

Focus: Growth and inflation support commodities The focus is on *industrial production and inflation* as we await the release of both sets of data in the Eurozone and US this week. China's CPI and industrial production figures for July were released this morning. In an economy where loans have been granted at a record pace over the past few months, CPI (y/y) came in at -1.8% y/y, and PPI at -8.2% y/y, and industrial production growth at 10.8% y/y (consensus: 11.5%). We expect the same pattern to emerge in the US and Euro-zone — i.e. an improvement in industrial production growth, coupled with benign inflation.

- For base metals, recent data makes it clear that a recovery is underway. The question remains whether (a) a recovery is sustainable, and (b) whether a recovery justifies the current price levels for base metals.
- In the physical gold market, activity remains subdued. We expect PGM to remain subdued as well. Platinum and palladium have already rallied on the uncertainty regarding Eskom and labour unions in South Africa. Platinum support is at \$1,240 and resistance at \$1,260. Palladium support is at \$271 and resistance at \$278.
- After briefly climbing to \$71.59/bbl in New York yesterday amid speculation of the first tropical cyclone of the hurricane season, front-month WTI crude oil prices returned to \$70.50/bbl – \$71.08/bbl in Asia this morning.

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Commodity price data (10 August 2009)**Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,035	1,970	2,040	1,955	-48	-2.38	1,998.00	26	-33.00
Copper	6,195	6,140	6,258	6,053	-15	-0.24	6,197.00	233	-9.75
Lead	1,910	1,874	1,925	1,846	39	2.13	1,891.00	76	-18.00
Nickel	20,450	20,225	20,495	19,455	575	2.93	20,475.00	970	-75.50
Tin	14,970	14,900	15,099	14,700	-50	-0.34	15,240.00	390	250.00
Zinc	1,904	1,850	1,924	1,830	5	0.27	1,872.50	51	-28.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	73.50	73.50	73.88	73.32	0.00	0.00%
NYMEX WTI	70.76	70.72	71.04	70.51	0.12	0.17%
ICE Gasoil	609.75	613.00	613.00	607.75	7.50	1.22%
API2 Q3'09	73.30	73.10	-	-	-0.20	-0.27%
ICE EUA Dec09	14.34	14.22	-	-	-0.12	-0.84%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold*	953.50	945.00	955.75	943.50	945.00	-18.70	1.8/2.2
Silver	-	14.42	14.67	14.31	14.38	-0.36	-3.0/-1.0
Platinum	1,252.00	1,242.00	1,256.00	1,245.00	1,247.00	-38.00	1/4
Palladium	274.00	272.00	277.00	270.00	272.00	-3.00	0/3

Sources: Standard Bank; LME; BBG

Focus: Growth and inflation support commodities Industrial production growth

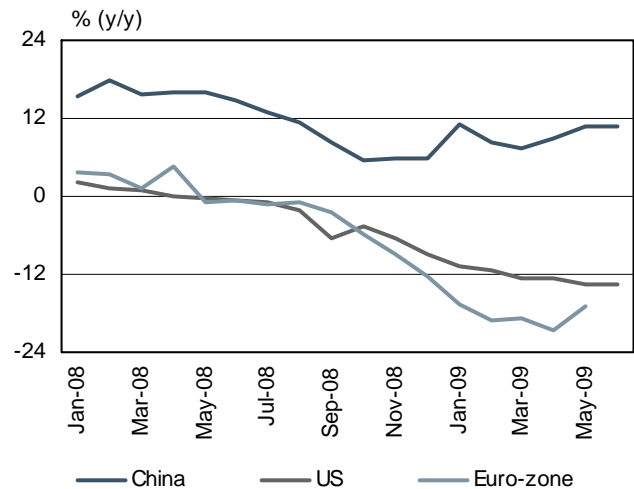
The focus is on *industrial production* and *inflation* as we await the release of both sets of data in the Eurozone and US this week.

China's CPI and industrial production figures for July were released this morning. In an economy where loans have been granted at a record pace over the past few months, CPI (y/y) came in at -1.8% y/y, and PPI at -8.2% y/y, and industrial production growth at 10.8% y/y (consensus: 11.5%).

We expect the same pattern to emerge in the US and Eurozone — i.e. an improvement in industrial production growth, coupled with benign inflation.

This would have two implications for commodities: *Firstly*, from an industrial production perspective, the data should confirm an ongoing recovery in commodity demand via a recovering industrial sector. However, we expect the recovery in industrial production to justify metals' and energy products' current price levels, rather than support a further rally.

