

**Focus: Gold physical buying still weak** Gold rebounded well from the lows of yesterday morning. While we do not expect a major collapse in the gold price, we find it difficult to see major upside for gold in coming weeks. We still favour selling into rallies.

- The base metals complex has rebounded in Asia from the lows of yesterday. We find that since at least March last year, base metals fall on average more when equities come under pressure than rise when equities move higher. This was the case yesterday, and we expect it to remain so.
- Gold bounced off lows around \$1,189 yesterday. Once the metal broke through \$1,100, shorts were covered and buy stops were triggered, pushing gold as high as \$1114 this morning.
- WTI recovered well this morning from the sell-off yesterday. However, despite our belief that crude oil will move higher as we head towards H2:10, crude oil could hit resistance on rallies above \$80 in coming days.

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**Commodity price data (25 February 2010)****Base metals LME 3-month**

|           | Open   | Close  | High   | Low    | Daily change | Change (%) | Cash Settle | Change in cash settle | Cash – 3m |
|-----------|--------|--------|--------|--------|--------------|------------|-------------|-----------------------|-----------|
| Aluminium | 2,093  | 2,087  | 2,115  | 2,088  | -51          | -0.29%     | 2,062.50    | -17                   | -33.25    |
| Copper    | 7,085  | 6,999  | 7,165  | 7,076  | -156         | -1.21%     | 7,046.00    | 14                    | -29.75    |
| Lead      | 2,165  | 2,150  | 2,192  | 2,160  | -65          | -0.69%     | 2,150.00    | -18                   | -24.00    |
| Nickel    | 20,325 | 20,370 | 20,700 | 20,350 | -95          | 0.22%      | 20,275.00   | 210                   | -80.00    |
| Tin       | 16,925 | 16,750 | 16,875 | 16,750 | -50          | -1.03%     | 16,830.00   | 170                   | -76.00    |
| Zinc      | 2,168  | 2,116  | 2,192  | 2,150  | -88          | -2.40%     | 2,148.50    | -9                    | -25.50    |

**Energy**

|            | Open   | Close  | High   | Low    | day/day | Change (%) |
|------------|--------|--------|--------|--------|---------|------------|
| ICE Brent  | 76.45  | 76.28  | 76.82  | 75.91  | -0.01   | -0.01%     |
| NYMEX WTI  | 78.28  | 78.24  | 78.67  | 77.82  | 0.07    | 0.09%      |
| ICE Gasoil | 619.00 | 620.00 | 621.75 | 615.25 | 7.25    | 1.17%      |
| API2 Q1'10 | 76.80  | 76.75  | -      | -      | -0.05   | -0.07%     |
| EUA Dec10  | 12.99  | 12.89  | -      | -      | -0.10   | -0.77%     |

**Precious metals**

|           | AM Fix   | PM Fix   | High bid | Low offer | Closing bid | Change (d/d) | EFPs    |
|-----------|----------|----------|----------|-----------|-------------|--------------|---------|
| Gold      | 1,092.75 | 1,094.50 | 1,109.30 | 1,089.00  | 1,107.50    | 10.70        | 0.1/0.5 |
| Silver    | -        | 16.17    | 16.15    | 15.64     | 16.12       | 0.18         | -2/0    |
| Platinum  | 1,510.00 | 1,514.00 | 1,528.00 | 1,506.00  | 1,525.00    | 17.00        | -.5/1.5 |
| Palladium | 416.00   | 420.00   | 424.00   | 418.00    | 420.00      | -4.00        | -1/1    |

Sources: Standard Bank; LME; BBG



### Focus: Gold physical buying still weak

Gold rebounded well from the lows of yesterday morning. While we do not expect a major collapse in the gold price, we find it difficult to see major upside for gold in coming weeks. We still favour selling into rallies.

Currency fluctuations and appetite for gold in the physical market guide our analysis. While selling has not been exceptional, we have seen buying interest decline in the past two weeks.

