

FICC Research

Commodities: Daily

Focus: Spec interest — gold sees jump in activity



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Focus: According to the latest CFTC data (released on Friday afternoon), speculative length for metals has risen further. On the metals side, gold has seen the biggest rise in speculative activity, followed by silver. Crude oil has also experienced an ongoing increase in non-commercial long positions. We favour gold and copper relative to silver and crude oil, and at current speculative levels, we view gold and copper's downside as the better protected of the commodities.

- The EU agreement on Greece over the weekend - up to €45 billion in loans provided at below market rates - has given the global markets a boost. With market fears temporarily assuaged, and with the euro strengthening, the base metals have made solid gains this morning, building on the generally positive end to last week.
- The euro is much stronger in the wake of the €30bn loan deal brokered by the Eurozone for Greece. However, the Eurozone still has underlying debt problems, which should provide background support to gold.
- With the momentum of early April having evaporated, crude oil has settled back into sideways trading as prices look to consolidate. Front month WTI appears to be building a base around \$84.50/85.00 /bbl but remains reliant on technical signals and the dollar.

Commodity price data (9 April 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,387	2,424	2,429	2,415	47	1.55%	2,357.50	62	-33.25
Copper	7,934	7,925	8,044	7,968	39	-0.12%	7,896.00	101	-31.50
Lead	2,315	2,334	2,355	2,335	40	0.82%	2,280.00	55	-27.00
Nickel	25,080	25,200	25,600	25,250	480	0.48%	25,200.00	760	-58.00
Tin	18,655	18,750	18,700	18,700	55	0.51%	18,605.00	25	-73.00
Zinc	2,394	2,420	2,430	2,412	35	1.11%	2,356.00	31	-34.50

Energy

	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	84.87	85.13	85.74	84.86	0.30	0.35%	-	-	-
NYMEX WTI	85.17	84.85	85.71	84.65	-0.07	-0.08%	-	-	-
ICE Gasoil	713.75	710.75	717.00	709.00	1.25	0.18%	-	-	-
API2 Q2'10	78.10	78.75	-	-	0.65	0.83%	-	-	-
EUA Dec10	13.63	13.68	-	-	0.05	0.37%	-	-	-

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,156.00	1,152.50	1,165.00	1,150.00	1,160.80	7.80	0.4/0.8
Silver	-	18.54	18.42	18.28	18.32	0.21	0.0/2.0
Platinum	1,722.00	1,718.00	1,722.00	1,705.00	1,722.00	13.00	3.0/6.0
Palladium	511.00	511.00	513.00	510.00	511.00	9.00	0.0/2.0

Sources: Standard Bank; LME; BBG

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Focus: Speculative interest— gold sees jump in activity

According to the latest CFTC data (released on Friday afternoon), speculative length for metals has risen further. On the metals side, gold has seen the biggest rise in speculative activity, followed by silver. Crude oil has also experienced an ongoing increase in non-commercial long positions.

The long non-commercial position on COMEX gold has jumped 129 tonnes last week, from 686 tonnes to 815 tonnes. Non-commercial shorts are at 95 tonnes (up from 86 tonnes). This leaves the net speculative long position at 720 tonnes (up from 601 tonnes the previous week). As a percentage of open interest (OI), the net long speculative position stands at 34.5% of OI. This is still well below 42% of OI in September 2009, and in line with the average 35.8% seen over the past 12 months.

Silver's speculative length is at 26.15% of OI (24.3% the previous week). Speculative length increased from 16% of OI in February. The metal is approaching levels where speculative length appears overbought. Silver has seen speculative length at 31% of OI in January, but the average level over the past year is 23.3%.

The speculative length in NYMEX WTI is now at levels last seen in January before the sharp sell-off in crude oil. Speculative length reached 8.1% of OI in January before prices declined from \$84 to \$70. Average speculative length as a percentage of OI over the past year is only 5.2%. Currently, speculative interest stands at 8% of OI.

Platinum and palladium's non-commercial long positions remain high, with platinum's net long standing at 62% of OI. Palladium's

Base metals

The EU agreement on Greece over the weekend - up to €45 billion in loans provided at below market rates - was always going to give the global markets a boost. With market fears temporarily assuaged, and with the euro strengthening, the base metals have made solid gains this morning, building on the generally positive end to last week.

Of interest are reports that the Chinese regulator is demanding that lenders report their risk exposure to borrowers, including local governments, by end-June. The news impacted negatively on Chinese equities overnight but has yet to impact on the metals. However, with inspectors thought to be visiting lenders in Q3 to discuss the reports we note that a potential clamp-down on borrowing in Q4 may impact on liquidity, and therefore the capacity to purchase metals, towards the end of the year. Whether this sees Chinese borrowing levels increase in the interim, remains to be seen.

