

# FICC Research

## Commodities: Daily

### Focus: Gold support in place — for now



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**Focus:** Gold support in place—for now: With gold having reached our target of \$1,300, we expect support to remain in place, mainly from investment demand. But elsewhere in the market, strong resistance to a higher gold price is building.

- Precious metals continue to find good support on dips. We remain constructive on gold, silver and PGM in the short term. Overall, we believe that macroeconomic conditions remain supportive. However, after the strong rally across the complex in the past month, we look with keen interest to speculative length in the futures market.
- The base metals ended last week on a firm footing, however, given the scale of the recent rally across the base metals complex, Friday's positive US economic data appeared to be viewed by some participants as an opportunity to square up.
- Oil had a sizable gain last week helped by dollar weakness, bullish DOE inventory figures, strong economic news from the US and China, and political instability in Ecuador. Oil has had a little wobble this morning, on the back of a stronger dollar, though prices are recovering again heading into the afternoon.

#### Commodity price data (1 October 2010)

Base metals LME 3-month									
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,373	2,359	2,369	2,349	9	0.38%	2,345.00	31	-30.25
Copper	8,135	8,100	8,169	8,102	82	1.02%	8,115.00	62	-12.00
Lead	2,301	2,296	2,317	2,303	16	0.70%	2,276.50	15	-26.25
Nickel	23,700	23,850	24,100	23,945	400	1.71%	23,775.00	385	4.00
Tin	25,000	24,950	25,110	25,020	650	2.68%	25,050.00	400	7.00
Zinc	2,223	2,230	2,242	2,228	34	1.55%	2,193.00	17	-28.50
Energy									
	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	83.81	83.56	83.90	83.44	-0.19	-0.23%			
NYMEX WTI	81.68	81.34	81.87	81.27	-0.24	-0.30%			
ICE Gasoil	724.50	723.50	725.75	722.75	3.75	0.52%			
API2 Q3'10	96.00	96.40	-	-	0.40	0.41%			
EUA Dec10	15.48	15.36	-	-	-0.12	-0.78%			
Precious metals									
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs		
Gold	1,313.00	1,316.25	1,320.50	1,306.50	1,316.50	8.20	1.1/1.5		
Silver	-	22.10	22.14	21.72	22.02	0.22	1.0/3.0		
Platinum	1,669.00	1,679.00	1,680.00	1,658.00	1,680.00	25.00	3.0/5.0		
Palladium	570.00	571.00	576.00	567.00	572.00	5.00	0.0/2.0		

Sources: Standard Bank; LME; BBG

Please refer to the disclaimer at the end of this document.

### Focus: Higher gold price sees growing resistance

With gold having reached our target of \$1,300, we expect support to remain in place, mainly from investment demand. But elsewhere in the market, strong resistance to a higher gold price is building.

Macroeconomic factors remain positive for gold investment demand. We see the long-term causal fundamental drivers for investment demand in gold as *liquidity* and *long-term real interest rates* (*Commodities Insight* 11 August). Both support a higher gold price. In recent days, the yield on the 10-year US inflation-linked bond declined to well below 0.70%, implying that the market expects US real interest rates to average a mere 1% over the next 10 years. A lower implied real yield favours gold investment. Furthermore, our measure of global liquidity ("Fed balance sheet plus global foreign reserves excluding gold") continues to rise, supporting the current high gold price (see adjacent graph).

In August, when the physical market supported the gold price, we are now witnessing increased resistance from the physical market. Traditionally, Q4 sees increased demand from the jewellery sector, but demand is very low right now and there are rising volumes of scrap gold coming to market.

At the same time, net speculative longs on COMEX are close to an all-time high, at 901 tonnes, making us even more wary of a short-term correction in the gold price.

We would be surprised to see a sharp correction lower in the gold price ahead of the FOMC meeting next month as we'd expect further quantitative easing. We would therefore buy gold on dips until that time.

### Base metals

The base metals ended last week on a firm footing, however, given the scale of the recent rally across the base metals complex, Friday's positive US economic data appeared to be viewed by some participants as an opportunity to square up. With China now on their week-long National Day holidays, overnight volumes have fallen away significantly, leaving the base metals complex lacking direction after the weekend. As a consequence, the metals have resorted to dollar watching ahead of US trade.

