

Commodities

Commodities: Daily



Focus: Gold physical demand rebounds

19 December 2011

Focus: Gold physical demand rebounds — Physical demand for gold has increased substantially over the past few days, providing some support as investment demand temporarily retreats. This physical demand is evident in the pick-up of our Standard Bank Gold Physical Flow Index (GPFI), which briefly pushed below zero late November, which has now rebounded, indicating that physical demand remains in place, albeit at lower levels than during the period August to October.

- As with gold, the deleveraging of investment positions in the futures market for platinum and palladium continues. Both metals have seen the net speculative long position on NYMEX decline last week.
- The base metals have started the week on the back foot with ripples in Asia, in the wake of Kim Jong Il's death, and falling property prices in China weighing on sentiment. Concerns over the Eurozone debt crisis continue to cast a shadow over the global markets generally, with the metals likely to remain sensitive to headlines and towards the wider global FX and equity markets.

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Commodity price data (17 December 2011)

Base metals LME 3-month

	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m	
Aluminium	2,009	2,005	2,019	1,958	30	1.52%	2,530.00	-11	-28.75
Copper	7,359	7,346	7,553	7,190	134	1.86%	9,549.50	-81	-25.75
Lead	1,988	1,961	2,085	1,990	-15	-0.76%	2,522.50	-17	-16.50
Nickel	17,960	18,555	18,239	17,400	655	3.66%	23,880.00	-635	-40.00
Tin	18,800	18,800	-	-	200	1.08%	26,705.00	-1,090	-77.00
Zinc	1,867	1,869	1,928	1,838	24	1.27%	2,362.00	-46	-26.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	103.63	102.85	103.63	102.37	-0.50	-0.49%
NYMEX WTI	93.76	92.97	93.76	92.54	-0.56	-0.60%
ICE Gasoil	889.00	885.25	889.00	883.25	-9.00	-1.02%
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	-	-	1,597.30	1,571.00	1,595.00	20.00	2/2.4
Silver	-	-	29.78	29.15	29.59	0.35	0/2
Platinum	-	-	1,421.00	1,404.00	1,410.00	5.00	1.5/3.5
Palladium	-	-	626.00	618.00	623.00	3.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Gold physical demand rebounds

Physical demand for gold has increased substantially over the past few days providing some support as investment demand temporarily retreats.

Long liquidation in COMEX gold continued last week, driving the gold price to as low as \$1,560. The net speculative length for COMEX gold has declined 51 tonnes to 612 tonnes during the week ending 13 December. At the same time, speculative shorts increased by 11 tonnes to 88 tonnes, leaving the net speculative position long at 525 tonnes. This net position has steadily declined from the highs of 930 tonnes seen in August.

As a percentage of open interest, the net speculative position is now at 24.9%, well below the average of 30% seen over the past three years. In the futures market, deleveraging continues.

Furthermore, while ETF holdings remain close to all-time highs at 75.4m oz, it saw a relatively sizeable decline of 468K oz since Wednesday.

While investors are trimming gold long positions, physical demand has picked up substantially since the start of last week. This segment of the market has showed little interest in buying substantial volumes of gold with the price above \$1,700 (partly due to the weakness of local currencies, most notably the INR).

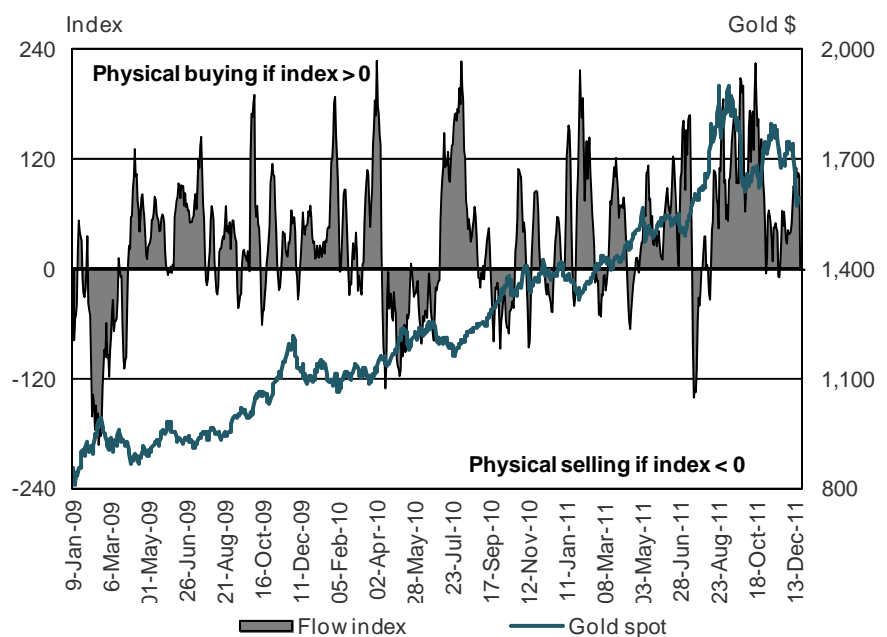
However, with gold below \$1,600, demand has picked up substantially. Indian buying interest has picked up handsomely, but so

did buying interest in places like Thailand, Indonesia and China. At the same time, gold scrap sales, though present, remain very sporadic.

