

Focus: We foresee a recovery in commodity prices Risk continues to play an important role in commodity price movements. The sensitivity of commodity prices to financial markets raises the risk of price corrections (as in the past three weeks). However, we are confident that the bias favours a recovery rather than a deep decline in commodity prices.

- Copper has led the base metals higher this morning, boosted by decent Chinese economic data and SHFE-LME arbitrage related activity. gyrations in the FX markets are continuing to have a significant impact on metals prices however, with that trend likely to continue well into next week with the Chinese embarking on a week-long holiday.
- Gold remains range-bound between \$1,065 and \$1,085. We would **sell into gold rallies**.
- Crude oil has continued to rally this morning, boosted by decent Chinese data and an upgrade in the crude oil demand outlook from the International Energy Agency (IEA).

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Commodity price data (10 February 2010)**Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,060	2,035	2,070	2,020	-26	-1.21%	2,022.50	20	-31.75
Copper	6,635	6,540	6,674	6,495	-50	-1.43%	6,610.50	126	-22.50
Lead	2,093	2,045	2,094	2,025	13	-2.27%	2,079.50	108	-17.50
Nickel	17,925	17,710	18,180	17,525	160	-1.20%	17,850.00	425	-76.00
Tin	15,825	15,700	15,998	15,500	200	-0.79%	15,955.00	455	-63.00
Zinc	2,138	2,115	2,164	2,092	10	-1.08%	2,147.50	102	-12.25

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	72.80	72.80	73.08	72.59	0.26	0.36%
NYMEX WTI	74.60	74.91	75.10	74.52	0.39	0.52%
ICE Gasoil	588.00	590.25	590.25	587.25	13.50	2.29%
API2 Q1'10	76.20	73.50	-	-	-2.70	-3.67%
EUA Dec10	13.48	13.27	-	-	-0.21	-1.56%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,075.50	1,069.50	1,079.40	1,063.50	1,075.30	-0.70	0.1/0.5
Silver	-	15.45	15.53	15.09	15.29	-0.13	0.0/2.0
Platinum	1,499.00	1,511.00	1,515.00	1,498.00	1,510.00	10.00	-1.0/1.0
Palladium	416.00	416.00	418.00	409.00	411.00	-5.00	-1.0/1.0

Sources: Standard Bank; LME; BBG



Focus: We foresee a recovery in commodity prices

Risk continues to play an important role in commodity price movements. The sensitivity of commodity prices to financial markets raises the risk of price corrections (as in the past three weeks).

However, we are confident that the bias favours a recovery rather than a deep decline in commodity prices.

We focus on risk appetite, using the VIX index, which measures the implied volatility of US equities. The VIX index is often used as a proxy for risk appetite — it has risen sharply in recent days. Spikes in the VIX index are quiet frequent, however the decline in the VIX index following spikes also occurs fairly rapidly. Should the index decline after its recent Greece-related activity, we would look for commodity prices to push higher (see graph alongside).

There is always the possibility that the VIX index could spike even higher but we believe such a probability to be small. Financial conditions indices for the two markets that are the most important for commodities — the US and China — indicate that overall conditions in those countries remain favourable. The financial conditions index is a combined measure that captures developments in the bond market, the money market and equity market for a certain economy. We continue to see the US financial conditions at very accommodative levels. The same goes for China despite recent moves to tighten policy.

We therefore believe the bias is towards a decline in risk, and a concomitant decline in risk aversion. This should favour higher commodity prices.

By Walter de Wet Sources: Bloomberg, GS

Base metals

Copper has led the base metals higher this morning, boosted by decent Chinese economic data and SHFE-LME arbitrage related activity. Gyration in the FX markets are continuing to have a significant impact on metals prices however, with that trend likely to continue well into next week with the Chinese embarking on a week-long holiday.

This afternoon sees the release of the latest US Initial and Continuing claims figures and Advance Retail Sales. While any significant departure from these numbers may impact on prices, overall it is the headlines coming out from this afternoon's EU summit about Greece that will likely have the biggest impact on currencies and therefore commodities.

