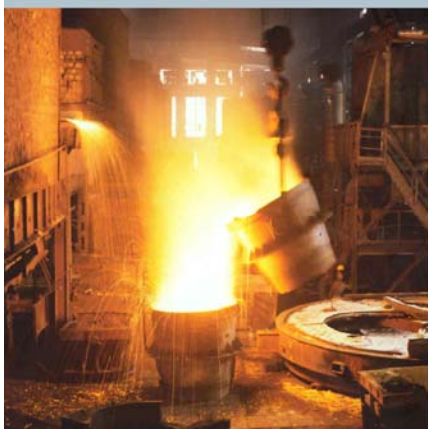


15 December 2009



Focus: Chinese new loans, the real driver of copper prices? Over the past few years, the distribution of loans by Chinese banks has taken on a very seasonal pattern, peaking in the first quarter before tailing off towards year-end. With each burst of new loan activity, there is a subsequent pick up in the copper prices as Chinese consumers go out and use the cash to buy copper. Towards the end of the year, as the availability of loans dry up, consumers step away and prices fall.

- After a promising start, the base metals have come under pressure this morning from a stronger dollar. Volumes are significantly lower than the levels seen last week, with the market appearing to wind-down ahead of year-end. A busy afternoon in terms of economic data is perhaps another reason for the lacklustre start
- The US dollar remains a key driver of the spot gold price. Gold investment flows have meanwhile been rather mixed.
- A stronger US dollar, coupled with a lack of economic data in Asia for clues on crude oil demand fundamentals, has weighed on the front-end of the crude oil forward curve. Front-month WTI crude struggled to climb back above \$70/bbl, ranging between \$69.90/bbl and \$69.60/bbl as the green-back rallied from \$1.4660 to \$1.4632. Front-month WTI crude remains strongly correlated to the US dollar.

Walter de Wet* CFA

+44 (20) 3145 6821

Walter.DeWet@standardbank.com

Leon Westgate*

+44 (20) 7626 6004

Leon.Westgate@standardbank.com

Manqoba Madinane*

+27 (11) 378 7220

Manqoba.Madinane@standardbank.co.za

Commodity price data (14 December 2009)**Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,284	2,258	2,305	2,253	-15	-0.66	2,265.50	56	-36.00
Copper	6,870	6,914	6,940	6,832	78	1.14	6,920.00	49	-41.00
Lead	2,328	2,340	2,340	2,300	39	1.67	2,291.00	1	-33.50
Nickel	16,749	16,925	17,000	16,450	250	1.50	16,690.00	165	-73.00
Tin	15,260	15,340	15,325	15,200	100	0.66	15,155.00	-45	-50.00
Zinc	2,330	2,335	2,345	2,300	36	1.57	2,281.50	-6	-35.75

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	72.04	72.11	72.11	71.93	0.22	0.31%
NYMEX WTI	69.56	70.71	69.91	69.56	0.33	0.47%
ICE Gasoil	584.00	586.75	586.75	584.00	-1.50	-0.26%
API2 Q1'10	76.10	76.40	-	-	0.30	0.39%
ICE EUA Dec09	14.35	14.38	-	-	0.03	0.21%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,120.00	1,123.75	1,127.75	1,113.75	1,122.50	3.70	0.6/1.0
Silver	-	17.39	17.38	17.13	17.30	0.22	1/3
Platinum	1,437.00	1,436.00	1,443.00	1,420.00	1,440.00	23.00	3/5
Palladium	364.00	364.50	366.00	363.00	365.00	5.00	1/2

Sources: Standard Bank; LME; BBG



Focus: Chinese new loans, the real driver of copper prices?

Over the past few years, the distribution of loans by Chinese banks has taken on a very seasonal pattern, peaking in the first quarter before tailing off towards year-end.

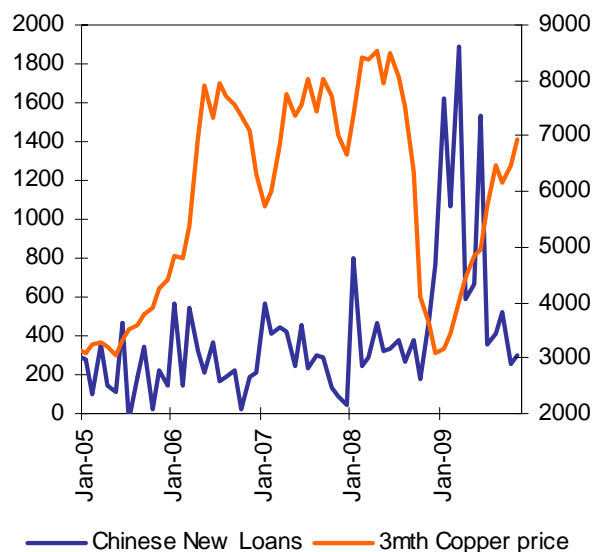
With each burst of new loan activity, there is a subsequent pick up in the copper prices as Chinese consumers go out and use the cash to buy copper. Towards the end of the year, as the availability of loans dry up, consumers step away and prices fall. The distribution of Chinese bank loans therefore seems to have a direct - albeit slightly delayed - impact on copper prices.

