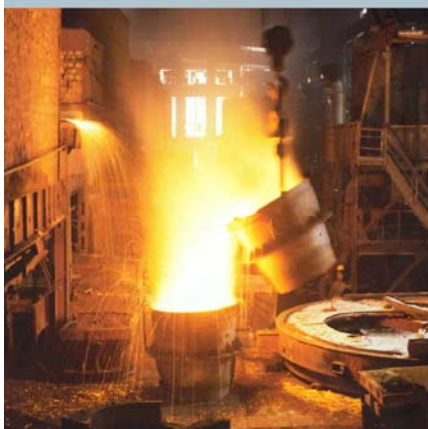


24 February 2010



**Focus: US inventory makes higher oil price unlikely** There is a large stock overhang in the US. As long as this overhang persists, we believe that crude oil will find it difficult to rally. We would sell into rallies above \$80 that are not accompanied by dollar weakness.

- A very poor US consumer confidence figure was the catalyst for a sharp sell-off in the base metals on Tuesday afternoon. The metals stabilised late-on, however after a brief respite period, that weakness has spilled over into Wednesday. The only exception this morning has been aluminium which has stood its ground and traded sideways
- The gold price dropped below \$1,100 this morning. Platinum and palladium are struggling but we expect buying support on dips below \$1,500.
- Crude oil shrugged off the consumer confidence numbers, with WTI instead falling heavily during Tuesday morning before spending the afternoon trading sideways.
- Front month WTI has continued to trade sideways heading into Wednesday afternoon. The market is seemingly on hold until Ben Bernanke starts to talk this afternoon, and ahead of the DOE inventory data.

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**Commodity price data (23 February 2010)****Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,140	2,127	2,130	2,105	-24	-0.61%	2,117.50	2	-33.50
Copper	7,230	7,132	7,190	7,065	-198	-1.36%	7,227.00	-111	-29.00
Lead	2,310	2,235	2,244	2,174	-90	-3.25%	2,295.00	-25	-23.00
Nickel	20,375	20,195	20,225	20,010	-280	-0.88%	20,430.00	-105	-80.00
Tin	17,050	16,825	16,781	16,560	-350	-1.32%	17,000.00	-5	-69.00
Zinc	2,250	2,220	2,232	2,171	-70	-1.33%	2,226.00	-60	-24.00

**Energy**

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.35	76.88	77.66	76.81	-0.37	-0.48%
NYMEX WTI	79.11	78.52	79.33	78.46	-0.34	-0.43%
ICE Gasoil	630.25	624.00	631.50	623.75	-4.75	-0.76%
API2 Q1'10	76.50	76.50	-	-	0.00	0.00%
EUA Dec10	12.69	12.78	-	-	0.09	0.71%

**Precious metals**

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,112.00	1,107.00	1,119.50	1,100.00	1,103.00	-10.00	0.2/0.6
Silver	-	15.69	16.38	15.81	15.86	-0.34	-2/0
Platinum	1,539.00	1,518.00	1,542.00	1,512.00	1,507.00	-18.00	-.5/1.5
Palladium	445.00	438.00	444.00	433.00	432.00	-8.00	-1/1

Sources: Standard Bank; LME; BBG



### Focus: US inventory makes higher oil price unlikely

There remains a large stock overhang in the US. This overhang has been particularly acute in distillate inventory.

On a days-forward cover, we have seen a steady decrease in distillate inventory. Days forward cover peaked at 50.5 days in Oct 2009 and declined to 41.2 days last week. Although this level remains high, and much of the recent decline has been due to seasonal demand, the trend in stock levels is lower. The 5-year average of distillate inventories is 33.2 days.

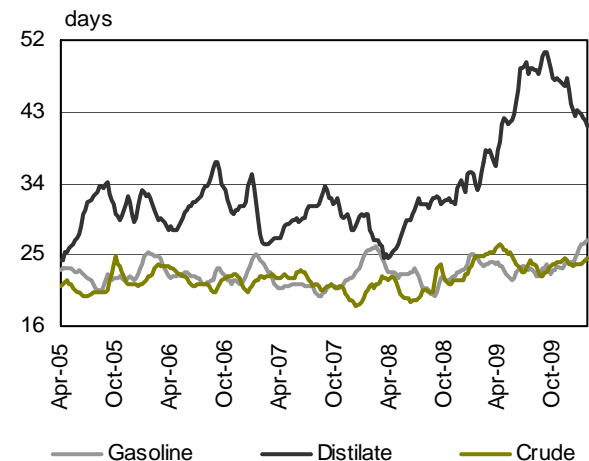
For gasoline, days-forward cover has been fairly steady, although we have seen a rise in days coverage on the back of weak seasonal demand. Current days-forward cover for gasoline inventories stands at 26.9 days. The 5-year average cover is 22.7 days.

