

Commodities

Commodities: Daily



Focus: Commodities struggle amid scramble for liquidity

15 December 2011

Focus: Commodities struggle amid scramble for liquidity. While European banks are shrinking their balance sheets to achieve capital target ratios, loan data in China shows no sign of easing of credit in this country. Into year-end, both factors are likely to keep commodities under pressure as financial markets scramble for liquidity.

- Flash PMII data for December in China and Europe came in below 50 again, signalling the fifth consecutive month of contraction of the European manufacturing sector and the second consecutive month for China. China's PMI registered 49, while that of Europe came in at 46.9. With credit being a major issues for many firms, it is hard to see the global manufacturing sector expanding at a rapid pace in the near future.
- With gold below its 200day MA at \$1,620, we expect the metal to continue to struggle. Fortunately, and providing some support, is that physical market demand is improving with the price below \$1,600.
- Oil plunged yesterday, together with equities and other commodities, as the market feared for an intensifying Eurozone debt crisis. WTI and Brent lost \$5.19/bbl and \$4.48/bbl respectively. Despite the sharp sell-off in flat prices, the term structure for Brent rallied to a two-week high.

Strategists

Walter de Wet, CFA*

Walter.DeWet@standardbank.com
+44-20-31456821

Leon Westgate*

Leon.Westgate@standardbank.com
+44-20-31456822

James Zhang*

Jinzhong.Zhang@standardbank.com
+44-20-31456824

Marc Ground, CFA*

Marc.Ground@standardbank.com
+27-11-3787215

Commodity price data (14 December 2011)

Base metals LME 3-month

| | Open | Close | High | Low | Daily change | Change (%) | Cash Settle | Change in cash settle | Cash - 3m |
|-----------|--------|--------|--------|--------|--------------|------------|-------------|-----------------------|-----------|
| Aluminium | 1,976 | 1,963 | 2,019 | 1,958 | -38 | -1.90% | 2,530.00 | -11 | -28.75 |
| Copper | 7,390 | 7,210 | 7,553 | 7,190 | -390 | -5.13% | 9,549.50 | -81 | -25.75 |
| Lead | 2,035 | 1,999 | 2,085 | 1,990 | -87 | -4.17% | 2,522.50 | -17 | -16.50 |
| Nickel | 17,750 | 17,425 | 18,239 | 17,400 | -1,010 | -5.49% | 23,880.00 | -635 | -40.00 |
| Tin | 18,850 | 18,550 | - | - | -1,225 | -6.20% | 26,705.00 | -1,090 | -77.00 |
| Zinc | 1,869 | 1,845 | 1,928 | 1,838 | -67 | -3.50% | 2,362.00 | -46 | -26.50 |

Energy

| | Open | Close | High | Low | day/day | Change (%) |
|------------|--------|--------|--------|--------|---------|------------|
| ICE Brent | 104.88 | 106.08 | 106.31 | 104.88 | 1.06 | 1.00% |
| NYMEX WTI | 94.89 | 95.70 | 95.78 | 94.71 | 0.75 | 0.78% |
| ICE Gasoil | 895.75 | 904.50 | 909.50 | 895.75 | -0.25 | -0.03% |
| API2 Q1'12 | 112.10 | 112.10 | - | - | 0.05 | 0.04% |

Precious metals

| | AM Fix | PM Fix | High bid | Low offer | Closing bid | Change (d/d) | EFP's |
|-----------|--------|--------|----------|-----------|-------------|--------------|---------|
| Gold | - | - | 1,642.25 | 1,564.20 | 1,584.00 | -75.00 | 2.5/2.9 |
| Silver | - | - | 31.01 | 28.55 | 28.86 | -2.37 | 0/2 |
| Platinum | - | - | 1,478.00 | 1,410.00 | 1,420.00 | -64.00 | 1.5/3.5 |
| Palladium | - | - | 646.00 | 602.00 | 618.00 | -42.00 | 0.0/1.0 |