This year, Chinese banks have so far advanced a record 9.21 trillion yuan for the first 11 months of the year, with the Chinese stimulus package being one of the key drivers behind the initial recovery in commodity prices. Investor flows have since taken over, however fresh Chinese loans next year may see copper extend its rally.

Current estimates suggest that Chinese banks may lend 8 trillion yuan in new loans in 2010, down ~13% on this year's figure, but still more than double the level seen in 2007 and some 60% higher than the level seen in 2008. On the basis of recent history, the bulk of the loans will again be distributed in the first portion of the year.

As noted in previous reports, the late timing of the Chinese New

Chinese New Loans vs. LME 3m Copper price



Source: Bloomberg, LME

Year in 2010 (Feb 14th) may delay any significant pick up in activity, however the timing and expected level of the new allocation of loans suggest that copper may have a very strong first half to 2010 indeed.

By Leon Westgate

Base metals

After a promising start, the base metals have come under pressure this morning from a stronger dollar. Volumes are significantly lower than the levels seen last week, with the market appearing to wind-down ahead of year-end. A busy afternoon in terms of economic data is perhaps another reason for the lacklustre start, with this afternoon seeing the release of the US PPI for November (expected +0.8%), the December Empire Manufacturing figures (expected at 24.0), the October TIC data, and November's Industrial Production number (expected at +0.5%).

The main interest in copper this morning has been on the SFE. There has been a further tightening in the nearby spreads, while physical copper is currently trading at ~\$20 premium over the Dec-09 contract. Therefore, although activity on the LME appears to be dying off as we approach year-end, Chinese activity is picking up. Coupled with rising premiums for material in bonded warehouse in China, it will be interesting to see if the recent activity is reflected by another drawdown in SFE copper inventories (down 9k last week), and whether it is the first sign of Chinese consumers starting to re-stock.

Price-wise, LME copper has come under pressure heading into the afternoon in the wake of a stronger dollar. Elsewhere, on-warrant copper stocks gained a net 3,475 mt this morning, the main locations for the inflow being Busan (+1,525 mt), New Orleans (+1,000mt) and St Louis (+625 mt).

Aluminium has also come under pressure this morning, however the metal is holding up relatively well. Of note, after recent drawdowns in on-warrant LME inventory, this morning has seen a 26,000 mt increase. Almost all of the material went into the US, with Detroit taking the Lion's share (+16,300).

In other news, local Indonesian authorities have reportedly started another crackdown on illegal tin mining on Bangka island, albeit on a smaller scale than the crackdown in August. Given that the rainy season will impact on mining activity anyway, the latest offensive on illegal mining is unlikely to have that significant an effect. Nevertheless prices are fairly steady this morning, with tin avoiding the weakness elsewhere in the complex.

By Leon Westgate

Precious metals

Gold climbed from \$1,123 to \$1,129 in early Asia before sliding to \$1,123 ahead of European trade as the greenback strengthened from \$1.4660 to \$1.4634. The 5-day rolling correlation between the spot gold price and the trade-weighted USD is at -0.92 (-0.62 yesterday); with the dollar re-emerging as the main driver of the spot gold price.

Gold investment flows have been mixed. While the SPDR Gold Trust ETF increased its investment holdings by 10,587oz, the ZKB Gold ETF's holdings contracted by 65,000oz w/w. Although reported with a 1-day lag, gold holdings by the i-Shares Comex Gold Trust ETF contracted by 39,230oz. Gold support and resistance are at \$1,115 and \$1,134 respectively today.

Silver has attracted new ETF inflows, with the ZKB Silver ETF adding 578,000oz to its investment holdings. Despite this, the metal tracked gold lower ahead of European trade this morning — sliding from \$17.46 to \$17.31. Silver support and resistance are at \$17.16 and \$17.54 respectively today.

PGMs were steady this morning ahead of the EU new car registrations and ZEW Eurozone expectations data — which may offer clues on European PGM demand - but have since come under pressure from a stronger dollar. Platinum climbed from \$1,442 to \$1,452 in Asian trade before retreating to \$1,445 ahead of the European open. Palladium climbed from \$366 to \$368 before sliding to \$365.

By Manqoba Madinane

Energy

A stronger US dollar, has weighed on the front-end of the crude oil forward curve this morning. Front-month WTI crude struggled to climb back above \$70/bbl, ranging between \$69.90/bbl and \$69.60/bbl as the greenback rallied from \$1.4660 to \$1.4632. **Front-month WTI crude remains strongly correlated to the US dollar** — with the 5-day rolling correlation between front-month WTI crude and the trade-weighted US dollar increasing from -0.60 yesterday to -0.83 this morning.

Also weighing crude oil investment sentiment are equity markets; the Nikkei and Shanghai composite have slipped 0.22% and 0.86% respectively. Equity index futures are pricing in gains in the DJIA later today; this could support front-month WTI crude in New York trade. US API crude and refined product inventory data (today) should offer clues on US crude oil demand and will prime the market ahead of tomorrow's DOE numbers.

