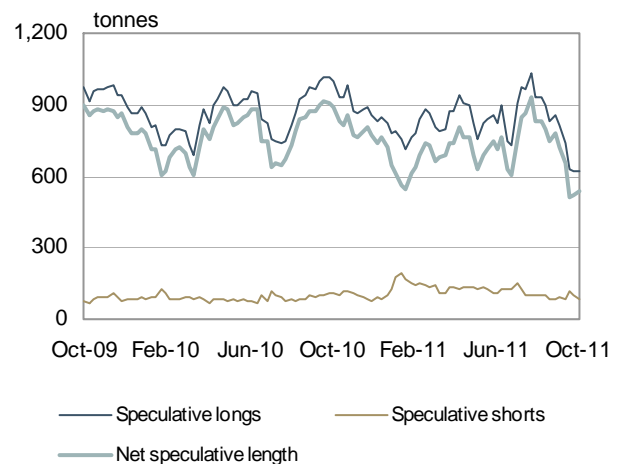
Given the modest nature of the past two weeks' improvement in the net position, we still feel that the speculative market remains cautious about gold's short-term prospects. However, the decline in speculative shorts is encouraging — currently at 84.5 tonnes and closing in on this year's low of 80.7 tonnes. Therefore, confidence in gold could grow over the coming weeks.

Further evidence of this tentative return to gold is last week's increase in ETF holdings of gold. The 8.1 tonnes added ends three consecutive weeks of decline. However, we await stronger accumulation before we would say that investors have completely shrugged off their concerns about gold.

We remain constructive on gold, especially over the long term.

Net speculative length also bucked the trend of the last few weeks, with a modest 32.2 tonne increase. For the most part, the decline in the net position was attributable to 47.0 tonnes removed from speculative short positions, with the 14.8 tonnes shed from speculative longs detracting from the improvement. With net speculative length (2,798.8 tonnes) still well below the

COMEX gold speculative longs and shorts



Sources: COMEX; Standard Bank Research

2010 average of 6,123.3 tonnes, market positioning remains weak. Despite the mild decline in short positions, investors still seem bearish on silver.

As in the past few weeks, ETF holdings increased this last week. However, with only 9.1 tonnes added, this is a significant drop from the accumulations we've seen previously. This raises doubts about the promising ETF investor interest in silver we've seen after the liquidations of the week ended 23 September. It seems that ETFs are beginning to question value in silver.

Given the market positioning and waning ETF buying, we would caution against taking any positions in silver.

By Marc Ground

Base metals

An inconclusive G20 meeting over the weekend saw the base metals make a subdued start to the week. Buying interest did emerge as London opened up, triggering further short covering activity, however, a subsequent weakening of the euro against the dollar has again seen the rally being sold into ahead of US trade.

This afternoon is relatively quiet data-wise, with the US Empire Manufacturing index (expected -4.0) and September Industrial Production figures (expected +0.2%) the only data of note. Instead the quarterly earnings figures look set to garner more interest, with Wells Fargo and Citigroup announcing their Q3 earnings before the US market opens.

Copper closed last week strongly, with sporadic short covering activity helping to give prices a boost ahead of the weekend and expectations of a positive G20 meeting. With the G20 proving rather inconclusive however, copper started this week slowly. News of further disruption at Freeport McMoran's Grasberg mine in Indonesia has helped prices, though the effect has been short lived. The mine has now halted production and is effectively in care and maintenance mode following sabotage to a pipe that carries concentrate from the mine to the port facilities. Freeport hasn't declared force majeure on deliveries from Grasberg yet, with loading at the port still operating normally. The company is however still evaluating the full impact of the latest damage.

Looking at copper open interest and prices, slowly declining open interest over the past week or so, has combined with a steady grind higher in prices, suggesting that mild short covering has been the main theme. Inventory-wise, and following on from Friday's increase in SHFE copper stocks, LME on-warrant stocks climbed by net 4,275 mt this morning, due mainly to sizeable deliveries into Singapore (+2,550 mt) and Rotterdam (+2,475 mt).