Gold physical buying interest has slowed substantially. Our physical gold index has dropped below zero on 18 February — only a few days after the Chinese New Year (refer to Figure). A drop below zero indicates that physical selling outpaces buying.

The current drop in the index is because of little buying interest rather than heavy selling. Last year, the index spent a total of nine weeks in negative territory.

With regard to the physical trade activity going forward:

- We expect the euro to come under more pressure (with our target at \$1.30 for the euro against the dollar). This may put additional pressure on gold.
- The fact that gold is holding up well in other currencies (such as euro, INR etc) makes physical buying less attractive at the moment.

### Base metals

The base metals complex has rebounded in Asia from the lows of yesterday. Yesterday's broad sell-off was triggered by a weak euro and struggling equity markets.

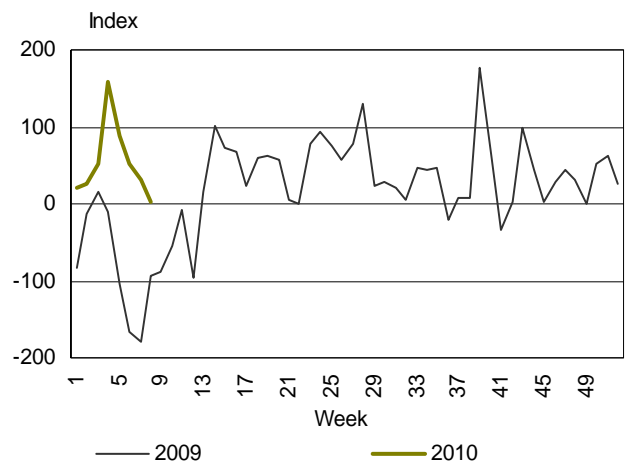
While base metals have had a high correlation with equities since early January, we are seeing a slight decline in this correlation in recent days. However, we do not expect this correlation to break down completely. Equities (combined with the dollar) should remain an important driver for metals. There is a clear asymmetric reaction between equity returns and base metal prices. We find that since at least March last year, base metals fall on average more when equities come under pressure than rise when equities move higher. This was the case yesterday, and we expect it to remain so.

Shanghai warehouse stock numbers were up this week, with copper stock rising just over 32K mt. Given that this rise was largely in line with expectations, the reaction in LME prices was minimal. However, with stock rising and premiums remaining largely unchanged, physical buying interest has yet to return in all earnest following the Chinese New Year. Until the physical market picks up, copper should to be influenced more by other financial markets than metal-specific factors.

Aluminium Shanghai stocks gained just over 10K mt this week. However, this is offset by this week's decline of just over 16K mt in LME warehouse stock. Overall aluminium is holding up well, supported by energy prices that remains fairly high. Rising power prices on the back of cold weather in Europe and part of the US is adding to price support. However, aluminium will not escape larger financial market fluctuations.

Markets remain divided between low risk appetite in Europe and decent appetite in the US. Decent risk appetite in the US should outweigh low risk appetite in the Eurozone and continue to support commodity prices on the dips. But despite support for metals in the US, the dollar remains strong. We would sell into rallies.

### Standard Bank gold physical flow index



Source: Standard Bank

However, we also note that there is a big difference between 2009 and 2010 — in 2009 we saw large volumes of scrap selling. This selling is not as prevalent in 2010. Given the lack of scrap coming to the market, once the dollar starts to depreciate (which we expect in only in H2:10), a sizable increase in the gold price may follow.

However, right now, the physical market remains a drag on the gold price.

By Walter de Wet

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## Precious metals

Gold bounced off lows around \$1,189 yesterday. Once the metal broke through \$1,100, shorts were covered and buy stops were triggered, pushing gold as high as \$1,114 this morning.

Despite yesterday's push higher, we favour selling into rallies. There is a marked divergence between risk appetite in the US and Europe. US risk appetite seems steadier and healthier than in the Eurozone. We expect this to support the dollar. While currencies, especially the euro, are likely to be volatile in this uncertain environment, we expect more downside for the euro within the next month. While we expect dollar-denominated gold to come under pressure, it may not be the case for euro-denominated gold. Gold support is at \$1,100 and \$1,1089, resistance is at \$1,123 and \$1,130.