As long as the overhang of product inventory persists, we believe that crude oil will find it difficult to rally. Refineries reduced their capacity utilisation from a high of 86% in July 2009, to 77% at the start of the month. With lower utilisation rates, less product is produced, which should see inventories decline (assuming that demand is steadily recovering).

However, lower refinery utilisation rates should keep crude oil inventories in the US from declining. On a days-forward basis, crude oil inventory is now at 24.6 days. The 5-year average is 22 days.

For crude, gasoline and distillate inventories, on a days-forward cover, levels remain high. However, we believe levels are improv-

US inventory days forward cover



Sources: US DOE, BBG

ing slowly but surely. This should see crude prices finding better support above \$75/bbl.

We believe that current inventory levels in the US do not support crude oil prices well above \$80 yet. Any rally higher would have to be accompanied by dollar weakness (which we do not foresee Q1:10). In fact, we expect the dollar to strengthen against the euro, to \$1.30. We would expect rallies above \$80, that are not accompanied by dollar weakness, to fade.

By Walter de Wet

### Base metals

A very poor US consumer confidence figure was the catalyst for a sharp sell-off in the base metals on Tuesday afternoon. The metals stabilised late-on, however after a brief respite period, that weakness has spilled over into Wednesday. The only exception this morning has been aluminium which has stood its ground and traded sideways, though the other metals are also starting to find their feet after succumbing to technical selling this morning.

US consumer confidence fell to the lowest level since April 2009, with the Conference Board index dropping to 46.0 from 56.5 in January. The decline was driven by a deteriorating outlook for current conditions, which fell to the lowest level in 27 years. Expectations had been for the index to come in around 55.0. Friday's University of Michigan confidence number will likely be closely watched to help determine whether the conference board figure was just an outlier, or the sign of things to come.

This afternoon is dominated by Ben Bernanke's testimony to Congress and any accompanying soundbites. This may see some volatile trading this afternoon, with the metals will likely taking the lead from the US equity markets.

Chinese net imports of refined copper fell in January to 194 kt. This is still up in y-o-y terms but is 37 kt lower than December's level. Scrap imports were also down from December's figure, but are up 83% y-o-y. The data didn't take the market by surprise, with market already expecting a decline following the release of the preliminary figures earlier in the month.

Assuming that it takes 6-8 weeks to transport physical copper into China, as far as the SHFE-LME arbitrage is concerned, the January import data reflects the arbitrage in mid-November, when it was fairly marginal. In that regard, the fall in imports wasn't unexpected. Increased scrap availability and imports may reduce the need for refined metal, and we do not expect a repeat of the imports seen this time last year, however, given the SHFE-LME arbitrage levels from the end-December and up to Chinese New Year, we expect to see refined imports pick up strongly in March.

By Leon Westgate

## Precious metals

The gold price dropped below \$1,100 this morning. Since the Chinese New Year, there has been little buying interest in the physical market, which seems to have capped upside. However, we are starting to see greater selling interest, which could increase downward pressure.

Gold continues to largely ignore currency movements. With gold below \$1,100, support is at \$1,092. The next level of support is at \$1,086. Resistance is at \$1,116 and \$1,130.

Platinum and palladium are struggling but we expect buying support on dips below \$1,500. Platinum support is at \$1500 and resistance at \$1,545. Palladium support is at \$436 and resistance at \$447.

In South Africa, the outcome of Eskom's application for a 35% price hike in electricity was released this morning. Electricity costs are set to soar in the next three years. Eskom has been granted a price hike of 24.8% in the next year, with a hike of 25.8% and 25.9% the following two years. Higher electricity costs would not only affect the direct cost of mining in SA, but also affect wage expectations via the impact of higher electricity costs on inflation. We believe a 30% rise in electricity cost should, on average, increase production cost at PGM mines in South Africa by approximately 3% - 4%. This excludes possible knock-on effects due to higher wage demands.

