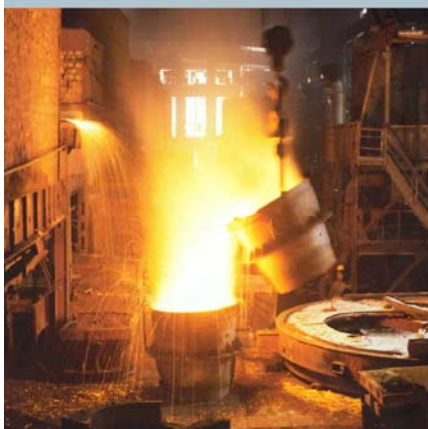


5 February 2010



Focus: Copper - macro shift A key theme over the past couple of weeks has been a surge in copper volumes traded on LME Select. The sheer level of turnover points to very good two-way interest, with short term technical players going up against those participants with a longer term view. However, what also appears to be occurring is a bearish shift in the short to medium term macro view, spurred by fears over Greece's ability to service its debt. In spite of the noise, the overall trend over the past couple of weeks has been the addition of significant new short positions.

- The base metals are under further pressure this morning. There was no discernable arbitrage-related bounce during Asian trade, with the metals continuing to see heavy liquidation. The dollar has steadied itself a bit helping the metals to stabilise, however, ahead of the key US Nonfarm payrolls this afternoon (expected +15K) the markets will likely remain jittery.
- Crude oil got hammered on Thursday, in-line with the rest of the commodities complex. The main weakness came during the afternoon with front month WTI falling over \$3.50/bbl in little over 2 hours of trading. Prices have since stabilised a little, with WTI trading sideways around the \$73/bbl level for much of the morning.
- Coal continues to hold up much better than crude oil, though with physical interest drying up, particularly from China, prices remain subdued.

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Commodity price data (4 February 2010)**Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,075	2,045	2,099	2,032	-38	-1.45%	2,052.00	-35	-31.75
Copper	6,590	6,390	6,680	6,329	-200	-3.03%	6,571.00	-282	-22.50
Lead	2,012	1,965	2,071	1,951	-56	-2.36%	2,005.00	-105	-19.00
Nickel	18,350	17,750	18,470	17,603	-525	-3.27%	18,255.00	195	-73.00
Tin	16,575	16,200	16,650	15,950	-375	-2.26%	16,620.00	20	-59.00
Zinc	2,095	2,022	2,150	2,010	-74	-3.48%	2,082.50	-83	-11.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	72.13	71.38	72.45	71.25	-0.75	-1.05%
NYMEX WTI	73.01	72.61	73.64	72.46	-0.53	-0.73%
ICE Gasoil	583.25	576.50	585.00	575.00	-11.75	-2.04%
API2 Q1'10	79.25	78.50	-	-	-0.75	-0.96%
EUA Dec10	12.75	13.11	-	-	0.36	2.82%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,102.50	1,083.25	1,110.25	1,061.50	1,063.50	-47.70	0.2/0.7
Silver	-	15.14	16.35	15.33	15.31	-0.99	0.0/2.0
Platinum	1,550.00	1,549.00	1,568.00	1,500.00	1,507.00	-68.00	-1.0/1.0
Palladium	430.00	431.00	435.00	408.00	407.00	-34.00	-1.0/1.0

Sources: Standard Bank; LME; BBG



Focus: Copper - macro shift

A key theme over the past couple of week has been a surge in copper volumes traded on LME Select. The past 10 trading days have seen the average daily traded volume on the LME's on-line system come in at 18,290 lots per day of 3-month copper, while the past 5 days has seen an average of 19,270 lots per day. To put things in perspective, the average daily volume in 2008 was 8,298 lots per day, compared to 9,459 lots per day during 2009.

The sheer level of turnover points to very good two-way interest, with short term technical players going up against those participants with a longer term view. **However, what also appears to be occurring is a bearish shift in the short to medium term macro view**, spurred by fears over Greece's ability to service its debt and the health of other southern European countries.

Looking at open interest and prices, the overall trend for the past 10 trading days (from the 19th January) has been for rising open interest and falling prices. This suggests that in spite of all the noise, **the overall trend over the past couple of weeks has been the addition of significant new short positions.**

Its worth noting that once this positioning is reversed, the rebound in prices will be very dramatic, and we remain bullish for copper prices this year. However, the Chinese are still the best part of 3-weeks away from returning to the market en-masse, leaving little to stand in the way of the current move.

