

FICC Research

Commodities: Daily

Focus: The Gold premium



30 April 2010

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Focus: Gold has been holding steady over the past few days despite heightened risk aversion. A comparison between gold and oil and their behavior relative to the dollar indicates a safe haven premium.

- The base metals struggled yesterday, with the complex being sold off towards the 5pm LME kerb close, before stabilising and picking up again on LME Select during late trading. The stronger US equity markets didn't have much impact on the base metals on Thursday, however they have given Asian markets a boost overnight, which, combined with a weaker dollar have helped support the base metals during Friday morning.
- Gold had a rangebound day on Thursday, trading sideways on the back of relatively lacklustre volumes. This morning has seen a weaker dollar provide a supportive backdrop for gold which has traded above \$1,176/oz heading into the afternoon.
- Crude oil rallied throughout much of Thursday, building on Wednesday's solid performance and helped by stronger equity markets. Friday has seen prices trade more or less sideways however, ignoring the weaker dollar.

Commodity price data (29 April 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,215	2,201	2,231	2,220	10	-0.63%	2,195.50	81	-31.50
Copper	7,420	7,360	7,465	7,375	-45	-0.81%	7,395.00	-16	-35.75
Lead	2,253	2,230	2,240	2,215	-5	-1.02%	2,229.00	4	-26.00
Nickel	25,850	25,400	25,700	25,500	-250	-1.74%	25,700.00	250	-57.00
Tin	18,425	18,160	18,400	18,250	200	-1.44%	18,450.00	350	-73.00
Zinc	2,342	2,269	2,330	2,274	-51	-3.12%	2,315.00	20	-32.75

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	87.09	87.35	87.53	86.76	0.45	0.52%
NYMEX WTI	85.58	85.91	85.97	85.24	0.74	0.86%
ICE Gasoil	726.75	728.50	728.75	724.75	0.25	0.03%
API2 Q2'10	84.50	84.55	-	-	0.05	0.06%
EUA Dec10	15.03	15.39	-	-	0.36	2.40%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,170.00	1,166.75	1,169.60	1,162.70	1,168.20	-2.80	0.2/0.6
Silver	-	18.51	18.57	18.09	18.55	0.45	1.0/3.0
Platinum	1,721.00	1,711.00	1,732.00	1,710.00	1,728.00	21.00	2.0/5.0
Palladium	546.00	542.00	550.00	541.00	549.00	10.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

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

Focus: The gold premium

Gold has been holding steady over the past few days despite heightened risk aversion. A comparison between gold and oil and their behavior relative to the dollar indicates a safe haven premium.

The US dollar is a big driving force behind higher commodity prices. Although the recent positive relationship between gold and dollar weakness, as well as oil and the dollar weakness has been weak and even negative, we believe on average, gold as well as crude oil will have a positive correlation with the dollar. Both commodities should benefit from a weaker dollar.

When analyzing the relationship between dollar movements and movements in crude oil and gold, two different pictures emerge. Crude oil in general has had a negative relationship with the dollar since 2007. Furthermore, the relationship has been fairly constant over time. That is, crude oil between 2007 and 2010 has traded at roughly the same levels for the same dollar/euro exchange rates.

Gold is different. The adjacent figures demonstrate that there are other factors inflating the gold price. These factors are absent in the crude oil market. Unlike crude oil, gold has been consistently trading at higher levels for the same dollar/euro exchange rate since 2007.

These factors we believe are predominantly credit risk (which has increased in recent weeks), global liquidity and ease of storage.

Base metals

The base metals struggled yesterday, with the complex being sold off towards the 5pm LME kerb close, before stabilising and picking up again on LME Select during late trading. The stronger US equity markets didn't have much impact on the base metals on Thursday, however they have given Asian markets a boost overnight, which, combined with a weaker dollar have helped support the base metals during Friday morning. Volumes are fairly subdued however, with the metals starting to drift heading into the afternoon.

