

Commodities

Commodities: Daily



Focus: Gold — the (ir)relevance of currency moves

26 October 2011

Focus. Gold is back above \$1,700/oz. While some support for gold is coming from the weaker dollar, we view FX moves as only a short-term factor influencing gold. We maintain that gold will push higher into 2012.

- Base metals across the board are trading higher. Much of the support comes from higher equity prices in China this morning as well as a weaker dollar.
- Despite lower equities, gold made significant headway yesterday, finally bucking the trend of the past few weeks (which has seen the metal trade more in line with risky assets rather than as a safe-haven). With today's focus firmly on the much-anticipated EU summit, we could see volatile trading as markets respond to various announcements and press releases.
- Oil had a mixed day yesterday, as Brent weakened slightly, while WTI rose further after the \$4/bbl rally on Monday. Light production and fuel oil cracks fell, dragging refining margins lower despite a firm middle-distillate cracks. The recent surge in WTI has caused the WTI/Brent spread to narrow substantially. Mirroring the flat price, WTI structure also rallied strongly. The front-end of the WTI curve has shifted into backwardation for the first time since Q3:08.

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Commodity price data (25 October 2011)

Base metals LME 3-month

	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m	
Aluminium	2,210	2,224	2,255	2,196	14	0.62%	2,195.00	37	-21.75
Copper	7,640	7,530	7,820	7,428	-110	-1.43%	7,590.50	210	-8.50
Lead	2,011	1,963	2,044	1,957	-49	-2.41%	1,961.50	21	-24.00
Nickel	19,900	19,750	20,300	19,649	-150	-0.75%	19,825.00	790	-28.00
Tin	22,500	22,250	22,600	21,900	-250	-1.11%	22,290.00	485	-43.00
Zinc	1,877	1,842	1,940	1,835	-35	-1.84%	1,837.00	-4	-21.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	110.85	111.24	111.50	110.78	0.32	0.29%
NYMEX WTI	92.59	93.25	93.63	92.31	0.08	0.09%
ICE Gasoil	958.25	959.75	960.75	958.25	2.75	0.29%
API2 Q4'11	117.35	117.70	-	-	0.35	0.30%
ICE EUA Dec'11	10.47	10.39	-	-	-0.08	-0.76%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,656.25	1,656.00	1,703.50	1,644.50	1,699.50	48.50	0.8/1.2
Silver	-	33.38	33.30	31.37	33.10	1.54	-1.5/0.5
Platinum	1,554.00	1,543.00	1,565.00	1,543.00	1,565.00	25.00	1.5/3.5
Palladium	643.00	637.00	650.00	639.00	650.00	10.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Gold — the (ir)relevance of currency moves

Gold is back above \$1,700/oz. While some support for gold is coming from the weaker dollar, we view FX moves as only a short-term factor influencing gold. This is evident in Figure 1, showing gold has traded at levels anywhere from \$600/oz to as high as \$1,800/oz for the euro/dollar at \$1.38 (red line). Clearly, there must be something else driving the metal in the long-term. This, we believe, is predominantly global liquidity (Figure 2) and, to a lesser extent, real interest rates.

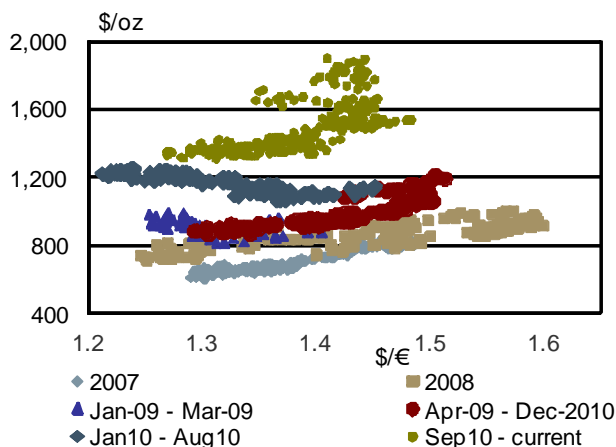
We note that global liquidity should continue to grow as long as (1) governments increase their nominal debt burden and/or (2) central banks, such as the US Fed, implement quantitative easing measures. In 2010, global liquidity grew 16%, in 2009 by 9.2% and 2008 by 28%. We believe that global liquidity would likely grow by 20% in 2011 and 18% in 2012.

We do not argue other factors such as fx moves, credit risk and equities influence gold in the short term. But we view these factors as only short-term influences. We therefore judge the long-term value for gold relative to where global liquidity and real interest rates dictate gold should be.