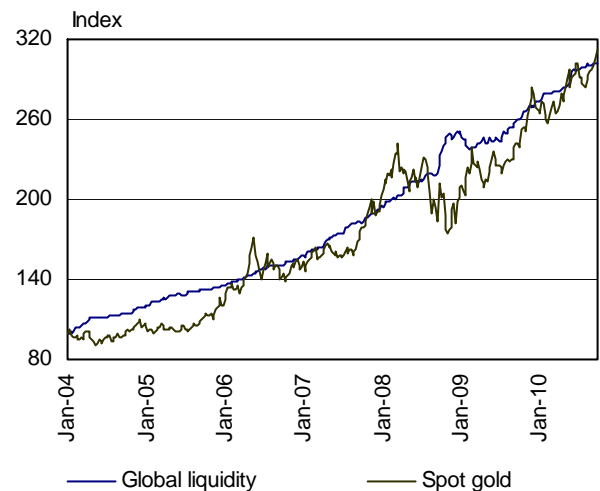
Looking ahead, this afternoon sees the release of the US August Factory Orders (expected -0.4%) and the August Pending Homes Sales numbers (expected +2.8% m-o-m). The key economic data occurs towards the end of this week however, with the BOE and ECB rate announcements on Thursday, and the closely watched US Nonfarm Payrolls on Friday.

Copper had a strong finish to the week, closing just below \$8,100 and posting the strongest close since July 2008. The red metal found it very hard to move above \$8,150, with stubborn resistance and fading momentum prompting a bit of a sell-off during Friday afternoon. Copper opened higher on Monday, however, amid thin volumes overnight, and against the backdrop of a stronger dollar prices drifted below \$8,100. How the US market behaves will be key to how the base metals trade this week, particularly given reduced volumes in Asia.

In other news, Southern Copper Corp. has signed labour agreements with three unions. Workers at its Cuajone and Toquepala mines and its Ilo smelter will receive an annual 5% wage increase through 2011 in addition to a signing bonus, a profit share and improved working conditions.

Tin continues to perform very strongly, with the metal hovering around \$25,000 heading into the afternoon, and only \$300 or so away from its May-2008 record. On-warrants stocks have been little changed over the past week or so, picking up 20 mt today to come in at 12,115. Tin inventories remain in a broadly downward trend, though on-warrant stocks are still some 9,000 mt above the lows seen in late-2008.

### Gold vs. global liquidity



Sources: CFTC; Standard Bank

We remain constructive on gold in 2011. However, we believe that gold may see a sharp correction lower towards year-end 2010 as seasonal jewellery demand dies away and speculative interest unwinds.

By Walter de Wet

By Leon Westgate

## Precious metals

Precious metals continue to find good support on dips. We remain constructive on gold, silver and PGM in the short term. Overall, we believe that macroeconomic conditions remain supportive. However, after the strong rally across the complex in the past month, we look with keen interest to speculative length in the futures market.

The long non-commercial position on COMEX gold has increased 36 tonnes last week, from 965 tonnes to 1,001 tonnes. Non-commercial shorts are up 10 tonnes, to 100 tonnes. This leaves the net speculative long position at 901 tonnes (up from 875 tonnes the previous week). As a percentage of open interest (OI), the net long speculative position has decreased to 33.5% of OI (from 32.75% the previous week). The net speculative length position is close to all-time highs. We still see support for gold in the next few weeks but we growing cautious.

Gold support is at \$1,309 and \$1,300. Resistance is at \$1,324 and \$1,330.

Given our view on gold, we would also look for silver to find support in October. However, we note silver also has seen a sharp rise in speculative length. COMEX silver's net speculative long position as a percentage of open interest is now at 27.3%. This is up from 21% at the start of August and well above the average of 21.7% seen over the past two years. We would be more cautious on the metal into December.

Silver support is at \$21.80 and \$21.50, while resistance is at \$22.30 and \$22.45.

**By Walter de Wet**

## Energy

Oil had a sizable gain last week helped by dollar weakness, bullish DOE inventory figures, strong economic news from the US and China, and political instability in Ecuador. Front month WTI jumped by \$5.09 for the week, closing at \$81.58. Front product cracks vs WTI were also higher, climbing by \$1.03 and \$0.95 for RBOB and heating oil respectively.