Sources: Standard Bank; LME; BBG

Focus: Commodities struggle amid scramble for liquidity

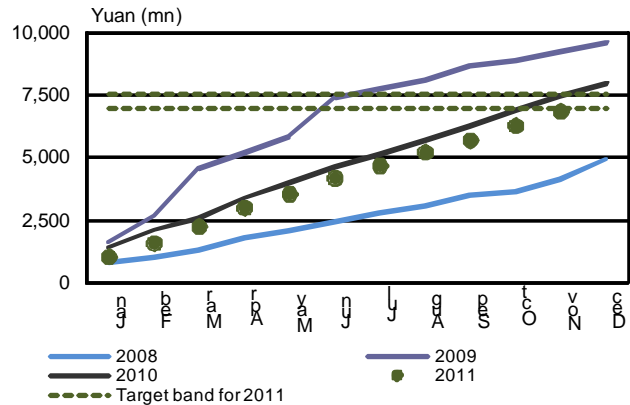
While European banks are shrinking their balance sheets to achieve capital target ratios, loan data in China shows no sign of easing of credit in this country. Into year-end, both factors are likely to keep commodities under pressure as financial markets scramble for liquidity.

Yesterday morning, New Yuan Loans data for China was released. The data print surprised marginally on the upside, with CNY562.2bn in loans extended in November, but down from CNY586.8bn in October. However, despite the higher data print in October, New Yuan Loans are still on track to reach a target of New Loans between CNY7trn and CCNY7.5trn (see graph).

The total cumulative amount of New Loans is likely to remain less than the New Loans extension seen in 2010 and much less than the amounts seen in 2009.

In Europe, banks have been trying to dispose of assets for some time and have a lot more to do to reach capital targets set by the EU for next June. Many of these asset disposals will be in dollars and, clearly if the dollars are exchanged for euros, it could provide a fillip to euro/dollar. Hence, just within the Eurozone banking system, there could be quite a fight going on in euro/dollar right now, and we don't know who the "winner" might be. It's our hunch that the euro will fall, which is why our FX strategists have been targeting 1.20 for euro/dollar for some time. We see this over the next six months but we have

China New Yuan Loans



Sources: Bloomberg; Standard Bank Research

always been mindful that it could come much sooner — and the euro could fall much further. With liquidity drying up into year-end, the capability for these bank flows to move the euro substantially is elevated. It might even be the case that the euro's significant weakness in recent days gives us a hint that these risks are skewed to the downside. If that's the case, our 1.20 target clearly won't take six months to achieve. We believe, apart from slowing real demand, this would make it difficult for commodities to sustain any rally higher before the year is out.

By Walter de Wet

Base metals

Markets are much calmer this morning after the large sell-off yesterday. The Asia open is quiet. Ratio climbed up to 7.38 for 3m copper.

Flash PMII data for December in China and Europe came in below 50 again, signalling the fifth consecutive month of contraction of the European manufacturing sector and the second consecutive month for China. China's PMI registered 49, while that of Europe came in at 46.9. With credit being a major issues for many firms, it is hard to see the global manufacturing sector expanding at a rapid pace in the near future.

Within the metal space, LME copper cancelled warrants jumped 17,100 tonnes. Most of these warrants were in New Orleans and Hamburg. The cost of putting metal on and of warrant is zero. While we expect copper demand to pick up as the price decline, the fact that warrants were cancelled largely in New Orleans may not be an indication of the emergence strong demand at current prices. If the cancelled warrants were in Asia, it would probably have been a better reflection of real copper demand.

On the supply-side, Freeport-McMoRan indicated they agreed to a wage settlement which looks set to end the 3-month strike at the mine. Copper supply issues has been a key pillar of support for the metal in an environment where demand has declined the past three months.

The other base metals are also finding better support this morning. After the sharp price declines since the start of the week, we expect the market to remain subdued into the weekend. Aluminium remains below \$2,000 ahead of US trade. The past couple of days' big inflows, combined with a lower crude oil price, continues to pressure prices lower.

By Walter de Wet

Precious metals

With gold below its 200day MA at \$1,620, we expect the metal to continue to struggle. Fortunately, and providing some support, is that physical market demand is improving with the price below \$1,600. We expect it to continue. We believe gold should find support within a \$1,510 to \$1,560 range. Gold support is at \$1,565 and \$1,550. Resistance is \$1,590 and \$1,600.