Platinum is holding up well despite a slide in other precious metals. We believe both metals should be bought on dips. While the metal could come under renewed pressure, production costs are providing good price support. On a cash-cost basis, we believe platinum's floor is at \$1,500.

Platinum and palladium have also rebounded on the back of gold. Platinum support is at \$1,510 and resistance at \$1,544. Palladium support is at \$420 and resistance at \$433.

In the US, the University of Michigan consumer index should be watched. A good reading may add support to precious metals. Market expectations are for reading of 73.9. Following a very weak Conference Board Consumer Index reading on Tuesday, a data print in line with expectations may see equities move higher.

**By Walter de Wet**

## Energy

WTI recovered well this morning from the sell-off yesterday. However, despite our belief that crude oil will move higher as we head towards H2:10, crude oil could hit resistance on rallies above \$80 in coming days.

While crude inventory may be slowing falling to more normal levels, current inventory levels remain high. Furthermore, oil supply remains adequate despite political tension in the Middle East. OPEC production reached 29.1mbpd in Feb, up from 27.7mbpd a year ago. This comes despite OPEC production quotas remaining unchanged during this period. With growth concerns coming to the forefront, especially in Europe, the crude market may focus more on these bearish oil factors. Combined with our FX view that the dollar will strengthen to \$1.30 in coming weeks, we favour selling crude oil into rallies. Furthermore, as pointed out yesterday, any weakness in price should be concentrated in nearby prices, and prices further along the curve should remain steadier.

We will look with great interest what the latest CFTC data shows on speculative interest in crude oil. Last week's report showed a rise in speculative interest from 3.2% of open interest (OI) to 5.3% last week. The speculative length in WTI does not look overextended yet, but we may be getting closer to this level. Speculative length reached 10.4% of OI in January before prices declined from \$84 to \$70. Average speculative length as a percent of OI over the past 12 months was 3.7%. We believe that speculative length has risen this week.

However, with the week coming to an end, the focus will move towards next week. Non-farm payrolls data is due next week; we may therefore see rallies fade as investors avoid risk ahead of this closely watched number. This, too, favours selling into rallies.

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## 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 | 4,575,350 | 4,579,875 | 1,475 | 6,000 | -4,525         | -53,550         | 298,850                 | 6.53                   | 121,745           |
| Copper    | 549,725   | 550,225   | 1,375 | 1,875 | -500           | 47,400          | 19,475                  | 3.54                   | 107,943           |
| Lead      | 165,075   | 163,025   | 2,175 | 125   | 2,050          | 18,575          | 13,800                  | 8.36                   | 37,446            |
| Nickel    | 162,666   | 161,742   | 1,434 | 510   | 924            | 4,656           | 4,518                   | 2.78                   | 44,926            |
| Tin       | 24,715    | 24,840    | #N/A  | N/A   | 125            | -125            | 1,470                   | 5.95                   | 4,888             |
| Zinc      | 541,950   | 542,350   | #N/A  | N/A   | 400            | -400            | 4,000                   | 0.74                   | 90,723            |

### Shanghai 3-month forward prices

| Metal     | Open   | Last   | 1d Change |
|-----------|--------|--------|-----------|
| Aluminium | 16,740 | 16,770 | -110      |
| Copper    | 58,180 | 58,150 | -130      |
| Zinc      | 18,235 | 18,300 | -210      |

### COMEX active month future prices

|            | Open | Close  | Change | Change (%) |
|------------|------|--------|--------|------------|
| Ali Mar'10 | -    | -      | -      | -          |
| Cu Mar'10  | 321  | 323.15 | 2.15   | 0.67%      |

