Commodities

Commodities: Daily

Focus: Weak PGM industrial demand

21 December 2011

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

Focus: The marked increase in PGM imports to Switzerland from Russia and South Africa are most likely reflective of weak industrial demand, which is seeing metal being diverted to Switzerland. We continue to look at platinum and palladium from a cost-push perspective rather than demand-pull perspective. We believe that platinum and palladium, from a cost-of-production perspective, are too low.

- Gold has pushed higher, taking the rest of the precious metals complex along with it, on increased optimism over the global economy. As long as markets remain optimistic, dollar weakness should sustain interest in precious metals. To this end, US existing home sales data could be of significance—disappointing figures here could sour sentiment.

- Better than expected US housing data sparked a rally across the US equity markets yesterday afternoon, which in turn dragged the base metals higher. The effect spilled over into overnight trade, helping the base metals to consolidate and push higher. Asian equity markets in general rallied strongly, following the gains in the US, though interestingly, the Shanghai Composite index fell 1.12%, resuming its recent downtrend. The ECB's unlimited 3-year tender allocation has been the main feature this morning, with the €489 billion take up of the facility towards the top-end of market estimates and boosting sentiment. Consensus was for €293 billion with the result likely to result in further short covering activity ahead of US trade.

Commodity price data (20 December 2011)

Base metals LME 3-month		Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	1,965	2,003	2,017	1,965	38	1.92%	1,971.00	16	-18.00
Copper	7,322	7,410	7,470	7,248	88	1.20%	7,275.00	-12	-16.00
Lead	1,942	1,959	1,991	1,938	17	0.88%	1,933.00	-5	-22.00
Nickel	18,351	18,865	18,999	18,350	514	2.80%	18,555.00	205	-25.00
Tin	18,600	19,000	19,350	18,600	400	2.15%	18,700.00	25	-54.00
Zinc	1,851	1,867	1,883	1,843	16	0.86%	1,840.50	-11	-10.25

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	107.15	107.20	107.57	106.95	0.47	0.44%
NYMEX WTI	97.53	97.91	98.44	97.50	0.67	0.68%
ICE Gasoil	906.25	909.75	911.00	906.25	7.50	0.82%
API2 Q1'12	110.00	111.85	-	-	1.85	1.65%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,605.00	1,613.50	1,618.60	1,593.25	1,616.00	21.50	1.6/2.0
Silver	-	29.66	29.62	28.74	29.54	0.64	-1.5/0.5
Platinum	1,420.00	1,425.00	1,430.00	1,410.00	1,425.00	15.00	1.5/3.5
Palladium	617.00	620.00	623.00	612.00	623.00	13.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Weak PGM industrial demand

Switzerland continued as a net exporter of platinum for the sixth consecutive month. However, November saw a net of 32,814 oz of platinum exported, a marked drop from the 205,563 oz exported in October (this was the highest level since May 2010).

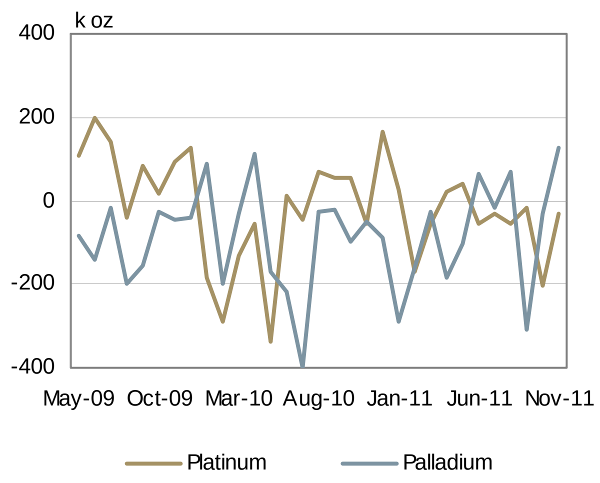
Exports from Switzerland to China fell to 79,998 oz, compared to 105,907 oz in October. This tapering off in exports to China affirms our scepticism that the rise we saw in Chinese demand for platinum in August and September was driven by industrial needs. We believe that this rise in demand was largely a result of an increase in Chinese demand for jewellery fabrication.

