

Commodities

Commodities: Daily



Focus: Tentative signs of growing confidence in PGM

24 October 2011

Focus: From a cost-of-production perspective, we believe that on a risk/return basis, return favours palladium close to \$600. We also still believe that, from a cost-of-production perspective, given the current value of the ZAR, there is value in platinum below \$1,600.

- Amid perceived progress on the forthcoming EU plan for resolving some of the region's debt woes and some encouraging data on Asian economic activity, base metals have continued to push higher. A better-than-expected increase in Japanese imports in September and a HSBC flash PMI reading indicating an expansion in manufacturing during October have raised hopes that Asian demand might compensate for reduced demand from slowing economic activity in the US and Eurozone.
- Precious metals are also benefiting from the more positive tone on markets today, although their gains seem to lagging those of base metals. Also, it is PGM, with their scope for industrial application, that seem to benefiting the most from the current support.
- The oil market remains in a tug of war between very tight physical fundamentals and significant uncertainties in global financial markets. Supply and demand fundamentals seem to be winning the battle. Very poor refining margins could be a sign of further weakening of demand for oil products. Furthermore, oil prices are likely to remain volatile.

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Commodity price data (21 October 2011)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,108	2,125	2,172	2,100	17	0.81%	2,110.00	-12	-21.00
Copper	6,820	7,145	7,168	6,810	326	4.77%	7,062.00	146	-8.00
Lead	1,800	1,915	1,915	1,800	115	6.39%	1,841.00	50	-24.50
Nickel	18,300	18,800	18,975	18,170	500	2.73%	18,675.00	515	-29.00
Tin	21,400	21,675	22,200	21,400	275	1.29%	21,760.00	410	-41.50
Zinc	1,740	1,805	1,824	1,740	65	3.74%	1,793.00	43	-19.25

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	109.32	110.25	110.94	109.32	0.69	0.63%
NYMEX WTI	87.05	88.07	88.65	87.00	0.67	0.76%
ICE Gasoil	948.75	949.75	955.25	945.75	-5.75	-0.61%
API2 Q4'11	115.10	116.40	-	-	1.30	1.12%
ICE EUA Dec'11	10.14	10.38	-	-	0.24	2.37%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,623.00	1,642.50	1,648.30	1,612.50	1,635.10	23.60	0.9/1.3
Silver	-	31.38	31.50	30.33	31.18	0.90	-1.5/0.5
Platinum	1,491.00	1,510.00	1,510.00	1,492.00	1,505.00	20.00	1.5/3.5
Palladium	596.00	616.00	622.00	591.00	616.00	31.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Speculative market growing more confident in PGM

After three weeks of increasing, palladium open interest fell last week. Dropping 29.2k oz, this all but erased the gains of the previous week, and brings NYMEX open interest for palladium to 1,899.7k oz — substantially below last year's average of 2,267.5k oz. The palladium price fell 1.5% w/w — the smallest loss amongst the precious metals.

According to the latest CFTC data, net speculative length for palladium continued to rise, with a 46.6k oz gain this past week. Unlike the previous week, the improvement in the net position was equally the result of an increase in speculative long positions (23.8k oz) and a decline in shorts (22.8k oz). Although encouraging, there is still some way to go before we would feel that the speculative market is now convincingly more confident on palladium. Speculative shorts are currently at 437.1k oz, which compares poorly to the 2010 average of 256.0k oz — indicative of a market still positioned for weakness.

The increase in ETF holdings also alludes to a promising shift in investors' view on palladium. However, with only 29.2k oz added over the past week (compared to the 282.7k oz shed in the previous five weeks), we'd await further confirmation of a trend before we'd declare market sentiment now more positive on palladium.

Palladium's net speculative length as a percentage of open interest has risen to 34.9% (from 33.5% previously). This is still well below the average of 60% for 2010.

From a cost-of-production perspective, we believe that on a risk/return basis, return favours palladium close to \$600.

Platinum open interest declined further, by 9.3k oz. However, this was an improvement on the 50.0k oz shed the previous week. NYMEX open interest now stands at 1,879.5k oz — still comfortably above last year's average of 1,724.8k oz.