### ZAR metal prices (25 February 2010)

|         | Aluminium | Copper | Lead   | Nickel  | Tin     | Zinc   | ZAR/USD fix |
|---------|-----------|--------|--------|---------|---------|--------|-------------|
| Cash    | 16,113    | 55,047 | 16,797 | 158,398 | 131,484 | 16,785 | 7.8125      |
| 3-month | 16,587    | 55,626 | 17,088 | 161,895 | 133,124 | 16,817 | 7.9477      |

## 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)      | 82.41           | 0.08            | 83.45           | -2.12           | 83.68          | -2.31  | 84.96        | -2.55  |              |  |
| Gasoil 0.1% Rdam (\$/mt)  | 620.00          | 7.25            | 623.75          | 6.50            | 628.75         | 6.00   | 642.00       | 2.75   |              |  |
| NWE CIF jet (\$/mt)       | 662.45          | -1.85           | 678.93          | -18.83          | 683.81         | -19.18 | 701.05       | -19.62 |              |  |
| Singapore Kero (\$/bbl)   | 82.34           | 0.05            | 83.80           | -2.37           | 84.38          | -2.46  | 86.51        | -2.65  |              |  |
| 3.5% Rdam barges (\$/mt)  | 434.36          | -1.90           | 437.75          | -15.25          | 439.25         | -14.50 | 442.75       | -14.00 |              |  |
| 1% Fuel Oil FOB (\$/mt)   | 447.16          | -1.58           | 447.75          | -14.00          | 452.50         | -14.00 | 469.50       | -13.50 |              |  |
| Sing FO 380 Cargo (\$/mt) | 457.50          | -15.75          | 460.00          | -14.75          | 462.00         | -14.25 | 464.50       | -14.00 |              |  |
| Sing FO180 Cargo (\$/mt)  | 463.64          | -0.02           | 463.75          | -15.50          | 465.75         | -15.00 | 470.50       | -13.75 |              |  |

| Thermal coal    | Q2-10 |       | Q3-10 |       | Q4-10 |       | Cal 10 |       | Cal 11 |       |
|-----------------|-------|-------|-------|-------|-------|-------|--------|-------|--------|-------|
| API2 (CIF ARA)  | 76.75 | -0.05 | 80.45 | -0.15 | 85.15 | -0.25 | 94.00  | -0.80 | 104.50 | -1.05 |
| API4 (FOB RBCT) | 82.05 | -0.45 | 81.65 | -0.25 | 82.85 | -0.35 | 89.10  | -0.80 | 97.40  | -1.05 |

## Precious metals

| Forwards (%) | 1-month | 2-month | 3-month | 6-month | 12-month |
|--------------|---------|---------|---------|---------|----------|
| Gold         | 0.21333 | 0.22500 | 0.23500 | 0.28333 | 0.46333  |
| Silver       | 0.57333 | 0.57333 | 0.57333 | 0.57333 | 0.58000  |
| USD Libor    | 0.22875 | 0.24000 | 0.25194 | 0.38688 | 0.84000  |

| Technical Indicators | 30-day RSI | 10-day MA | 20-day MA | 100-day MA | 200-day MA | Support  | Resistance |
|----------------------|------------|-----------|-----------|------------|------------|----------|------------|
| Gold                 | 51.58      | 1,108.95  | 1,097.55  | 1,108.70   | 1,035.44   | 1,085.00 | 1,120.00   |
| Silver               | 46.56      | 16.00     | 15.85     | 17.30      | 16.10      | 16.00    | 16.50      |
| Platinum             | 53.76      | 1,525.89  | 1,524.49  | 1,462.71   | 1,347.70   | 1,500.00 | 1,550.00   |
| Palladium            | 54.82      | 431.07    | 425.69    | 386.19     | 327.10     | 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          | 1,113.40  | 16.2000   | 432.50    | 1,531.20   | 1,105.30 | 3,204.00  | 1,113.40 |
| Open Interest       | 466,572   | 117,376   | 23,459    | 34,991     | 1,325    | 98,751    | 2,943    |

### Change in Open Interest

Date: 25 February 2010

Sources: Standard Bank; LME; Bloomberg

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