By Leon Westgate

Precious metals

Gold and other precious metals continued to ride the wave of uncertainty and concern over the Eurozone region in early trade this morning. However, gold and silver have started to come off, accompanied by a renewed interest in equities. Perhaps investors are slightly emboldened by the 23 October deadline that EU officials have set for coming up with a “comprehensive strategy” for dealing with the region’s sovereign debt and banking crisis.

However, we feel that it won’t be long before investors once again return to the relative safety of gold and silver, as doubts about the ability of leaders grow as we move closer to the deadline. As usual, we can expect a period of heightened volatility in the build-up to this weekend’s meeting.

Gold support is at \$1,671 and \$1,655. Resistance is \$1,695 and \$1,701. Silver support is at \$31.53 and \$30.74, resistance is at \$32.84 and \$33.36.

Looking at the latest CFTC data, net speculative length for NYMEX platinum fell again, marking a fifth week of losses. However, the downward momentum seems to be slowing, with only 13.6k oz lost this past week. Much like in the previous week, the fall was due to an increase in speculative short positions (51.7k oz), but with the additions to speculative longs (38.1k oz) softening the deterioration in the net position. The sustained increase in short positions (213.5k oz added over the past four weeks) points to a speculative market positioning for weakness.

Turning to palladium, NYMEX net speculative length arrested four weeks of losses, with a 79.2k oz gain this past week. The improvement in the net position was largely a result of 55.7k oz being added to speculative long positions, with the 23.5k oz shed from speculative shorts contributing further. Although the past week’s moves are encouraging, they fall far short in negating the activity of the past few weeks, especially the build-up in speculative shorts we’ve seen (currently at 459.9k oz, compared to the 2010 average of 256.0k oz). Therefore, market positioning still seems to point to an expectation of weakness.

The bearish market positioning was mirrored by ETF selling. ETF holdings again fell significantly (69.6k oz). Down 479.4k oz for the year; this brings ETF holdings to a new low for the year.

Platinum support is at \$1,549 and \$1,522, resistance is at \$1,583 and \$1,588. Palladium support is at \$608 and resistance at \$646.

By Marc Ground

Energy

Crude oil finished last week on a firm footing, due to expectations of a positive G20 meeting, but also due, in part, to contract expiry. WTI closed the week at \$86.80/bbl, while Brent closed at \$112.23/bbl. The Brent-WTI spread has widened once again, trading out to \$25.50. With broader macroeconomic themes continuing to dominate however, flat prices are again tracking the euro and other exogenous factors.

With hopes of a European resolution being eroded by comments from Germany this morning, the market is feeling nervous once again. Comments from China’s Sovereign Wealth Fund saying European banks must be more transparent before investment can be considered, have also done little to improve the mood, suggesting that the cavalry, and any potential rescue, is still some way away.

Looking at the CFTC data, (please see our latest Futures market and ETF positioning report for more details) Net speculative length in crude oil increased for the first time in three weeks, with 16.6m bbls being added. This increase was due primarily to speculative short positions being unwound (24.4m bbls), however, interestingly 7.9m bbls was also shed from speculative long positions, suggesting participants on both sides were looking to wind down positions in the face of the current uncertainty.

Overall, the oil market remains in a tug of war between tight physical fundamentals and significant uncertainties in the wider financial markets about sovereign risks and the knock-on impact on demand. The consequence is likely to be continued price volatility while this tug of war plays out. Price-wise, it’s worth noting that both WTI and Brent remain rangebound, occupying an albeit fairly broad \$16-17/bbl trading range, since early August. In that regard, it seems that a significant change in the macroeconomic picture is needed before we see a major shift in price.