Base metals

The base metals are under further pressure this morning. There was no discernable arbitrage-related bounce during Asian trade, with the metals continuing to see heavy liquidation. The dollar has steadied itself a bit helping the metals to stabilise, however, ahead of the key US Nonfarm payrolls this afternoon (expected +15K) the markets will likely remain jittery.

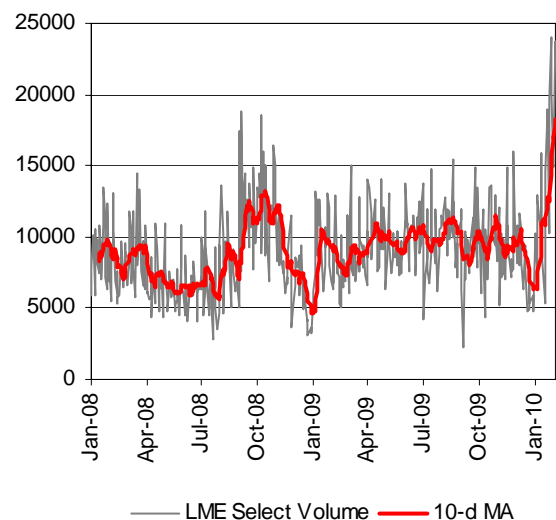
Although the SHFE-LME arbitrage is open, there was very little Chinese interest. While the general uncertainty and the sharp falls in US and Asian equities have deterred the market, another factor behind the lack of a bounce overnight has been that Chinese buyers are perhaps running out of ammunition.

Exploiting the current SHFE-LME copper arbitrage requires being long LME and short SHFE. With LME prices coming under heavy pressure, Chinese participants trying to exploit the arbitrage will likely be on the receiving end of margin calls. In addition, the forthcoming increase in SHFE margins from next week (from 6% to 11%), may also have an impact, meaning that fewer participants will be able to exploit the current arbitrage opportunity.

Copper volumes have again been very good this this morning with 10,000 lots by lunchtime emerging as the norm. Aluminium and Nickel have also been pretty busy. Price-wise, large copper stops were hit yesterday, seeing prices drop below \$6,400, while further selling this morning has seen trade down to \$6,225 before picking up to \$6,300 heading into the afternoon. Overall, the metals remain at the mercy of the currency and equity market. In this environment, technical signals will be key to helping determine short term direction.

Although aluminium is currently struggling around the \$2,000 mark, on a relative basis, it continues to perform well, having fallen only 15% from its YTD highs compared to 26% for Zinc and 18% for Copper. While copper tends to attract the hotter money, it seems that investor flows into aluminium are proving to be a bit stickier for the moment.

Daily LME Select Copper volumes (3mth Copper)



Sources: LME, Standard Bank

For the time being therefore, with risk aversion continuing to be the watchword and with investor confidence having taken a knock, copper will likely continue to go with the flow, looking to its technical signals, the dollar and the wider global markets for direction.

By Leon Westgate

By Leon Westgate

Precious metals

The trigger for yesterday's declines was a combination of factors, including the poor US jobless numbers, but ultimately originated with concerns about the Greece, Portugal, Spain etc and the risk of them defaulting on their debt. As for Jean-Claude Trichet, although he expects Greece to be ok, the rest of the market doesn't appear to have the same confidence that he does in Greece's ability to get its budget under control.

Sustained dollar strength throughout Thursday saw Gold, Silver and the PGMs all come under heavy pressure with the triggering of stops exacerbating the downwards move, particularly during the afternoon session.

Gold remains at the mercy of the dollar, though prices have steadied around \$1,050/oz - nearby technical support - heading into the afternoon. Below this \$1,050 level there is big gap before technical support re-emerges around the \$1,022 level. Silver is looking to gold for direction.

Platinum is closely watching the dollar, while Palladium is trading a bit more technically with the metal holding onto trendline support at \$380/oz. Platinum support and resistance is seen at \$1,430 and \$1,500 respectively.

By Leon Westgate

Energy

Crude oil got hammered on Thursday, in-line with the rest of the commodities complex. The main weakness came during the afternoon with front month WTI falling over \$3.50/bbl in little over 2 hours of trading. Prices have since stabilised a little, with WTI trading sideways around the \$73/bbl level for much of the morning.