This physical demand is evident in the pick-up of our Standard Bank Gold Physical Flow Index (GPFI), which briefly pushed below zero late November, which has now rebounded, indicating that physical demand remains in place, albeit at lower levels than during the period August to October. We expect this physical demand to support the gold price below \$1,600.

By Walter de Wet

Standard Bank Gold Physical Flow Index



Source: Standard Bank

Base metals

The base metals have started the week on the back foot with ripples in Asia, in the wake of Kim Jong Il's death, and falling property prices in China weighing on sentiment. Concerns over the Eurozone debt crisis continue to cast a shadow over the global markets generally, with the metals likely to remain sensitive to headlines and towards the wider global FX and equity markets. Thin trading conditions remain a feature of the base metals, adding to the general sense of nervousness, as participants wind down ahead of the Christmas and New Year holidays.

With little in the way of economic data this afternoon, commodities will likely look to the FX and equity markets for direction. Worth noting however is that Chinese property prices have posted their worst performance so far this year with over 50% of the 70 largest cities monitored in November recording declines. If Chinese citizens no longer believe in house prices increasing in value, the market may very quickly turnaround as prospective buyers turn into bargain hunters.

Copper is again sending mixed messages. A second consecutive increase in SHFE inventories last week, attracted by the backwardation in the nearby portion of the SHFE forward curve, has coincided with a closure of the SHFE-LME arbitrage. With LME inventory again being drawn down, falling 7,300 mt this morning to reach the lowest level in a nearly a year, it is likely that Shanghai bonded stocks are again being recharged. While the main cancellation activity this morning was in New Orleans, where cancelled warrants jumped 4,775 mt, Gwangyang in South Korea saw 8,575 mt move out of the door.

Elsewhere, Sulphuric Acid prices have picked up with next year's benchmark coming in at \$150-160/mt (CFR Mejillones) from \$110-130 this year. The increase in acid prices should help smelters cope with lower spot TC/RCs and may end up reducing the impact that tighter concentrate availability has on smelter output.

By Leon Westgate

Precious metals

The precious metals market is quiet. Early trade in Asia saw gold trading as low as \$1,585 as the dollar strengthened on the back of news that North Korean leader Kim Jong Il passed away over the weekend. However, the market quickly shrugged off the news, pushing gold back towards \$1,600, where strong resistance remains.

We maintain that gold below its 200day MA at \$1,621, should continue to struggle. However, gold physical demand is providing good support on dips towards \$1,560. Gold support is at \$1,565 and \$1,550. Resistance is \$1,590 and \$1,600.

As with gold, the deleveraging of investment positions in the futures market for platinum and palladium continues. Both metals has seen the net speculative long position on NYMEX decline last week. Furthermore, ETF holdings for platinum declined 7,308oz during the week, while palladium ETF holdings remained steady at 1.7m oz—a level last seen in March 2010. While demand is weak, 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).

By Walter de Wet

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	4,822,725	4,825,475	175	2,925	-2,750	545,675	143,450	2.97	234,564
Copper	381,250	382,075	1,925	2,750	-825	3,700	37,525	9.84	162,240
Lead	358,075	359,650	0	1,575	-1,575	149,800	41,325	11.54	35,160
Nickel	88,710	89,544	24	858	-834	-46,962	4,956	5.59	37,129
Tin	12,200	12,115	115	30	85	-4,075	510	4.18	4,982
Zinc	758,900	757,900	2,825	1,825	1,000	57,475	22,025	2.90	86,839

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	15,790	15,750	0
Copper	53,990	53,530	-250
Zinc	14,860	14,750	-110

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'12	-	-	-
Copper	Cu Mar'12	333	329.35	-3.75
Zinc				

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	21,095	79,624	21,033	199,111	222,666	19,694	8.3380
3-month	16,949	62,114	16,581	156,892	158,963	15,803	8.4555

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)	123.16	-0.12	119.39	-0.42	118.58	-0.54	117.84	-0.68		
Gasoil 0.1% Rdam (\$/mt)	885.25	-9.00	882.75	-8.50	877.50	-10.75	870.00	-11.75		
NWE CIF jet (\$/mt)	981.33	-1.34	965.33	-2.75	968.58	-3.84	969.63	-6.02		
Singapore Kero (\$/bbl)	122.51	-0.32	119.84	-0.62	120.03	-0.52	119.39	-0.67		
3.5% Rdam barges (\$/mt)	602.95	0.25	586.50	-1.75	582.25	-3.00	573.75	-4.50		
1% Fuel Oil FOB (\$/mt)	644.43	2.87	622.75	-5.00	618.75	-5.25	610.25	-6.50		
Sing FO180 Cargo (\$/mt)	659.57	-0.28	628.00	-0.75	618.25	-2.50	606.75	-4.50		

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
API4 (FOB RBCT)	106.95	-0.30	104.90	-1.35	107.50

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.57133	0.57667	0.58250	0.62450	0.67333
Silver	0.54167	0.53667	0.52833	0.54333	0.54333
USD Libor	0.28485	0.41390	0.56315	0.78800	1.11035

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	1,582.00	1,605.00
Silver	58.45	40.46	39.40	38.36	33.99	28.55	29.64
Platinum	48.99	1,788.92	1,772.60	1,776.48	1,766.70	1,404.00	1,429.00
Palladium	50.79	817.51	800.76	767.33	764.76	612.00	629.00

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

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