Platinum and palladium have come under severe selling pressure — much more than gold. So did silver. We believe that platinum and palladium, from a cost-of-production perspective, are too low. As pointed out in the *Focus*, while it will be difficult for commodities to rally in the current liquidity-scarce environment, we believe that platinum should be at least \$100 higher (with a ZAR at 8.00 against the dollar).

With rumours that the Shanghai Gold Exchange is set to increase silver margins from 15% to 18%, the metal saw additional selling during Asian hours.

Silver support is at \$28.50 and \$27.90, resistance is at \$30.44 and \$31.95.

By Walter de Wet

Energy

Oil plunged yesterday, together with equities and other commodities, as the market feared for an intensifying Eurozone debt crisis. WTI and Brent lost \$5.19/bbl and \$4.48/bbl respectively. Despite the sharp sell-off in flat prices, the term structure for Brent rallied to a two-week high, which clearly stated that the flat price moves were not driven by oil market supply and demand. In fact, the market showed little movement on the news that OPEC raised its total production quota to 30mb/d. Gasoline market suffered the added pressure from a bearish inventory number from the US, while distillates fared better as US distillate inventories remained broadly flat. Given the flat price moves, volatility shot up, and is likely to stay elevated due to the Eurozone uncertainty.

OPEC effectively raised its production quotas to 30mb/d as a total production level, without detailed allocation to individual members. The decision endorsed the organisation's current production level, without detailed allocation for each member country, which is understandable as it is difficult to predict the exact production level from Libya in the coming months. Furthermore, as we noted on Tuesday, most of OPEC members have already produced at their full capacity. The latest decision from OPEC has in effect given Saudi the control of total OPEC supply. The willingness from Saudi to provide required barrels to the market is good news for the global economy. Equally, it should not be surprising if Saudi had promised the more hawkish members that Saudi would cut production if prices fell below \$100/bbl.

The DOE reported US weekly oil inventory changes for crude/gasoline/distillates at -1.9/+3.8/+0.5mb w/w. Cushing crude inventories were hardly changed. Similar to what were reported by the API, both total crude imports and refinery run rates dropped sharply as poor refining margins deterred refiners to ramp up runs. In addition, year-end tax optimisation also discourages refineries to import crude, which is most pronounced in PADD3. Implied demand for gasoline and distillates remained largely flat w/w.

It would be hugely mistaken to think that the price drop yesterday was caused by OPEC's new 30mb/d production quota. As noted above, the physical market remained tight, with the backwardation in Brent structure remaining firm. That said, the oil market is clearly not immune to developments outside the oil market. There is increasing concern over funding pressure for Eurozone banks, which might lead to a new credit crunch. In addition, the renewed weakness in the euro will keep oil under pressure.

By James Zhang

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 | 4,826,275 | 4,811,550 | 18,900 | 4,175 | 14,725 | 549,225 | 148,975 | 3.09 | 275,703 |
| Copper | 382,150 | 383,025 | 500 | 1,375 | -875 | 4,600 | 21,025 | 5.50 | 126,734 |
| Lead | 360,325 | 358,900 | 4,150 | 2,725 | 1,425 | 152,050 | 43,075 | 11.95 | 37,088 |
| Nickel | 89,820 | 89,994 | 24 | 198 | -174 | -45,852 | 5,952 | 6.63 | 45,470 |
| Tin | 12,015 | 11,580 | 505 | 70 | 435 | -4,260 | 485 | 4.04 | 4,166 |
| Zinc | 758,800 | 758,600 | 1,150 | 950 | 200 | 57,375 | 24,600 | 3.24 | 99,805 |

Shanghai 3-month forward prices

| Metal | Open | Last | 1d Change |
|-----------|--------|--------|-----------|
| Aluminium | 15,620 | 15,700 | -220 |
| Copper | 53,430 | 53,620 | -2,100 |
| Zinc | 14,485 | 14,720 | -400 |

COMEX active month future prices

| Metal | Open | Close | Change | Change (%) |
|-----------|------------|-------|--------|------------|
| Aluminium | Ali Mar'12 | - | - | - |
| Copper | Cu Mar'12 | 328 | 328.00 | 0.15 |
| Zinc | | | | |