Imports into Switzerland were dominated by South Africa. At 113,932 oz, this marks the highest level of imports from South Africa this year. Given that the latest data on South African mining output showed a marked contraction in October (12.7% y/y), this import figure might signal a rebound for the sector during November but might also be (and more likely) as a result of weak industrial demand which is seeing metal being diverted to Switzerland.

In November, Switzerland turned a net importer of palladium. At 126,125 oz, this marks the highest level of imports into Switzerland since February 2009 — a sign of weak industrial and investment demand.

Imports from Russia have once again soured, with a net 160,463 oz moved to Zurich during November. This is a return to the extremely high imports from Russia we saw August and September of this year. Back then we asserted that these were most likely a one-off release of Russian stockpiles to capture some profits from relatively high prices, rather than a growing trend. However, the return to this trend, despite relatively subdued prices makes us uneasy. Given the relatively weak demand environment, a sustained increase in supply could pose a significant threat to prices. We will be keeping a close eye on developments out of Russia regarding palladium supply.

Net PGM imports into Switzerland



Sources: Swiss Customs; Standard Bank Research

After a brief surge in October, palladium exports from Switzerland to China have returned to average levels (12,473 oz in November). This affirms our view that Chinese demand will not be forthcoming for some time still, as the economy still moderates as a result of previously enacted monetary tightening measures.

The latest Swiss PGM customs data signals weak industrial demand. We continue to look at platinum and palladium from a cost-push perspective rather than demand-pull perspective. We believe that platinum and palladium, from a cost-of-production perspective, are too low. While it will be difficult for the metals 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) and palladium should find good support around \$600.

By Marc Ground

Precious metals

Gold has pushed higher, taking the rest of the precious metals complex along with it, on increased optimism over the global economy. Better-than-expected US housing data bolstered the markets yesterday, and despite relatively weak volumes the upward momentum has been extended into this morning's trade. US housing stats rose 9.3% m/m in November (consensus: 1.1% m/m), a marked improvement on the previous month's decline of 2.9% m/m (revised). Building permits also rose unexpectedly, 5.7% m/m (consensus: 1.4% m/m decline).

As long as markets remain optimistic, dollar weakness should sustain interest in precious metals. To this end, US existing home sales data could be of significance—disappointing figures here could sour sentiment. Expectations are for a 2.2% m/m increase. With markets relatively thin, we expect the other precious metals to mainly take gold's lead today.

Gold support is at \$1,610 and \$1,586. Resistance is \$1,639 and \$1,643. Silver support is at \$29.14 and \$28.46, resistance is at \$30.07 and \$30.31.

Platinum support is at \$1,425 and \$1,402, resistance is at \$1,455 and \$1,460. Palladium support is at \$619 and resistance at \$642.

By Marc Ground

Base metals

Better than expected US housing data sparked a rally across the US equity markets yesterday afternoon, which in turn dragged the base metals higher. The effect spilled over into overnight trade, helping the base metals to consolidate and push higher. Asian equity markets in general rallied strongly, following the gains in the US, though interestingly, the Shanghai Composite index fell 1.12%, resuming its recent downtrend. The ECB's unlimited 3-year tender allocation has been the main feature this morning, with the €489 billion take up of the facility towards the top-end of market estimates and boosting sentiment. Consensus was for €293 billion with the result likely to result in further short covering activity ahead of US trade.

Aluminium prices have struggled this morning, though the metal continues to trade around yesterday's closing level of $2,000/mt. The focus of the market has again been on LME inventories, however rather than the 30,925 mt increase in headline stocks, a figure that brings the 5Mt mark within touching distance, the main news has been a 145,000 mt jump in cancelled warrants in Vlissingen. Using the 1,500 mt/day loading out rate, there is effectively now a 97-day queue at that location. The 145,000 mt of cancelled warrants at Vlissingen compares to 109,050 mt of cancelled warrants currently in Detroit.