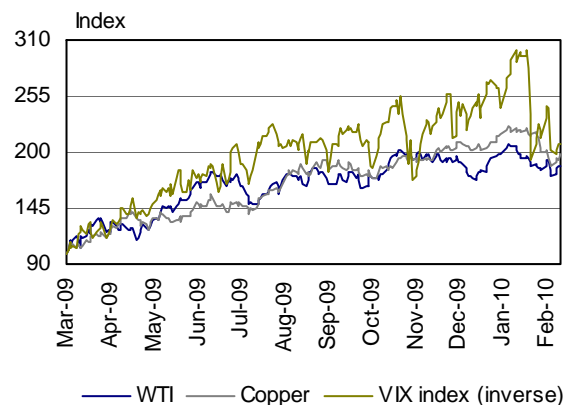
The Chinese data overnight was pretty encouraging. Chinese CPI slowed, while Chinese banks lent slightly more than expected in January, distributing 1.39 trillion yuan in loans compared to consensus estimates of 1.35 trillion. This should see the PBOC hold back from having to take any overly aggressive action in the near future, with comments from the PBOC that they will gradually exit from its stimulus measures helping to reinforce this view.

Looking ahead, signs are that demand for copper in China is building nicely. Anecdotal reports suggest stocks of copper in bonded warehouse in China have fallen sharply over the past couple of months - helping explain the lower than expected January copper import figures - while the LME-SHFE arbitrage remains wide open. Premiums for LME material in Singapore are also on the rise, further suggesting that demand is picking up. The only soft spot is that Physical copper in Shanghai is trading at a ~\$30 discount to the March contract, however, this appears to be related to the imminent New Year Holiday and consequent lack of activity rather than anything else.

On that basis, copper should find good support once the Chinese return from holiday and as things start to get going properly. Over the next week however copper, and the other base metals will likely continue to track the wider global markets.

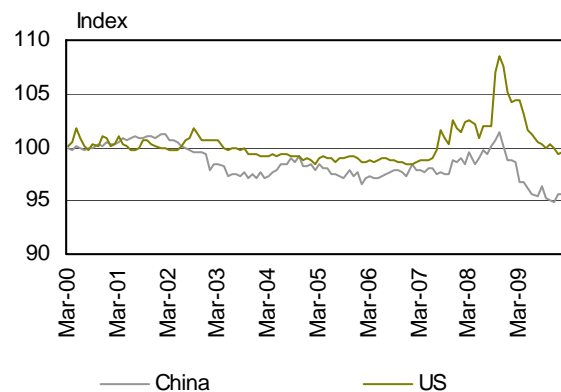
By Leon Westgate

VIX Index, gold and oil



Sources: Standard Bank; Bloomberg

Financial conditions index



Sources: Bloomberg, GS

Precious metals

Gold remains range-bound between \$1,065 and \$1,085. We would **sell into gold rallies**. We see little reason for gold to trade substantially higher because of the ongoing problems in the Eurozone and because risk appetite remains listless. The EMU reportedly is coordinating an effort to assist Greece with its sovereign debt issues. However, we doubt that such assistance can relieve pressure on the euro just as yet. We therefore see more downside for gold. **Gold support is at \$1,067 and \$1,055. Resistance is at \$1,085 and \$1,093.**

Although silver found support from higher base metal prices, and also from gold which pushed above \$1,080 in Asia this morning, **silver could struggle for gains**. Should gold push lower, silver could test the \$15.00 level.

There is very little happening in PGM. The market is content to **buy platinum and palladium on dips** — below \$1,500 for platinum and \$410 for palladium. We foresee more of the same into the weekend.

This morning, China's CPI data for January was released. China's consumer prices grew 1.5% y/y in January (consensus: 2.1%). We view the low inflation reading as bullish for PGMs in light of the negative impact the news of tighter lending standards for Chinese banks has had on industrial metals.

By Walter de Wet

Energy

Crude oil has continued to rally this morning, boosted by decent Chinese data and an upgrade in the crude oil demand outlook from the International Energy Agency (IEA). So far this morning, crude oil appears to have broken free from the currencies, with front month WTI climbing heading into the afternoon, in spite of a strengthening in the dollar. Geopolitical concerns in the Persian Gulf continue to lurk in the background, but are yet to have any significant impact on prices.

The IEA has raised its forecast for global oil demand for 2010 by 170,000 bbl/day to 86.5 million bbl/day. The improved forecast is based on expectations of accelerating demand growth from emerging markets, and essentially represents a 1.8% increase in demand from 2009 levels. While the outlook for emerging markets has improved, the IEA still expects consumption growth from the OECD countries to be negligible this year.