On the economic data front, EU new car registrations recorded a 26.9% m/m increase in November, compared with an 11.6% m/m gain in October. However, front-month ICE Brent did not react to the news, sliding from \$72.18/bbl to \$71.97/bbl in early European trade this morning as the dollar took precedent over the data.

Thermal coal contracts rose higher yesterday despite lower freight rates which saw the Baltic Dry index shed 1.4%. There were also signals of weaker demand in the Asia-Pacific region, as data from Australia's Newcastle Coal Terminal showed a 0.10% contraction in export tonnage, coupled with a 2.05% w/w increase in coal inventories at the port. China continues to be the main driver for coal price momentum, with the country's National Statistical Bureau reporting a 26.9% y/y increase in domestic power consumption in November. API2(CIF ARA) for January 2010 delivery gained \$0.30/mt, to \$76.40/mt; API4(FOB) for January 2010 delivery gained \$0.30/mt, to \$70.90/mt.

Carbon contracts were a mixed bag yesterday. ICE EUA for December delivery steadied, at EUR14.38/mtCO₂, while UN-backed CER for December delivery shed EUR0.03/mtCO₂, to EUR12.97/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	4,584,200	4,586,125	1,975	3,900	-1,925	2,255,300	193,525	4.22	198,980
Copper	467,150	466,075	1,200	125	1,075	127,375	2,650	0.57	83,958
Lead	140,925	140,975		50	-50	95,775	75	0.05	16,928
Nickel	145,758	144,846	1,236	324	912	67,368	1,176	0.81	26,600
Tin	26,250	26,430		180	-180	18,460	410	1.56	39,932
Zinc	457,275	457,325	75	125	-50	203,775	4,550	1.00	53,760

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,340	16,390	30
Copper	55,150	55,220	620
Zinc	18,440	18,510	235

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Dec'09	-	-	-	-
Cu Dec'09	315	316.30	1.10	0.35%

ZAR metal prices (14 December 2009)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,946	51,762	17,137	124,841	113,359	17,066	7.4800
3-month	17,191	52,638	17,815	128,853	116,786	17,777	7.6132

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)	78.45	-0.07	79.07	0.79	79.91	0.74	82.54	0.71	88.28	0.70
Gasoil 0.1% Rdam (\$/mt)	586.75	-1.50	594.50	-1.75	601.75	-1.25	624.25	5.25	663.25	5.25
NWE CIF jet (\$/mt)	655.95	0.96	653.85	4.15	661.05	4.45	684.67	5.25	726.18	5.50
Singapore Kero (\$/bbl)	79.86	-0.04	81.22	0.74	82.01	0.69	84.29	0.76	89.89	0.70
3.5% Rdam barges (\$/mt)	425.82	-0.88	423.23	0.73	425.98	0.72	431.18	1.44	439.52	1.88
1% Fuel Oil FOB (\$/mt)	436.35	0.21	443.48	2.23	450.73	1.97	463.18	1.69	482.02	2.13
Sing FO 380 Cargo (\$/mt)	446.73	2.23	447.23	1.72	448.15	1.40	452.59	2.10	455.41	1.16
Sing FO180 Cargo (\$/mt)	459.60	0.74	450.98	2.23	451.98	1.97	456.18	1.69	455.41	1.16

Thermal coal	Q1-10		Q2-10		Q3-1		Cal 11		Cal 12	
API2 (CIF ARA)	76.40	0.30	86.15	-0.25	81.10	-0.05	96.10	0.20	106.10	0.10
API4 (FOB RBCT)	70.90	0.30	77.75	-0.35	74.50	-0.15	86.95	0.65	96.40	0.20

Carbon	Spot		Dec-09		Dec-10		Dec-11		Dec-12	
ICE - ECX EUA (€/mt)	14.38	0.03	14.38	0.03	14.61	0.06	15.23	0.08	15.98	0.08
ICE - ECX CER (€/mt)	12.97	-0.05	12.97	-0.03	12.78	-0.02	12.83	-0.02	13.26	-0.04

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.34333	0.35667	0.37333	0.42167	0.56500
Silver	0.60333	0.59500	0.59500	0.59500	0.60333
USD Libor	0.23250	0.24125	0.25375	0.45313	1.00063

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	54.93	1,153.06	1,160.71	1,041.68	983.78	1,115.00	1,134.00
Silver	49.77	17.94	18.24	16.59	15.10	17.16	17.54
Platinum	57.34	1,447.10	1,451.16	1,330.79	1,246.16	1,426.00	1,462.00
Palladium	59.65	372.20	370.93	317.29	275.56	362.00	371.00

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	1,127.90	17.4050	369.00	1,447.00	1,128.90	3,233.00	1,129.00
Open Interest	498,899	121,860	22,141	33,419	1,759	123,724	3,123
Change in Open Interest	907	-1,551	-699	-35	0	1,937	177

Date: 11 December 2009

Sources: Standard Bank; LME; Bloomberg

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