Base metals

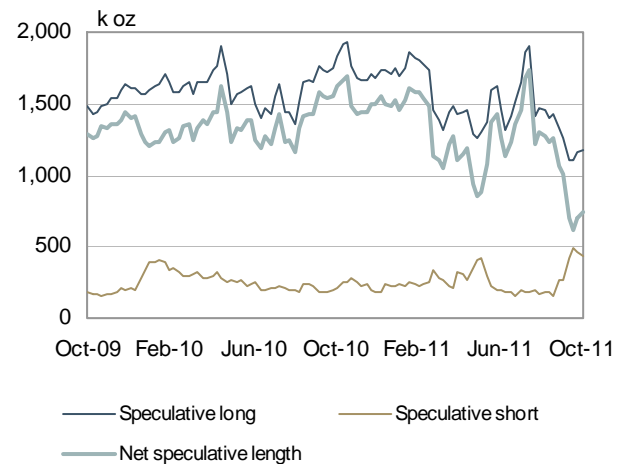
Amid perceived progress on the forthcoming EU plan for resolving some of the region's debt woes and some encouraging data on Asian economic activity, base metals have continued to push higher. A better-than-expected increase in Japanese imports in September (2.4% y/y versus a consensus 1.0% y/y), and a HSBC flash PMI reading indicating an expansion in manufacturing during October (51.1, compared to 49.9 in September) have raised hopes that Asian demand might compensate for reduced demand from slowing economic activity in the US and Eurozone.

Turning to the latest CFTC data, net speculative length for COMEX copper grew by a modest 19.6 tonnes. The increase in the net position was mostly attributable to a decline in speculative short positions (18.0 tonnes), with only a 1.5 tonnes added to speculative longs. Currently at -60.0 tonnes, net speculative length remains well inside negative territory. The relatively elevated level of speculative shorts continues to paint an unflattering picture for copper. The lack of investor support exposes copper prices to downside, especially as markets are anxious about another US/Eurozone recession.

As a percentage of open interest, net speculative length is currently at -4.1% (previously -5.7%). This is substantially below the average level of 12% over the past two years — highlighting the lack of speculative interest in copper.

Tactically, we still look to sell into rallies, particularly as the focus is increasingly on demand (and how a recession might impact this) rather than supply.

NYMEX palladium speculative longs and shorts



Sources: NYMEX; Standard Bank Research

Net speculative length for platinum increased, ending five weeks of losses. Encouragingly, the improvement was mostly due to the unwinding of speculative short positions (21.1k oz). However, at 278.8k oz, speculative shorts remain elevated (last year's average was only 112.3k oz). Speculative longs increased by 8.2k oz.

Despite this mild improvement in speculative positioning, ETF platinum holdings fell substantially. Losing 25.7k oz over the past week, holdings now stand at 1,346.5k oz.

Net speculative length as a percentage of open interest increased for the first time in seven weeks. Although currently at 48.7%, this is still well below last year's average of 58.6%. The platinum market therefore appears far from over-stretched.

We still believe that from a cost-of-production perspective, given the current value of the ZAR, there is value in platinum below \$1,600.

By Marc Ground

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Precious metals

Precious metals are also benefiting from the more positive tone on markets today, although their gains seem to lagging those of base metals. Also, it is PGM, with their scope for industrial application, that seem to benefiting the most from the current support. Consequently, it might be that gold and silver are shrugging off their close affinity with equities and risky assets and that their price behaviour and reaction to events might start to resemble safe-haven assets. However, it is too early to tell, and we remain wary that precious metals, gold and silver in particular, will continue to trade at levels of volatility more often associated with riskier assets (as highlighted in the focus section of the *Commodities Daily* dated 20 October 2011).

Platinum support is at \$1,509 and \$1,483, resistance is at \$1,539 and \$1,541. Palladium support is at \$601 and resistance at \$641.

COMEX gold net speculative length decreased, although only moderately, with only 25.8 tonnes lost over the past week. The change in the net position was mostly the result of speculative longs being unwound (24.3 tonnes), with the increase in speculative shorts (1.6 tonnes) contributing marginally. After only modest improvements in the net position over the previous two weeks, the past week's deterioration confirms that the speculative market is cautious about gold's short-term prospects. However, positioning remains uncommitted either way, so participants don't seem particularly worried about the gold price falling off a cliff.

Despite the improvement in COMEX silver open interest, net speculative length fell hard over the past week, losing 307.4 tonnes. For the most part, the decline in the net position was attributable to 237.6 tonnes removed from speculative long positions, with the 69.8 tonnes added to speculative shorts compounding the deterioration. Market positioning remains weak, with investors bearish on silver.

The significant drop of 38.1 tonnes in ETF holdings underscores this bearish view. The promising ETF investor interest in silver (after the liquidations of the week ended 23 September) is now in doubt. ETFs, too, now seem to be questioning value in silver. Given the market positioning and evaporating ETF interest, we would caution against taking any positions in silver.

Gold support is at \$1,627 and \$1,601. Resistance is \$1,665 and \$1,675. Silver support is at \$30.75 and \$29.90, resistance is at \$31.99 and \$32.37.