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	4,557,400	4,548,575	11,725	2,900	8,825	280,350	228,300	5.01	320,295
Copper	451,650	450,200	5,275	3,825	1,450	74,100	47,050	10.42	139,026
Lead	388,500	388,500	275	275	0	180,225	6,550	1.69	34,478
Nickel	90,924	91,476	0	552	-552	-44,748	6,204	6.82	32,232
Tin	19,060	19,085	0	25	-25	2,785	3,720	19.52	5,926
Zinc	796,725	798,425	0	1,700	-1,700	95,300	68,475	8.59	85,133

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,685	16,685	35	Ali Dec'11	-	-	-	-
Copper	56,330	56,140	790	Cu Dec'11	341	344.75	3.90	1.14%
Zinc	15,290	15,305	75					

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,092	59,051	15,809	148,800	173,600	14,971	7.8730
3-month	17,749	60,186	16,161	150,566	173,899	15,404	7.9770

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)	123.64	2.09	123.15	3.43	122.57	3.38	120.97	3.10	-	-
Gasoil 0.1% Rdam (\$/mt)	965.00	13.00	952.25	12.75	943.00	13.00	921.50	13.25	897.75	20.25
NWE CIF jet (\$/mt)	1,005.87	22.50	1,026.52	37.27	1,019.92	34.09	1,001.57	28.07	993.36	23.92
Singapore Kero (\$/bbl)	125.41	2.12	125.40	3.33	125.22	3.28	123.77	3.05	122.16	2.56
3.5% Rdam barges (\$/mt)	629.64	9.77	637.00	17.50	628.50	17.25	614.00	16.75	593.50	15.25
1% Fuel Oil FOB (\$/mt)	647.98	9.21	661.00	16.75	658.50	16.25	648.50	16.25		
Sing FO180 Cargo (\$/mt)	661.96	10.89	667.50	17.00	659.25	17.00	644.25	16.75		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	117.75	0.15	118.40	0.35	119.20
API4 (FOB RBCT)	113.45	0.15	115.10	0.35	115.75

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.49960	0.49800	0.50100	0.52340	0.53000
Silver	0.35400	0.33400	0.33400	0.28400	0.19800
USD Libor	0.24333	0.31683	0.40472	0.59306	0.90950

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	49.66	1,661.13	1,668.81	1,660.56	1,547.55	1,671.00	1,695.00
Silver	42.99	31.71	32.35	37.38	36.42	31.53	32.84
Platinum	41.29	1,523.42	1,563.83	1,743.50	1,769.84	1,549.00	1,583.00
Palladium	43.95	602.58	621.86	739.69	758.04	608.00	646.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'11	Dec'11	Jan'12	Jan'12	Dec'11	Aug'12	Dec'11
Settlement	1,694.10	32.5000	639.00	1,554.90	1,700.60	4,218.00	1,689.00
Open Interest	436,578	101,327	19,023	37,827	9,079	122,311	1,890
Change in Open Interest	-	-	-	-	-	-	-

Sources: Standard Bank; LME; Bloomberg

Disclaimer

Email subs@standardbank.com if you would like to receive Standard Bank research. Please supply your email-address in the body of the email.

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.

To Turkey Residents

Standard Unlu Menkul Degerler A.S. and Standard Unlu Portfoy Yonetimi A.S. are regulated by the Turkish Capital Markets Board ("CMB"). Under the CMB's legislation, the information, comments and recommendations contained in this report fall outside of the definition of investment advisory services. Investment advisory services are provided under an investment advisory agreement between a client and a brokerage house, a portfolio management company, a bank that does not accept deposits or other capital markets professionals. The comments and recommendations contained in this report are based on the personal opinions of the authors. These opinions might not be appropriate for your financial situation and risk and return preferences. For that reason, investment decisions that rely solely on the information contained in this presentation might not meet your expectations. You should pay necessary discernment, attention and care in order not to experience losses.

To Singapore Residents

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company(ies) within the past 12 months.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts (denoted by an asterisk*) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts (denoted by an asterisk*) may not be associated persons of Standard New York Securities Inc. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Each analyst (denoted by an asterisk*) is a Non-U.S. Analyst. The analyst is a research analyst employed by The Standard Bank Group Limited.

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 2011 Standard Bank Group. All rights reserved.

AG/CD/00111