In other news, and of interest to commodities generally are reports that the Fed is in talks with Money Market Funds to look at ways to drain the \$1 trillion dollars or so that was pumped into the US financial system back out again. The talks appear to be at a very exploratory stage, and essentially represents the Fed's strive to expand its set of counterparties. However, the talks do indicate that an exit strategy from the QE measures is being considered. Whenever that exit strategy is implemented, and money starts to be drained out of the financial system, the viability of floating crude oil storage - essentially a cash and carry trade - may have to be re-examined.

Coal prices came under pressure yesterday reflecting weaker physical demand as the Chinese wind down. A third consecutive decline in the Baltic Dry Index has also weighed on sentiment and again reflects reduced activity. As far as prices are concerned much of the weakness was seen at the front end of the curve, with API2 for Q2-10 falling \$2.70/mt to \$73.50, compared to a \$1.50/mt fall for Q1-11. API4 for Q2-10 fell \$1.45/mt to \$78.75.

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	4,566,225	4,571,975	825	6,575	-5,750	-62,675	258,825	5.67	210,944
Copper	541,825	541,050	1,525	750	775	39,500	3,850	0.71	114,691
Lead	157,525	157,875	#N/A N/A	350	-350	11,025	14,400	9.14	26,803
Nickel	166,026	166,188	#N/A N/A	162	-162	8,016	3,468	2.09	27,414
Tin	26,670	26,790	50	170	-120	-95	2,190	8.21	7,240
Zinc	500,125	500,250	#N/A N/A	125	-125	12,075	3,700	0.74	66,950

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,460	16,530	85
Copper	54,800	55,380	1,130
Zinc	17,750	17,990	345

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali May'09	-	-	-	-
Cu May'09	299	303.70	4.80	1.61%

ZAR metal prices (10 February 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,604	51,000	16,043	137,713	123,093	16,568	7.7150
3-month	15,968	51,319	16,047	138,969	123,196	16,596	7.8469

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)	80.06	0.60	79.89	0.51	80.21	0.43	81.61	0.47	-	-
Gasoil 0.1% Rdam (\$/mt)	590.25	13.50	596.75	12.50	602.75	12.50	608.25	3.50	641.50	3.25
NWE CIF jet (\$/mt)	644.10	3.31	649.66	6.00	656.04	4.65	675.51	3.50	-	-
Singapore Kero (\$/bbl)	79.77	0.50	80.34	0.51	80.96	0.43	78.82	-3.97	86.15	-1.59
3.5% Rdam barges (\$/mt)	424.75	-0.50	425.75	-0.50	426.75	-0.50	429.50	-0.75	437.25	-0.75
1% Fuel Oil FOB (\$/mt)	441.00	0.50	441.50	-0.25	445.00	-0.50	461.25	-0.50		
Sing FO 380 Cargo (\$/mt)	446.00	-1.25	448.00	-1.00	449.00	-1.25	451.75	-2.00		
Sing FO180 Cargo (\$/mt)	452.75	-0.25	453.00	-1.00	454.25	-1.25	457.00	-2.00		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 11		Cal 12	
API2 (CIF ARA)	73.50	-2.70	77.60	-2.40	83.00	-2.00	91.45	-1.05	101.20	-1.05
API4 (FOB RBCT)	78.75	-1.45	78.80	-1.60	81.70	-1.30	87.05	-0.85	94.60	-0.75

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.20000	0.21000	0.21667	0.26500	0.41500
Silver	0.54667	0.54667	0.55500	0.56333	0.57000
USD Libor	0.22844	0.23906	0.25000	0.38875	0.85000

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	46.55	1,083.34	1,095.27	1,098.64	1,025.60	1,065.00	1,085.00
Silver	40.44	15.75	16.61	17.39	16.00	15.00	15.50
Platinum	52.18	1,520.87	1,547.24	1,437.86	1,326.15	1,500.00	1,550.00
Palladium	53.32	419.71	431.59	371.98	316.18	410.00	430.00

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	1,080.20	15.4450	415.10	1,512.90	1,079.70	3,097.00	1,080.70
Open Interest	466,905	118,593	22,095	34,325	1,207	106,642	2,738
Change in Open Interest	-5,517	2,308	83	-12	-22	1,534	-182

Date: 10 February 2010

Sources: Standard Bank; LME; Bloomberg

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