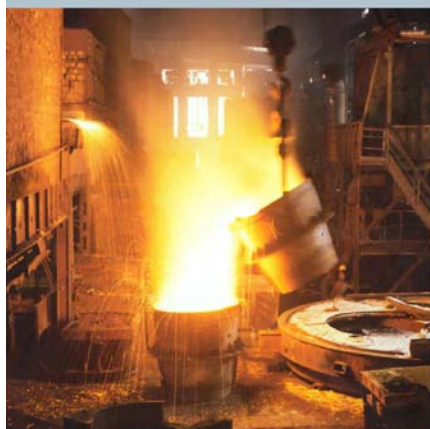


9 December 2009



Focus: Lead seasonal demand remains unconvincing so far The past three months has seen a dramatic shift in the shape of the lead forward curve - from pronounced backwardation to contango - as fears over pollution-related producer cut-backs in China dissipated, and as LME stocks also made steady gains.

- The base metals have made a tentative start to the day after yesterday's activity, with a lack of turnover this morning resulting in a mixed bag in terms of prices. Aluminium has been the strongest of the metals, boosted by fresh buying activity, however the other metals are generally trading sideways, albeit supported by a slight recovery in the euro against the dollar.
- The euro is under pressure following Greece's downgrade. Precious metal prices are down, but still higher than the last time the dollar was at \$1.4700 against the euro (at the beginning of November). At that time, the gold price was around a \$1,050. Platinum was trading at \$1,320 and palladium at \$320. Because it is not all about dollar strength, precious metals are resisting a major sell-off. Also, we believe that demand for PGM is improving
- The US dollar, which strengthened from \$1.4867 yesterday to \$1.4669 against the euro this morning, has weighed on the front-end of the WTI crude oil forward curve despite a large draw on US crude oil inventories reported by the API yesterday. The contract is range-trading between \$74.30/bbl and \$72.85/bbl this morning.

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Commodity price data (8 December 2009)**Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,178	2,163	2,190	2,125	27	1.26	2,134.00	31	-35.25
Copper	7,005	6,976	7,113	6,900	-19	-0.27	6,960.50	40	-39.00
Lead	2,295	2,289	2,329	2,270	11	0.48	2,256.00	-41	-34.00
Nickel	16,000	16,150	16,300	15,875	150	0.94	15,810.00	-165	-83.00
Tin	15,100	15,175	15,300	15,000	200	1.34	14,960.00	10	-73.00
Zinc	2,325	2,328	2,362	2,301	20	0.87	2,291.50	-10	-33.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	75.47	75.50	75.60	75.36	0.31	0.41%
NYMEX WTI	73.12	73.06	73.34	72.85	0.39	0.53%
ICE Gasoil	603.25	603.25	603.50	603.25	1.25	0.21%
API2 Q1'10	76.20	75.70	-	-	-0.50	-0.66%
ICE EUA Dec09	14.63	14.12	-	-	-0.51	-3.49%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,164.25	1,146.75	1,169.00	1,125.50	1,142.00	-20.50	0.6/1.0
Silver	-	17.67	18.32	17.56	17.76	-0.55	1/3
Platinum	1,455.00	1,439.00	1,455.00	1,440.00	1,436.00	-2.00	3/5
Palladium	377.00	374.00	375.00	368.00	374.00	0.00	1/3

Sources: Standard Bank; LME; BBG



Focus: Lead seasonal demand remains unconvincing so far

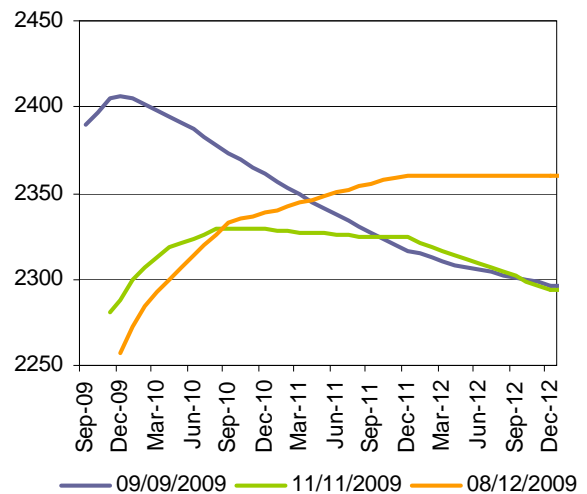
The past three months has seen a dramatic shift in the shape of the lead forward curve - from pronounced backwardation to contango - as fears over pollution-related producer cutbacks in China dissipated, and as LME stocks also made steady gains. Lead prices have come under pressure as a result, though due to a general weakening in the dollar and strength elsewhere in the complex the metal still remains rangebound and relatively well supported.

However, as we approach the Northern Hemisphere winter, typically the peak period for automotive replacement battery demand, evidence of a seasonal pick up in physical demand so far remains thin on the ground. The widening nearby contango also points to a well supplied market and a lack of demand.