Secondly, and where the next surprise for commodity prices could emanate from, is inflationary expectations. We expect low actual inflation in all major economies to confirm very little need by major central banks to start tightening monetary policy just yet. This could be underscored tomorrow when the US Fed decides what next to do manage the monetary side of the US economy. The Fed has almost completed its most recent QE programme — buying \$250bn in bonds as part of their latest



Source: Global Market Research, BBG

\$300bn programme — and the market will look to some indication of a possible extension of the QE programme, or like the ECB, an end to large-scale QE.

We believe a bearish outcome for commodities would be if the Fed signals the start of large scale withdrawal of liquidity from the financial system. However, we doubt this would happen. Therefore, we believe tomorrow's Fed meeting (ignoring individual commodity market specifics) is likely to be neutral to bullish for commodities.

Walter de Wet

Base metals

The base metals complex has had a lot of information to absorb this morning. Industrial production for China at 10.8% y/y in July (consensus: 11.5%); YTD industrial production growth at only 7.5%, compared with the first seven months of last year. The 10.8% growth rate in industrial production is not small, but still one third less than the 15%+ growth rate in industrial production in China between 2002 and September 2008. **While the slightly lower-than-expected industrial production saw base metals come under selling pressure in Asia, the data makes it clear that a recovery is underway.** The question remains whether (a) a recovery is sustainable, and (b) whether a recovery justifies the current price levels for base metals. We will look towards industrial production in the US and Eurozone to get a better idea on the sustainability of a recovery, and to monetary stimulus to see whether price levels are justified (refer to *Focus*).

Besides the Chinese industrial production data, China's import data showed copper and copper products imports declined by 69,387mt in July. The decline in imports from China was largely expected by the market, and we expect China's imports for copper during H2:09 to be well below that of H1:09. At least July's decline in copper imports from China was expected — this is reflected in copper price which is still trading well above \$6,100.

Similar to copper, aluminium imports also declined by almost 40%, to 222,585 tonnes. With SHFE prices staying strong and aluminium production in China on the rise again over the past few months, the slowdown in imports (from record levels) was also largely expected. After falling below \$2,000, aluminium is regaining some ground.

There has been a marked decline in the correlation between base metals and other commodities since last week. We take this as an indication that for base metals at least, market specifics (such as Chinese imports) are returning as focus points.

Walter de Wet

Precious metals

For precious metals, the focus will be the Fed's quantitative easing (QE) programme. The Fed has to decide its next monetary policy move. The Fed is unlikely to raise interest rates, but might shed some light on QE. The current QE plan was to purchase \$300bn in bonds — till now, it has purchased almost \$250bn. **This could mean that QE has nearly come to an end. If not, precious metals should find strong support.** When the BoE announced resuming its QE programme last week, gold jumped almost \$10. **If the Fed follows suit, we expect a bigger jump in the gold price.**

Keep an eye on another round of US Treasury sales today and tomorrow. Expectations are that the take-up of bonds will not be great — especially ahead of the Fed meeting tomorrow. The sale could see yields on 10-year Treasuries edged towards 4%. **Over the past few days, a slide in Treasuries has resulted in dollar weakness.**

In the physical gold market, activity remains subdued, although we expect selling to come back above \$950–\$952 area. Support for gold is at \$940.

We expect PGM to remain subdued as well. Platinum and palladium have already rallied on the uncertainty regarding Eskom and labour unions in South Africa. Because we expect no resolution to the situation today, we do not expect any major price movements from either platinum or palladium. However, we still believe there would be no power disruptions at PGM mines and, as a result, **we also believe the bias for both metals is to the downside.** Platinum support is at \$1,240 and resistance at \$1,260. Palladium support is at \$271 and resistance at \$278.

The gold:silver ratio came under some pressure overnight. However, we still see good support for silver as long as base metals are well supported. Silver support is at \$14.20 and \$14.00, with resistance at \$14.65 and \$14.90.

Walter de Wet

Energy

After briefly climbing to \$71.59/bbl in New York yesterday amid speculation of the first tropical cyclone of the hurricane season, **front-month WTI crude oil prices returned to \$70.50/bbl – \$71.08/bbl in Asia this morning.**

This range-trading follows mixed signals from Asian economic data this morning, with Japanese consumer confidence index rising to 39.7 (consensus: 38). Chinese industrial production climbed 10.8% y/y in July (consensus: 11.5% y/y). Crude oil failed to gain momentum despite Asian equity market gains this morning — with the Nikkei and Shanghai composite rising 0.58% and 0.46%. With no major Eurozone economic data today, we expect crude oil prices to remain range-bound ahead of US API inventory data today.