By Marc Ground

Energy

After a late session surge on Friday, oil prices retreated towards the end of New York trading hours. Brent was harder hit than WTI, giving back all of its gains and ending the day marginal lower (20c/bbl). WTI managed to hold its ground, ending the day up \$2.10/bbl. This morning, it appears as though the sentiment favours further upside, although again it appears as if WTI could fair better than Brent. Optimism over the outcome of Wednesday's EU summit and encouraging data out of Asia (Japanese exports and HSBC's preliminary Chinese PMI manufacturing) are keeping energy markets buoyant.

The latest CFTC data confirms that net speculative length for NYMEX WTI grew for the second consecutive week, with 15.4m bbls added. However, this time, the increase was mostly due to speculative long positions being added (12.2m bbls), with the 3.1m bbls shed from speculative shorts contributing marginally. The moves of the past two weeks are positive, signalling a market growing less apprehensive about downside.

However, net speculative length as a percentage of open interest continues to rise. Currently at 8.0%, this is drifting away from the average level experienced over the past two years (6.4%). So, while still not indicative of an overstretched market, we would pay close attention to this measure over the next few weeks.

The oil market remains in a tug of war between very tight physical fundamentals and significant uncertainties in global financial markets. Supply and demand fundamentals seem to be winning the battle. Very poor refining margins could be a sign of further weakening of demand for oil products. Furthermore, prices are likely to remain volatile.

Coal markets also ended the week on a high note, with the biggest gains in API2. API2 for Q4:11 gained \$1.30/mt to settle at \$116.40/mt, while API4 increased by 65c/mt to \$111.90. Cal-12 API2 increased by \$1.50/mt and API4 gained \$1.30/mt, ending the day at \$117.25/mt and \$114.25/mt respectively.

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	4,561,375	4,564,975	0	3,600	-3,600	284,325	223,500	4.90	363,100
Copper	444,275	447,800	0	3,525	-3,525	66,725	58,425	13.15	176,057
Lead	388,275	387,950	500	175	325	180,000	18,250	4.70	34,632
Nickel	87,726	86,820	1,362	456	906	-47,946	4,998	5.70	30,751
Tin	16,985	17,500	65	580	-515	710	2,895	17.04	4,899
Zinc	788,025	790,100	0	2,075	-2,075	86,600	79,150	10.04	170,397

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,250	16,435	315
Copper	53,500	53,500	1,840
Zinc	14,520	14,730	515

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Dec'11	-	-	-
Copper	Cu Dec'11	322	333.20	10.90
Zinc				

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,169	57,463	14,980	151,958	177,061	14,590	8.1370
3-month	17,508	58,868	15,778	154,893	178,580	14,871	8.2390

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)	122.42	0.59	124.29	2.52	123.38	2.34	121.79	2.04	-	-
Gasoil 0.1% Rdam (\$/mt)	949.75	-5.75	938.75	-5.00	932.25	-3.50	915.50	-0.25	902.75	15.50
NWE CIF jet (\$/mt)	1,003.10	6.03	1,029.49	19.32	1,024.67	18.17	1,010.24	17.33	997.80	14.84
Singapore Kero (\$/bbl)	124.64	0.61	126.94	2.52	126.43	2.34	124.64	2.09	122.73	1.90
3.5% Rdam barges (\$/mt)	624.96	3.91	629.00	11.50	620.50	11.00	605.75	10.75	584.25	9.00
1% Fuel Oil FOB (\$/mt)	643.12	3.83	650.75	10.00	647.50	10.00	636.75	10.00		
Sing FO180 Cargo (\$/mt)	657.10	2.54	662.50	11.50	653.50	11.50	636.75	10.75		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	116.40	1.30	116.55	1.90	116.55
API4 (FOB RBCT)	111.90	0.65	113.70	1.70	113.60

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.43800	0.44333	0.45083	0.47283	0.48833
Silver	0.29833	0.27333	0.27167	0.26000	0.19333
USD Libor	0.24472	0.32417	0.41833	0.60667	0.92139

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	46.98	1,656.92	1,647.78	1,665.49	1,554.16	1,627.00	1,665.00
Silver	41.67	31.71	31.28	37.09	36.48	30.75	31.99
Platinum	39.30	1,529.68	1,522.17	1,728.21	1,762.71	1,509.00	1,539.00
Palladium	43.62	610.91	607.24	731.08	753.24	601.00	641.00

Active Month Future	COMEX GLD Dec'11	COMEX SLV Dec'11	NYMEX PAL Jan'12	NYMEX PLAT Jan'12	DGCX GLD Dec'11	TOCOM GLD Aug'12	CBOT GLD Dec'11
Settlement	1,651.10	31.3850	626.20	1,509.20	1,658.00	4,047.00	1,655.80
Open Interest	437,339	106,445	18,997	37,590	9,071	132,174	1,814
Change in Open Interest	4,040	1,004	-208	-251	-12	2,565	-6

Sources: Standard Bank; LME; Bloomberg

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