**By Walter de Wet**

## Energy

Crude oil shrugged off the consumer confidence numbers, with WTI instead falling heavily during Tuesday morning before spending the afternoon trading sideways. Front month WTI has continued to trade sideways heading into Wednesday afternoon, with the market seemingly on hold until Ben Bernanke starts to talk this afternoon, and ahead of the DOE inventory data.

The latest DOE inventory numbers are expected to show a 1,900 K barrel increase in crude oil stocks, a 600 K barrel increase in gasoline and a 1,500 K decrease in distillates. Aside from the knee jerk reactions to the numbers, once they have been digested crude oil will likely switch focus back to Bernanke. How the wider global markets interpret Mr. Bernanke's comments will likely be the main price driver this afternoon.

Last night's API inventory figures showed a 3,137 K barrel fall in crude inventories, while gasoline stocks climbed 1,738 K barrels and distillate stocks fell 834 K. Regardless of the absolute numbers, the key difference in the figures compared to the consensus DOE estimates was the fall in crude stocks. The difference between the two sets of figures limit the impact on prices if the DOE numbers do come in significantly below consensus expectations.

Coal prices avoided much of the weakness in the energy complex and in the industrial metals, with API2 for Q2-10 coming in unchanged at \$76.50. API4 was a little bit firmer, but not by much, with prices for Q2-10 gaining \$0.40/mt.

**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	4,583,875	4,588,350	1,075	5,550	-4,475	-45,025	304,400	6.64	140,766
Copper	552,675	554,325	1,175	2,825	-1,650	50,350	14,000	2.53	126,189
Lead	161,975	160,700	1,500	225	1,275	15,475	13,975	8.63	18,146
Nickel	160,830	161,178	138	486	-348	2,820	3,594	2.23	24,498
Tin	24,910	25,330	#N/A	N/A	420	-420	985	3.95	3,997
Zinc	542,075	542,200	#N/A	N/A	125	-125	4,850	0.89	47,126

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,800	16,870	-165
Copper	57,700	58,040	-640
Zinc	18,380	18,390	-335

### COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Mar'10	-	-	-	-
Cu Mar'10	323	323.45	0.00	0.00%

### ZAR metal prices (22 February 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,277	55,554	17,642	157,045	130,679	17,111	7.6870
3-month	16,631	55,764	17,475	157,901	131,551	17,358	7.8188

## 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)	82.57	0.04	85.21	-1.18	85.63	-1.08	86.98	-1.07		
Gasoil 0.1% Rdam (\$/mt)	624.00	-4.75	629.00	-4.50	634.50	-4.50	655.50	-7.75		
NWE CIF jet (\$/mt)	663.96	-1.35	695.85	-9.25	700.31	-9.44	718.00	-8.25		
Singapore Kero (\$/bbl)	82.54	0.03	85.71	-1.23	86.43	-1.18	88.66	-1.09		
3.5% Rdam barges (\$/mt)	435.78	0.49	449.25	-5.50	450.00	-5.25	452.50	-5.00		
1% Fuel Oil FOB (\$/mt)	448.48	0.25	458.50	-7.75	463.75	-6.00	479.75	-5.75		
Sing FO 380 Cargo (\$/mt)	469.75	-5.50	471.50	-5.25	472.75	-5.50	474.75	-5.00		
Sing FO180 Cargo (\$/mt)	464.72	0.74	476.00	-5.25	477.25	-5.25	480.25	-5.25		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	76.50	0.00	80.00	0.50	84.90	0.50	93.90	0.50	104.40	1.10
API4 (FOB RBCT)	82.20	0.40	81.20	0.90	82.75	1.10	89.15	0.50	97.40	0.90

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.21000	0.22200	0.24400	0.30000	0.48800
Silver	0.57600	0.57600	0.57600	0.57600	0.57600
USD Libor	0.22875	0.24000	0.25194	0.39375	0.86688

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	48.12	1,105.28	1,094.68	1,107.49	1,033.86	1,085.00	1,105.00
Silver	43.49	15.87	15.85	17.33	16.08	16.30	16.90
Platinum	49.68	1,522.00	1,521.02	1,458.68	1,343.81	1,500.00	1,550.00
Palladium	54.05	430.25	425.17	384.11	325.20	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	1,091.40	15,700.00	429.05	1,510.30	1,094.20	3,170.00	1,094.10
Open Interest	464,786	117,969	22,465	34,894	1,374	99,920	3,040
Change in Open Interest	6,912	656	600	253	128	1,780	-196

Date: 23 February 2010

Sources: Standard Bank; LME; Bloomberg

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