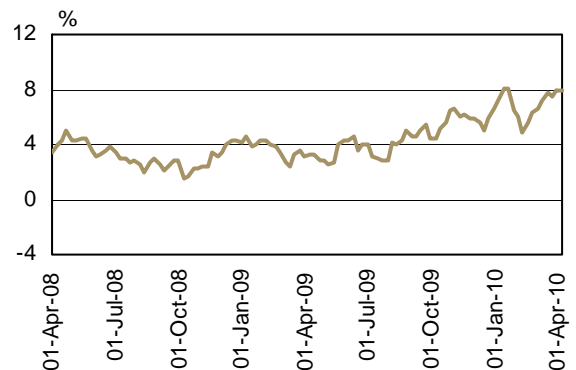
Copper gained an additional boost from much better than expected Chinese import figures, which showed imports of unwrought copper and copper products climbed 42% m-o-m and 22% y-o-y in March to 456,240 mt. Copper scrap imports were also up strongly, coming in at 360,000 mt, up 30% m-o-m and 9% in y-o-y terms. A full breakdown of the headline copper figure is due out later this month. We are entering a seasonally strong copper demand season but the level of imports, particularly given the lack of a sustained arbitrage opportunity since mid-February was surprising.

Copper prices traded above \$8,000 on the back of the import data and weaker dollar before Chinese arb-selling came into play. Prices have drifted back below \$8,000 and have settled into sideways trading heading into the afternoon.

Nickel is also stronger this morning, with the metal gaining additional support from the (temporary) closure of BHP Billiton's Leinster u/g mine operations after a fatal accident involving the operator of a front-end loader. The Leinster operation, which along with the Mt Keith forms part of the company's Nickel West unit, will remain closed while an investigation takes place.

LME nickel inventories have come under further pressure this morning with large cancellations in Rotterdam and Livorno seeing on-warrant stocks fall 1,326 mt.

NYMEX crude net spec long as % of OI



Sources: CFTC; Standard bank

net long position is at 55% of OI. This is very high compared to other metals, but in line with what we observed for both these metals over the past year. It signals a bullish outlook for both metals but, like crude oil, makes them unsusceptible to a large sell-off should risk appetite suddenly decline.

COMEX non-commercial length has been flat recently, reaching 14% of open interest last week. This is still well below January's 20%, and in line with the average speculative length of 13% of OI.

Based on the CFTC data, we favour gold and copper relative to silver and crude oil, and at current speculative levels, we view gold and copper's downside as the better protected of the commodities.

By Walter de Wet

By Leon Westgate

Precious metals

The euro is much stronger in the wake of the €30bn loan deal brokered by the Eurozone for Greece. The probability of Greece's default is seen as lower this morning, and is reflected in the 5-year CDS which have dropped 75 bps since Friday.

However, the Eurozone still has underlying debt problems, which should provide background support to gold. Greece is now rated BBB- by Fitch (with a negative outlook). This is the lowest notch to be recognized as "investment grade". As a result, any further downgrade by Fitch (and others) could result in even more selling of Greek bonds, as many asset managers (specifically pension funds) are allowed to hold only investment-grade bonds.

The stronger euro (and resultant weaker dollar) has seen gold slightly higher this morning despite the decrease in sovereign risk fears. However, for the first time in weeks, increased volumes of scrap gold are coming to market on the back of rising speculative activity in gold in the futures market. While gold doesn't look overextended yet, we see increased resistance to a move higher. Next resistance for gold is at \$1,168 and \$1,175. Support is at \$ 1,152 and \$1,142.

China delivered another bullish auto sales figure on Friday: March 2010 car sales were 1.26m units — 63.2% y/y rise. This follows decent figures from the US earlier this month. Although we believe both palladium and platinum re buys on dips, the auto sales data favours palladium relative to platinum.

The fact that the World Bank granted Eskom a \$3.75bn loan to fund capital infrastructure for electricity generation does not change our outlook on PGM. If the loan had been denied, we would have been more bullish on the metals, especially post-2010. A large part of the World Bank loan will go towards the completion of Medupi coal powered station. The power station will add 4,200MW to Eskom capacity (~10% of SA baseload). However, the first unit will only come on line in 2012. To fund other long-term power generation projects such as the Kusile station, Eskom still needs to raise ~\$6bn in funding. Delays in fund raising could also further delay capital investment in electricity generating capacity.

As pointed out in *Focus*, we believe that both metals are subject to large sell-offs should risk appetite suddenly decline. Our target price is \$1,800 for platinum and \$600 for palladium. These levels should be seen as a buying opportunity.