European spot premiums have picked up a little, however LME inventories have also been rising steadily over the past few months. Interestingly however, and rather incongruously given the firmer premiums, of the 21,125 mt increase in global on-warrant LME lead stocks since the beginning of September, just over 70% of the increase has been into European warehouses. This suggests demand is patchy at best,

First-use auto sales are picking up nicely (see [Commodities Daily - 8th December](#)), albeit still way below the levels seen in 2007, with stronger auto sales likely to continue underpinning demand and prices next year as the global economy recovers. In terms of stocks-to-weeks consumption, lead, along with copper, still remains one of the tightest of the base metals markets, suggesting

Figure 1: LME Lead forward curves (US\$/mt)



Source: LME, Standard Bank

that prices will perform strongly once that demand starts to emerge.

Short term however, the metal very much depends on the performance of the wider base metals complex, with the lack of nearby interest potentially leaving it vulnerable to a sell-off over the near-term.

By Leon Westgate

Base metals

The base metals have made a tentative start to the day after yesterday's activity, with a lack of turnover this morning resulting in a mixed bag in terms of prices. Aluminium has been the strongest of the metals, boosted by fresh buying activity, however the other metals are generally trading sideways, albeit supported by a slight recovery in the euro against the dollar.

Data-wise, the main news as far as the commodities are concerned is the UK Pre Budget Report (PBR), and the effect that the key points and soundbites may have on the currencies. Consequently, the metals may appear to be waiting until the content of the PBR is digested by the wider markets.

Aluminium opened higher yesterday, before coming under sustained pressure during the afternoon in the wake of Greece's downgrade. A flurry of activity this morning has helped aluminium to climb back above \$2,150, while a weaker dollar is also helping to lend a little bit of background support.

Elsewhere, on-warrant LME aluminium stocks fell by 19,225 mt this morning. The drop was due primarily to a 17,175 mt jump in cancelled warrants, the main locations being Rotterdam +7,200 mt, Baltimore +7,000 mt and Chicago +3,275 mt. The latest cancellations bring the total fall in on-warrant inventories so far this month to 62,175 mt, though, with headline inventories still standing at just under 4.6 million tonnes, there is a very long way to go.

Copper followed a very similar pattern to aluminium on Tuesday, as did the rest of the complex, opening higher before coming under pressure during the afternoon. This morning has seen copper trade sideways, though it is also keeping a close eye on the dollar. The other base metals are following suit.

In other news, First Quantum Minerals has agreed to buy BHP Billiton's Ravensthorpe nickel operation for \$340 million. The company is looking to re-start the operation within 18 months of completing the deal and aims to produce an average of 38 ktpy over the next 5 years as part of a plan to help the diversify its production.

By Leon Westgate

Precious metals

The euro is under pressure following Greece's downgrade. Precious metal prices are down, but still higher than the last time the dollar was at \$1.4700 against the euro (at the beginning of November). At that time, the gold price was around a \$1,050. Platinum was trading at \$1,320 and palladium at \$320.

Although economic conditions have changed enough to justify higher precious metals prices, metals could fall more.

The recent movements in major currencies are because of euro weakness rather than dollar strength. This is evidenced by the euro's exchange rate with other currencies as well as the reaction of many EM currencies against the dollar.

Because it is not all about dollar strength, precious metals are resisting a major sell-off. Also, we believe that demand for PGM is improving (refer to *Commodities Daily* 8 December 2009).

While there is physical buying on dips in gold, we favour selling the gold rallies. ETF fund liquidations continued yesterday. The SPDR Gold Trust ETF, the largest gold-backed ETF, reduced its investment holdings by 483,958oz. Gold support is at \$1,115 and \$1,100, resistance at \$1,155 and \$1,170.

In gold's wake, platinum slid from \$1,448 to \$1,407 in New York, and has traded between \$1,422 and \$1,404 in Asia this morning. ETF Securities Ltd has increased its platinum holdings by 2,579oz. We expect platinum and palladium to perform better than gold in coming weeks.

With little data due out, we may not see large movements, at least not on the upside. In the US, MBA mortgage applications may be of interest.

By **Walter de Wet**

Energy

The US dollar, which strengthened from \$1.4867 yesterday to \$1.4669 against the euro this morning, has weighed on the front-end of the WTI crude oil forward curve despite a large draw on US crude oil inventories reported by the API yesterday.

Front-month WTI crude oil encountered resistance at \$74.29/bbl in electronic trade during European trade before sliding to \$72.43/bbl in NY aftermarket trade. The contract is range-trading between \$74.30/bbl and \$72.85/bbl this morning.

According to US API data, US crude oil stockpiles contracted 5,815K barrels, to 331,537K barrels last week. API gasoline inventories also contracted, by 753K barrels. The increase in US gasoline demand saw gasoline production increase by 682K barrels last week. However, distillate stockpiles gained 1,011K barrels following a 1 percentage point increase in refinery utilization to 81%.

US crude oil imports increased 1,091K barrels last week — albeit with a 597K barrel contraction in refined product imports. The market for distillate fuels remains well supplied.