Oil has had a little wobble this morning, on the back of a recovery in the dollar vs. the euro, though prices are recovering again heading into the afternoon. Looking ahead, the market will continue to look to the dollar and its technical signals for direction, while the DOE inventory data on Wednesday, and the non-farm payroll number on Friday will also be closely monitored.

The CFTC Commitment of Traders report on Friday showed a big jump in non-commercial length in crude oil, due to an increase in the number of long positions, and a reduction in shorts. This is interpreted to be a combination of short covering and the addition of new long positions.

Elsewhere, there was a moderate increase in net non-commercial length in ROBOB, and a small increase in the net speculative length in heating oil. The change in speculative positions most likely reflects quarter-end position housekeeping activity from the fund community.

**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	4,352,000	4,355,650	625	4,275	-3,650	-276,900	244,875	5.63	184,162
Copper	373,800	374,150	1,300	1,650	-350	-128,525	20,100	5.38	131,385
Lead	194,375	191,700	5,175	2,500	2,675	47,875	8,125	4.18	28,985
Nickel	123,594	122,556	1,218	180	1,038	-34,416	4,206	3.40	29,077
Tin	12,495	13,430	140	1,075	-935	-14,270	400	3.20	4,961
Zinc	615,825	616,750	-	925	-925	127,775	47,550	7.72	68,047

### Shanghai 3-month forward prices

### COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	-	15,840	-85	Ali Dec'10	-	-	-	-
Copper	-	59,700	-940	Cu Dec'10	369	369.00	-0.05	-0.01%
Zinc	-	17,605	-270					

### ZAR metal prices (1 October 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,300	56,407	15,824	165,260	174,123	15,244	6.9510
3-month	16,636	57,122	16,192	168,193	175,950	15,726	7.0521

## 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)	93.10	1.67	93.75	1.61	94.61	1.91	95.79	1.64	-	-
Gasoil 0.1% Rdam (\$/mt)	723.50	3.75	721.25	4.25	721.50	4.25	725.25	13.25		
NWE CIF jet (\$/mt)	754.67	14.25	759.66	14.50	765.34	14.50	776.64	13.75		
Singapore Kero (\$/bbl)	94.01	2.03	94.45	1.61	95.41	1.86	96.84	1.79		
3.5% Rdam barges (\$/mt)	452.50	9.00	455.00	9.00	457.25	9.00	466.84	9.15		
1% Fuel Oil FOB (\$/mt)	468.25	6.75	475.25	8.75	480.00	8.75	492.34	9.40		
Sing FO 380 Cargo (\$/mt)	100.15	-	100.15	-	100.15	-	100.15	-		
Sing FO180 Cargo (\$/mt)	475.00	9.50	479.00	9.25	482.50	9.25	491.34	8.90		
Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	96.40	0.40	97.70	0.40	99.00	0.20	99.75	0.15	106.75	-0.15
API4 (FOB RBCT)	90.10	-0.10	92.50	0.20	93.80	0.00	94.45	-0.15	100.55	-0.15

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.35750	0.38250	0.40500	0.47000	0.50250		
Silver	0.60500	0.60500	0.60500	0.60500	0.60750		
USD Libor	0.25688	0.27359	0.29063	0.46313	0.77838		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	69.42	1,302.51	1,281.76	1,228.44	1,178.89	1,309.00	1,324.00
Silver	71.97	21.57	20.92	18.85	18.12	21.80	22.25
Platinum	66.35	1,647.75	1,615.01	1,557.05	1,582.95	1,659.00	1,689.00
Palladium	63.03	558.75	547.42	485.58	477.55	564.00	580.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'10	Dec'10	Jan'11	Jan'11	Oct'10	Aug'11	Dec'10
Settlement	1,319.30	22.1300	571.95	1,682.10	-	3,542.00	1,320.30
Open Interest	612,454	152,540	23,802	37,808	2,145	108,422	2,335
Change in Open Interest	4,734	1,714	410	441	-1	186	16

Date: 1 October 2010

Sources: Standard Bank; LME; Bloomberg

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