ZAR metal prices

| | Aluminium | Copper | Lead | Nickel | Tin | Zinc | ZAR/USD fix |
|---------|-----------|--------|--------|---------|---------|--------|-------------|
| Cash | 21,171 | 79,910 | 21,108 | 199,828 | 223,467 | 19,765 | 8.3680 |
| 3-month | 16,655 | 61,173 | 16,961 | 147,842 | 157,387 | 15,654 | 8.4845 |

Energy

| Energy futures pricing | Price | Change | Price | Change | Price | Change | Price | Change | Price | Change |
|--------------------------|---------|--------|---------|--------|---------|--------|---------|--------|--------|--------|
| | 1 month | | 2 month | | 3 month | | 6 month | | 1 year | |
| Sing Gasoil (\$/bbl) | 123.60 | -1.93 | 120.64 | -3.53 | 120.05 | -3.63 | 119.68 | -3.57 | | |
| Gasoil 0.1% Rdam (\$/mt) | 904.50 | -0.25 | 901.00 | -1.25 | 898.25 | -1.75 | 894.75 | -2.75 | | |
| NWE CIF jet (\$/mt) | 984.44 | -15.18 | 973.83 | -25.63 | 977.63 | -25.70 | 984.08 | -25.25 | | |
| Singapore Kero (\$/bbl) | 123.30 | -1.98 | 121.34 | -3.68 | 121.45 | -3.68 | 121.17 | -3.59 | | |
| 3.5% Rdam barges (\$/mt) | 603.95 | -11.22 | 590.50 | -19.50 | 588.50 | -19.50 | 582.50 | -20.00 | | |
| 1% Fuel Oil FOB (\$/mt) | 642.84 | -13.99 | 630.50 | -22.75 | 627.75 | -22.50 | 621.50 | -22.50 | | |
| Sing FO180 Cargo (\$/mt) | 660.18 | -10.19 | 630.00 | -19.00 | 622.00 | -19.50 | 613.50 | -20.50 | | |

| Thermal coal | Q4-11 | Q1-12 | Q2-12 | Cal 12 | Cal 13 | | | | | |
|-----------------|--------|-------|--------|--------|--------|-------|--------|-------|--------|-------|
| API2 (CIF ARA) | 115.10 | -0.20 | 111.90 | -0.65 | 112.75 | -0.75 | 114.20 | -0.55 | 120.20 | -0.55 |
| API4 (FOB RBCT) | 106.95 | -0.30 | 104.90 | -1.35 | 107.50 | -1.25 | 108.40 | -1.10 | 114.50 | -0.95 |

Precious metals

| Forwards (%) | 1 month | 2 months | 3 months | 6 months | 12 months |
|--------------|---------|----------|----------|----------|-----------|
| Gold | 0.67950 | 0.68500 | 0.70125 | 0.71675 | 0.74500 |
| Silver | 0.59500 | 0.58000 | 0.58250 | 0.60250 | 0.60000 |
| USD Libor | 0.28255 | 0.40740 | 0.55505 | 0.77850 | 1.09915 |

| Technical Indicators | 30-day RSI | 10-day MA | 20-day MA | 100-day MA | 200-day MA | Support | Resistance |
|----------------------|------------|-----------|-----------|------------|------------|----------|------------|
| Gold | 67.87 | 1,629.47 | 1,605.39 | 1,520.35 | 1,450.74 | 1,570.00 | 1,588.00 |
| Silver | 58.45 | 40.46 | 39.40 | 38.36 | 33.99 | 28.31 | 29.42 |
| Platinum | 48.99 | 1,788.92 | 1,772.60 | 1,776.48 | 1,766.70 | 1,379.00 | 1,428.00 |
| Palladium | 50.79 | 817.51 | 800.76 | 767.33 | 764.76 | 616.00 | 624.00 |

| Active Month Future | COMEX GLD | COMEX SLV | NYMEX PAL | NYMEX PLAT | DGCX GLD | TOCOM GLD | CBOT GLD |
|---------------------|-----------|-----------|-----------|------------|----------|-----------|----------|
| | Dec'11 | Mar'12 | Jan'12 | Jan'12 | Dec'11 | Oct'12 | Dec'11 |

Settlement

Open Interest

Change in Open Interest

Sources: Standard Bank; LME; Bloomberg

Disclaimer

Email subs@standardbank.com if you would like to receive Standard Bank research. Please supply your email-address in the body of the email.