By Walter de Wet

Energy

With the momentum of early April having evaporated, crude oil has settled back into sideways trading as prices look to consolidate. Front month WTI appears to be building a base around \$84.50/85.00 /bbl but remains reliant on technical signals and the dollar.

The latest CFTC data shows that net speculative long positions in commodities have remained largely unchanged from the week before. NYMEX crude continues to see a large long speculative position, with the net long spec position standing just below 220K contracts - by far the highest level in the past 2 years. Although we believe demand for crude continues to recover, the large speculative position also poses a risk to crude oil prices should something emerge to spook the market.

With DOE stocks of gasoline under pressure recently, and standing more or less at normal levels, gasoline has also seen open interest increase sharply ahead of traditional US summer driving season approaches. Net non-commercial futures positions as reported by the CFTC currently stand at the highest level since reports started to be compiled in 2006.

Coal ended last week on a positive note with API2 for Q2-10 climbing \$0.65/mt to \$78.75. Farther-dated contracts continued to see good support. Cal-11 picked up \$0.75/mt while Cal-12 climbed \$1.15/mt.

In other news, China's National Energy Administration expects the country to remain a net importer of coal this year. Production is expected to be just over 3 billion mt this year vs. a consumption estimate from the State Grid Energy Development Co. of around 3.4 billion mt.

Meanwhile, the fatal accident at Massey Energy's Big Branch coal mine has been confirmed as the worst US mine disaster since 1970 after four missing workers were confirmed as dead. The mine remains closed with the company looking to try and offset the production shortfall by increasing output at its other operations.

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	4,575,650	4,581,000		5,350	-5,350	-53,250	275,950	6.03	149,426
Copper	511,075	511,925		850	-850	8,750	16,275	3.18	88,919
Lead	173,750	174,400		650	-650	27,250	4,500	2.59	32,509
Nickel	154,584	155,130	312	858	-546	-3,426	6,960	4.50	29,228
Tin	24,380	24,170	255	45	210	-2,385	780	3.20	3,264
Zinc	545,775	546,425		650	-650	57,725	13,400	2.46	90,117

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change	Open	Close	Change	Change (%)
Aluminium	16,810	16,870	185	Ali Mar'10	-	-	-
Copper	62,880	63,000	580	Cu Mar'10	359	362.05	3.05
Zinc	19,355	19,400	210				

ZAR metal prices (9 April 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,115	57,325	16,553	182,952	135,072	17,105	7.2600
3-month	17,874	58,438	17,211	185,822	138,261	17,845	7.3739

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)	94.28	0.10	94.83	0.06	95.14	0.04	96.74	0.15		
Gasoil 0.1% Rdam (\$/mt)	710.75	1.25	711.25	3.75	714.75	4.25	730.50	4.50		
NWE CIF jet (\$/mt)	756.15	-1.35	760.25	-0.75	767.83	0.46	785.74	0.42		
Singapore Kero (\$/bbl)	94.30	0.28	95.03	0.26	95.64	0.24	97.64	0.25		
3.5% Rdam barges (\$/mt)	455.99	0.91	460.75	0.50	464.00	0.25	472.00	0.25		
1% Fuel Oil FOB (\$/mt)	486.99	-1.95	491.00	-2.25	494.25	-2.25	507.00	-1.75		
Sing FO 380 Cargo (\$/mt)	480.00	0.50	483.00	0.25	485.75	0.25	#N/A N/A	1.50		
Sing FO180 Cargo (\$/mt)	482.55	0.41	489.00	1.00	491.75	0.50	499.50	0.00		

Thermal coal

	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	78.75	0.65	81.50	1.30	84.80	0.90	91.80	0.75	104.20	1.15
API4 (FOB RBCT)	87.35	-0.20	88.90	0.40	89.80	0.30	95.05	0.65	101.95	0.80

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.22800	0.22000	0.24200	0.31400	0.52200		
Silver	0.54500	0.55000	0.55500	0.58000	0.60500		
USD Libor	0.25298	0.27260	0.30041	0.45563	0.94094		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	59.21	1,135.64	1,122.03	1,120.11	1,062.69	1,150	1,168
Silver	60.50	17.99	17.53	17.26	16.54	18.00	18.50
Platinum	66.20	1,687.97	1,650.08	1,543.04	1,413.45	1,660	1,750
Palladium	65.84	499.20	482.01	427.85	362.62	490	500
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	May'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,166.30	18,555.00	522.00	1,727.40	1,166.40	3,498.00	1,166.30
Open Interest	521,384	121,609	24,238	37,793	1,892	99,381	3,167
Change in Open Interest	-9,543	-2,026	6	-144	-86	-272	-152

Date: 9 April 2010

Sources: Standard Bank; LME; Bloomberg

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