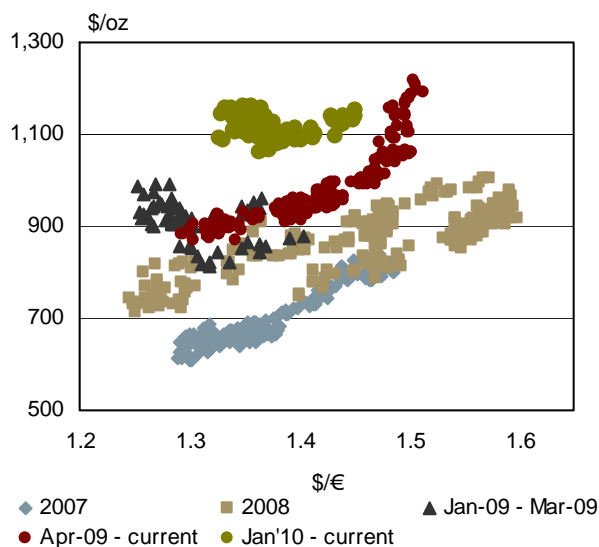
Month-end position housekeeping may become an issue later on today, while the market is also eyeing the long weekend in the UK and in China. Data-wise, this afternoon sees the release of the US Q1 GDP (expected +3.3%), the Chicago PMI (expected at 60.0 from 58.8) and the U. of Michigan Confidence numbers (expected at 71.0).

Copper saw some small scale and short lived Chinese arbitrage-related buying this morning. The SHFE/LME arbitrage ratio is currently around 7.90 - not enough to tempt the serious arbitrage activity which usually emerges when the ratio is above 8.1. Prices were sold off from the morning highs, though copper has since picked back up again on the back of the dollar. Overall LME copper has held above its 100-day MA pretty well and looks to have built a solid base around \$7,400, more or less back in the range it occupied for the majority of March.

SHFE copper inventories showed another small increase this week, up 1,534 mt to 189,441 mt. The figure was more than offset however by another fall in LME inventories. Headline LME stocks fell 3,250 mt to 499,400 mt - the first time stocks have been below the 500,000 mt mark since December. Inventories are now some 10%, or 55,725 mt below their February peak.

Nickel has recovered strongly this morning, boosted by another fall in LME inventories. Prices are looking to re-test \$26,000, though volumes are much more subdued than previous days. Of note, Vale has said it will raise output at its Clydach refinery in Wales to its full capacity of 7.9 Mlbs/month, suggesting that the plant is receiving increased supplies of nickel matte from the company's Sudbury operation. The Clydach facility had been running at a rate of 2.5 Mlbs/month up until last month, while the Sudbury smelter had been running at 50% capacity since January.

Gold vs dollar



Source: Standard Bank

We expect credit risk to remain elevated for most of 2010. We also expect liquidity to continue to grow this year.

Therefore we expect support for gold to remain largely in place. This also implies gold should continue to trade at higher levels for the same dollar/euro exchange rate. Put differently, gold in euros should continue to outperform gold in dollars.

By Walter de Wet

By Leon Westgate

Precious metals

Gold had a rangebound day on Thursday, trading sideways on the back of relatively lacklustre volumes. This morning has seen a weaker dollar provide a supportive backdrop for gold which has traded above \$1,176/oz heading into the afternoon. Resistance is seen at \$1,180.

Meanwhile, the uncertainty about Greece and Portugal, the credit downgrades to those countries and the steady stream of conflicting comments and statements from various Eurozone politicians, have seen investor flows head to the perceived safety of gold. For example, assets in the SPDR Gold ETF have increased by 18.87 mt since the beginning of this week to a total of 1,159 mt as of April 29th.

The PGM's lack the safe haven status of gold, however both metals rallied during NY trade helped by stronger equity markets. This morning has seen the PGM's track the base metals, though a weaker dollar should continue to lend background support.

Platinum support and resistance is seen at \$1,720 and \$1,750 respectively while Palladium support and resistance is seen at \$545 and at \$565.

By Leon Westgate

Energy

Crude oil rallied throughout much of Thursday, building on Wednesday's solid performance and helped by stronger equity markets. Friday has seen prices trade more or less sideways however, ignoring the weaker dollar. Front month WTI briefly traded above \$86/bbl during the mid-morning before drifting back towards \$85.50.