Certification

The analyst(s) who prepared this research report (denoted by an asterisk*) hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s) personal views about the subject investment(s) and issuer(s) and (ii) no part of the analyst's(s) compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

Conflict of Interest

It is the policy of The Standard Bank Group Limited and its worldwide affiliates and subsidiaries (together the "Standard Bank Group") that research analysts may not be involved in activities in a way that suggests that he or she is representing the interests of any member of the Standard Bank Group or its clients if this is reasonably likely to appear to be inconsistent with providing independent investment research. In addition research analysts' reporting lines are structured so as to avoid any conflict of interests. For example, research analysts cannot be subject to the supervision or control of anyone in the Standard Bank Group's investment banking or sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of those sales and trading departments may conflict with your interests. **Please note that one or more of the analysts that prepared this report sit on a sales and trading desk of the Standard Bank Group.**

Legal Entities

To U. S. Residents

Standard New York Securities, Inc. is registered with the Securities and Exchange Commission as a broker-dealer and is also a member of the FINRA and SIPC. Standard Americas, Inc is registered as a commodity trading advisor and a commodity pool operator with the CFTC and is also a member of the NFA. Both are affiliates of Standard Bank Plc and Standard Bank of South Africa. Standard New York Securities, Inc is responsible for the dissemination of this research report in the United States. Any recipient of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting Standard New York Securities, Inc.

To South African Residents

The Standard Bank of South Africa Limited (Reg.No.1962/000738/06) is regulated by the South African Reserve Bank and is an Authorised Financial Services Provider.

To U.K. Residents

Standard Bank Plc is authorised and regulated by the Financial Services Authority (register number 124823) and is an affiliate of Standard Bank of South Africa. The information contained herein does not apply to, and should not be relied upon by, retail customers.

To Turkey Residents

Standard Unlu Menkul Degerler A.S. and Standard Unlu Portfoy Yonetimi A.S. are regulated by the Turkish Capital Markets Board ("CMB"). Under the CMB's legislation, the information, comments and recommendations contained in this report fall outside of the definition of investment advisory services. Investment advisory services are provided under an investment advisory agreement between a client and a brokerage house, a portfolio management company, a bank that does not accept deposits or other capital markets professionals. The comments and recommendations contained in this report are based on the personal opinions of the authors. These opinions might not be appropriate for your financial situation and risk and return preferences. For that reason, investment decisions that rely solely on the information contained in this presentation might not meet your expectations. You should pay necessary discernment, attention and care in order not to experience losses.

To Singapore Residents

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company(ies) within the past 12 months.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts (denoted by an asterisk*) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts (denoted by an asterisk*) may not be associated persons of Standard New York Securities Inc. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Each analyst (denoted by an asterisk*) is a Non-U.S. Analyst. The analyst is a research analyst employed by The Standard Bank Group Limited.

General

This research report is based on information from sources that Standard Bank Group believes to be reliable. Whilst every care has been taken in preparing this document, no research analyst or member of the Standard Bank Group gives any representation, warranty or undertaking and accepts no responsibility or liability as to the accuracy or completeness of the information set out in this document (except with respect to any disclosures relative to members of the Standard Bank Group and the research analyst's involvement with any issuer referred to above). All views, opinions and estimates contained in this document may be changed after publication at any time without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors or any particular class of

investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Members of Standard Bank Group may act as placement agent, advisor or lender, make a market in, or may have been a manager or a co-manager of, the most recent public offering in respect of any investments or issuers referenced in this report. Members of the Standard Bank Group and/or their respective directors and employees may own the investments of any of the issuers discussed herein and may sell them to or buy them from customers on a principal basis. This report is intended solely for clients and prospective clients of members of the Standard Bank Group and is not intended for, and may not be relied on by, retail customers or persons to whom this report may not be provided by law. This report is for information purposes only and may not be reproduced or distributed to any other person without the prior consent of a member of the Standard Bank Group. Unauthorised use or disclosure of this document is strictly prohibited. By accepting this document, you agree to be bound by the foregoing limitations. Copyright 2011 Standard Bank Group. All rights reserved.

AG/CD/00111