Accordingly, our view is that the gold price will push higher in 2012 amid the growing risk of a recession in the EU and the US and given that the US Fed appears to committed to an accommodative monetary stance. This should ensure that interest rates remain low well into 2013.

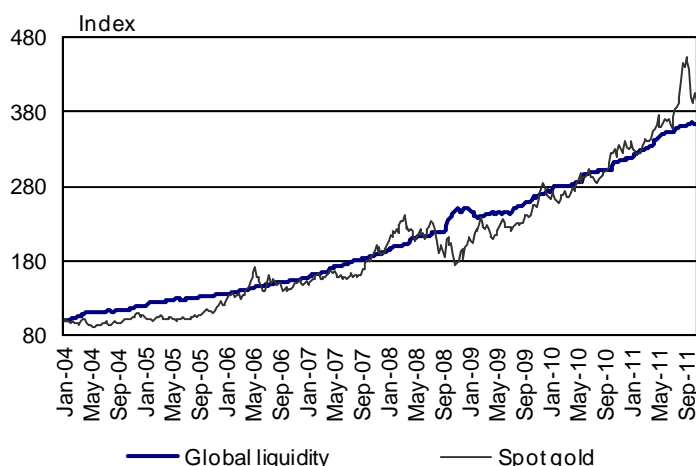
We continue to believe gold will push higher into 2012.

Gold vs. euro/dollar exchange rate



Source: Standard Bank

Gold vs. global liquidity



Source: Standard Bank

By Walter de Wet

Base metals

Base metals across the board are trading higher. Much of the support comes from higher equity prices in China this morning as well as a weaker dollar.

The copper price rallied towards \$7,750 after selling off yesterday afternoon. Much of the buying seem arbitrage related. But with the metal price at the \$7,750-level arbitrage opportunities is once again limited. As a result we doubt buying interest would continue.

The SHFE-LME copper arbitrage remains sporadic, but elevated physical premiums in Shanghai suggests that metal continues to head towards China. As noted in previous reports, the SHFE-LME arbitrage, in our view, merely controls the flow of metal from bonded warehouse in Shanghai into China. It does not in itself control imports from LME and elsewhere into Shanghai bonded warehouse. Anecdotal reports suggest Shanghai bonded warehouse stocks are now sub 200kt. With competitive storage costs, elevated spot physical premiums for bonded material, and with the market outside China looking particularly moribund at the moment, it perhaps makes sense to restock and recharge bonded warehouse inventories. However, it does not mean demand is strong and the futures market doesn't seem to interpret it as growing demand from CHina.

As pointed out on Monday, 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. Spec positioning remains consistent with what we believe is weak demand. This would also be consistent with price movements seen in non-exchange traded commodities such as iron ore, where prices have fallen from above \$170/mt at the start of the months to \$131/mt yesterday.

We expect other base metals to run into resistance should copper buying interest fade. The correlation between base metal prices remain very high.

By Walter de Wet

Precious metals

Despite lower equities, gold made significant headway yesterday, finally bucking the trend of the past few weeks (which has seen the metal trade more in line with risky assets rather than as a safe-haven). With today's focus firmly on the much anticipated EU summit, we could see volatile trading as markets respond to various announcements and press releases. The first of these will be a speech given by German Chancellor Merkel, which will be followed by the Bundestag vote on the leverage proposals for EFSF. The actual summit begins only later this evening (6.15pm London time), when Eurozone leaders meet for a working session.

Expectations have been dampened by speculation that today's summit will not result in any definite numbers being set for the enhanced EFSF and the amount that would be required to recapitalise the region's banks. Given these lowered expectations, we expect gold to trade with an upside bias today — especially with risk dissipating, as evidenced by the mixed performance on Asian and European equity markets. However, should the unlikely happen and tonight's meeting results in a definite plan of action for solving the Eurozone's woes, we could see the metal gain even more ground, as any plan would most likely involve boosting liquidity. The rest of the precious metals complex, in particular silver, would most likely follow suit.

Physical buying of gold has come down, with India currently at the height of Diwali celebrations today. However, we still see Far East buyers eager to take advantage of any dips and consequently providing mild support.

Gold support is at \$1,669 and \$1,624. Resistance is \$1,735 and \$1,755. Silver support is at \$32.26 and \$30.78, resistance is at \$34.31 and \$34.87.

Platinum support is at \$1,547 and \$1,525, resistance is at \$1,581 and \$1,592. Palladium support is at \$637 and resistance at \$658.