How the US equity markets perform this afternoon will be key to the price direction for crude oil, though the approach of the month-end and a long weekend in the UK and China may see a bit of position housekeeping creep in.

The oil leak currently threatening the US Gulf coast has seen US politicians call for the suspension of plans to expand offshore drilling activity for oil and gas. While not an immediate factor in the current oil market, it may become an issue over the coming months and years both in terms of how quickly, if ever, prospective new fields along the US coastline are brought into production and how costly that new production may be if tighter environmental controls are implemented.

Over the short term, an immediate inspection of all deep water drilling rigs in the Gulf of Mexico is to be carried out. The area currently produces around 1.7 million bbl/day of crude oil.

Nearby coal prices finished Thursday little changed with both API2 and API4 for Q2-10 closing \$0.05 higher at \$84.55 and \$90.95 respectively. The back end of the curve was better supported with API2 for Cal-11 climbing \$0.90/mt. API4 for Cal-11 finished \$0.65/mt higher.

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	4,535,450	4,541,700	250	6,500	-6,250	-93,450	263,050	5.80	321,611
Copper	499,300	502,550	200	3,450	-3,250	-3,025	26,425	5.29	129,163
Lead	180,850	180,075	775	0	775	34,350	775	0.43	28,124
Nickel	145,314	145,884	60	630	-570	-12,696	4,170	2.87	34,079
Tin	21,135	21,020	200	85	115	-5,630	710	3.36	6,672
Zinc	552,525	545,375	8,175	1,025	7,150	64,475	7,900	1.43	70,214

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,250	16,170	0	Ali Mar'10	-	-	-	-
Copper	58,790	58,650	-120	Cu Mar'10	335	337.25	2.20	0.66%
Zinc	18,300	18,325	-145					

ZAR metal prices (29 April 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,175	54,483	16,422	189,345	135,930	17,056	7.3675
3-month	16,465	55,059	16,682	190,012	135,851	16,974	7.4808

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)	94.77	0.17	97.30	2.58	97.68	2.57	99.60	2.42	-	-
Gasoil 0.1% Rdam (\$/mt)	728.50	0.25	731.75	0.25	736.00	-0.25	749.25	-3.50	777.25	17.75
NWE CIF jet (\$/mt)	760.33	1.74	783.30	16.75	789.49	16.92	807.75	18.00	841.49	17.75
Singapore Kero (\$/bbl)	94.81	0.18	97.60	2.68	98.23	2.67	100.43	2.50	104.23	2.41
3.5% Rdam barges (\$/mt)	461.90	1.00	477.25	12.25	481.50	12.00	491.50	11.50	506.56	10.93
1% Fuel Oil FOB (\$/mt)	491.14	0.88	506.25	11.75	513.75	11.75	526.75	12.00		
Sing FO 380 Cargo (\$/mt)	503.50	12.25	506.00	11.75	508.25	11.50	508.25	11.50		
Sing FO180 Cargo (\$/mt)	491.98	0.94	510.75	13.00	513.00	12.50	520.00	11.50		
Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	84.55	0.05	89.80	0.80	94.00	1.30	100.75	0.90	110.00	0.65
API4 (FOB RBCT)	90.95	0.05	94.80	-0.30	96.75	0.55	98.75	0.65	103.75	1.10

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.31800	0.32400	0.34000	0.40000	0.55000		
Silver	0.53200	0.53200	0.55200	0.57600	0.60800		
USD Libor	0.27766	0.31219	0.34438	0.52719	1.01438		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	58.58	1,154.82	1,151.76	1,118.04	1,078.05	1,085.00	1,105.00
Silver	58.06	18.15	18.17	17.24	16.88	16.30	16.90
Platinum	61.42	1,726.58	1,720.08	1,581.11	1,453.48	1,500.00	1,550.00
Palladium	64.20	554.23	537.31	452.72	383.81	420.00	433.00
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	1,172.70	18,5300	555.50	1,733.70	1,172.70	3,553.00	1,173.10
Open Interest	539,368	123,067	24,041	37,386	2,060	85,551	3,237
Change in Open Interest	-777	1,090	-4	-135	-68	4,759	30

Date: 29 April 2010

Sources: Standard Bank; LME; Bloomberg

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