The US Department Of Energy (DOE) has increased its 2010 forecast for front-month WTI crude oil by 0.7%, to \$78.67/bbl — 27% higher than its estimate for 2009. However, the DOE reduced its forecast for global crude oil consumption in 2010 to 85.22mbpd, from a previous estimate of 85.4mbpd.

Weaker crude oil prices were a mixed bag yesterday amid weaker crude oil prices. API2(CIF ARA) for January 2010 delivery shed \$0.50/mt, to \$75.70/mt. API4(FOB) for December 2009 delivery gained \$0.40/mt, to \$69.20/mt. The Baltic Dry index, which measures global freight rates, dipped 3.32% yesterday, which weighed on CIF ARA contract prices.

Carbon contracts came under pressure yesterday after speculators liquidated positions yesterday. ICE EUA for December delivery shed EUR0.51/mtCO₂ to EUR14.12/mtCO₂. Un-backed CER for December delivery also shed EUR0.42/mtCO₂ to EUR13.13/mtCO₂.

By **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	4,593,150	4,595,200	1,900	3,950	-2,050	2,264,250	176,850	3.85	219,831
Copper	458,500	453,300	5,625	425	5,200	118,725	1,050	0.23	102,933
Lead	140,800	140,725	125	50	75	95,650	200	0.14	28,144
Nickel	143,430	143,136	414	120	294	65,040	1,380	0.96	31,051
Tin	26,545	26,750		205	-205	18,755	575	2.17	43,157
Zinc	457,825	458,350		525	-525	204,325	5,050	1.10	82,740

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,010	16,070	220	Ali Dec'09	-	-	-	-
Copper	55,700	55,640	70	Cu Dec'09	321	321.05	0.15	0.05%
Zinc	18,490	18,450	-10					

ZAR metal prices (8 December 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,001	52,190	16,915	118,543	112,170	17,182	7.4980
3-month	16,500	53,214	17,461	123,194	115,756	17,758	7.6281

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)	82.79	-1.78	82.72	-0.96	83.54	-0.99	86.24	-1.13	91.87	-1.11
Gasoil 0.1% Rdam (\$/mt)	603.25	1.25	616.00	1.50	624.50	1.00	645.00	-8.75	685.25	-9.00
NWE CIF jet (\$/mt)	671.97	-8.77	677.05	-9.85	685.60	-9.40	708.50	-10.67	750.65	-9.37
Singapore Kero (\$/bbl)	83.92	-2.11	84.52	-1.21	85.39	-1.19	87.84	-1.23	93.44	-1.22
3.5% Rdam barges (\$/mt)	438.50	-5.49	443.01	-6.17	445.37	-6.88	450.05	-7.66	457.87	-8.32
1% Fuel Oil FOB (\$/mt)	457.75	-7.74	464.26	-11.17	471.62	-9.13	483.30	-9.41	501.87	-11.07
Sing FO 380 Cargo (\$/mt)	464.01	-6.67	464.87	-6.88	466.17	-6.76	469.78	-7.66		
Sing FO180 Cargo (\$/mt)	467.50	-6.74	468.51	-6.92	469.62	-7.13	473.80	-7.66		

Thermal coal	Q1-10		Q2-10		Q3-1		Cal 11		Cal 12	
API2 (CIF ARA)	75.70	-0.50	86.80	0.00	81.25	-0.10	96.55	-0.15	105.95	0.05
API4 (FOB RBCT)	69.20	0.40	78.30	0.20	73.90	0.40	87.10	0.00	96.20	0.10
Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	14.12	-0.51	14.12	-0.51	14.31	-0.55	14.92	-0.58	15.77	-0.47
ICE - ECX CER (€/mt)	13.13	-0.41	13.13	-0.42	12.70	-0.45	12.75	-0.45	13.13	-0.47

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.29400	0.30800	0.32800	0.41400	0.56200
Silver	0.60600	0.60600	0.60600	0.60600	0.60600
USD Libor	0.23469	0.24375	0.25594	0.46813	1.01500

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	56.39	1,177.56	1,161.03	1,034.80	979.71	1,115.00	1,159.00
Silver	51.38	18.48	18.36	16.46	15.01	17.34	18.16
Platinum	53.66	1,457.02	1,446.37	1,321.25	1,238.63	1,392.00	1,447.00
Palladium	60.53	374.90	370.79	313.19	272.28	362.00	377.00

Active Month Future	COMEX GLD Dec'09	COMEX SLV Sep'09	NYMEX PAL Oct'09	NYMEX PLAT Oct'09	DGCX GLD Oct'09	TOCOM GLD Jun'10	CBOT GLD Oct'09
Settlement	1,133.60	17.6600	370.65	1,440.40	1,134.10	3,231.00	1,134.20
Open Interest	508,730	128,735	23,214	34,523	1,393	121,241	3,182
Change in Open Interest	-21,043	-497	-6	-892	-147	1,891	-278

Date: 8 December 2009

Sources: Standard Bank; LME; Bloomberg

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