This afternoon's key US Nonfarm payroll figures will be closely watched and will likely result in some volatility later on. The key will be to see if the data is good enough to persuade shorts to pare back their positions ahead of the weekend.

Coal continues to hold up much better than crude oil, though with physical interest drying up, particularly from China, prices remain subdued. APIT for Q2-10 fell \$0.75/mt to \$78.50, while API4 for the same date dropped \$1.05 to \$81.00. Of note, the back end of the forward curves for both contracts shifted more or less in parallel, with the contango's remaining much steadier compared to the movement seen earlier in the week.

In other news, Mongolia is planning to start talks to select a contractor to develop the Tavan Tolgoi coal deposit. The Mongolian government was looking to find a partner for the project, but has reportedly cancelled an auction to sell 49% of the deposit and now intends to retain greater control. Tavan Tolgoi is reported to have reserves of 6.5 billion tonnes of metallurgical coal.

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	4,595,575	4,601,625	1,200	7,250	-6,050	-33,325	253,000	5.51	190,890
Copper	539,425	540,475	500	1,550	-1,050	37,100	4,050	0.75	157,068
Lead	158,025	157,975	175	125	50	11,525	15,450	9.78	30,944
Nickel	166,224	165,726	612	114	498	8,214	2,316	1.39	26,382
Tin	27,410	27,465	#N/A	N/A	55	-55	645	8.23	4,097
Zinc	498,875	498,900	#N/A	N/A	25	-25	10,825	0.74	61,746

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,030	16,060	-260	Ali May'09	-	-	-	-
Copper	52,060	51,920	-2,030	Cu May'09	288	282.65	-5.25	-1.82%
Zinc	16,975	16,940	-520					

ZAR metal prices (4 February 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,523	49,710	15,168	138,099	125,730	15,754	7.5650
3-month	15,730	49,151	15,111	136,529	124,607	15,553	7.6918

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)	82.71	-0.79	80.84	-3.56	81.23	-3.76	83.12	-3.69	-	-
Gasoil 0.1% Rdam (\$/mt)	576.50	-11.75	583.25	-12.25	589.50	-12.50	608.75	-12.50	649.75	-5.75
NWE CIF jet (\$/mt)	656.79	-25.47	661.87	-28.71	669.14	-29.07	690.51	-27.88	-	-
Singapore Kero (\$/bbl)	82.72	-1.44	81.64	-3.86	82.18	-4.01	84.77	-3.79	89.89	-3.66
3.5% Rdam barges (\$/mt)	420.75	-24.75	421.75	-24.50	423.50	-24.25	427.25	-24.25	435.25	-24.25
1% Fuel Oil FOB (\$/mt)	438.25	-25.75	438.50	-25.50	442.75	-24.50	458.75	-25.00		
Sing FO 380 Cargo (\$/mt)	443.00	-24.75	445.50	-23.25	447.00	-22.75	450.25	-22.75		
Sing FO180 Cargo (\$/mt)	447.75	-24.75	448.75	-24.75	451.00	-23.75	454.75	-23.50		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 11		Cal 12	
API2 (CIF ARA)	78.50	-0.75	82.00	-1.05	86.00	-1.15	92.25	-0.90	102.00	-0.15
API4 (FOB RBCT)	81.00	-1.05	80.20	-1.35	82.40	-1.15	86.25	-0.90	95.00	-0.15

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.16000	0.16167	0.18667	0.23333	0.37500
Silver	0.57667	0.57667	0.58500	0.59500	0.60000
USD Libor	0.22844	0.23906	0.24875	0.38500	0.84594

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	42.23	1,089.99	1,108.11	1,095.80	1,022.18	1,085.00	1,105.00
Silver	37.05	16.30	17.26	17.45	15.96	16.30	16.90
Platinum	48.58	1,529.17	1,564.22	1,430.45	1,318.79	1,500.00	1,550.00
Palladium	47.52	422.74	434.36	367.15	312.36	420.00	433.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGDX GLD	TOCOM GLD	CBOT GLD
	Feb'10	Mar'10	Mar'10	Apr'10	Feb'10	Dec'10	Feb'10
Settlement	1,054.60	15.1500	385.00	1,515.30	1,062.10	3,043.00	1,053.20
Open Interest	480,332	123,292	22,899	34,958	1,187	115,393	2,265
Change in Open Interest	528	-1,031	125	114	-26	371	-117

Date: 4 February 2010

Sources: Standard Bank; LME; Bloomberg

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