Copper rallied strongly during Tuesday afternoon, closing the day back around $7,400. The metal has continued to push higher ahead of US trade this morning, helped by a weaker dollar and stronger European equities, climbing back above $7,500. Volumes have been relatively thin however with short covering activity exacerbated by thin pre-Christmas trading conditions.

Lacklustre volumes continue to be a feature of the other base metals, with the metals effectively in holiday mode already. Looking ahead, this afternoon looks likely to be dominated by the US equity markets and how they react to the ECB tender results, while Eurozone consumer confidence (expected at –21.0 from –20.4) and US existing home sales (expected +2.2% m/m) may also garner some attention.

By Leon Westgate

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	4,922,800	4,873,025	52,075	2,300	49,775	645,750	137,950	2.80	424,482
Copper	370,850	373,950	350	3,450	-3,100	-6,700	32,250	8.70	133,561
Lead	361,075	362,650	500	2,075	-1,575	152,800	37,100	10.27	54,735
Nickel	88,086	88,338	318	570	-252	-47,586	3,978	4.52	41,003
Tin	12,200	12,200	0	0	0	-4,075	735	6.02	7,495
Zinc	809,325	765,625	44,725	1,025	43,700	107,900	19,425	2.40	99,656

Shanghai 3-month forward prices			
Metal	Open	Last	1d Change
Aluminium	15,835	15,825	115
Copper	54,590	54,540	930
Zinc	14,940	14,915	145

COMEX active month future prices	Open	Close	Change	Change (%)
Ali Mar'12	-	-	-	-
Cu Mar'12	337	339.20	2.25	0.67%

ZAR metal prices	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,290	60,128	15,976	153,357	154,556	15,212	8.2650
3-month	16,783	62,088	16,414	158,070	159,201	15,644	8.3790

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 ($/bbbl)	122.96	0.73	120.79	2.01	119.97	1.97	119.10	2.03	-	-
Gasoil 0.1% Rdam ($/mt)	909.75	7.50	906.75	7.25	903.50	7.00	895.75	6.25	897.00	6.50
NWE CIF jet ($/mt)	982.62	5.07	970.84	12.67	974.75	12.91	976.21	13.35	978.08	13.75
Singapore Kero ($/bbl)	122.42	0.72	121.19	1.96	121.37	1.92	120.60	1.95	120.69	1.96
3.5% Rdam barges ($/mt)	612.32	7.77	610.00	18.75	605.50	18.50	594.75	16.75	578.00	14.25
1% Fuel Oil FOB ($/mt)	653.95	7.36	650.50	19.25	645.00	17.75	634.00	16.50		
Sing FO180 Cargo ($/mt)	665.23	7.50	655.00	21.25	643.50	19.75	627.25	16.25		

Thermal coal	Q4-11		Q1-12		Q2-12		Cal 12		Cal 13	
API2 (CIF ARA)	111.85	1.85	113.25	1.65	115.35	1.35	114.50	1.50	119.50	0.70
API4 (FOB RBCT)	106.35	1.75	108.00	1.60	109.75	1.30	109.00	1.45	113.90	0.70

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.54133	0.55833	0.57250	0.60783	0.65333
Silver	0.45000	0.45000	0.45000	0.47333	0.50500
USD Libor	0.29060	0.41850	0.56975	0.79850	1.11885

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	44.55	1,630.11	1,676.90	1,729.62	1,623.70	1,610.00	1,639.00
Silver	42.30	30.18	31.23	35.14	36.71	29.14	30.07
Platinum	39.32	1,450.55	1,494.72	1,642.39	1,709.12	1,425.00	1,455.00
Palladium	48.11	639.25	628.72	669.01	717.78	619.00	642.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'12	Mar'12	Jan'12	Jan'12	Feb'12	Oct'12	Feb'12
Settlement	1,630.50	29.6400	630.00	1,432.90	1,632.00	4,068.00	1,625.60
Open Interest	423,870	102,054	18,265	43,371	6,681	130,776	1,726
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