The greenback slipped from \$1.4124 to \$1.4179 this morning. However, the correlation between WTI and the dollar has weakened over the past few days and dollar movements seems less important at the moment. we note that the front-month WTI/Brent differential weakened from -\$2.66/bbl on Friday to -\$2.97/bbl this morning — **signaling weaker US crude oil implied import demand.**

With oil prices struggling to find direction, thermal coal contract prices came under pressure yesterday. API2(CIF ARA) and API4(FOB) for Q4:09 delivery slipped \$0.20/mt, to \$73.10/mt and \$67.70/mt respectively. According to China's National Bureau of Statistics, domestic electricity production rose 4.8% y/y in July, to 334 billion KWH — boding well for thermal coal demand. Rising Chinese industrial production should also support thermal coal demand in the world's largest coal consumer. Also signaling improving Chinese coal demand, coal inventories at the Qinhuangdao port fell 3% w/w, to 5.03 million tonnes. Prices at South Africa's Richards Bay Coal Terminal benefited from increased European buying interest — climbing 2.8% w/w, to \$64.85/mt.

Manqoba Madinane

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	4,566,250	4,566,850	4,700	5,300	-600	2,237,350	148,550	3.25	212,305
Copper	291,175	291,275	50	150	-100	-48,600	7,675	2.64	76,620
Lead	114,175	114,275	25	125	-100	69,025	400	0.35	31,891
Nickel	106,902	106,458	462	18	444	28,512	1,536	1.44	31,449
Tin	19,000	19,005	-	5	-5	11,210	855	4.50	6,770
Zinc	432,775	433,100	-	325	-325	179,275	6,300	1.46	62,862

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	15,140	15,140	-65	Ali Aug'09	89	86.50	-2.75	-3.08%
Copper	48,290	48,470	270	Cu Aug'09	277	278.35	1.30	0.47%
Zinc	15,045	14,990	-110					

ZAR metal prices (10 Aug 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,050	49,781	15,190	164,476	122,423	15,042	8.0330
3-month	16,119	50,237	15,333	165,481	121,912	15,137	8.1820

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)	80.62	-0.24	81.28	-0.29	82.09	-0.28	84.93	-0.37	84.26	2.78
Gasoil 0.1% Rdam (\$/mt)	613.00	7.50	612.50	1.25	618.75	0.25	642.00	-2.75	679.00	-2.75
NWE CIF jet (\$/mt)	643.13	-7.86	652.69	-7.00	661.44	-6.00	692.25	-6.75	733.78	0.76
Singapore Kero (\$/bbl)	79.98	-0.20	81.95	-0.22	83.12	-0.25	86.88	-0.37	91.52	-0.34
3.5% Rdam barges (\$/mt)	412.81	7.81	407.69	3.20	408.02	3.30	412.75	3.06	427.63	4.38
1% Fuel Oil FOB (\$/mt)	429.92	6.17	427.44	2.20	431.02	3.55	448.25	2.31	472.63	4.38
Sing FO 380 Cargo (\$/mt)	427.69	3.20	427.35	3.13	428.58	3.28	433.92	3.17	449.45	3.80
Sing FO180 Cargo (\$/mt)	435.85	7.85	429.69	3.20	431.02	3.30	436.75	3.06	449.45	3.80

Thermal coal	Q4:09		Q1:10		Q2:10		Cal 11		Cal 12	
API2 (CIF ARA)	73.10	-0.20	94.00	-0.10	86.50	-0.15	101.15	-0.25	107.40	-0.25
API4 (FOB RBCT)	67.70	-0.20	83.50	-0.10	77.75	-0.15	90.65	-0.25	96.40	-0.25
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	14.12	-0.15	14.22	-0.12	14.61	-0.13	15.32	-0.16	16.43	-0.16
ICE - ECX CER (€/mt)	12.65	-0.06	12.63	-0.07	12.44	-0.09	12.45	-0.09	12.84	-0.06

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.40333	0.45167	0.51333	0.59500	0.82333		
Silver	0.56167	0.56500	0.56500	0.59833	0.63667		
USD Libor	0.27500	0.32250	0.45875	0.90813	1.54875		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.76	951.94	949.38	928.26	895.08	941.00	954.00
Silver	54.44	14.28	13.96	13.71	12.64	14.26	14.70
Platinum	56.72	1,239.30	1,210.36	1,177.74	1,061.63	1,238.00	1,262.00
Palladium	61.05	270.97	263.36	240.76	217.71	271.00	278.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGX GLD	TOCOM GLD	CBOT GLD
	Dec'09	Sep'09	Oct'09	Oct'09	Aug'09	Jun'10	Aug'09
Settlement	948.50	14.4100	276.50	1,250.90	947.30	2,954.00	948.30
Open Interest	398,293	102,476	20,346	23,839	774	88,561	3,304
Change in Open Interest	5,459	2,999	568	567	-8	-2,684	281

Date: 10 August 2009

Sources: Standard Bank; LME; Bloomberg

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