By Marc Ground

Energy

Oil had a mixed day yesterday, as Brent weakened slightly, while WTI climbed further after the \$4/bbl rally on Monday. Light production and fuel oil cracks fell, dragging refining margins lower despite a firm middle-distillate cracks. The recent surge in WTI has caused the WTI/Brent spread to narrow substantially. Mirroring the flat price, WTI structure also rallied strongly. The front-end of the WTI curve has shifted into backwardation for the first time since Q3:08.

The API reported US weekly oil inventory changes for crude/gasoline/distillates at +2.7/+0.9/-1.8mb w/w. Crude inventories at Cushing rose by 1.0mb, to 32.1mb. Cushing inventories have grown for three weeks in a row, which is in sharp contrast to the latest backwardated structure in WTI. The total US refinery utilisation rate remained little changed week on week, at 14.8mb/d, as maintenance activity reaches its peak. The build in crude inventories have mainly driven by a sharp increase in imports of 0.7mb/d. The API data on total US crude inventories level is now well above that reported by DOE last week by over 7mb. We expect an inventory build in crude and gasoline in the DOE report due for today.

The perceived progress on a radical solution to tackle the Eurozone debt crisis was damaged by a possible collapse of the current coalition government in Italy last night. However, the euro has risen significantly from its recent low at the beginning of the month — by more than 5%. Furthermore, the equity market has been boosted by Q3:11 earnings reported in recent weeks. As to the oil market fundamentals, the backwardated structure in both crude oil and most major products continued to indicate a very tight physical market, and have been pushing global oil inventories down. Consequently, the upside risk to the oil price will grow if Eurozone policy-makers manage to prevent a recession in this region. That said, the probability that the Eurozone crisis will linger on remains significant.

By James Zhang

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	4,558,850	4,561,375	0	2,525	-2,525	281,800	221,300	4.85	175,174
Copper	439,150	444,275	750	5,875	-5,125	61,600	64,875	14.77	142,333
Lead	388,150	388,275	0	125	-125	179,875	20,375	5.25	35,852
Nickel	87,828	87,726	336	234	102	-47,844	6,444	7.34	38,831
Tin	16,525	16,985	60	520	-460	250	2,655	16.07	4,993
Zinc	787,725	788,025	1,100	1,400	-300	86,300	80,000	10.16	81,766

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,360	16,375	-100
Copper	55,700	57,090	690
Zinc	14,750	14,930	-220

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Dec'11	-	-	-
Copper	Cu Dec'11	342	348.25	6.20
Zinc				1.81%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,266	59,707	15,429	155,943	175,333	14,450	7.8660
3-month	17,728	60,022	15,643	157,427	177,355	14,683	7.9710

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)	122.08	-0.01	125.22	0.92	124.12	0.76	122.45	0.83	-	-
Gasoil 0.1% Rdam (\$/mt)	959.75	2.75	948.25	2.75	940.50	3.00	919.75	2.25	907.00	1.50
NWE CIF jet (\$/mt)	1,004.10	1.34	1,033.08	6.58	1,028.92	5.96	1,012.12	3.55	1,001.38	4.34
Singapore Kero (\$/bbl)	124.14	-0.11	127.27	0.47	126.87	0.56	125.35	0.77	123.57	0.84
3.5% Rdam barges (\$/mt)	625.73	-0.23	634.25	2.75	625.00	2.50	606.75	1.00	582.75	-0.50
1% Fuel Oil FOB (\$/mt)	642.74	-0.71	651.75	0.00	648.00	0.00	635.50	0.25		
Sing FO180 Cargo (\$/mt)	660.74	2.00	669.50	3.75	660.25	4.00	638.50	1.25		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	117.70	0.35	117.75	0.00	117.55
API4 (FOB RBCT)	111.85	-0.20	114.05	-0.25	114.45

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.44133	0.45000	0.45917	0.48500	0.50167
Silver	0.30833	0.27167	0.25000	0.23500	0.15167
USD Libor	0.24472	0.32661	0.42222	0.61222	0.92556

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.65	1,665.24	1,655.92	1,668.89	1,557.57	1,669.00	1,735.00
Silver	46.19	31.95	31.55	37.02	36.53	32.26	34.31
Platinum	42.63	1,536.98	1,524.97	1,723.09	1,760.13	1,547.00	1,581.00
Palladium	46.46	619.88	609.12	728.00	751.62	637.00	658.00

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	1,714.30	33.3750	649.35	1,568.80	1,719.00	4,192.00	1,714.80
Open Interest	436,297	106,843	19,094	37,618	8,771	130,473	1,841
Change in Open Interest	642	1,523	129	-359	-300	-1,310	9

Sources: Standard Bank; LME; Bloomberg

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